The Governor and Company of the Bank of Ireland

Annual Report 2018

Enabling our customers, colleagues and communities to thrive

Bank of Ireland

The Governor and Company of the Bank of Ireland Annual Report 2018

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'). 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 the year ended 31 December 2018 of BOIG plc was published on 25 February 2019 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

Business Review
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 4.

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.

As of 1 January 2018, International Financial Reporting Standards (IFRS) 9 'Financial Instruments' came into effect; the Group's results as set out in this report and the operating and financial review for 2018, as set out in the table below and on pages 4 to 8, have been prepared in accordance with IFRS 9. Comparative figures have not been restated for the impact of IFRS 9 and are presented on an International Accounting Standards (IAS) 39 classification and measurement basis.

Principal rates of exchange used in the preparation of the Financial Statements are set out on page 67.

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

Group income statement

Summary consolidated income statement on an underlying[1] basis

	2018 €m	2017 €m	Change %
Net interest income	2,143	2,248	(5%)
Net other income	660	801	(18%)
Operating income (net of insurance claims)	**2,803**	**3,049**	**(8%)**
Operating expenses (before levies and regulatory charges)	(1,851)	(1,900)	3%
Levies and regulatory charges	(101)	(99)	(2%)
Operating profit before net impairment gains / (losses) on financial instruments	**851**	**1,050**	**(19%)**
Net impairment gains / (losses) on financial instruments	42	(15)	n/m
Share of results of associates and joint ventures (after tax)	41	43	(5%)
Underlying[1] profit before tax	**934**	**1,078**	**(13%)**
Non-core items	(100)	(226)	(56%)
Profit before tax	**834**	**852**	**(2%)**
Tax charge	(160)	(160)	-
Profit for the year	**674**	**692**	**(3%)**
Profit attributable to stockholders	674	691	(2%)
Profit attributable to non-controlling interests	-	1	(100%)
Profit for the year	**674**	**692**	**(3%)**
Return on assets (bps)	54	56	

Profit before tax of €834 million for 2018 is €18 million lower than 2017.

Underlying profit before tax of €934 million is €144 million lower than 2017. The positive impacts of lower operating expenses and net impairment gains on financial instruments are offset by reduced operating income.

Operating income has decreased by €246 million compared to 2017 primarily due to:
- a **net interest income** reduction of €105 million, largely reflecting Tier 2 issuances, bond sales / maturities in 2017 and the removal of the amortisation of the National Asset Management Agency (NAMA) subordinated debt (on transition to IFRS 9); and

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 4 for further information.*

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

- a **net other income** reduction of €141 million largely reflects the negative impact on valuation items of market movements and lower gains on asset disposals. However, the Group has increased its business income by 2% year on year, with the Wealth and Insurance division performing particularly strongly.

Operating expenses (before levies and regulatory charges) of €1,851 million are €49 million or 3% lower than 2017. The Group continues to focus on reducing its operational costs while maintaining its investment in regulatory compliance, technology and business growth.

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

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

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

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

Further information on measures used by the Group, including underlying profit is found in Alternative performance measures on page 246.

Non-core items

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

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

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

Gain on disposal of property
During 2018, the Group recognised a gain of €7 million in relation to the disposal of a property (see note 28 on page 113).

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

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

Non-core items *(continued)*

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

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

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

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

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	2018 €bn	2017 €bn	Change %
Assets (after impairment loss allowances)			
Loans and advances to customers[1,2]	77	76	1%
Liquid assets	25	24	4%
Wealth and Insurance assets	17	17	-
Other assets	5	6	(17%)
Total assets	**124**	**123**	**1%**
Liabilities			
Customer deposits	79	76	4%
Wholesale funding	11	13	(15%)
Wealth and Insurance liabilities	17	17	(65%)
Other liabilities	6	6	-
Subordinated liabilities	2	2	-
Total liabilities	**115**	**114**	**1%**
Stockholders' equity	8	8	-
Other equity instruments	1	1	-
Total liabilities and shareholders' equity	**124**	**123**	
Credit-impaired loans and advances to customers (comparative as at 1 January 2018)	4.5	6.0	
NPEs	5.0	6.5	
NPE ratio	6.3%	8.3%	
LCR[3]	136%	136%	
NSFR[4]	130%	127%	
Loan to Deposit Ratio	97%	100%	

[1] *Includes €0.3 billion of loans and advances to customers at 31 December 2018 that are measured at fair value through profit or loss (FVTPL) and are therefore not subject to impairment under IFRS 9.*
[2] *Includes €0.6 billion of loans and advances to customers classified as held for sale.*
[3] *The 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 (BCBS) October 2014 document.*

Summary consolidated balance sheet *(continued)*

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

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

At December 2018, overall Group **customer deposit** volumes are €3.0 billion higher than 2017. The main driver of this movement was a €3.5 billion growth in Retail Ireland's current account credit balances, reflecting strong economic activity and a €0.8 billion increase in the Retail UK Division primarily due to an increase in Automobile Association (AA) and Post Office deposits, offset by a decrease of €1.2 billion in Corporate and Treasury (C&T) due to pricing optimisation. The Loan to Deposit Ratio (LDR) at 31 December 2018 is 97% (2017: 100%).

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

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

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

Capital

CRD IV - 2017			CRD IV - 2018[1]	
Regulatory %	Fully loaded %		Regulatory %	Fully loaded %
		Capital ratios		
15.8%	13.8%	Common equity tier 1	15.0%	13.4%
17.0%	14.9%	Tier 1	16.0%	14.4%
20.2%	17.9%	Total capital	18.8%	17.2%
7.0%	6.2%	Leverage ratio	7.0%	6.3%

Fully loaded ratio[1]
BOIG plc Group's fully loaded CET 1 ratio is estimated at 13.4% at 31 December 2018 (2017: 13.8%).

Leverage ratio[1]
BOIG plc Group's leverage ratio is 7.0% on a Capital Requirements Directive (CRD) IV regulatory basis (2017: 7.0%) and 6.3% on a pro-forma fully loaded basis (2017: 6.2%).

Distributable items
As at 31 December 2018, the Bank had reserves available for distribution in excess of €2.7 billion.

Individual consolidation
The regulatory CET 1 ratio of the Bank calculated on an individual consolidated basis as referred to in Article 9 of the Capital Requirements Regulation (CRR) is 15.2% at 31 December 2018 (2017: 15.3%).

[1] *The capital and leverage ratios are calculated under the prudential scope of consolidation of the BOIG plc Group. 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 3 disclosures for the year ended 31 December 2018, available on the Group's website.*

Income statement - Operating segments

2018	Net interest income / (expense) €m	Net insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before net impairment gains / (losses) on financial instruments €m	Net impairment gains / (losses) on financial instruments €m	Share of results of associates and joint ventures (after tax) €m	Gain on disposal / liquidation of business activities and property €m	Profit / (loss) before taxation €m
Retail Ireland	992	-	272	**1,264**	-	**1,264**	(776)	**488**	157	4	-	649
Wealth and Insurance	(9)	1,499	(345)	**1,145**	(951)	**194**	(127)	**67**	-	-	-	**67**
Retail UK	596	-	21	**617**	-	**617**	(398)	**219**	(74)	37	-	**182**
Corporate and Treasury	555	-	166	**721**	-	**721**	(194)	**527**	(41)	-	-	**486**
Group Centre	10	(3)	21	**28**	(4)	**24**	(464)	**(440)**	-	-	-	**(440)**
Other reconciling items	2	-	(17)	**(15)**	-	**(15)**	6	**(9)**	-	-	-	**(9)**
BOIG Group plc - underlying[1]	**2,146**	**1,496**	**118**	**3,760**	**(955)**	**2,805**	**(1,953)**	**852**	**42**	**41**	**-**	**935**
Less:												
Attributable to BOIG plc	(3)	-	1	**(2)**	-	**(2)**	1	**(1)**	-	-	-	**(1)**
Group underlying[1]	**2,143**	**1,496**	**119**	**3,758**	**(955)**	**2,803**	**(1,952)**	**851**	**42**	**41**	**-**	**934**
Total non-core items												
Cost of Restructuring Programme	-	-	-	**-**	-	**-**	(111)	**(111)**	-	-	-	**(111)**
Gain on disposal of property	-	-	-	**-**	-	**-**	-	**-**	-	-	7	**7**
Gross-up for policyholder tax in the Wealth and Insurance business	-	-	(7)	**(7)**	-	**(7)**	-	**(7)**	-	-	-	**(7)**
Investment return on treasury stock held for policyholders	-	-	6	**6**	-	**6**	-	**6**	-	-	-	**6**
Gain on disposal of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	5	**5**
Tracker Mortgage Examination charges	(12)	-	-	**(12)**	-	**(12)**	12	**-**	-	-	-	**-**
Group total	**2,131**	**1,496**	**118**	**3,745**	**(955)**	**2,790**	**(2,051)**	**739**	**42**	**41**	**12**	**834**

[1] *Underlying performance excludes the impact of non-core items (see page 4).*

Income statement - Operating segments *(continued)*

Restated[1] 2017	Net interest income €m	Net insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment (charge) / reversal on loans and advances to customers €m	Impairment charge on AFS financial assets €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	Profit / (loss) before taxation €m
Retail Ireland	1,065	-	287	**1,352**	-	**1,352**	(803)	**549**	148	-	4	-	**701**
Wealth and Insurance	12	1,338	543	**1,893**	(1,643)	**250**	(133)	**117**	-	-	-	-	**117**
Retail UK	579	-	9	**588**	-	**588**	(409)	**179**	(115)	-	39	-	**103**
Corporate and Treasury	575	-	231	**806**	-	**806**	(213)	**593**	(48)	-	-	-	**545**
Group Centre	20	6	21	**47**	(2)	**45**	(442)	**(397)**	-	-	-	-	**(397)**
Other reconciling items	(3)	-	11	**8**	-	**8**	1	**9**	-	-	-	-	**9**
BOIG Group plc - underlying[2]	**2,248**	**1,344**	**1,102**	**4,694**	**(1,645)**	**3,049**	**(1,999)**	**1,050**	**(15)**	**-**	**43**	**-**	**1,078**
Less:													
Attributable to BOIG plc	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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)**
Group total	**2,152**	**1,344**	**1,107**	**4,603**	**(1,646)**	**2,957**	**(2,128)**	**829**	**(15)**	**-**	**43**	**(5)**	**852**

[1] *Comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) to incorporate the Private Banking and Insurance Services business units which were previously reported within Retail Ireland. This has resulted in an increase of €11 million in the underlying profit before tax of Wealth and Insurance and a corresponding decrease in the underlying profit before tax of Retail Ireland for the year ended 31 December 2017 and (ii) the Group's decision to re-organise the C&T segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in a decrease of €8 million in the underlying profit before tax of C&T and a corresponding increase in Group Centre for the year ended 31 December 2017 and (iii) the reclassification of €7 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges), €3 million and depreciation and amortisation €4 million for 2017. The Transformation Investment charge has been booked in Group Centre for the current and comparative year.*

[2] *Underlying performance excludes the impact of non-core items (see page 4).*

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 are set out in the Financial risk management note on pages 128 to 165.

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

Principal Risks and Uncertainties *(continued)*

Principal risks and uncertainties	Key mitigating considerations
Business and strategic risk (continued)	
People risk Includes the continuing impact of remuneration restrictions on the Group in a recovering labour market, which may be further exacerbated post Brexit with increasing competition for skilled resources and / or restricted mobility between jurisdictions. It also includes people management, recruitment and retention risks in relation to the Group's transformation and digitalisation of banking products and services, as the Group adapts to the changing needs and preferences of our customer base.	• The Group has a Board approved human resources strategy providing it with a range of strategies to enable the Group to retain appropriate numbers and / or calibre of staff having regard to remuneration restrictions imposed by government, tax or regulatory authorities. These include Board Talent Reviews including succession planning, the Group's Performance Management Framework, and the Career and Reward Framework as aligned to our purpose and values.
Digital 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. These developments affect the manner in which customers manage their day to day financial affairs and supporting products. Money transmission and data driven integrated services are also forecast to rapidly evolve in the coming years, underpinned by regulatory developments including the revised Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR). How the Group adapts to these developments could restrict the Group's ability to realise its market strategies and financial plans, dilute customer propositions and cause reputational damage.	• In the context of the overall business strategy, the Group assesses and develops its complementary technology strategy to support and mitigate these risks. • Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching Technology Investment Prioritisation Plan, which includes the Core Banking Transformation Programme, is in place to ensure these demands are managed within risk, capacity and financial constraints. • The Group's policies, standards, governance and control models undergo ongoing review to reference the Group's digital strategy and solutions. • To support the Group's digital strategy, as necessary, the Group engages with appropriate external experts. • The Group Transformation Oversight Committee (GTOC) provides oversight on the Group's digital strategy.
Macroeconomic conditions and geopolitical uncertainty The Group's businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in Ireland and the UK, unfavourable exchange rate movements and changes in interest rates, with a potential increase in global protectionism and changes in the international tax environment posing additional risks. Geopolitical uncertainties could impact economic conditions in countries where the Group has exposures, market risk pricing and asset price valuations; thereby potentially reducing returns.	• The Group monitors the risks and impact of changing current and forecast macroeconomic conditions on the likely achievement of the Group's strategy and objectives. • The Group manages its exposures in accordance with key risk policies including maximum single counterparty limits and defined country limits. • The Group has in place a comprehensive stress and scenario testing process. • The Group ensures exposures are managed according to approved risk policies which include maximum single counterparty limits and country limits. • The Group is diversified in terms of asset class, industry and funding source.
Transformation risk The Group is undergoing significant Transformation across Culture, Business and Systems, which presents challenges and risks, and significant customer considerations. Failure to transform successfully could prevent the Group from realising its strategic priorities.	• The Board has responsibility for developing the Group's strategic priorities. These priorities were set out at the Group Investor Day on 13 June 2018. • The Group has mobilised a number of significant change programmes under each of the key Transformational change areas to deliver against this strategy. These operate within both existing governance fora and newly established fora to closely monitor and manage the change, and the specific risks and challenges associated with same. • The GTOC has been established to govern the business and strategy aspects of the programme for its duration.

Principal Risks and Uncertainties *(continued)*

Principal risks and uncertainties	Key mitigating considerations
Credit risk (see page 128) 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. Credit risk arises from loans and advances to customers and from certain other financial transactions such as those entered into by the Group with financial institutions, sovereigns and state institutions.	• Board approved Group Credit Policy and Risk Appetite limits, including credit category limits, together with a framework cascading to businesses and portfolios. • Exposure limits for credit concentration risk. • Defined credit processes and controls, including credit policies, independent credit risk assessment and defined authority levels for sanctioning lending. • Processes to monitor compliance with policies and limits. • Dedicated workout structures focused on the management and reduction of NPEs.
Funding and liquidity risk (see page 158) 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. 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. Funding Risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities.	• Board approved Risk Appetite limits. • Group funding and liquidity policies, systems and controls. • Comprehensive liquidity monitoring framework. • Annual forward looking Internal Liquidity Adequacy Assessment Process (ILAAP). • Strategic plan articulating and quantifying deposit projections, wholesale funding and lending capacity for all divisions. • Contingency Funding Plan and Recovery Plan. • 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 164) 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. Market risk arises through the conduct of customer business, particularly in fixed-rate lending and the execution of derivatives and FX business. 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. Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet, the multi-currency nature of the Group's balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk).	• Board approved Risk Appetite limits. • Group Market Risk Policy. • Comprehensive framework for monitoring compliance with the Board's market risk appetite limits, more granular market risk limits and other controls. • The Group substantially reduces its market risk through hedging in external markets. • Value at Risk (VaR) and extensive stress testing of market risks.

Principal Risks and Uncertainties *(continued)*

Principal risks and uncertainties	Key mitigating considerations
Life insurance risk (see page 164) 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. Life insurance risk arises from the Group's life insurance subsidiary (NIAC) selling life insurance products in the Irish market.	• Board approved Risk Appetite limits. • Underwriting standards and limits are in place and apply throughout the policy lifecycle from risk acceptance to claim settlement. • 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. • 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. • 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 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; • risk of not delivering fair outcomes to customers; • risk of not delivering appropriate products and services to the market in line with appropriate governance; and • risk of not implementing Group standards of behaviour. Conduct risk arises from day-to-day execution of business processes, provision of sales and services, management of key stakeholder expectations and the various activities performed by staff, contractors and third party suppliers.	• Board approved Risk Appetite limits. • A robust, structured and methodical approach for the management of conduct risk is in place across the Group including the Group Conduct Risk Policy, the Conduct Risk Management Framework (CRMF), a suite of policy standards which clearly define expected standards of behaviour supported by additional guidance, Group-wide and bespoke training to assist the implementation and understanding of the CRMF. • Supporting customer-focused oversight measures.
Regulatory risk 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. The Group is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of its business, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions.	• Board approved Risk Appetite limits. • Policies and policy standards in place for regulatory compliance risk, regulatory change risk and financial crime risk. • Specific group-wide processes in place to identify, assess, plan, develop and implement key compliance requirements. • Regular status updates and monitoring at senior levels in the Group including reporting to the Board Risk Committee (BRC) and Board. • Processes in place to identify, assess, manage, monitor and report financial crime risks as well as controls to mitigate those risks. • Processes in place to support the reporting, investigation, resolution and remediation of incidents of non-compliance. • Group-wide education and training in place.

Principal Risks and Uncertainties *(continued)*

Principal risks and uncertainties	Key mitigating considerations
Operational risk 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. Operational risk arises as a direct or indirect consequence of the Group's normal business activities through the day-to-day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and third party suppliers. This also includes the risks associated with major change and the failure to deliver on the Group's multi-year investment programme to replace the core banking platforms. It also arises from the risk of cybersecurity attacks which target financial institutions and corporates as well as governments and other institutions. The risk of these attacks remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world.	• Board approved Risk Appetite limit. • 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. • 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. • Processes to identify, assess, manage, monitor and report operational risks as well as controls to mitigate those risks in place. • Processes to support the reporting, investigation, resolution and remediation of incidents in place. • Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching Technology Investment Prioritisation Plan, which includes the Core Banking Transformation Programme, is in place to ensure these demands are managed within risk, capacity and financial constraints. • Clear contracts and accountability in place for third party partners for the 'Integrated Plan'. • Regular internal audits and testing carried out to ensure adequacy of controls.
Litigation and regulatory proceedings Uncertainty surrounding the outcome of disputes, legal proceedings and regulatory investigations and administrative sanctions proceedings, as well as potential adverse judgements in litigation or regulatory proceedings remains a risk.	The Group has processes in place to seek to ensure the Group's compliance with legal and regulatory obligations, together with clear controls in respect of the management and mitigation of such disputes, proceedings and investigations as may be instigated against the Group from time to time.
Pension risk The principal Group sponsored DB pension schemes are currently in deficit under the IAS 19 accounting definition, requiring the Group to set aside capital to mitigate these risks. The DB pension schemes are subject to market fluctuations and these movements impact on the Group's capital position, particularly the Group's CET 1 capital ratio, which amongst other things, could impact on the Group's dividend capacity. See note 48 Retirement benefit obligations on page 184.	• Board approved Risk Appetite limits. • 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 (DC)) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in 2014 and a new DC scheme was introduced for new entrants to the Group from that date. • 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. • 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. • 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)*

Principal risks and uncertainties	Key mitigating considerations
Reputation risk 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. Reputation risk arises as a direct or indirect consequence of the Group's operations and business activities.	• Group strategic priorities developed and intensively communicated to all stakeholders. • Group purpose statement that is supported by four key values and communicated to all colleagues. • Potential impact on reputation is considered in the decision making process. • All media, government, political, regulatory and administrative stakeholder engagement is actively managed. • Print, broadcast and social media reportage and commentary are monitored. • Active Group CSR programme in place. • Strong focus on internal communications to ensure that staff are kept informed on relevant issues and developments. • Staff are required to comply with the Group Code of Conduct. • Process of 'Early Warning Reports' embedded across the Group.
Capital adequacy risk (see page 165) 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. While all material risks impact on the Group's capital adequacy to some extent, capital adequacy is primarily impacted by significant increases in credit risk or RWAs, materially worse than expected financial performance and changes to minimum regulatory requirements as part of the annual Supervisory Review and Evaluation Process (SREP) review conducted by the Single Supervisory Mechanism (SSM).	• The Group closely monitors capital and leverage ratios to ensure all regulatory requirements and internal targets are met. In addition, these metrics are monitored against the Board approved Risk Appetite Statement and suite of Recovery Indicators. • Comprehensive stress tests / forward-looking Internal Capital Adequacy Assessment Process (ICAAP) financial projections are prepared, reviewed and challenged by the Board to assess the adequacy of the Group's capital, liquidity and leverage positions. • The Group has a contingency capital plan which sets out the framework and reporting process for identifying the emergence of capital concerns including potential options to remediate same.
Risk in relation to Irish Government Shareholding The risk that the Irish Government, which has a c.14% discretionary shareholding in the Group via the Ireland Strategic Investment Fund, uses its voting rights in a way that might not be in the best interests of the Group's private sector shareholders.	• The Minister for Finance and the Bank entered into a Relationship Framework Agreement dated 30 March 2012, the terms of which were prepared in the context of EU and Irish competition law and to accommodate considerations and commitments made in connection with the EU / IMF Programme for Financial Support for Ireland. • The Framework Agreement provides, inter-alia, that the Minister will ensure that the investment in the Group is managed on a commercial basis and will engage with the Group in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in the Group. In March 2017, as part of the corporate reorganisation, the Company agreed to be bound by and comply with certain provisions of the relationship framework in relation to the Ministerial consent, consultation process and the Group's business plan.

Principal Risks and Uncertainties *(continued)*

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

Governance

Senior Independent Director Report
Governor Succession Process

Patrick Haren *(69)*
Senior Independent Director;
Non-Executive Director

Approximately one year ahead of Archie Kane's anticipated retirement date, the Court approved a special purpose committee under my leadership to oversee the Governor succession process. The Committee comprised unconflicted members of the Nominations and Governance Committee, augmented by the (then) chair of Audit and the immediate past-chair of Risk. The Committee considered the skills and experience on the Court and the challenges facing the business, taking account also of the Group CEO succession which was underway at that time. Based on this, the Committee developed a description of the role and capabilities required, for which we sought and obtained Court approval. The Committee engaged Egon Zehnder to advise on international benchmarking and to provide a full candidate assessment.

In arriving at a recommendation, the Committee took account of a number of exceptional factors, including:
- the anticipated very significant level of turnover on the Court, due to retirements, over the medium term;
- the appointment in October 2017 of an externally recruited, previously UK-based Group CEO; and
- the Court's preference that the incoming Governor should have a complementary knowledge of the Irish environment, embracing customers, regulators and Government, and knowledge and understanding of the Bank of Ireland Group, including its recent history, particularly of regulatory engagement, and the lessons learned during the recovery period.

These factors led the Court and the Committee to prefer an Irish-based Non-Executive Director (NED) with some years' experience on the Court, subject to meeting all other criteria and performing strongly in the benchmarking and assessment process.

The Committee recommended Patrick Kennedy, who had served as Deputy Governor since April 2015 and Chair of the Court Risk Committee since July 2016, and who is based in Ireland, as Governor. In their assessment process, Egon Zehnder rated Mr Kennedy against their market benchmark as an exceptional candidate for the role.

Mr Kennedy combines a deep knowledge of the Bank with exceptional commercial acumen gained from a highly successful career in national and international business. The Court believes Mr Kennedy brings very strong leadership to the Court, providing experience and local knowledge complementary to the skills and experience of the Group CEO and necessary continuity during a period of significant change.

Patrick Haren
Senior Independent Director

22 February 2019

Governor's Introduction

Patrick Kennedy
Governor

Appointed:
August 2018

Independent:
Yes

Dear Shareholders,

I am pleased to present our Corporate Governance Report for 2018. This report sets out our approach to governance in practice, how the Court of Directors (the 'Court') operates, how it has spent its time during the year and how it has evaluated its performance. It includes reports from each of the Court's committees and explains how the Group applies the principles of good governance. The role of the Court is to promote the long-term success of the Group, whilst contributing to wider society. In order to do this, we must have a robust corporate governance framework, providing systems of checks and controls to ensure accountability and drive better decision-making, and also policies and practices which ensure that the Court and its committees operate effectively.

Following a corporate reorganisation in 2017 Bank of Ireland Group plc (BOIG plc), was introduced as the listed holding company of the Group. As existing corporate governance requirements continue to apply at GovCo level, with certain of those requirements also applying at BOIG plc level, the existing Court committees were replicated at BOIG plc level. It was agreed with the ECB that the Membership of the Board and Court and their main committees (Audit, Risk, Nomination and Governance and Remuneration) would be identical. This mirror board approach means that matters relevant to both BOIG plc (the 'Holding company') and GovCo can be considered by their Boards and Committees simultaneously.

Any references to the 'Board' or 'Court' / 'Board' or 'Court' Risk Committee, etc., individually in this document should be read as a reference to that body for both BOIG plc and GovCo unless the context specifies or requires otherwise.

The Court is accountable to BOIG plc for the overall direction and control of the Group. It is committed to high standards of governance designed to protect the long term interests of shareholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements.

Corporate Governance Codes Compliance
Irish Code[1] **-** *Comply fully*
UK Corporate Governance Code 2016 - *Comply fully*
Irish Corporate Governance Annex[2] **-** *Comply fully*
EBA Guidelines on Internal Governance (2018) - *Comply fully*
EBA Guidelines on Assessment of Suitability[3] **(2018) -** *Comply fully*

Strategic priorities
The Court has responsibility for developing the Group's strategic priorities. These priorities were set out at the Group Investor Day on 13 June 2018 and can be found in the Strategic Report on page 10 of the BOIG plc Group Annual Report 2018.

For the duration of the Transformation programme, a Group Transformation Oversight Committee has been set up to conduct deeper reviews and provide regular and timely reporting and ensure momentum is maintained on the Transformation programmes.

The GTOC also oversee the Transformation spend and benefits against budget and targets agreed with the Board and performs deep dives on specific programmes.

Court changes in 2018
The Nomination and Governance Committee is responsible for reviewing the composition of the Court and its Committees and assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable them to operate effectively. It went through a rigorous process leading to a number of changes to the Court in 2018, including my appointment as Governor and Chair of the Court Nomination and Governance Committee, succeeding Archie G Kane who retired in July 2018. Patrick Haren was

[1] *The Central Bank of Ireland (CBI) Corporate Governance Requirements for Credit Institutions 2015 (the 'Irish Code') - The Bank was subject to the Irish Code, (which is available on www.centralbank.ie) throughout 2018. The Bank is also subject to the additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively.*
[2] *The Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange, t/a Euronext Dublin which is available on www.ise.ie.*
[3] *European Banking Authority (EBA) Guidelines on the assessment of the suitability of members of the management body and key function holders.*

Governor's Introduction *(continued)*

appointed Deputy Governor. Evelyn Bourke, Ian Buchanan and Steve Pateman were appointed as independent NEDs, bringing with them significant technology and business transformation, insurance, retail and corporate banking experience. Patrick Mulvihill was appointed Chair of the Court Audit Committee in April 2018 and Richard Goulding was appointed Chair of the Court Risk Committee in August 2018. Davida Marston retired from the Court in September 2018.

I would like to thank each of the Directors for their commitment and support during 2018. I would also like to express the Court's appreciation to Archie Kane as Chair for his contribution to the success of the Group and to Davida Marston for her contribution to the Group as NED over the years. I wish them well in all their future ventures.

Looking ahead

2019 will be a year of focus on the execution of our strategic priorities, and I look forward to working closely with the courts and committees of the Group and its significant subsidiaries to ensure we have a strong framework for clear, effective and consistent corporate governance. The Court will continue to work effectively with executive management.

We remain focused on working hard to execute the Group's strategy in order to create sustainable long-term value for our shareholders.

Patrick Kennedy
Governor

22 February 2019

Your Court

Patrick Kennedy
Independent (on appointment)

Role
Non-Executive Director (July 2010). Governor (August 2018, Deputy Governor April 2015). Chair, Court Nomination and Governance Committee (August 2018, Member from September 2014).

Member, Risk Committee from January 2011 and Chair July 2016 to July 2018. Member, Remuneration Committee from January 2011 to July 2016. Member of the Audit Committee from July 2016 to July 2018.

Member of Group Transformation Oversight Committee (August 2018).

Particular Skills
Strong leadership qualities. Deep knowledge of the Bank with exceptional commercial acumen. In-depth knowledge of international business, management, finance, corporate transactions, strategic development and risk management gained from a highly successful career in national and international business.

External Appointments
Chairman and Chair of the Audit, Risk, Remuneration and Nomination Committees of Cartrawler.

Experience
Patrick was Chief Executive of Paddy Power plc from 2006 to 2014, prior to which he served as an Executive Director from 2005 and Non-Executive Director from 2004. Prior to joining Paddy Power plc, Patrick worked at Greencore Group plc for seven years where he was Chief Financial Officer and also held a number of senior strategic and corporate development roles. He previously worked with KPMG Corporate Finance in Ireland and the Netherlands, with McKinsey & Co. in London, Dublin and Amsterdam and as a Non-Executive Director of Elan Corporation plc.

Qualifications
Fellow Chartered Accountants Ireland.

Patrick Haren
Independent

Role
Non-Executive Director (January 2012). Deputy Governor (August 2018). Senior Independent Director (April 2015). Chair, Remuneration Committee (May 2015, Member January 2012). Member, Nomination and Governance Committee (November 2015). Member, Audit Committee from January 2012 to July 2018.

Trustee of the Bank of Ireland Staff Pensions Fund.

Particular Skills
Experienced Chief Executive Officer who has gained extensive strategic, corporate development and transactional experience.

External Appointments
None.

Experience
Patrick acts as an Advisor to Green Sword Environmental Ltd. He is a former CEO of the Viridian Group, having joined Northern Ireland Electricity (NIE) in 1992 as Chief Executive. He previously worked with the ESB, including as Director - New Business Investment and also served as a board member of Invest Northern Ireland for a number of years. Patrick led the privatisation of NIE by IPO and grew the business under the new holding company Viridian through to 2007, positioning the company as the market leader in independent electricity generation and supply in competitive markets in Ireland, North and South. He is a past director of Bank of Ireland (UK) plc where he also served as Chair of the Remuneration Committee and a member of the Nomination Committee.

Qualifications
Member of the Institute of Directors (UK). Awarded a knighthood in 2008 for services to the electricity industry in Northern Ireland.

Francesca McDonagh
Non-Independent

Role
Group Chief Executive Officer and Executive Director (October 2017).

Particular Skills
A skilled global banker, renowned for strategic thinking and a proven track record in successfully executing strategy. A history of delivering strong financial performance coupled with leadership of transformation to drive future results. Experience in a range of senior banking roles, and in a range of countries and operating structures. She brings to the Court a leadership style characterised by strong commercial results orientation, a clear strategic vision and significant customer focus.

External Appointments
Director of Ibec Company Limited By Guarantee. Member of the PRA Practitioner Panel.

Experience
Francesca joined the Group from HSBC Group, where she held a number of senior management roles over a twenty year period including Group General Manager and Regional Head of Retail Banking and Wealth Management, UK and Europe, Regional Head of Retail Banking and Wealth Management, Middle East and North Africa, and Head of Personal Financial Services, Hong Kong. She has previously served on the board of the British Bankers' Association (BBA), where she was Deputy Chair, and on the board of the National Centre for Universities and Business in the UK.

Qualifications
Bachelor of Arts Degree in Politics, Philosophy and Economics from Oxford University. Awarded an OBE in 2017 for services to banking.

Your Court *(continued)*

Kent Atkinson
Independent

Role
Non-Executive Director (January 2012). Member, Audit Committee (January 2012, Chair, April 2012 to April 2018). Member, Risk Committee (January 2012). Member, Remuneration Committee (July 2016).

Particular Skills
Extensive commercial and financial executive experience in the financial services industry. Significant experience as a NED across a range of international companies. Significant experience in governance, risk management and financial oversight, including in the capacity of Senior Independent Director, Chair of Audit Committee of a number of entities, and as a member of Risk, Strategy and M&A, Remuneration and Nomination Committees.

External Appointments
None.

Experience
Kent was Group Finance Director of Lloyds TSB Group between 1994 and 2002. Prior to that, he held a number of senior executive appointments in Retail Banking with Lloyds, including Regional Executive Director for their South East region, and worked for twenty two years in South America and the Middle East with the Group. Previous board appointments include Coca-Cola HBC AG, Cookson Group plc, Gemalto N.V., Standard Life plc, Telent plc (formerly Marconi plc), UK Asset Resolution Limited and Millicom International Cellular S.A.

Ian Buchanan
Independent

Role
Non-Executive Director (May 2018). Member, Risk Committee (May 2018). Director, Bank of Ireland (UK) plc (September 2018).

Chair of Group Transformation Oversight Committee (August 2018).

Particular Skills
Extensive technology, digital, business transformation and customer operations experience gained through his work in a number of international retail, commercial and investment banks.

External Appointments
Non-Executive Director of Openwork Holdings Limited.

Experience
Ian was Group Chief Information Officer for Barclays plc and Chief Operating Officer for Barclaycard until 2016. Before joining Barclays in 2011, Ian was Chief Information Officer for Société Générale Corporate & Investment Banking (2009 to 2011), a member of the public board and Group Manufacturing Director of Alliance & Leicester plc (2005 to 2008) and a member of the Executive Committee and Chief Operations & Technology Officer of Nomura International (1994 to 2005). Ian's earlier career was spent at Credit Suisse, Guinness, and BP.

Qualifications
Bachelor of Science degree in Physics from the University of Durham.

Evelyn Bourke
Independent

Role
Non-Executive Director (May 2018). Member, Audit and Nomination and Governance Committees (May 2018).

Particular Skills
Strong track record in global executive management and extensive experience in financial services, risk and capital management, and mergers and acquisitions.

External Appointments
Group CEO of BUPA.

Experience
Evelyn was appointed Group CEO of BUPA in July 2016, having been Acting CEO from April 2016. She is also a member of the Bupa board. She joined Bupa as CFO in September 2012, from Friends Life Group, where she was Chief Executive Officer of its Heritage division. Previously at Friends Provident, she was the Executive Director responsible for strategy, capital and risk and, prior to that, Chief Financial Officer. She was previously a Non-Executive Director of the IFG plc, Dublin, where she was Chair of the Board Risk Committee. Evelyn's earlier career was spent at Standard Life Assurance plc, Chase De Vere Financial Solutions, St. James's Place, Nascent Group, Tillinghast Towers Perrin, in the UK, and Lifetime Assurance and New Ireland Assurance in Dublin.

Qualifications
Fellow of Institute and Faculty of Actuaries. MBA from London Business School.

Your Court *(continued)*

Richard Goulding
Independent

Role
Non-Executive Director (July 2017). Chair, Risk Committee (Aug 2018, Member, July 2017). Member, Remuneration Committee (July 2017). Member, Audit Committee (August 2018).

Member of Group Transformation Oversight Committee (August 2018).

Particular Skills
Extensive risk management and executive experience in a number of banks with an international profile, and brings a strong understanding of banking and banking risks, with a deep knowledge of operational risk.

External Appointments
Non-Executive Director of Citigroup Global Markets Limited, where he is Chair of the Risk Committee and a member of the Audit and Remuneration and Nomination Committees. Non-Executive Director of Zopa Bank Limited, where he is Chair of the Risk Committee and a member of the Audit, Nomination and Remuneration Committees.

Experience
Richard held the role of Group Chief Risk Officer and Director at Standard Chartered Bank from 2006 to 2015, where he was a member of the Group Executive Committee, prior to which he held the role of Chief Operating Officer, Wholesale Banking Division. Before joining Standard Chartered in 2002, he held senior executive positions with Old Mutual Financial Services in the U.S., UBS Warburg / SBC Warburg, London and Switzerland, Astra Holding plc, Bankers Trust Company and the Midland Bank Group, London.

Qualifications
Qualified Chartered Accountant (South Africa), Bachelor of Commerce degree and a postgraduate degree in finance from the University of Natal, South Africa.

Andrew Keating
Non-Independent

Role
Group Chief Financial Officer, Executive Director (February 2012).

Particular Skills
Extensive financial management and leadership experience, having worked for twenty years in executive and senior finance roles in Bank of Ireland and Ulster Bank. Andrew has a deep and broad knowledge of financial management, risk and capital management, and related regulatory and governance requirements. Andrew has strong leadership qualities, embraces change and transformation, and is exceptionally focussed on delivering commercial results. Andrew is a strong advocate for Culture Transformation, and he is the Group Sponsor of Inclusion and Diversity.

External Appointments
Non-executive Director of Irish Management Institute CLG.

Experience
Andrew joined the Group in 2004 and held a number of senior finance leadership roles before being appointed as an Executive Director and Group Chief Financial Officer in 2012. Prior to his appointment as Group Chief Financial Officer, Andrew held the role of Director of Group Finance. Andrew joined the Group from Ulster Bank where he held a number of senior finance roles, including Chief Accountant. He qualified as a Chartered Accountant with Arthur Andersen.

Qualifications
Bachelor of Commerce from University College Cork, Masters of Accounting from University College Dublin, Fellow of Chartered Accountants Ireland.

Fiona Muldoon
Independent

Role
Non-Executive Director (June 2015). Member, Risk Committee (November 2015). Member, Nomination and Governance Committee (January 2019).

Particular Skills
Significant experience in governance, regulatory compliance and financial oversight and is an experienced financial services professional. Significant previous experience within a financial institution with an international focus.

External Appointments
Group Chief Executive of FBD Holdings plc and Chief Executive of FBD Insurance plc. Director of Insurance Ireland (Member Association) CLG.

Experience
Fiona is Group Chief Executive of FBD Holdings plc and FBD Insurance plc, one of Ireland's largest property and casualty insurers. She served from 2011 to 2014 with the Central Bank of Ireland including as Director, Credit Institutions and Insurance Supervision. Fiona spent 17 years of her career with XL Group in Dublin, London and Bermuda, where she worked in various management positions including general insurance responsibilities, corporate treasury and strategic activities including capital management, rating agency engagement and corporate development.

Qualifications
Bachelor of Arts Degree from University College Dublin, Fellow Chartered Accountants Ireland.

Your Court *(continued)*

Patrick Mulvihill
Independent

Role
Non-Executive Director (December 2011). Chair, Audit Committee (April 2018, Member December 2011). Member, Risk Committee (December 2011 to May 2017, January 2018 to date).

Member of Group Transformation Oversight Committee (April 2016). Trustee of the Bank of Ireland Staff Pensions Fund (December 2017).

Particular Skills
In-depth knowledge of financial and management reporting, regulatory compliance, operational, risk and credit matters within a global financial institution.

External Appointments
Non-Executive Director of International Fund Services (Ireland) Limited. Director of Beachvista Limited.

Experience
Patrick spent much of his career at Goldman Sachs, retiring in 2006 as Global Head of Operations covering all aspects of Capital Markets Operations, Asset Management Operations and Payment Operations. He previously held the roles of Co-Controller, Co-Head of Global Controller's Department, covering financial / management reporting, regulatory reporting, product accounting and payment services. He was also a member of the firm's Risk, Finance and Credit Policy Committees. Patrick has over twenty years' experience of international financial services and has held a number of senior management roles based in London and New York with Goldman Sachs.

Qualifications
Fellow Chartered Accountants Ireland and Associate of the Institute of Directors.

Steve Pateman
Independent

Role
Non-Executive Director (September 2018). Member, Audit, Risk and Remuneration Committees (September 2018).

Particular Skills
Brings to the Court the strategic insights of a Chief Executive Officer of a UK Bank and a strong lending and credit background with deep commercial experience including the operational challenges facing lending institutions.

External Appointments
Director and CEO of Hodge Group.

Experience
Steve was Chief Executive Officer of Shawbrook Bank Limited from October 2015 to December 2018. He joined Shawbrook from Santander UK, where he was Executive Director and Head of UK Banking and was responsible for the bank's Corporate, Commercial, Business and Retail Banking operations as well as Wealth Management. He also held a number of senior positions at Santander UK, Royal Bank of Scotland and NatWest. In January 2019, Steve joined Julian Hodge Bank Limited as CEO and was appointed to the Board in February 2019. Steve is a member of the Financial Capability Board for the Money Advice Service and was appointed Vice President of the Chartered Institutes of Bankers Scotland in June 2017 and Chair of the Professional Standards Board in December 2018. Steve was Director of The Mortgage Lender Limited from May 2018 to January 2019.

Your Court *(continued)*

Senior Independent Director
Patrick Haren

Court Audit Committee
Patrick Mulvihill (Chair)
Kent Atkinson
Evelyn Bourke
Richard Goulding
Steve Pateman
Patrick Haren *(resigned from the Committee July 2018)*
Patrick Kennedy *(resigned from the Committee July 2018)*
Davida Marston *(resigned September 2018)*

Court Remuneration Committee
Patrick Haren (Chair)
Kent Atkinson
Richard Goulding
Steve Pateman
Archie G Kane *(resigned July 2018)*

Court Nomination and Governance Committee
Patrick Kennedy (Chair)
Evelyn Bourke
Patrick Haren
Fiona Muldoon
Archie G Kane *(resigned July 2018)*

Court Risk Committee
Richard Goulding (Chair)
Kent Atkinson
Ian Buchanan
Fiona Muldoon
Patrick Mulvihill
Steve Pateman
Patrick Kennedy *(resigned from the Committee July 2018)*

Group Transformation Oversight Committee
Ian Buchanan (Chair)
Richard Goulding
Patrick Kennedy
Patrick Mulvihill

Directors who are Trustees of the Bank of Ireland Staff Pensions Fund
Patrick Haren
Patrick Mulvihill

Court Risk Policy Committee
Vincent Mulvey (Chair)
Sean Crowe
Des Crowley
Tom Fee
Tom Hayes
Andrew Keating
Gavin Kelly
Francesca McDonagh
Declan Murray
Jackie Noakes
Helen Nolan
Gabrielle Ryan
Maureen Stanley

Group Executive

Francesca McDonagh	Group Chief Executive Officer
Sean Crowe	Chief Executive, Markets and Treasury
Des Crowley	Chief Executive, Retail (UK)
Henry Dummer	Chief Marketing Officer
Matt Elliot	Chief People Officer
Tom Hayes	Chief Executive, Corporate Banking
Andrew Keating	Group Chief Financial Officer
Gavin Kelly	Chief Executive, Retail (Ireland)
Vincent Mulvey	Group Chief Risk Officer
Jackie Noakes	Group Chief Operating Officer

Your Court *(continued)*

Court composition and succession

The Court comprises eleven Directors, two Executive Directors, the Governor, who was independent on appointment and eight independent NEDs.

The Court considers that a board size of eleven Directors allows for a good balance between having the full range of skills necessary on the Court and to populate its committees and retaining a sense of accountability by each Director for Court decisions.

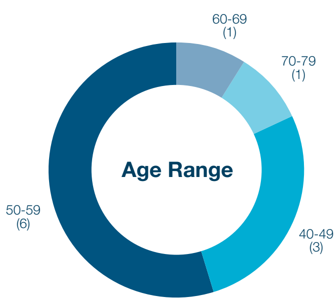
On the recommendation of the Court Nomination and Governance Committee (CN&GC), the Court determines, on a regular basis, the skills and experience required, taking into account the Group's major business lines, geographies, risk profile and governance requirements, to provide sound governance oversight, and assesses the profile of the Court against these requirements. These include experience in banking, insurance, RoI and UK markets and regulatory environments, risk management, financial management, strategy development, technology and operations experience and knowledge of governance, compliance and audit.

The CN&GC then projects forward the impact of expected retirements on the skills profile and succession requirements for Court Committees. During 2018, Mr Archie G Kane and Ms Davida Marston, both experienced bankers, retired from the Court. The CN&GC identified as a priority for recruitment deep experience in corporate, retail and banking. Mr Steve Pateman was recruited in September 2018 to replenish the Court's core banking skills. The CN&GC also recommended that the Court's insurance experience and diversity profile be considered in advance of these retirements in 2018 and Ms Evelyn Bourke, an experienced insurance executive with an actuarial background, was recruited in May 2018.

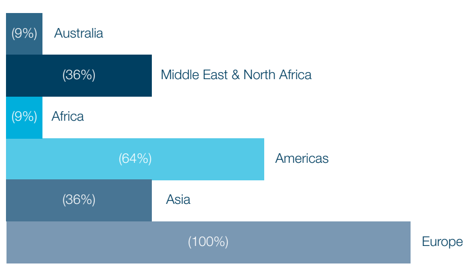
The Group's strategy involves a major technology-enabled transformation programme. Mr Ian Buchanan, who has very valuable experience of leading major technology-enabled change programmes in a banking environment, was recruited in May 2018.

Recruitment of these three Directors was supported by Russell Reynolds, an international search agency. In each case, a detailed role profile, based on the above analysis, was agreed with the search agency. They identified a range of candidates and conducted an independent assessment of short-listed candidates, providing reports to the Court in advance of a series of interviews for each candidate with the CN&GC and other Directors. The Court identified the preferred candidates and conducted appropriate due diligence, including a full assessment of the Fitness and Probity of each prospective director. Regulatory approval from the ECB was also received for each of the new Directors.

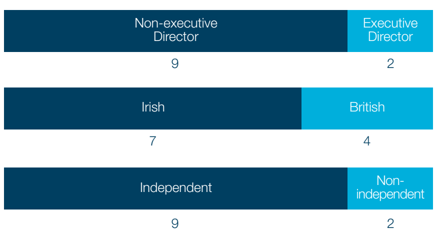
The Court believes its current composition and skills profile is appropriate for its role. The Court has a Court Diversity Policy and is strongly committed to diversity across all its dimensions, as it believes diversity of thinking is essential to sound decision-making. The Court has retained its gender diversity target of 33% female directors by the end of 2020. It has prioritised further diversity, and knowledge of the Irish market and environment, for recruitment activity in 2019. The Court's medium term aspiration is to have broadly equal gender representation.

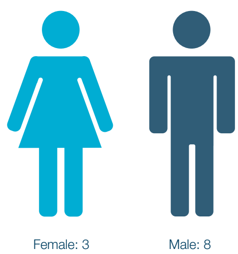


International Experience



Qualifications





Your Court *(continued)*

On appointment, each Director receives an individual induction plan

On appointment, each Director receives an individual induction plan, tailored to his or her specific requirements including committee membership. It consists of meetings with senior management on Group and Divisional strategy, deep dives on businesses, an overview of the Group's risk appetite and Group Risk Framework, supplemented by sessions on the management of key risks, and a comprehensive range of meetings covering the Group's regulatory environment, people strategies, technology and payments. Deep dives on capital and liquidity management and an overview of the Group's financial position are also included, along with sessions relevant to membership of specific committees.

Ongoing education is provided for the Court

Ongoing education is provided for the Court, informed by the effectiveness reviews of the Court and individual Directors, as well as emerging external developments. Topics given particular focus in 2018 included Brexit and the economic environment, cybercrime and operational risk management.

Court Development

Tailored Induction Programmes in 2018

Patrick Kennedy
(As Governor)

Richard Goulding
(As Chair of Court Risk Committee)

Patrick Mulvihill
(As Chair of Court Audit Committee and as a Trustee of the Bank Staff Pensions Fund)

Evelyn Bourke
(As Director and member of Audit and Nomination and Governance Committees)

Ian Buchanan
(As Director and member of Court Risk Committee, a Director of BOI UK plc and specific induction on Group Transformation Programme)

Steve Pateman
(As Director and member of Court Audit Committee, Court Risk Committee and Court Remuneration Committee)

Patrick Haren
(As Trustee of the Bank Staff Pensions Fund)

Court Education and Development 2018

External Developments
Brexit including scenario planning, disorderly Brexit monitoring and risk mitigation, Operational risk, Blockchain and other Crypto-assets.

Deep Dives
Housing, Leveraged Acquisition Finance, Operational Risk, IT Security, Risk Appetite, Retail Banking RoI and UK, C&T including Global Markets, Capital and Funding.

Assessing the Effectiveness of the Court

Court

Each year, the Court reviews its effectiveness and seeks to find ways to improve its operation. It is our policy to have an external review at least every three years. The last external review was in 2016. Following the 2017 internal review, which determined the Court to be effective, the Court's agenda in 2018 focused more effectively on strategy, non-financial drivers of performance and high quality discussion. The core element of the 2018 review, which was internal, was an in-depth one-to-one discussion between the Governor and each Director, facilitated by a questionnaire and comments in advance from each Director. The Governor extracted key themes to guide the Court's agenda in 2019. These related primarily to continued focus on delivery of the Group strategy, Board training and engagement with management on talent development and succession planning. These were then discussed by the Court at a dedicated session. The Court concluded that it remains effective.

Committee

Each Court Committee also conducted a review of its effectiveness, led by the Committee Chair and supported by tailored questionnaires. In each case, the Committee considered the outcome and concluded that it remained effective. Specific opportunities to improve Committee operation were identified and actioned in each case.

Your Court *(continued)*

Governor

The Senior Independent Director (SID) led the assessment of the Governor's effectiveness. He met individually with each Director and, with the support of a questionnaire, discussed the Governor's performance the outcome was the conclusion that Patrick Kennedy is highly effective in the Chair and provides very strong leadership to the Court.

Individual Director

The Governor met with Directors on a one to one basis to discuss their individual performance taking account of their input, which was submitted in advance of the meetings. In each case, the Governor assessed each Director as fully effective in his or her role on the Court and its Committees. A particularly rigorous assessment was undertaken of the independence of Mr Patrick Haren, Mr Patrick Mulvihill and Mr Kent Atkinson, who have served more than six years on the Court. In all cases, the Court concluded that they continue to demonstrate independence of mind and therefore remain independent.

How the Court spent its time at Court meetings in 2018

Business Context

- Governor's update
- CEO perspective and priorities
- CEO / GEC Scorecard - reporting on strategic objectives

Strategic Priorities and Business Deep Dives

- Setting the Group's Risk Appetite
- Development of Group Strategy - presented on Investor Day (13 June 2018)
- Reviews of key strategic priorities, including Transformation Programme, UK Business, Financial Performance
- Reviews of Business Programmes, including Group Culture Programme, Marketing and Brand, Organisation Design, Inclusion and Diversity
- Business Deep Dives, including Leveraged Acquisition Finance, Corporate Banking UK and RoI, Wealth and Insurance

Environment

- Investor Relations
- Economic Environment
- Stakeholder Engagements

Business Performance Reports

- Financial Performance
- Customer Focus
- Risk Report
- Regulatory Interactions

Reports from Court Committees

- Recommendations from committees on key policies and matters reviewed in depth by committees for Court decision
- Reports on committee proceedings

Governance and Oversight

- Key governance policies and documents
- Subsidiary oversight
- Tracking of agreed actions

Attendance at meetings in 2018

The Court held 15 meetings during the year ended 31 December 2018. Further details on the number of Court and Committee meetings and attendance by individual Directors are set out on page 47.

Your Court *(continued)*

Roles and Responsibilities

Role of the Court

The Group is led by an effective and committed Court, which is collectively responsible for the long term success of the Group. The Court's role is to provide leadership of the Group within the boundaries of Risk Appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. The Court sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. The Court also reviews management performance. The Court has a schedule of matters specifically reserved for its decision which is reviewed and updated regularly.

The Court is responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an ongoing basis their appropriateness for the role. The removal from office of the head of a 'control function', as defined in the Irish Code, is also subject to Court approval.

The Court is responsible for determining high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives.

The respective roles of the Governor and the Group Chief Executive Officer, which are separate, are set out in writing and have been agreed by the Court.

The Court approves the Group Risk Framework on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through a Court Risk Report reviewed monthly for all risks. Further information on risk management and the Court's role in the risk governance of the Group is set out in the Risk Management Report on pages 60 to 111 of the BOIG plc Group Annual Report 2018.

The work of the Court follows an agreed schedule of topics which evolves based on business need and is formally reviewed annually by the Court.

Role of the Governor

The Governor oversees the operation and effectiveness of the Court, including ensuring that agendas cover the key strategic items confronting the Group and encouraging all Directors to participate fully in the discussions and activities of the Court. He also ensures that there is effective communication with shareholders and promotes compliance with corporate governance standards. The Governor commits a substantial amount of time to the Group and his role has priority over any other business commitment. During the year, the Governor and NEDs met without the Executive Directors present, to discuss a range of business matters.

Role of the Deputy Governor, SID

The Deputy Governor deputises for the Governor as required and is a Trustee of the Bank Staff Pensions Scheme. The SID provides Court members, the Group Secretary, shareholders and customers with an additional channel, other than the Governor or the Group Chief Executive Officer, through which to convey, should the need so arise, concerns affecting the Governorship of the Court, or any other issue. He also oversees the appointment of the Governor.

Role of the Independent NEDs

The NEDs (including the Governor and Deputy Governor) bring independent challenge and judgement to the deliberations of the Court through their character, objectivity and integrity.

Role of the Group Chief Executive Officer

The Group Chief Executive Officer is responsible for execution of approved strategy, holds delegated authority from the Court for the day to day management of the business and has ultimate executive responsibility for the Group's operations, compliance and performance. Procedures are in place to review the Group Chief Executive's contract at least every five years.

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Court on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them to consider issues for decision and to discharge their oversight responsibilities.

The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required. Committees of the Court have similar access and are provided with sufficient resources to undertake their duties.

The Group Secretary provides dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal board process. The Group has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors.

Your Court *(continued)*

Matters requiring Court approval include

1. Strategy and Risk Appetite
- *Determination of risk appetite and approval of the Group's Risk Appetite Statement.*
- *Determination of the Group's strategy.*

2. Corporate and Capital Structure
- *Approval of CET 1 capital investments of greater than €20 million in a regulated subsidiary and €40 million in any other subsidiary.*
- *Approval of share issuances by any Group member to an entity outside of the Group.*
- *Approval of equity underwriting of sums greater than €20 million.*
- *Approval and payment of dividends, notwithstanding the existing legal requirement for same.*

3. Management
- *Approval of the Group's business plans and budgets.*
- *Overseeing management of the business.*

4. Financial and Regulatory Reporting, Internal Controls, Risk and Capital Management
- *Approval of Interim and Annual Report.*
- *Approval of the Group Risk Framework.*
- *Approval of the Group ICAAP, ILAAP and Recovery Plan.*
- *Overseeing the internal control and risk management systems of the Group.*

5. Transactions
- *Approval of acquisitions or divestments of the business or assets of any Group member involving a third party, except for credit management purposes.*
- *Approval of guarantees, including those in respect of subsidiary companies, entered into by a member of the Group, other than in the normal course of business.*
- *Approval of capital expenditure in excess of €40 million.*
- *Approval of Class 1 or Class 2 transactions (each as defined by the Listing Rules).*
- *Approval of related party transactions (as defined by the Listing Rules) giving rise to an obligation to issue a shareholder circular.*

6. Corporate governance, Court and other appointments
- *Promoting the appropriate culture, value and ethics of the Group.*
- *Overseeing corporate governance and succession planning.*
- *Approving specified senior management appointments.*

7. Pension Scheme
- *Approval of all changes to the funding of pension schemes in the Group and / or benefits of same.*

The Group's approach to Strategy Development and Monitoring

Development of Transformation Strategy

From mid-2017 the Court commenced work on a new strategy in the context of a fundamental shift in customer demands for service, increasing and changing competition and the need for business and core systems transformation. This work accelerated following the appointment of the Group CEO in October 2017, with working groups across the Group engaged in looking forward to the likely impact of changing technology, customer needs and competition, and developing scenarios for different economic backdrops.

The emerging analysis was debated at a number of Court meetings and working sessions and robustly tested against the Group's risk appetite, culminating in the agreement of the new strategic ambition - to be the National Champion Bank in Ireland, with UK and selective international diversification. The discussion also concluded that the strategic priorities would be to transform the bank, serve customers brilliantly and grow sustainable profits.

This work also covered the development and approval, through Court deep dive sessions, of a series of growth, transformation and financial targets, which were communicated to the market at the Group Investor Day in June 2018.

Monitoring of Transformation Strategy

Having agreed the key initiatives and the overall scale and pace of the transformation, the Court has moved to monitor the execution of the detailed plan.

This work includes:
- monthly review with the Group Chief Executive of progress against execution priorities and targets;
- insights on stakeholder, employee and cultural matters;
- assessing the progress of execution of strategy through deep-dive sessions across the key business divisions;
- regular reviews of the systems transformation, culture transformation and cost reduction programmes;
- establishment of a designated sub-committee (the 'GTOC') with a mandate to oversee the transformation of the business, systems and organisation structure, as well as the safe delivery of some regulatory mandated change programmes; and
- review of the potential implications of the UK's preparations to leave the EU and oversight of management monitoring and risk mitigation activities.

Your Court *(continued)*

Stakeholder Engagement

Customers

The Group's aim is to serve customers brilliantly by being the number one for service and having the best brand in our target markets including the best bank for partnerships in the UK. The Court consistently reviews the strategy, receives updates on implementation and reviews progress as part of the governance process. In 2018, the Court oversaw the establishment of a Group Customer Court to ensure customer focus by management, a Customer Advisory Council to ensure external challenge to our approach to customer engagement, the appointment of a Chief Marketing Officer and the approach to re-position the Bank of Ireland brand. The Court receives regular updates on progress against customer metrics and reports from the Group Customer Court and Customer Advisory Group. In addition, its understanding of customers' perspectives is informed by deep dives on customer themes, customer complaints and visits by Directors to customer call centres to hear customer voices at first hand. The Court schedule for 2019 expands its direct engagement with customers to reflect the importance of 'serving customers brilliantly' in our strategy.

Colleagues

The Court receives regular updates on the progress of the Group Culture Programme. The Court reviews the outputs from the Group's OpenView staff survey and receives updates on progress in implementing actions in response to staff feedback.

The Court pays particular attention to the Group Code of Conduct and Speak Up Policy and the CN&GC reviews its effectiveness annually. The Court strives to create an environment in which staff are encouraged to speak up where they have any concerns. Ms Fiona Muldoon, on behalf of the Court, actively sponsors the Group Code of Conduct and Speak Up Policy. The Court also meets with small groups of managers from across the Group in 'Visibility Sessions'. They conduct site visits from time to time, including to London in 2018. The Court schedule for 2019 is designed to enhance their engagement with the workforce and includes a wider range of site visits to meet colleagues across the Group.

Regulators and Government

The Governor and members of the Court regularly meet with regulators and government bodies, including the Joint Supervisory Team, the Central Bank of Ireland (CBI), Bank of England, FCA, PRA, ECB and Department of Finance, etc. Core themes include regulation and supervision, risk governance and oversight, the future of the banking industry, strategic challenges and rebuilding trust and culture. The Court also met with senior management of the CBI to receive their views on banking culture. The Governor and Group CEO update the Court on their meetings with regulators and government representatives at each Court meeting.

Communities

The Group's communities are those where its employees live and work, as well as other local and global groups, such as partners, shareholders and regulators. The Group supports the wider community through charity and community activities, contribution to arts and culture, and by playing an active role in society.

In 2018, the Group joined the London Benchmarking Group (LBG) to better understand, measure and benchmark our corporate community investment which includes the Give Together charity investment programme, Enterprise Town programme, community sponsorships and financial education programmes. Using LBG methodology, we have calculated our total community investment in 2018 at €4.9 million, with an additional €1.5 million given by our colleagues.

Stockholders

Following a corporate reorganisation in July 2017 whereby 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).

Notice of the Annual General Court (AGC) is provided at least 21 days before the meeting, notice of the 2018 AGC was circulated to stockholders on 28 March 2018. The Governor (who is also Chair of the CN&GC) and the Chair of the Court Audit Committee, Court Risk Committee and Court Remuneration Committee were in attendance to hear the views of preference shareholders and answer questions. It is usual for all Directors at the time of the AGC to attend and all members of the Court attended the 2018 AGC.

The AGC of the Group in 2019 is scheduled to be held on 14 May 2019. Stockholders who will be unable to attend on this date are encouraged to submit queries and vote in advance to ensure continued participation.

Your Court *(continued)*

Court's oversight of risk management and internal control systems

Accountability and audit
The Report of the Directors, including a going concern statement is set out on pages 48 and 49. The Corporate Governance Statement forms part of the Report of the Directors.

Court Responsibility
The Court is responsible for overseeing the Group's risk management and internal control systems, which are designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations, and to review the effectiveness of same.

In establishing and reviewing the risk management and internal control systems, the Directors carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk event occurring and the costs of control. The process for identification, evaluation and management of the principal risks faced by the Group is integrated into the Group's overall framework for risk governance. The Group is forward-looking in its risk identification processes to ensure emerging risks are identified. The risk identification, evaluation and management process also identifies whether the controls in place result in an acceptable level of risk. At Group level, a consolidated risk report and risk appetite dashboard is reviewed and regularly debated by the Court Risk Committee and the Court to ensure that they are satisfied with the overall risk profile, risk accountabilities and mitigating actions. The report and dashboard provide a monthly view of the Group's overall risk profile, key risks and management actions, together with performance against risk appetite and an assessment of emerging risks which could affect the Group's performance over the life of the operating plan.

Information regarding the main features of the internal control and risk management systems is provided within the Risk Management Report on pages 60 to 111 of the BOIG plc Group Annual Report 2018. The Court concluded that the Group's risk management arrangements are adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

Control systems
The Group's overall control systems include:
- a clearly defined organisation structure with defined authority limits and reporting mechanisms;
- three lines of defence approach to the management of risk across the Group: line management in individual businesses and relevant Group functions; central risk management functions; and Group Internal Audit;
- Court and Management Committees with responsibility for core policy areas;
- a set of policies and processes relating to key risks;
- reconciliation of data consolidated into the Group's financial statements to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the financial position and results of the Group are appropriately reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions;
- a Code of Conduct setting out the standards expected of all Directors, officers and employees in driving an appropriate, transparent risk culture;
- a Risk Control Self-Assessment framework, where risks are logged, managed and mitigated across the first-line, with clear reporting, escalation and second-line oversight. Action plans are developed and implemented to address any control deficiencies;
- a comprehensive set of accounting policies; and
- a compliance framework incorporating the design and testing of specific controls over key financial processes.

The Group operates a comprehensive internal control framework over financial reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements.

The main features are as follows:
- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with IFRS as adopted by the EU;
- a Group Internal Audit function with responsibility for providing independent, reasonable assurance to key internal (Court, Group and Subsidiary Audit and Risk committees and Senior Management) and external (Regulators and External Auditors) stakeholders on the effectiveness of the Group's risk management and internal control framework;
- a compliance framework incorporating the design and testing of specific controls over key financial processes to confirm that the Group's key controls are appropriate to mitigate the financial reporting risks;
- a robust control process is followed as part of interim and annual financial statements preparation, involving the appropriate level of management review and attestation of the significant account line items, and where judgements and estimates are made, they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the interim and annual financial statements is presented fairly and disclosed appropriately;
- the Annual Report and Interim Report are also subject to detailed review and approval through a structured governance process involving senior and executive finance personnel;
- summary and detailed papers are prepared for review and approval by the Court Audit Committee covering all significant judgemental and technical accounting issues, together with any significant presentation and disclosure matters; and
- user access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

Reviews by the Court
The effectiveness of the risk management and internal control systems is reviewed regularly by the Court, the Court Audit Committee and the Court Risk Committee, which also receive reports of reviews undertaken by Group Risk and Group Internal Audit. The Court Audit Committee receives reports from the Group's Auditor (which include details of significant internal control matters that they have identified), and has separate discussions with the external and internal Auditors at least once a year without executives present, to ensure that there are no unresolved issues of concern.

The Group's risk management and internal control systems are regularly reviewed by the Court and are consistent with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with

Your Court *(continued)*

Court's oversight of risk management and internal control systems *(continued)*

the requirements of CRD IV. They have been in place for the year under review and up to the date of the approval of the annual report. The Group has determined a pathway to compliance with the Basel Committee on Banking Supervision (BCBS 239) risk data aggregation and risk reporting requirements and continues to actively manage enhancements.

Continuous improvement

The Group's controls frameworks are continuously improved and enhanced, addressing known issues and keeping pace with the dynamic environment. Progress continues to be made in operational (including IT and Information Security), regulatory and conduct risks. The 2018 internal control assessment provides reasonable assurance that the Group's controls are effective, or that where control weaknesses are identified, they are subject to management oversight and action plans. The Court Audit Committee, in conjunction with the Court Risk Committee, following an assessment of whether the significant challenges facing the Group are understood and are being addressed, concluded that the assessment process was effective and recommended them to the Court for approval.

Court Governance

Conflicts of Interest

The Court has an approved Conflicts of Interest Policy which sets out how actual, potential or perceived conflicts of interest are to be identified, reported and managed to ensure that Directors act at all times in the best interests of the Group. This policy is reviewed on an annual basis.

The Group Code of Conduct, which applies to all employees and Directors of the Group, clarifies the duty on all employees to avoid conflicts of interests. The Code of Conduct is reviewed on an annual basis and communicated throughout the Group.

Time Commitment

The Group ensures that individual Court Directors have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships which may be held by any individual Director. The Group and the Bank have each been classified as 'significant institutions' under the EU (Capital Requirements) Regulations 2014 (the 'Regulations'). During the year ended 31 December 2018, all Directors were within the directorship limits set out for significant institutions under the Regulations.

All newly-appointed Directors are provided with a comprehensive letter of appointment detailing their responsibilities as Directors, the terms of their appointment and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of Non-executive Directors can be inspected during normal business hours by contacting the Group Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, NEDs are normally required to sit on at least one Court Committee, which involves the commitment of additional time. Certain NEDs, such as the Deputy Governor, SID and Committee Chairmen, are required to allocate additional time in fulfilling those roles.

Term of Appointment and Re-election of Directors

NEDs are normally appointed for an initial three year term, with an expectation of a further term of three years, assuming satisfactory performance and subject to the needs of the business, shareholder re-election and continuing fitness and probity. On recommendation by the CN&GC, in order to maintain continuity and succession on the Court and its Committees, the Court approved the proposal that Patrick Haren and Patrick Mulvihill would be requested to serve for a third term of three years and that Kent Atkinson would be requested to serve for one further year, starting from the AGC to be held in April 2018.

A NED's term of office will not extend beyond nine years in total unless the Court, on the recommendation of the CN&GC, concludes that such extension is necessary due to exceptional circumstances. In respect of Executive Directors, no service contract exists between the Bank and any Director which provides for a notice period from the Group of greater than one year. None of the Non-executive Directors have a contract of service with the Group.

It is Group practice that, following evaluation, all Court Directors are subject to annual re-election by shareholders. All Directors retired at the AGC held on 20 April 2018. The following Directors, being eligible, offered themselves for election and were elected at the AGC in 2018: Kent Atkinson, Richard Goulding, Patrick Haren, Archie G. Kane, Andrew Keating, Patrick Kennedy, Davida Marston, Francesca McDonagh, Fiona Muldoon and Patrick Mulvihill.

The names of Directors submitted for election or re-election are accompanied by sufficient biographical details and any other relevant information in the AGC documentation to enable shareholders to take an informed decision on their election.

Roles and Responsibilities

The structure of governance for the Governor and Company of the Bank of Ireland and its subsidiaries operates as follows in that it has:

- delegated authority to the Group CEO;
- a Court Terms of Reference in place for the Group; and
- Court Committees in place including Audit, Risk, Nomination and Governance and Remuneration Committees.

Your Court *(continued)*

Court Governance *(continued)*

Organisational Structure

The Group believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed and appropriate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review. These governance arrangements provide systems of checks and controls to ensure accountability and drive better decision-making, and also include policies and practices which ensure that the Court and its Committees operate effectively.

The Group's overall control systems include a clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Court, which support the maintenance of a strong control environment. Corporate and capital structure is a matter requiring Court approval. In accordance with section 225(2) of the Companies Act 2014, the Directors acknowledge that appropriate structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations (as defined in section 225(1)) have been put in place. The Court reviews annually the corporate legal structure of the Group and any changes to the structure of the Group effected since the Court's previous review.

Subsidiary Governance

The interaction between the Group Court and the Boards of our strategically significant subsidiaries are closely monitored. The Governor meets regularly with the Chairmen of these subsidiaries in order to ensure good communication and alignment. The Court reviews the performance of these significant subsidiaries, and as part of its oversight of significant subsidiaries, the Court visited the UK business including holding one Court meeting in the UK. Ian Buchanan is also a NED of BOI UK plc.

The Chairmen of Group Court Committees attend the equivalent committees of the strategically significant subsidiaries once a year.

In 2018, the Court reviewed the Group Subsidiary Governance Policy including the New Subsidiary / Entity process document, which sets out the required procedure should any party in the Group wish to set up a new Group subsidiary or entity in which the Group will have a controlling interest.

The Group has commenced a new corporate simplification programme designed to remove a number of subsidiaries from the Group. The purpose of this programme is to achieve a simplification of the corporate structure with a view to generating efficiencies and cost savings.

Operational Structure

In 2018, the Group announced a number of changes to the Group's operational structure. These changes will ensure that the Group is structured effectively to achieve the Group's ambition, purpose and transformation. The new structure complements the review of the Group's organisational design to simplify the organisation.

The Group launched its strategic priorities in 2018, and redefined the Group's Target Operational Model (TOM). The guiding principles of the TOM design are aligned with the Group's purpose, values and strategic priorities.

Our Business Model

We have strong businesses with competitive strengths in attractive markets, which enable us to create sustainable value for our stakeholders:
- Ireland's leading retail and commercial bank with #1 or #2 market share in all principal product lines;
- Extensive distribution network, Ireland's only bancassurer;
- A diverse portfolio of profitable businesses in the UK and internationally;
- A strong track record of credit risk management with commercial pricing and risk discipline.

We have targeted a number of changes to the business model in order to transform the bank:
- cost base to decline year on year to 2021;
- income growth; and
- strengthened culture.

One of the Group's strategic priorities is to serve customers brilliantly, which we will achieve by embedding the voice of the customer in our businesses, investing in digital and physical channels and through a new brand strategy.

Report of the Court Nomination and Governance Committee

Patrick Kennedy
Chair

Dear Shareholders,

Membership and meetings

At close of business on 31 December 2018, the Court Nomination and Governance Committee (the 'Committee' or the 'CN&GC') comprised Patrick Kennedy, Patrick Haren and Evelyn Bourke. Patrick Kennedy succeeded Archie Kane as Chair of the Court and the Committee on 1 August 2018, following Archie's retirement from those roles. Biographical details, including each member's background and experience, are set out on pages 20 to 23.

The Committee met six times in 2018. The Chair and Members of the Committee, together with their attendance at meetings, are shown below. The Group Chief Executive is invited to attend meetings. The Committee meets annually with no management present.

Role and responsibilities

The key responsibilities of the Committee are set out in its terms of reference (which are available on www.bankofireland.com) and include:

- leading the process for appointments and renewals for the Court and Court Committees and succession planning for key Court roles;
- overseeing the process for appointments and renewals of the Courts of substantial regulated subsidiaries;
- with the support of the Group Secretary, keeping Court governance arrangements under review and making appropriate recommendations to the Court to ensure corporate governance practices are consistent with high corporate governance standards;
- overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries; and
- overseeing senior management succession.

Matters considered by the Committee

The principal matters considered and actions taken by the Committee during the year are described on page 35.

Court Nomination and Governance Committee Meetings

CN&GC meetings	Eligible to attend	Attended
Archie G Kane[1]	4	4
Patrick Kennedy	6	6
Patrick Haren	6	6
Evelyn Bourke[2]	3	3
Fiona Muldoon[3]	-	-

Court Composition, Succession and Diversity

The Committee continued to keep under review the structure, size and composition of the Court and its Committees.

Acknowledging the tenure of a number of Court members in 2018, the Committee devoted considerable time to succession planning and recruitment of a new Governor, Deputy Governor and three new NEDs, all of whom were appointed during the year. Details of the process are set out on page 25.

The Committee engaged Russell Reynolds, an international search agency to support the director searches and considered a number of potential candidates in each case, leading to the appointment of NEDs Evelyn Bourke and Ian Buchanan in May 2018 and Steve Pateman in September 2018. The process to appoint Patrick Kennedy as Governor is described on page 17. The Committee also oversaw the succession of Patrick Haren to the role of Deputy Governor, succeeding Patrick Kennedy. Changes to the memberships of the Committees of the Court were made to ensure smooth succession and renewal. Other than in connection with the appointment of the NEDs, Russell Reynolds has no connection with the Group.

As part of the process of succession planning and determining the appropriate range and mix of skills required to maintain an effective Court, each member of the Court is requested to self-assess against the skills template introduced in 2017 in the EBA Guidelines on Suitability of Management Body Members and Key Function Holders. This assessment provided the Committee with valuable analysis of the skills and experience of Court members, relative to required and desirable Court competencies, and contributes to ensuring that the Court continues to have an appropriate range and depth of skills and experience.

The Group recognises the benefits of having a diverse Court and workforce, creating a work environment where everyone has an opportunity to fully participate in creating business success, and where each person is valued for his or her distinctive skills, experiences and perspectives. In reviewing Court composition and identifying suitable candidates, the Committee considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, regional and industry experience, background, nationality, gender, age and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Court. All Court appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Court as a whole requires to be effective.

1 *Retired 31 July 2018*
2 *Appointed 17 May 2018*
3 *Appointed 20 January 2019.*

Report of the Court Nomination and Governance Committee *(continued)*

Matters considered and action taken by the CN&GC in 2018

Key issue	Committee considerations	Committee conclusion
Court Composition, renewal, succession and effectiveness	• Court skills assessment, composition, diversity, size, tenure, succession planning. • Committee composition and succession planning. • NED recruitment and appointments, including Fitness and Probity assessments. • Effectiveness Reviews of Court, Governor and Individual Directors.	Court appointments during the year were made to enhance the composition, diversity and skills profile of the Court, replacing skills of retiring Directors and introducing additional skills, experience and perspectives that equip the Court to address the strategic challenges facing the Group. The Court remains effective.
Executive	• Senior Executive succession planning and appointments, including Fitness and Probity assessments. • Review of UK Individual Accountability Regime.	The Committee supported the Group CEO's renewal of the Group Executive and succession planning for key roles.
Governance	• Corporate Governance Statement. • Matters Reserved to Court and delegations. • Code of Conduct and Speak Up Policy and review of effectiveness. • Updates to key corporate governance codes and regulations including UK Corporate Governance Code and EBA Guidelines on Internal Governance and Suitability.	The Committee approved changes to ensure that new corporate governance requirements are met. They approved the communication on corporate governance with key stakeholders through the Corporate Governance Statement. They reviewed the appropriateness and effectiveness of the Group's Code of Conduct and Speak Up Policy.
Policies	• Court Terms of Reference. • Court Conflicts of Interest Policy. • Director Assessment Policy and Key Function Holders Assessment Policy. • Court Diversity Policy. • Court Training and Induction Policy.	The Committee was satisfied that the key court policies are appropriate and effective.
Subsidiary Governance	• Appointments to Boards of substantial regulated subsidiaries. • Subsidiary Governance Policy and Guidelines. • Review of composition and succession plans of key subsidiary Boards. • Review of effectiveness of key subsidiary Boards. • Pension Scheme trustee appointments.	The Committee ensured that the Boards of subsidiaries are properly composed with suitable directors and sound governance and that Group oversight of subsidiaries is appropriate.
Committee Governance	• Committee Effectiveness Review • Committee Terms of Reference	The Committee remains effective.

During 2018 the Committee reviewed the Court Diversity Policy (the latest version of which is available on the Group's website) and the measurable objectives set out thereunder. The Court has set a target of achieving a minimum of 33% female representation on the Court for the year ending 31 December 2020. As at 31 December 2018 there was 27% female representation on the Court. In 2018, the Group made further progress in addressing diversity in the Group's workforce through its Inclusion and Diversity Programme, which recognises that developing and utilising the skills and perspectives of all our employees is critical to the Group's ongoing business success.

The Committee also devoted considerable time to senior executive succession planning and appointments, including Fitness and Probity Assessments.

Governance Matters

The Committee keeps under review updates to corporate governance and regulations and briefs the Court on their implementation. In 2018, the Committee oversaw the implementation of the EBA Guidelines on Internal Governance, and on the Assessment of the Suitability of the Management Body Members and Key Function Holders (March 2018) amongst

Report of the Court Nomination and Governance Committee *(continued)*

other matters. It also considered the changes required to comply with the UK Corporate Governance Code (July 2018) which will become effective for the financial year 2019.

Effectiveness Reviews

The Committee oversaw the annual review of the effectiveness of the Court and its Committees, including the Court Nominations and Governance Committee, which was conducted internally in 2018. For further details, see page 26.

Patrick Kennedy
Chair of the Court Nomination and Governance Committee

22 February 2019

Report of the Court Remuneration Committee

Patrick Haren
Chair

Dear Shareholders,

Membership and meetings

At close of business on 31 December 2018, the Court Remuneration Committee (the 'Committee' or the 'CRC') comprised four independent NEDs from diverse backgrounds to provide a balanced and independent view on remuneration matters. Its composition is compliant with the requirements of the Irish Code and CRD IV, and with the recommendations of the UK Code.

Steve Pateman was appointed to the CRC on 10 September 2018 and Archie G. Kane resigned from the CRC on 31 July 2018. In order to ensure that remuneration policies and procedures are consistent with effective risk management, there is common membership between the CRC and the Court Risk Committee. Kent Atkinson, Richard Goulding and Steve Pateman were members of both Committees in 2018. Biographical details, including each member's background and experience, are set out on pages 20 to 23.

The CRC met eleven times in 2018. The Members of the CRC, together with their attendance at meetings, are shown below. The Chairman, the Group Chief Executive, Head of Group HR and the Head of Group Performance and Reward are invited to attend meetings as appropriate.

Role and responsibilities

The CRC holds delegated responsibility from the Court of Directors for the oversight of Group-wide remuneration policy with specific reference to the Chair, Directors and senior management across the Group, and those employees whose activities have a material impact on the Group's risk profile.

The CRC is responsible for overseeing the annual review of the Group Remuneration Policy with input from the Court Risk Committee and relevant risk management functions Committee.

The remuneration of NEDs is determined and approved by the Court. Neither the Chair nor any Director participates in decisions relating to their own personal remuneration.

The Group is currently operating under a number of remuneration restrictions which cover all Directors, senior management, employees and certain service providers across the Group. For further information, please see page 150 of the Remuneration Report in the BOIG plc Group Annual Report 2018.

Mercer Kepler are the current external advisors to the Group Remuneration Committee and also provided remuneration services to the Remuneration Committee of Bank of Ireland UK plc.

The Committee is of the view that Mercer Kepler provides independent remuneration advice to the Committee and to the Remuneration Committee of Bank of Ireland UK plc, and does not have any connections with the Group that may impair its independence.

Matters considered by the CRC

The matters considered, and actions taken by the CRC during the year are set out below. The Chair of the CRC, reported to the Court after each meeting to ensure all Directors were fully informed of the CRC's activities.

Court Remuneration Committee Meetings

CRC meetings	Eligible to attend	Attended
Patrick Haren	11	11
Kent Atkinson	11	10
Richard Goulding	11	11
Steve Pateman	4	4
Archie G Kane	7	7

Report of the Court Remuneration Committee *(continued)*

Matters considered and action taken by the CRC in 2018

Key issue	Committee considerations	Committee conclusion
Remuneration Policy, including impact of risk profile.	• Approval of Group Remuneration Policy and of governance and monitoring of that policy. • Review of group risk profile and implications of remuneration policies for risk and risk management. • Design of a potential incentive scheme, including scope, reflection of risk, and application at various levels, including Executive Directors. • Governance of potential incentive scheme. • Design of Organisational Balanced Scorecard. • Investor perspectives on potential incentive scheme.	• Current Remuneration Policy is properly governed and implemented and does not lead to inappropriate risk taking. • Any potential incentive scheme design will be subject to removal of relevant restrictions and shareholder approval.
Remuneration Disclosure	• Pillar 3 disclosures.	• Current disclosures are appropriate. • Future disclosures should reflect good practice and shareholder expectations.
Performance and Remuneration of Senior Management	• Objective setting and performance appraisal of Senior Executives. • Review of approach to remuneration of Senior Officers. • Benchmarking and approval of changes to remuneration of senior executives.	• There is an appropriate process in place to assess the performance of senior executives. • Changes to senior executive remuneration are properly assessed and approved.
Governance and review of remuneration practice.	• Approval of Group Material Risk Taker Policy. • Approval of Group Code Role Holder Policy and review of Code Role Holders. • Approval of remuneration of Senior Officers in Independent Control Functions. • Review of top earners. • Review of regulatory developments. • Review of internal audits relevant to remuneration policy or practice.	There is good governance around remuneration particularly of those who could materially impact the Group's risk profile.
NED fees	Review and benchmarking of fees paid to the Group Governor, Group NEDs and NEDs of subsidiary courts.	Group NED fees are subject to remuneration restrictions. Subsidiary NED fees are appropriate.
Committee Governance	Review of Committee Terms of Reference and effectiveness.	The Committee is effective.

Patrick Haren
Chair of the Court Remuneration Committee

22 February 2019

Report of the Court Audit Committee

Patrick Mulvihill
Chair

Dear Shareholders,

2018 was a year of significant change for the Court Audit Committee (the 'Committee' or the 'CAC'). Patrick Mulvihill was appointed Chair of the Committee replacing Kent Atkinson in this role. Evelyn Bourke, Richard Goulding, and Steve Pateman were appointed to the Committee. The Committee oversaw the change in external Auditor from PricewaterhouseCoopers to KPMG following the tender process in 2017.

Over half of the Committee's time is typically spent on financial reporting and the integrity of information provided to external parties. In 2018 it focused on assessing judgements and outcomes relating to asset quality, various material accounting judgements and conduct matters. The Committee also oversaw the preparation for various new accounting standards and regulatory requirements, including the first year of reporting under IFRS 9 'Financial Instruments'.

The external environment for the Group continues to evolve from both a regulation and competition perspective. As a result the Group is in the process of transforming its business model and ways of working. This creates challenges for financial reporting and internal controls, and the Committee has already spent significant time considering the implications of this significant level of change.

This report covers in more detail how the Committee operates and the matters on which it focused.

Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the integrity of the Group's financial reporting arrangements, the effectiveness of the Group's internal controls (including over financial reporting) and the risk management framework, whistleblowing arrangements and each of the internal and external audit processes, including the statutory audit of the consolidated financial statements and the independence of the statutory Auditor.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board. A full list of responsibilities is detailed in the Committee's terms of reference, which can be found at https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/. The Committee monitors and reviews the Group's financial and reporting arrangements as detailed within the Transparency Regulations; the production of periodic financial reports, disclosure of major shareholdings, and dissemination of regulated information.

During the year the Committee considered a number of topics relating to the Group's financial reporting. These matters are summarised on the next page, including discussion of the conclusions the Committee reached, and the key factors considered by the Committee in reaching its conclusions. In addition, the Committee considered a number of other significant topics not related directly to financial reporting, including internal controls, internal audit and external audit. These matters are also discussed in detail in the next section, including insight into the key factors considered by the Committee in reaching its conclusions.

Committee composition, skills and experience

The Committee acts independently of the executive to ensure that the interests of the shareholders are properly protected in relation to financial reporting and internal control. All members of the Committee are independent NEDs with competence in the financial sector and their biographies can be found on pages 20 to 23. Kent Atkinson and Patrick Mulvihill have extensive knowledge of financial markets, treasury, risk management and international accounting standards, and are the members with recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

The members of the Committee keep their skills up to date with Court deep dives and Audit Committee training. A key focus of specific Audit Committee training this year was IFRS 9. During the course of the year, the Committee held separate sessions with the internal and external audit teams, without members of the executive management present. The Committee undertakes an effectiveness review annually and this year concluded that it continues to be effective.

Details of the Committee's membership and meeting attendance are shown below. The Head of Group Finance, the Group Chief Internal Auditor, the external Auditor, the Group Chief Executive, the Chief Financial Officer and the Group Chief Risk Officer also attend meetings of the Committee as appropriate.

Court Audit Committee Meetings

CAC meetings	Eligible to attend	Attended
Kent Atkinson	10	10
Eveyln Bourke	5	5
Richard Goulding	4	4
Patrick Haren	7	7
Patrick Kennedy	7	7
Davida Marston	8	8
Patrick Mulvihill	10	10
Steve Pateman	3	3

Report of the Court Audit Committee *(continued)*

Financial Reporting
During the year, the Committee considered the following matters in relation to the Group's financial statements and disclosures, with input from management, Group Internal Audit and the external Auditor. Further information on some of these significant items is set out in the Critical Accounting Estimates and Judgements in note 2 to the consolidated financial statements.

Overall the Committee was satisfied that the Annual Report, including the financial statements, is fair, balanced and understandable.

Matters considered and action taken by the CAC in 2018

Key issue	Committee considerations	Committee conclusion
IFRS 9 and impairment of financial instruments	The Committee reviewed management papers and discussed and challenged management judgements used in determining the following based on IFRS 9 requirements: • impact on shareholders' equity of transition to IFRS 9 on 1 January 2018; • correct classification and measurement of financial instruments; • opening and closing stage allocations and stock of impairment loss allowance (including any necessary Group management adjustments to reflect model limitations and / or late breaking events); • net impairment gain for the reporting period; and • quantum of NPEs. The Group's approach to the measurement of impairment is set out in the Group Impairment Policy. The policy includes the Group's criteria for allocating financial instruments to stages, the method used to measure impairment for each material portfolio, core impairment model methodologies, and the criteria for classifying financial assets as NPEs. The policy has been approved by the Court on the recommendation of the Committee, following recommendation by the Impairment Committee and the Group Risk Policy Committee (GRPC). The impairment models are approved for use by the Risk Measurement Committee (RMC) and are maintained and executed by a specialist central unit within Group Risk. The Committee reviewed the impact of key model changes made during the reporting period. The Court Risk Committee (CRC), on a semi-annual basis, provides observations on the Group's asset quality management and profile to the Court Audit Committee (CAC) and this serves as an input into the CAC's assessment of year end impairment loss allowances. Further information on the impact of the transition to IFRS 9 on 1 January 2018 is set out in notes 64 and 65 to the consolidated financial statements.	The Committee was satisfied that the impact of transition to IFRS 9 had been appropriately determined and that the associated disclosures were appropriate based on the relevant accounting and disclosure standards, principally IFRS 7 and IAS 8. The Committee was satisfied that the opening and closing stage allocations and impairment loss allowances, and the net impairment gain for the reporting period, had been appropriately determined in accordance with the Group's methodologies and relevant accounting standards. The Committee was also satisfied that the associated disclosures were appropriate based on the relevant accounting standards including IFRS 7.
Deferred taxation	The Committee considered the extent of DTAs to be recognised in respect of unutilised tax losses, and in particular the projections for future taxable profits against which those losses may be utilised. In order for the Group to recognise these assets, it must be probable that sufficient future taxable profits will be available against which the losses can be utilised. The Group has prepared financial projections which are being used to support the Group's ICAAP. The financial projections are prepared for the purpose of the Group's assessment of its capital adequacy. They are subjected to considerable internal governance at a divisional and Group level and are reviewed and approved by executive management and the Court. Management's assessment of the projections determined that it was probable that there would be sufficient taxable profits in the future to recover the DTA arising from unused tax losses.	The Committee discussed with management its assessment of the recoverability of the DTA and the related disclosures. The Committee and the Court concluded that it was probable that there would be sufficient taxable profits in the future to recover the DTA arising from unused tax losses, and that the related disclosures were as required under IAS 12 'Income Taxes'.

Report of the Court Audit Committee *(continued)*

Key issue	Committee considerations	Committee conclusion
Intangible assets - Capitalisation of the Transformation Investment asset	The Committee considered the appropriateness of Management's internal controls and governance surrounding the capitalisation of costs associated with internally generated intangible assets associated with the current Transformation Investment asset.	The Committee was satisfied, based on the effective operation of governance and controls, that the capitalisation of costs relating to the Transformation Investment asset, and the carrying value of the related intangible assets, was reasonable and in line with the requirements of IFRS.
Life assurance accounting	The Committee considered management's key assumptions and judgements used in determining the valuations of the Value in Force (ViF) business and insurance contract liabilities. The key assumptions in projecting future surpluses and other net cash flows attributable to the shareholder arising from business written were the interest rate and unit growth rate, lapse rates, mortality, morbidity and expenses. Interest rates and unit-growth rates are based on a range of duration specific rates determined by a risk free yield curve. This yield curve is provided by the European Insurance and Occupational Pensions Authority (EIOPA).	The Committee was satisfied that the significant assumptions are appropriately applied and that the accounting for the Group's ViF business and insurance contract liabilities is appropriate.
Retirement benefit obligations	The Committee considered management's key assumptions and judgements used in determining the actuarial values of the liabilities of each of the Group's sponsored DB pension schemes under IAS 19 'Employee Benefits'. Management considered advice from independent actuaries, Willis Towers Watson, for the determination of significant actuarial assumptions including discount rates and inflation. The key assumptions proposed by management and considered by the Committee were assumptions relating to inflation rates, demographic assumptions and discount rates in Ireland and the UK which are used in determining liabilities at the reporting date.	The Committee was satisfied that the inflation rates, discount rates and other significant assumptions were appropriate and that the accounting for the Group's sponsored DB pension schemes and related disclosures was in accordance with IAS 19.
Going concern	The Committee considered management's assessment of the appropriateness of preparing the financial statements of the Group for the year ended 31 December 2018 on a going concern basis. In making this assessment, matters considered include the performance of the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios. The considerations assessed by the CAC are set out on page 67 in the Going Concern disclosure within the Accounting Policies in note 1 to the consolidated financial statements.	On the basis of the review performed and the discussions with management, the Committee was satisfied that there were no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment. This assessment together with the Going Concern disclosure (as set out on page 67) was subsequently approved by the Court.
IT operational risk	The Committee considered and discussed management's assessment of IT risks and the ongoing risk management programme to identify, rate, mitigate and report on IT risks, including Group Internal Audit (GIA) review of the internal control considerations related to the Group's IT investment programme.	On the basis of the review performed, discussions with management, and the continued operation of the comprehensive internal control framework over financial reporting, the Committee was satisfied that these risks did not impact financial reporting.

Report of the Court Audit Committee *(continued)*

Other responsibilities
The following matters were also considered by the Committee during the year:

Risk management and internal control systems
Specific matters that the Committee considered for the year included:
- the effectiveness of systems for internal control, financial reporting and risk management;
- the extent of the work undertaken by the Finance teams across the Group and consideration of the resources required to ensure that the control environment continued to operate effectively; and
- findings of internal investigations into control weaknesses, fraud or misconduct and management's response along with any control deficiencies identified through the assessment of the effectiveness of the internal controls over financial reporting process.

The Committee was satisfied that internal controls over financial reporting were appropriately designed and operating effectively.

Group Internal Audit
In monitoring the activity, role and effectiveness of the internal audit function and their audit programme the Committee:
- monitored the effectiveness of Group Internal Audit and their audit programme through quarterly reports on the activities undertaken;
- approved the annual audit plan and budget, including resources and reviewed progress against the plan through the year;
- reviewed progress in the implementation of the Group Internal Audit strategy; and
- considered the findings of significant internal audits, management's response and the timeliness of remediation of issues.

Auditor independence and remuneration
Both the Court and the external Auditor have safeguards in place to protect the independence and objectivity of the external Auditor. The Committee continues to operate a policy to regulate the use of the Auditor for non-audit services to ensure compliance with the revised Ethical Standards for Auditors (Ireland) 2017 from the Irish Auditing Accounting Standards Authority (IAASA).

In order to ensure the objectivity and independence of the external Auditor, the policy sets a financial threshold above which all non-audit services provided by the external Auditor must be approved in advance by the Committee, with additional provision made for the approval of non-material services which are below the threshold by certain members of senior management. The policy further formalises within the Group the restriction on the provision of non-audit services by the external Auditor.

The fees paid to KPMG for the year ended 31 December 2018 amounted to €3.9 million (PricewaterhouseCoopers 2017: €5.9 million), of which €0.6 million (2017: €2.4 million) was payable in respect of non-audit services. Non-audit services represented 15% of the statutory audit fee (2017: 66%). Further information on fees paid in respect of audit and non-audit services, along with details of non-audit services provided during the year are set out in note 16 to the consolidated financial statements 'Auditor's remuneration'.

External Auditor
The Committee oversees the relationship with the external Auditor. During the year, the Committee's focus was ensuring a successful handover from PricewaterhouseCoopers, the Group's sole Auditor from 1990 to 2017, to KPMG.

The Committee considered the Auditor's terms of engagement (including remuneration), its independence and objectivity and approved the plans for the interim review and year end audit. The Committee also assessed the Auditor's findings, conclusions and recommendations arising from the interim review and year-end audit. Niamh Marshall is KPMG's statutory audit partner for the Group and attends all meetings of the Committee.

The Committee concluded that it was satisfied with the Auditor's performance and recommended to the Court a proposal for the reappointment of the auditor, to be approved at the Bank's AGC.

The Committee also considered a number of global audit quality matters and met with KPMG to discuss how the firm was responding to these challenges.

Other focus areas
The Committee dedicated time to review and oversee a number of key programmes with potential financial reporting impact - GDPR, BCBS239 and the Regulatory Reporting Improvement Programme.

The Committee also reviewed talent development and succession planning for the finance function.

Patrick Mulvihill
Chair of the Court Audit Committee

22 February 2019

Report of the Court Risk Committee

Richard Goulding
Chair

Dear Shareholders,

The Court Risk Committee (the 'Committee' or the 'CRC') continues to give detailed consideration to existing and emerging risks, through a balanced agenda which ensures sufficient focus on standing areas of risk management through the Group Risk Framework, together with specific attention being given to those emerging risks which are considered to be of ongoing importance to the Group and its customers. The latter included areas such as transformation risk, IT resilience and cyber security, where the dynamic nature and significance of related risks and challenges continue to evolve.

Focus has also been given to regulatory risk, including that related to change programmes, proactive identification and resolution of conduct issues, and uplifting the Group's operational risk framework and capability. Progress across each of these areas will be a key ongoing focus for the Committee during 2019.

The environment within which the Group operates continues to be subject to considerable change. Uncertainties, including the UK exit from the EU and wider geo-political risks continue to provide challenges, and the Committee will continue to monitor developments and any associated impact on the Group's risk profile.

The Committee concluded that the Group continues to have strong discipline in the management of both emerging and existing risks, and the Committee's work continues to help support the Group in safely achieving its purpose and strategy.

Risk Management - Discussions and Decisions

Key matters covered included:

- recommending the Group's Risk Appetite Framework and Risk Appetite Statement. Considering breaches of risk appetite, remediation plans and required communications;
- recommending policies for Credit, Market and Liquidity risks and approving other key risk policies;
- regularly assessing the Group's overall risk profile and emerging risk themes, hearing directly from the Group Chief Risk Officer and reviewing the monthly consolidated risk report and risk appetite dashboard;
- receiving reports on the Group's operational and technology capability, including specific updates on cyber risk capability, IT stability and IT Service Continuity Management (ITSCM);
- recommending the Group's plan for managing NPEs, a key driver of managing legacy credit risk;
- recommending the Group's 2018 ICAAP, ILAAP and Recovery Plan; and
- hearing from representatives of the ECB and CBI regulators about regulatory expectations and their specific views on the Group.

Committee purpose and responsibilities

The Committee is responsible for the risk culture of the Group and setting the tone from the top in respect of risk management. It is also responsible for ensuring the risk culture is fully embedded and supports at all times the Group's agreed risk appetite, covering the extent and categories of risk which the Court considers acceptable for the Group.

In seeking to achieve this, the Committee assumes responsibility for monitoring the Group's Risk Management Framework, which embraces risk principles, policies, methodologies, systems, processes, procedures and people. It also includes the review of new, or material amendments to, risk principles and policies, and overseeing any action resulting from material breaches of such policy. More details on the Group's wider approach to risk management can be found in the Risk Management Report on pages 60 to 111 of the BOIG plc Group Annual Report 2018. Full details of the Committee's responsibilities are set out in its terms of reference, which can be found at https://www.bankofireland.com/about- bank-of-ireland/corporate-governance/.

Committee composition, skills and experience

Richard Goulding, Chair of the Committee, is a highly regarded retail and commercial banker, having been the Group Chief Risk Officer and Executive Director at Standard Chartered Bank and has substantial operations management experience. The Committee is composed of independent NEDs, who provide core banking and risk knowledge, together with breadth of experience which brings knowledge from other sectors, and a clear awareness of the importance of putting the customer at the centre of all that the Group does.

The Group Chief Risk Officer has full access to the Committee and normally attends meetings. The Group Chief Internal Auditor and members of the Executive also attend meetings, as appropriate.

During the year the Committee met its key objectives and carried out its responsibilities effectively. Details of Committee membership and meeting attendance are shown below.

Court Risk Committee Meetings

CRC meetings	Eligible to attend	Attended
Kent Atkinson	12	11
Ian Buchanan	7	7
Richard Goulding	12	12
Patrick Kennedy	8	8
Fiona Muldoon	12	12
Patrick Mulvihill	12	12
Steve Pateman	4	4

Report of the Court Risk Committee *(continued)*

Matters considered and action taken by the CRC in 2018

Key issue	Committee considerations	Committee conclusion
Credit Risk	Credit quality continues to improve as the Group's key economies perform strongly. The Committee considered overall credit quality during the year and the Group's strategy and operating plan for NPEs. The Committee also reviewed residual risk in the motor finance portfolio, sectors most exposed to Brexit and concentrations in the mortgage portfolio.	Credit portfolios continue to perform well. NPEs continue to decrease in line with the approved NPE strategy, albeit they remain higher than long-term appetite.
Capital Adequacy	Regular reviews are undertaken to ensure that Regulatory and Fully Loaded capital ratios have appropriate buffers above the Group's own minimum targets and regulatory requirements. The Committee considered the impacts of future capital requirement and capital availability and reviewed in detail the Internal Capital Adequacy Assessment Process (ICAAP), including under stress scenarios.	The Group holds sufficient capital to deliver its planning horizon.
Funding and Liquidity Risk	Regular reviews are undertaken to ensure that the Group is compliant with all risk appetite measures and regulatory liquidity requirements. The Committee reviewed the results of regular stress testing and of the Internal Liquidity Adequacy Assessment Process (ILAAP).	The Group continues to be fully compliant and has no issues with market access or pricing.
Market Risk	Regular reviews are undertaken to ensure that the Group is compliant with all risk appetite measures across credit spread risk, discretionary risk, VaR and scenario based stress testing. The Committee reviewed the results of regular market risk reporting and considered the impacts of emerging market developments including Brexit.	The Group continues to operate within risk appetite in this area.
Pension Risk	The Group is exposed to Pension Risk as a consequence of its sponsorship of the Group's DB pension schemes. The key sensitivities associated with Pension Risk are outside the control of the Group.	The Group continues to take asset and liability management actions in order to reduce volatility and consequent capital impact. The Group has made, and continues to make progress.

Report of the Court Risk Committee *(continued)*

Key issue	Committee considerations	Committee conclusion
Operational Risk	Managing operational risk continues to be a key focus within the Group due to the complexity and volume of change, the Group's IT infrastructure, cyber risk and reliance on third party suppliers. The Committee continues to focus on ensuring the Group has an effective framework for managing operational risk, including enhancing the use of key risk and control indicators and residual risk reporting. The Committee has considered a number of reports in relation to operational risk framework across cyber, IT, sourcing, information security, data and business continuity.	The Group has made progress in its management of operational risk. The Group will continue to focus on enhancing the maturity of the framework during 2019.
Regulatory Risk	Managing regulatory risk continues to be a key focus for the Group due to the complexity and volume of change and interdependent regulatory reform to be managed. The Committee continues to focus on ensuring there are sufficient controls over and oversight of compliance programmes.	The Group has placed significant focus on ensuring compliance with regulatory requirements. Regulatory risk will remain a key area of focus for the Committee in 2019 given the importance of continued compliance.
Conduct Risk	The Committee focused on the Group's management of conduct risk. Throughout 2018, the Committee has considered reports on the resolution of customer conduct issues, with a particular focus on tracker mortgages. The pace and quality of remediation remained a focus, including root cause analysis to establish lessons learned and help prevent similar issues in the future. The Committee continues to consider developments in the Group's conduct culture as well as reports on rectification programmes, complaints and conduct risk appetite metric performance.	While good progress has been made in 2018, ongoing improvement in risk profile and embedding of conduct initiatives will remain a priority for the Group in 2019, and a subject of focus for the Committee.
Business and Strategic Risk	The Committee recognises the risks in delivering the agreed strategy, associated with the transformation agenda, customer expectations and regulatory change.	The Group is engaged in a significant programme to transform the bank, serve customers brilliantly and grow sustainable profits. It acknowledges the challenges faced with delivering this strategy whilst additionally enhancing systems and controls and meeting regulatory change. New performance measures have been introduced to enable performance monitoring, risk management and the assessment of delivery. These will be further developed and embedded during 2019.

Report of the Court Risk Committee *(continued)*

Key issue	Committee considerations	Committee conclusion
IT and Information Security	A resilient IT environment is critical to providing reliable services to customers, and meeting current and future demands. The risk of cybersecurity attacks, which target financial institutions and corporates as well as governments and other institutions, remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world. During the year, GTOC gave consideration to a wide range of issues, including cyber and IT controls, technology resilience and cybersecurity programme updates. The Committee also worked closely with GTOC, overseeing transformation to ensure appropriate prioritisation to risk management.	Whilst there has been significant improvement in cyber capability, IT resilience and transformation risk will remain areas of key focus during 2019 as the Group continues to invest in its infrastructure and replace core systems.
Brexit	There is still considerable uncertainty over the outcome of Brexit, including the possibility of a hard, disorderly one, and how this will impact on the markets in which the Group operates.	The Brexit risks impacting the Group are credit risk, business and strategic risk and operating model risk. The Committee continues to oversee the Group's preparation and risk mitigations plans, which have been executed effectively.

Richard Goulding
Chair of the Court Risk Committee

22 February 2019

Attendance table

Attendance at scheduled meetings of the Court and its Committees during the year ended 31 December 2018.

	Court		Audit Committee		Nomination & Governance Committee		Remuneration Committee		Risk Committee	
Name	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Kent Atkinson	15	14	10	10	-	-	11	10	12	11
Evelyn Bourke *(appointed to Court, Audit and Nomination Committees 17 May 2018)*	8	8	5	5	3	3	-	-	-	-
Ian Buchanan *(appointed to Court and Risk Committees 17 May 2018)*	8	8	-	-	-	-	-	-	7	7
Richard Goulding *(appointed to Audit Committee 1 August 2018)*	15	15	4	4	-	-	11	11	12	12
Patrick Haren *(resigned from Audit Committee 1 August 2018)*	15	15	7	7	6	6	11	11	-	-
Archie G Kane *(resigned 31 July 2018)*	11	11	-	-	4	4	7	7	-	-
Andrew Keating	15	15	-	-	-	-	-	-	-	-
Patrick Kennedy *(appointed as Governor 1 August 2018)*	15	15	7	7	6	6	-	-	8	8
Davida Marston *(resigned 30 September 2018)*	12	12	8	8	-	-	-	-	-	-
Francesca McDonagh	15	15	-	-	-	-	-	-	-	-
Fiona Muldoon	15	15	-	-	-	-	-	-	12	12
Patrick Mulvihill *(appointed to Risk Committee on 1 January 2018 and Chair of Audit Committee on 20 April 2018)*	15	15	10	10	-	-	-	-	12	12
Steve Pateman *(appointed to Court, Audit, Risk and Remuneration Committees 10 September 2018)*	4	4	3	3	-	-	4	4	4	4

Column A: *Indicates the number of meetings held during the year the Director was a member of the Court and / or the Committee and was eligible to attend.*
Column B: *Indicates the number of meetings attended.*

Report of the Directors

Group Structure
In July 2017, a corporate reorganisation was completed whereby 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 50 on page 193 for further information. The Annual Report for 2018 of BOIG plc was published on 25 February 2019 and is available on the Group's website.

Results
In 2018, the Group made a profit before tax of €834 million and an after tax profit of €674 million. Profit of €nil is attributable to non-controlling interests, and a €674 million profit is attributable to the stockholder.

Group activities
The Group provides a range of banking and other financial services. The Operating and Financial Review (pages 3 to 8 contains a review of the results and operations of the Group, of most recent events, and of likely future developments.

In relation to the Group's business, no contracts of significance to the Group within the meaning of LR 6.8.1(10) of the Euronext Dublin Listing Rules existed at any time during the year ended 31 December 2018.

Principal Risks and Uncertainties
Information concerning the Principal Risks and Uncertainties facing the Group is set out on pages 9 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 30 on page 128. 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 Group Annual Report 2018.

Capital stock
At 31 December 2018, 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 note 51 to the consolidated financial statements.

Directors and Secretary
At the Annual General Court (AGC) held on 20 April 2018, all Directors retired. Richard Goulding and Francesca McDonagh were elected, having been appointed by the Court in July 2017 and October 2017 respectively. Kent Atkinson, Patrick Haren, Archie G Kane, Andrew Keating, Patrick Kennedy, Davida Marston, Fiona Muldoon and Patrick Mulvihill were re-elected. The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2018 and up to the date of the approval of the financial statements are set out in 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 2018. There were no other interests disclosed to the Bank in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2018 to 22 February 2019.

Corporate Governance
Statements by the Directors in relation to the Bank's compliance with the CBI's Corporate Governance Requirements for Credit Institutions 2015, (the 'Irish Code') and additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively, are set out on page 18. The Bank is also subject to the to the Listing rules of the Irish Stock Exchange, t/a Euronext Dublin.

The Corporate Governance Statement forms part of the Report of the Directors.

Directors' Compliance Statement
As required by Section 225 of the Companies Act 2014, as amended, of Ireland, the directors acknowledge that they are responsible for securing the 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.

Table 1:

Directors

Archie G Kane
Governor
(resigned 31 July 2018)

Patrick Kennedy
Governor
(appointed 1 August 2018)

Kent Atkinson
Independent NED

Evelyn Bourke
Independent NED
(appointed 17 May 2018)

Ian Buchanan
Independent NED
(appointed 17 May 2018)

Richard Goulding
Independent NED

Patrick Haren
Deputy Governor,
Independent NED

Andrew Keating
Group Chief Financial Officer

Davida Marston
Independent NED
(resigned 30 September 2018)

Francesca McDonagh
Group Chief Executive Officer

Fiona Muldoon
Independent NED

Patrick Mulvihill
Independent NED

Steve Pateman
Independent NED
(appointed 10 September 2018)

Environment
The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the 'Responsible and Sustainable Business' section of the Strategic Report in the BOIG plc Group Annual Report 2018. Further information is available on the Group's website.

Political donations
Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2018.

Branches outside the State
The Bank has established branches in the UK, France, Germany and the US. The Bank is in the process of establishing a branch in Spain.

Going concern
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for 2018 on page 67 which forms part of the Report of the Directors and on page 41 in the Corporate Governance Statement.

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

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

The Directors have assessed the prospects of the Group through a number of frameworks, including the ICAAP, the ILAAP, each of which include an assessment of the impact of Brexit, the monitoring of key risks identified under the Group's risk identification process by the GRPC, the CRC and the Court (see page 71 of the BOIG plc Group Annual Report 2018), and the assessment of Principal Risks and Uncertainties (see pages 9 to 15). Within the Principal Risks and Uncertainties, the Directors consider Credit risk, Funding and Liquidity risk and Capital adequacy to be the most relevant to the viability assessment.

The ICAAP process facilitates the 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 Board approved Risk Appetite and Strategy, and to meet its CRD IV regulatory capital, leverage and liquidity requirements.

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

The Directors confirm that their assessment of the principal risks facing the Group, through the processes set out above, was robust. Based upon this assessment, and their assessment of the Group's prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

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.

Auditor
PricewaterhouseCoopers resigned as Auditor during the year and KPMG, Chartered Accountants, were appointed in their place and will continue in office in accordance with Section 383(2) of the Companies Act 2014.

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

Directors' and Secretary's interests in stock
The Directors and Secretary had no interests in the stock / securities of the Bank or its Group undertakings at 31 December 2018 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 year under review and 22 February 2019.

Non-Financial Information
Information required in accordance with the EU (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 can be found in the Strategic Report in the BOIG plc Group Annual Report 2018 on page 19.

Post balance sheet events
These are described in note 67 to the financial statements.

Patrick Kennedy
Governor

Patrick Haren
Deputy Governor

Bank of Ireland Group
Registered Office
40 Mespil Road,
Dublin 4

22 February 2019

Financial Statements

Financial Statements
Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditor's Report set out on pages 52 to 57, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor 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 EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the EU (Credit Institutions: Financial Statements) Regulations, 2015 and, in respect of the consolidated financial statements, Article 4 of the International Accounting Standards (IAS) Regulation. Company law requires the Directors to prepare Group and Bank financial statements for each financial year.

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; and
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Bank to be determined with reasonable accuracy.

The Directors are also responsible under Section 282 of the Companies Act, 2014 for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act, 2014, including Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are also responsible for monitoring the effectiveness of the Bank's systems of internal control in relation to the financial reporting processes, and have a general responsibility 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 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 Group's website.

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

The Directors confirm that, to the best of each Director's knowledge and belief:
- they have complied with the above requirements in preparing the financial statements;
- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group and of the profit of the Group;
- the 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
22 February 2019

Patrick Kennedy	***Patrick Haren***	***Francesca McDonagh***
Governor	*Deputy Governor*	*Group Chief Executive*

Independent Auditor's Report
to the members of The Governor and Company of the Bank of Ireland

Report on the audit of the financial statements

Opinion

We have audited the Group and Company financial statements of The Governor and Company of the Bank of Ireland (the 'Bank') for the year ended 31 December 2018 set out on pages 58 to 243, which comprise the consolidated income statement, consolidated statement of comprehensive income, balance sheet of the Group and Bank, statement of changes in equity of the Group and Bank, consolidated cash flow statement, and related notes, including the Group and Bank accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Bank financial statements, Irish Law and FRS 101 Reduced Disclosure Framework.

In our opinion:
- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Bank as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Bank financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework issued by the UK's Financial Reporting Council; and
- the Group and Bank financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our reporting to the Court Audit Committee.

We were appointed as Auditor by the Court of Directors on 19 April 2018. The period of total uninterrupted engagement is therefore one year for the year ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Other matter – first year audit considerations

Prior to the commencement of the current financial year and our formal appointment in April 2018, we were required to become independent of the Group. During this time, we met with management across the Group to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former Auditor and attended the Court Audit Committee meetings throughout the 2017 audit cycle to understand the key audit matters as and when they arose. We also assessed the audit work papers of the former Auditor to gain sufficient audit evidence about whether the opening balances contained misstatements that could materially affect the current year financial statements.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Impairment loss allowance under IFRS 9

Refer to pages 67 to 74 (accounting policy) and note 29 (financial disclosures)

The key audit matter

The calculation of credit provisions requires a high degree of judgement to reflect recent developments in credit quality, arrears experience, and / or emerging macroeconomic risks.

On 1 January 2018 the Group adopted IFRS 9. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. These judgements have been key in the development of the new IFRS 9 models which have been built and implemented to measure the expected credit losses on loans measured at amortised cost.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's implementation of IFRS 9 include but are not limited to:
- ***Accuracy of Expected Credit Loss (ECL) models:*** The calculation of ECLs uses complex and inherently judgemental modelling techniques. The models used in the various loan portfolios are the key drivers of the Group's ECL results and are therefore the most significant judgmental aspect of the Group's ECL modelling approach.
- ***Significant Increase in Credit Risk (SICR):*** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation. The application of the criteria relies on a significant number of data elements, which form the basis of modelling of ECL. The application of the appropriate criteria and accuracy of the key data elements used in the loan processes are significant in determining the ECL allowances.
- ***Forward looking macroeconomic scenarios:*** IFRS 9 requires the Group to measure ECLs on a forward-looking basis reflecting future economic conditions. Significant management judgement is applied to determining the

economic scenarios used and the probability weightings applied to them, particularly given these assessments are subject to material uncertainty from Brexit. The impact of Brexit is subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.
- *Management adjustments:* Adjustments to the model-driven ECL results are applied by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved.
- *Individual provisions for stage 3 assets:* Provisions for loans identified as credit impaired in the secured lending portfolios are determined by means of discounted cash flows and require significant judgement in many cases.

How the matter was addressed in our audit
- We performed end-to-end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the design and operating effectiveness of the key controls over the completeness and accuracy of the key data inputs into the impairment models.
- We tested SICR criteria relating to the authorisation of the criteria, the validation metrics, and the application of the criteria in the models.
- In conjunction with our modelling specialists, we tested the design and implementation of controls over the modelling process and methodologies, including model monitoring, validation and approval, as well as testing the design of controls over model outputs and recognition and approval of post model adjustments.
- We tested the design and implementation of key controls relating to the selection and implementation of material economic variables and the controls over the associated scenario selection and probability weightings applied to them.
- We re-performed key aspects of the Group's SICR calculations and selected samples of financial instruments to determine whether a SICR was appropriately identified.
- We assessed the appropriateness of the key judgements in the ECL models and tested the key controls over the loss rate ECL calculations.
- We compared the Forward Looking Information (FLI) against industry forecasts and the inputs used by management in order to determine the base case and upside and downside scenarios.
- We assessed the adequacy of post model adjustments for certain portfolios, having regard for the risk profile of loan books, recent loss history and performance of the relevant portfolios and key uncertainties such as Brexit. We challenged whether the modelled collective impairment provision already appropriately reflected the assumptions underpinning the adjustments or if a management adjustment was required.
- For a risk-based sample of loans, we critically assessed, by reference to the underlying documentation and through inquiry of management, whether the indicators for a credit impairment had been identified. We challenged the reasonableness of management's judgement in this regard.
- For a sample of credit-impaired loans, where relevant, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision and challenged the assumptions through comparing estimates to external support where available. Where appropriate, this work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and / or externally prepared reports to determine whether appropriate valuation methodologies were employed.
- The results of our testing were satisfactory and we found the ECL charge and provision recognised to be reasonable.

Valuation of defined benefit pension net liability €228 million (2017: €478 million)
Refer to page 79 (accounting policy) and to note 48 (financial disclosures)

The key audit matter
The Group operates a number of defined benefit pension schemes which in total are significant in the context of both the overall balance sheet and the results of the Group. The schemes have an aggregate IAS 19 defined benefit pension deficit of €228 million at 31 December 2018.

The valuations of the pension obligations are calculated with reference to a number of actuarial assumptions and inputs including discount rate, rate of inflation and mortality rates. The treatment of curtailments, settlements, past service costs and other amendments can significantly impact the balance sheet and results of the Group.

We regard the determination of the Group's defined benefit pension liability as a key audit matter because its valuation is complex and requires judgement in choosing appropriate actuarial assumptions. Small changes in these assumptions can have a material impact on the liability.

How the matter was addressed in our audit
- We obtained an understanding of the process around the defined benefit pension schemes and tested the design and implementation and operating effectiveness of the key controls relating to the defined benefit pension schemes.
- We tested the design, implementation and operating effectiveness of the controls over the maintenance of schemes' membership data.
- We tested key data to source documentation establishing the obligation to members, and vice versa.
- We obtained independent confirmations relating to the valuation of the schemes' assets.
- In conjunction with our actuarial specialists we met with management and the scheme actuary to understand, assess and challenge the judgements made in determining the key assumptions used in the calculation of the liability.
- We also considered the adequacy of the Group's disclosures in respect to the sensitivity of the pension liability to these assumptions.
- Overall, we found that the key assumptions and methodologies used by management in the valuation of the retirement benefit obligations to be appropriate.

Valuation of the insurance contract liabilities €11,003 million (2017: €10,878 million) and the Value of in Force (ViF) business asset €571 million (2017: €565 million)
Refer to page 81 (accounting policy) and to notes 40 and 44 (financial disclosures)

The key audit matter
We consider the valuation of insurance contract liabilities and the related ViF asset to be a key audit matter owing to the complex calculations and the use of detailed methodologies and significant judgements. This includes judgement over uncertain future outcomes which for insurance contract liabilities mainly relate to the ultimate settlement value of long term policyholder liabilities; and for the ViF asset, includes future margins on insurance contracts.

The valuation of the insurance contract liabilities and the related ViF asset is based on a number of key assumptions such as mortality, morbidity, persistency, expenses, unit growth rates and interest rates.

How the matter was addressed in our audit
In testing the valuation of the insurance contract liabilities and ViF asset:
- We evaluated and tested the design, implementation and operating effectiveness of the key controls relevant to the valuation of the insurance contract liabilities and the ViF asset.
- We tested the completeness and accuracy of the key data used in the valuation calculation.
- In conjunction with our actuarial specialists, we evaluated the methodologies applied and the key assumptions applied in the valuation.
- We assessed and challenged the methodology and basis used to set the underlying assumptions with reference to guidance issued by the European Insurance and Occupational Pensions Authority (EIOPA), the Group's actuarial experience investigations and our experience of similar companies in the marketplace as applicable.
- We assessed the calculation of insurance contract liabilities and the ViF asset through:
  - Agreeing the assumptions and key data input into the actuarial models to those we had evaluated;
  - Testing the design, implementation and operating effectiveness of management's controls over the output of the calculations; and
  - Evaluating the external actuary's report on the actuarial methodologies, assumptions and calculations.
- We found that the insurance contract liabilities and the ViF asset were appropriately calculated.

IT Operational Risk

The key audit matter
As with many banks, the Group is highly dependent on IT systems for the processing and recording of significant volumes of transactions. Our audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems.

In particular we consider user access management controls to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications and data.

The Group has a complex IT environment and operates a large number of applications, many of which are legacy systems which we understand will be replaced as the Group executes its multi-year investment programme to replace its core banking IT platforms. This programme operates in tandem with existing initiatives to maintain the operating effectiveness of the Group's existing IT systems. Each of these elements has been brought together in an Integrated IT Plan. Management has an ongoing risk management programme in place to identify, rate, mitigate and report on risk including IT and Operational risk matters.

We regard this area as a key audit matter owing to the high level of IT dependency within the Group as well as the associated complexity and the risk that automated controls are not designed and operating effectively.

How the matter was addressed in our audit
- We evaluated the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting.
- In conjunction with our IT audit specialists, we obtained an understanding of the Group's IT environment having particular regard for developments with respect to the Group's Integrated IT plan.
- We examined the design of the governance framework associated with the Group's IT architecture. We tested relevant General IT Controls for IT applications we considered relevant to the financial reporting process, including access management, performance development and change management.
- We also tested the design, implementation and operating effectiveness of key IT application controls, including the configuration, security and accuracy of end user computing controls. Where IT controls could not be relied upon we conducted additional substantive procedures and where relevant, we determined whether compensating controls were effective mitigants for any design or operating deficiencies.
- While we identified certain design and operating effectiveness deficiencies with user access controls, the combination of our controls and substantive testing provided us with sufficient evidence to rely on the operation of the Group's IT systems for the purposes of our audit.

Recognition and impairment of internally generated intangible assets €708 million (2017: €667 million)
Refer to page 79 (accounting policy) and to notes 15 and 35 (financial disclosures)

The key audit matter
The Group balance sheet includes capitalised intangible assets of €708 million, a material proportion of which relates to costs incurred in connection with the Group's Core Banking Systems Programme.

Owing to the significance of the costs capitalised and the fact that there is judgement involved in assessing whether the criteria in IAS 38 required for capitalisation of such costs, have been met - including the likelihood of the project delivering sufficient future economic benefits - we considered this a key audit matter.

Where the costs incurred are internally generated (for example employee costs) there is further judgement required, such as the accuracy of amount of time spent on the projects.

In light of the development of new software and systems, we also focused on whether the carrying value of previously capitalised software or systems was impaired.

How the matter was addressed in our audit
- We obtained an understanding of the various projects, and their stage of completion. We tested the design, implementation and operating effectiveness of key controls relating to the capitalisation of expenditure and the impairment analysis performed by management.
- We tested a sample of costs capitalised in the period to assess whether these had been appropriately treated in line with the Group's accounting policy and IAS 38.
- We inquired of management responsible for certain costs to obtain an understanding of their associated projects so as to enable us to determine whether the costs met the criteria for capitalisation as set out in IFRS.
- Where external third party contractors were used, we agreed the hours and charge out rates to the invoices issued by the contractor, and assessed whether the costs were directly related to a capital project. To determine whether internal employee costs were directly attributable to projects, we obtained listings of hours worked on individual projects for

the employment costs capitalised. We then selected a sample of the individual hours recorded and obtained an understanding of the work performed by the employee and checked that the hours charged were consistent with the value of costs capitalised.
- We challenged management's assessment as to whether the development of new software identified any impairment indicators for any of the existing internally generated intangible assets on the balance sheet. In addition, we used our understanding of both new and existing projects to consider whether, in our view, any existing software was no longer in use or whether its life had been shortened by the development activity. We found no such items.
- We found that the costs capitalised were supportable, consistent with the requirements of IFRS and the carrying value of the internally generated intangible assets was reasonable at year end.

Recoverability of deferred tax assets €1,165 million (2017: €1,237 million)

Refer to page 80 (accounting policy) and to note 38 (financial disclosures)

The key audit matter

The Group has deferred tax assets of €1,165 million which are projected to be recovered by 2030. Within this balance there is a separate asset in respect of Ireland (€1,055 million) and the UK (€110 million) with recovery periods of 12 and 13 years respectively.

Detailed projections of future taxable profits for a five year period are prepared by the Group. The projections for the final year are then extrapolated at estimated annual long term growth rates for the Irish and UK economies for the purposes of projecting future taxable profits beyond five years.

The recognition of a deferred tax asset relies on management's judgements relating to the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance and current legislation governing the use of historical trading losses carried forward. These are inherently uncertain and subject to a high degree of estimation particularly given the Brexit uncertainty at year end.

Under UK and Irish tax legislation, there is no time limit on the utilisation of the Group's tax losses. However, in the UK the amount of a bank's annual profits that can be sheltered with trading losses carried forward is restricted to 25%.

We regard this area as a key audit matter because of the judgements required by management as the estimation of future taxable profits is inherently judgemental.

How the matter was addressed in our audit

- In addressing this matter, we evaluated and tested the design and implementation of key controls over the determination and approval of the forecast taxable profits used to support the recognition of the deferred tax assets.
- We assessed management's basis for allocating forecast profits between legal entities by testing the allocation methodology, challenging significant assumptions and using our understanding of the Group's activities.
- We assessed whether the forecasted profits were appropriate by challenging both the assumptions particular to the Group's future performance and broader economic assumptions, including how uncertainties such as Brexit were considered by management in determining the forecasted profits.
- We focused on those assumptions directly impacting the forecasted profits, for example interest rates, projected lending volumes and gross domestic product with reference to observable benchmarks. In this regard, we compared a number of the economic assumptions to external data sources and also assessed the accuracy of previous forecasts relative to actual results.
- We assessed whether the combination of the Group's current profitability and the Directors' projections provided an appropriate basis for the judgement that sufficient taxable profits will be available to utilise unused tax losses.
- We assessed the adequacy of disclosures provided in the financial statements, including disclosures of the assumptions and found them to be appropriate.
- On the basis of the work performed, we found that the Group's net deferred tax asset met the criteria for recognition under IAS 12 and that its carrying value was reasonable.

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

The materiality for the Group financial statements as a whole was set at €37.6 million. This has been calculated as c.5% of the benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the Bank in assessing the financial performance of the Group.

We reported to the Court Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €1.9 million in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The materiality for the Bank financial statements is €37.6 million which represents c.0.5% of total equity. Total equity is a proxy for Capital resources and is included in the audited financial statements. Capital resources is a key metric used externally by the users of the Bank's financial statements. Hence a benchmark based on total equity reflects the focus of the users of the financial statements.

Our audit work addressed each of the Group's five operating segments which are headquartered in Ireland and the UK: Retail Ireland, Wealth and Insurance, Retail UK, Corporate and Treasury (C&T) and Group Centre. We performed full scope audits of the complete financial information of the Retail Ireland, Wealth and Insurance and Retail UK operating segments. Audits of account balances were performed on C&T and Group Centre operating segments.

The Group audit team instructed component Auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the materiality for components which ranged from €10 million to €25 million, having regard to the mix of size and risk profile of the Group across the components.

The Group team visited all component locations in Dublin and London, and undertook an assessment of the audit risk and strategy. Regular meetings were held both in person and through telephone conference meetings with these component Auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component Auditor.

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

The work on five of the six components was performed by KPMG Ireland, including the audit of the parent company. The remaining work was covered by overseas component Auditors.

We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Bank's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

Other information

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Business Review on pages 3 to 15, the Governance Section on pages 16 to 49, the unaudited parts of Other Information on pages 244 to 248. The financial statements and our Auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information that, in those parts of the Directors' report specified for our review:

- we have not identified material misstatements in the Directors' report;
- in our opinion, the information given in the Directors' report is consistent with the financial statements; and
- in our opinion, the Directors' report has been prepared in accordance with the Companies Act 2014.

Disclosures of principal risks and longer-term viability

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code, we are required to report to you, based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- the Directors' confirmation within the Report of the Directors, page 49, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- the Directors' explanation in the Report of the Directors of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other corporate governance disclosures

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code, we are required to address the following items and report to you in the following circumstances:

- Fair, balanced and understandable: if we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for stockholders to assess the Group's position and performance, business model and strategy;
- Report of the Court Audit Committee: if the section of the Annual Report describing the work of the Court Audit Committee does not appropriately address matters communicated by us to the Court Audit Committee; or
- Statement of compliance with UK Corporate Governance Code: if the Directors' statement does not properly disclose a departure from provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Statement on pages 16 to 49, that:

- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements and has been prepared in accordance with the Act; and
- based on our knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have not identified any material misstatements in that information.

We also report that, based on work undertaken for our audit, other information required by the Act is contained in the Corporate Governance Statement.

Our opinions on other matters prescribed by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Bank were sufficient to permit the Bank financial statements to be readily and properly audited and the Bank's financial statements are in agreement with the accounting records.

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

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Bank has not provided the information required by section 5(2) to (7) of the EU (Disclosure of non-financial and diversity Information by certain large undertakings and groups) Regulations 2017 for the year ended 31 December 2018 as required by the EU (Disclosure of non-financial and diversity Information by certain large institutions and groups) (amendment) Regulations 2018.

Respective responsibilities and restrictions on use

Directors' responsibilities
As explained more fully in their statement set out on page 51, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an Auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

The purpose of our audit work and to whom we owe our responsibilities
Our report is made solely to the Bank's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for our report, or for the opinions we have formed.

N Marshall
for and on behalf of
KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

22 February 2019

Consolidated and Bank financial statements

Consolidated income statement *(for the year ended 31 December 2018)*

	Note	2018 €m	2017 €m
Interest income calculated using the effective interest method	5	2,354	2,394
Interest income on finance leases and hire purchase receivables	5	159	152
Interest income		**2,513**	**2,546**
Interest expense	6	(382)	(394)
Net interest income		**2,131**	**2,152**
Net insurance premium income	7	1,496	1,344
Fee and commission income	8	521	543
Fee and commission expense	8	(224)	(217)
Net trading income	9	55	161
Life assurance investment income, gains and losses	10	(330)	450
Other leasing income	11	52	3
Other leasing expense	11	(41)	(3)
Other operating income	12	85	170
Total operating income		**3,745**	**4,603**
Insurance contract liabilities and claims paid	13	(955)	(1,646)
Total operating income, net of insurance claims		**2,790**	**2,957**
Other operating expenses	14	(1,940)	(2,080)
Cost of restructuring programme	15	(111)	(48)
Operating profit before impairment gains / (losses) on financial instruments		**739**	**829**
Net impairment gains / (losses) on financial instruments	17	42	(15)
Operating profit		**781**	**814**
Share of results of associates and joint ventures (after tax)	18	41	43
Gain on disposal of asset held for sale	28	7	-
Gain / (loss) on disposal / liquidation of business activities	19	5	(5)
Profit before tax		**834**	**852**
Taxation charge	20	(160)	(160)
Profit for the year		**674**	**692**
Attributable to stockholders		674	691
Attributable to non-controlling interests		-	1
Profit for the year		**674**	**692**

Consolidated statement of comprehensive income *(for the year ended 31 December 2018)*

	Note	2018 €m	2017 €m
Profit for the year		**674**	**692**
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss in subsequent years:			
Debt instruments at fair value through other comprehensive income reserve, net of tax:			
Changes in fair value		(137)	-
Transfer to income statement			
- Asset disposal		(2)	-
Net change in debt instruments at fair value through other comprehensive income reserve		**(139)**	**-**
Available for sale financial assets, net of tax:			
Gain on reclassification from held to maturity portfolio		-	45
Changes in fair value		-	22
Transfer to income statement			
- Asset disposal		-	(60)
- Amortisation		-	(16)
Net change in available for sale reserve		**-**	**(9)**
Cash flow hedge reserve, net of tax:			
Changes in fair value		(1)	179
Transfer to income statement		(50)	(294)
Net change in cash flow hedge reserve		**(51)**	**(115)**
Foreign exchange reserve:			
Foreign exchange translation gains / (losses)		8	(158)
Transfer to income statement		2	11
Net change in foreign exchange reserve		**10**	**(147)**
Total items that may be reclassified to profit or loss in subsequent years		**(180)**	**(271)**
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement of the net defined benefit pension liability, net of tax		129	(113)
Revaluation of property, net of tax		(5)	15
Net change in liability credit reserve, net of tax[1]		37	-
Total items that will not be reclassified to profit or loss in subsequent years		**161**	**(98)**
Other comprehensive expense for the year, net of tax		**(19)**	**(369)**
Total comprehensive income for the year, net of tax		**655**	**323**
Total comprehensive income attributable to equity stockholders		655	322
Total comprehensive income attributable to non-controlling interests		-	1
Total comprehensive income for the year, net of tax		**655**	**323**

The effect of tax on these items is shown in note 20.

[1] *Prior to 1 January 2018, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges are now accounted for through OCI.*

Balance sheet *(as at 31 December 2018)*

		Group		Bank	
	Note	31 Dec 2018 €m	31 Dec 2017 €m	31 Dec 2018 €m	31 Dec 2017 €m
Assets					
Cash and balances at central banks	53	6,033	7,379	3,163	5,310
Items in the course of collection from other banks		259	307	71	92
Trading securities		29	68	29	68
Derivative financial instruments	21	1,724	2,348	1,771	2,354
Other financial assets at fair value through profit or loss	22	14,160	14,454	121	45
Loans and advances to banks	23	2,625	3,061	12,300	12,129
Debt securities at amortised cost	24	3,928	-	6,050	-
Financial assets at fair value through other comprehensive income	25	12,048	-	12,048	-
Available for sale financial assets	26	-	13,223	-	11,985
Other debt securities	27	-	-	-	2,195
Assets classified as held for sale	28	602	28	-	-
Loans and advances to customers	29	76,363	76,128	38,826	39,018
Shares in Group undertakings	32	-	-	4,161	4,177
Interest in associates	33	53	59	-	-
Interest in joint ventures	34	69	69	-	-
Intangible assets and goodwill	35	802	779	721	700
Investment properties	36	1,037	912	-	-
Property, plant and equipment	37	438	434	304	313
Current tax assets		33	50	10	26
Deferred tax assets	38	1,165	1,237	1,090	1,143
Other assets	39	2,282	1,993	425	403
Retirement benefit assets	48	46	58	34	46
Total assets		**123,696**	**122,587**	**81,124**	**80,004**
Equity and liabilities					
Deposits from banks	41	2,482	4,339	5,399	6,121
Customer accounts	42	78,971	76,066	59,649	57,839
Items in the course of transmission to other banks		268	263	147	142
Derivative financial instruments	21	1,819	1,987	1,950	2,076
Debt securities in issue	43	8,907	8,390	2,763	2,476
Liabilities to customers under investment contracts	44	5,239	5,766	-	-
Insurance contract liabilities	44	11,003	10,878	-	-
Other liabilities	45	3,262	3,282	1,281	1,362
Current tax liabilities		11	12	-	-
Provisions	46	84	205	38	70
Loss allowance provision on loan commitments and financial guarantees	47	29	-	23	-
Deferred tax liabilities	38	42	53	-	-
Retirement benefit obligations	48	274	536	167	442
Subordinated liabilities	49	2,107	2,110	2,071	2,073
Total liabilities		**114,498**	**113,887**	**73,488**	**72,601**

Balance sheet *(as at 31 December 2018) (continued)*

		Group		Bank	
	Note	31 Dec 2018 €m	31 Dec 2017 €m	31 Dec 2018 €m	31 Dec 2017 €m
Equity					
Capital stock	51	1,625	1,625	1,625	1,625
Stock premium account		571	571	561	561
Retained earnings		5,542	4,778	3,954	3,523
Other reserves		718	984	756	954
Own stock held for the benefit of life assurance policyholders		-	-	-	-
Stockholders' equity		**8,456**	**7,958**	**6,896**	**6,663**
Other equity instruments	52	740	740	740	740
Total equity excluding non-controlling interests		**9,196**	**8,698**	**7,636**	**7,403**
Non-controlling interests		2	2	-	-
Total equity		**9,198**	**8,700**	**7,636**	**7,403**
Total equity and liabilities		**123,696**	**122,587**	**81,124**	**80,004**

The Bank recorded a profit after tax of €388 million for the year ended 31 December 2018 (2017: €696 million).

Patrick Kennedy	***Patrick Haren***	***Francesca McDonagh***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Statement of changes in equity *(for the year ended 31 December 2018)*

	Note	Group 2018 €m	Group 2017 €m	Bank 2018 €m	Bank 2017 €m
Capital stock					
Balance at the beginning of the year		1,625	2,545	1,625	2,545
Impact of corporate reorganisation	50	-	(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*
Balance at the end of the year	51	**1,625**	**1,625**	**1,625**	**1,625**
Stock premium account					
Balance at the beginning of the year		571	571	561	561
Impact of corporate reorganisation	50	-	-	-	-
- Stock premium on cancelled capital stock		-	*(502)*	-	*(502)*
- Stock premium on issue of capital stock to Bank of Ireland Group plc		-	*502*	-	*502*
Balance at the end of the year		**571**	**571**	**561**	**561**
Retained earnings					
Balance at the beginning of the year		4,778	5,214	3,523	4,018
Impact of adopting IFRS 9		(31)	-	(44)	-
Restated balance at 1 January 2018		4,747	5,214	3,479	4,018
Profit retained		618	636	333	641
- Profit for year attributable to stockholders		*673*	*691*	*388*	*696*
- Dividends on preference equity interests paid in cash		*(7)*	*(7)*	*(7)*	*(7)*
- Distribution on other equity instruments - Additional tier 1 coupon, net of tax	52	*(48)*	*(48)*	*(48)*	*(48)*
Dividends on ordinary capital stock	45	-	(1,000)	-	(1,000)
Transfer from revaluation reserve		9	-	-	-
Transfer from / (to) capital reserve		37	41	-	-
Remeasurement of the net defined benefit pension liability	20	129	(113)	143	(129)
Other movements		2	-	(1)	(7)
Balance at the end of the year		**5,542**	**4,778**	**3,954**	**3,523**
Other reserves:					
Available for sale reserve					
Balance at the beginning of the year		341	350	326	329
Impact of adopting IFRS 9		(341)	-	(326)	-
Restated balance at 1 January 2018		-	350	-	329
Gain on reclassification from held to maturity portfolio		-	52	-	52
Net changes in fair value		-	24	-	9
Transfer to income statement (pre tax)					
- Asset disposal	12	-	(69)	-	(46)
- Amortisation	5	-	(18)	-	(18)
Deferred tax on reserve movements		-	2	-	-
Balance at the end of the year		**-**	**341**	**-**	**326**
Debt instruments at fair value through other comprehensive income (FVOCI) reserve					
Balance at the beginning of the year		-	-	-	-
Impact of adopting IFRS 9 at 1 January 2018		272	-	272	-
Restated balance at 1 January 2018		272	-	272	-
Net changes in fair value		(157)	-	(157)	-
Transfer to income statement (pre tax)					
- Asset disposal		(2)	-	(2)	-
Deferred tax on reserve movements		20	-	20	-
Balance at the end of the year		**133**	**-**	**133**	-

Statement of changes in equity *(for the year ended 31 December 2018) (continued)*

	Note	Group 2018 €m	Group 2017 €m	Bank 2018 €m	Bank 2017 €m
Other reserves (continued):					
Cash flow hedge reserve					
Balance at the beginning of the year		41	156	40	145
Changes in fair value		(1)	203	-	202
Transfer to income statement (pre tax)					
- Net trading expense (foreign exchange and amortisations)		(117)	(336)	(115)	(328)
- Net interest income	5	61	2	66	8
Deferred tax on reserve movements		6	16	4	13
Balance at the end of the year		**(10)**	**41**	**(5)**	**40**
Liability credit reserve					
Balance at the beginning of the year		-	-	-	-
Impact of adopting IFRS 9 at 1 January 2018		(13)	-	(24)	-
Restated balance at 1 January 2018		(13)	-	(24)	-
Changes in fair value of liabilities designated at fair value through profit or loss due to own credit risk		43	-	51	-
Deferred tax on reserve movements		(6)	-	(6)	-
Balance at the end of the year		**24**	**-**	**21**	**-**
Foreign exchange reserve					
Balance at the beginning of the year		(843)	(696)	(416)	(317)
Exchange adjustments during the year		8	(158)	14	(99)
Transfer to income statement		2	11	-	-
Balance at the end of the year		**(833)**	**(843)**	**(402)**	**(416)**
Capital reserve					
Balance at the beginning of the year		1,410	529	976	55
Impact of corporate reorganisation	50	-	922	-	921
- Cancellation of deferred stock		-	*920*	-	*920*
- Cancellation of treasury stock		-	*2*	-	*1*
Transfer (to) / from retained earnings		(37)	(41)	-	-
Balance at the end of the year		**1,373**	**1,410**	**976**	**976**
Revaluation reserve					
Balance at the beginning of the year		35	20	28	19
Transfer to retained earnings		(9)	-	-	-
Revaluation of property		11	16	11	7
Deferred tax on reserve movements		(6)	(1)	(6)	(1)
Disposal of property		-	-	-	(3)
Other movements		-	-	-	6
Balance at the end of the year		**31**	**35**	**33**	**28**
Total other reserves		**718**	**984**	**756**	**954**
Own stock held for the benefit of life assurance policyholders					
Balance at the beginning of the year		-	(11)	-	-
Impact of corporate reorganisation		-	11	-	-
Balance at the end of the year		**-**	**-**	**-**	**-**
Total stockholders' equity excluding other equity instruments and non-controlling interests		**8,456**	**7,958**	**6,896**	**6,663**
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	52	**740**	**740**	**740**	**740**
Non-controlling interests					
Balance at the beginning of the year		2	1	-	-
Share of net profit		-	1	-	-
Balance at the end of the year		**2**	**2**	**-**	**-**
Total equity		**9,198**	**8,700**	**7,636**	**7,403**

Consolidated cash flow statement *(for the year ended 31 December 2018)*

	Note	2018 €m	2017 €m
Cash flows from operating activities			
Profit before tax		834	852
Share of results of associates and joint ventures	18	(41)	(43)
Gain / (loss) on disposal / liquidation of business activities	19	(5)	5
Gain on disposal of asset held for resale	28	(7)	-
Depreciation and amortisation	11,14	235	169
Net impairment loss on financial instruments, excluding cash recoveries	17	7	15
Impairment of property, plant and equipment	15	9	-
Impairment of intangible assets	15	6	-
Reversal of impairment on property	14	(4)	(4)
Revaluation of investment property	36	(33)	(40)
Interest expense on subordinated liabilities	54	121	98
Charge for pension and similar obligations	48	118	122
Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at fair value through profit or loss	9	-	5
Net change in accruals and interest payable		13	(43)
Net change in prepayments and interest receivable		17	51
Charge for provisions	46	94	224
Non-cash and other items		7	43
Cash flows from operating activities before changes in operating assets and liabilities		**1,371**	**1,454**
Net change in items in the course of collection from other banks		53	(28)
Net change in trading securities		39	(50)
Net change in derivative financial instruments		359	494
Net change in other financial assets at fair value through profit or loss		708	(1,194)
Net change in loans and advances to banks		(71)	5
Net change in loans and advances to customers, including loans and advances to customers held for sale		(1,334)	1,035
Net change in NAMA senior bonds		-	454
Net change in other assets		(308)	(23)
Net change in deposits from banks		(1,841)	658
Net change in customer accounts		3,104	1,767
Net change in debt securities in issue		523	(2,292)
Net change in liabilities to customers under investment contracts		(527)	119
Net change in insurance contract liabilities		125	420
Net change in other operating liabilities		(311)	(258)
Net cash flow from operating assets and liabilities		**519**	**1,107**
Net cash flow from operating activities before tax		**1,890**	**2,561**
Tax paid		(44)	(105)
Net cash flow from operating activities		**1,846**	**2,456**
Investing activities (section a below)		(3,552)	(1,054)
Financing activities (section b below)		(179)	371
Effect of exchange translation and other adjustments		33	129
Net change in cash and cash equivalents		**(1,852)**	**1,902**
Opening cash and cash equivalents		10,201	8,299
Closing cash and cash equivalents	53	**8,349**	**10,201**

Consolidated cash flow statement *(for the year ended 31 December 2018) (continued)*

	Note	2018 €m	2017 €m
(a) Investing activities			
Additions to financial assets at fair value through other comprehensive income	25	(4,652)	-
Disposal / redemption of financial assets at fair value through other comprehensive income	25	2,541	-
Additions to debt securities at amortised cost		(1,440)	-
Disposal / redemption of debt securities at amortised cost		293	-
Additions to available for sale financial assets	26	-	(4,763)
Disposal / redemption of available for sale financial assets	26	-	4,001
Additions to property, plant and equipment	37	(72)	(44)
Disposal of property, plant and equipment	37	14	4
Additions to intangible assets	35	(207)	(235)
Acquisition of subsidiary (net of cash acquired)		-	(48)
Additions to investment property	36	(123)	(74)
Disposal of investment property	36	13	57
Disposal of assets held for sale	28	35	3
Dividends received from joint ventures	34	36	39
Net change in interest in associates	33	10	-
Net proceeds / (cost) from disposal of business activity		-	6
Cash flows from investing activities		**(3,552)**	**(1,054)**
(b) Financing activities			
Proceeds from the issue of subordinated liabilities	54	-	753
Repayment of subordinated liabilities	54	-	(32)
Interest paid on subordinated liabilities	54	(117)	(88)
Dividend on ordinary stock paid in cash		-	(200)
Dividend paid on 2009 Preference Stock and other preference equity interests		(7)	(7)
Distributions paid on other equity instruments - Additional tier 1 coupon	52	(55)	(55)
Cash flows from financing activities		**(179)**	**371**

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 66 to 243.

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 EU (Credit Institutions: Financial Statements) Regulations, 2015 and the Asset Covered Securities Acts 2001 and 2007. 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';
- certain disclosure requirements in respect of IFRS 15, 'Revenue from Contracts with Customers'; and
- the effects of new but not yet effective IFRSs.

Where relevant, equivalent disclosures have been given in the Group financial statements. Accounting policies that are relevant to the Bank only are set out on page 82.

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 RoI, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

FX rates used during the year are as follows:

	2018		2017	
	Average	Closing	Average	Closing
€ / Stg£	0.8847	0.8945	0.8767	0.8872
€ / US$	1.1810	1.1450	1.1297	1.1993

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for 2018 is a period of twelve months from the date of approval of these financial statements (the 'period of assessment').

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

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

Capital

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

Funding and liquidity

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

Conclusion

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

Comparatives

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

Adoption of new accounting standards

The following new standards and amendments to standards have been adopted by the Group during the year ended 31 December 2018:

- IFRS 9 'Financial Instruments';
- Amendment to IFRS 9 'Prepayment features with negative compensation';
- IFRS 15 'Revenue from Contracts with Customers'; and
- Amendment to FRS 101 'Reduced Disclosures and Framework' 2015 / 2016 cycle.

1 Group accounting policies *(continued)*

The Group's accounting policies have been updated for the application of IFRS 9 and IFRS 15 from 1 January 2018. The updates together with the accounting policies for the comparative year up to 31 December 2017 are detailed below. The amendment to FRS 101 provides certain disclosure exemptions in relation to IFRS 15 'Revenue from contracts to customers' and also clarifies a legal requirement relating to the order in which the notes to the financial statements are presented.

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: recognition and measurement'. It sets out requirements relating to recognition and derecognition, classification, measurement and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. Impairment under IFRS 9 is forward-looking and is based on expected rather than incurred losses. For financial liabilities, there is no change to classification and measurement except for recognition of changes in own credit risk in OCI for certain liabilities designated at FVTPL. The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

The consolidated financial statements for the comparative year have not been restated to reflect the change.

Presentation
IFRS 9 amends IAS 1 'Presentation of financial statements' to require certain items to be presented as line items in the income statement, including impairment gains or losses, gains or losses arising from the derecognition of financial assets measured at amortised cost and interest revenue calculated using the effective interest method. Accordingly, interest income on financial assets calculated using the effective interest method is now presented separately from interest income on finance leases, recognised based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

IFRS 15 'Revenue from contracts with customers'
IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single principles-based five-step model to be applied to all contracts with customers. The standard does not impact income recognition related to financial instruments within the scope of IFRS 9, lease contracts within the scope of IAS 17 and insurance contracts within the scope of IFRS 4.

The Group has applied this standard retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application. Prior periods have not been restated. For contracts completed before the earliest period presented, the Group has not restated the opening balance of retained earnings. IFRS 15 did not have a material impact on the Group's consolidated financial statements.

Interest income and expense
Interest income and expense are recognised in the income statement using the effective interest method for financial instruments measured at amortised cost and financial assets which are debt instruments measured at FVOCI, in accordance with IFRS 9, and previously IAS 39. Interest income and expense from derivative financial instruments designated as hedging instrument are accounted for in net interest income, in line with the underlying hedged asset or liability. Interest in relation to derivatives not designated as a hedging instrument is included in trading income.

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or liability and in the allocation and recognition of interest revenue or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses (ECL) (except, in accordance with IFRS 9 in the case of purchased or originated credit-impaired (POCI) financial assets where ECL are included in the calculation of a 'credit-adjusted effective interest rate'). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From 1 January 2018, in the case of a financial asset that is neither credit-impaired nor a purchased or originated credit-impaired financial asset, interest revenue is calculated by applying the effective interest rate to the gross carrying amount. In the case of a financial asset that is not a POCI financial asset but is credit-impaired at the reporting date, interest revenue is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount adjusted for any impairment loss allowance.

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

Where the Group revises its estimates of payments or receipts on a financial instrument (excluding modifications of a financial asset and changes in ECL under the requirements of IFRS 9), it recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets under IFRS 9). The adjustment is recognised as interest income or expense.

Modifications
From 1 January 2018, where the contractual cash flows of a financial asset are modified and the modification does not result in derecognition of the financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate and recognises a modification gain or loss in the income statement. Where a

1 Group accounting policies *(continued)*

modification is a forbearance measure which does not result in derecognition, the modification gain or loss is included in the income statement within net impairment gains or losses. Otherwise, the modification gain or loss is included within interest income.

Under both IFRS 9 and IAS 39, interest income and expense excludes interest on financial instruments at FVTPL which is instead included within the fair value movements recognised within net trading income.

Fee and commission income

The Group accounts for fee and commission income when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable that the Group will collect the consideration to which it is entitled. Fee and commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Fee income on the provision of current accounts to customers is recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan syndication and arrangement fees are recognised at a point in time when the performance obligation is completed. Other fees including interchange income, ATM fees and FX fees are recognised on completion of the transaction and once the Group has completed its performance obligations under the contract.

Previously, under IAS 18 up to 31 December 2017, fees and commissions which were not an integral part of the effective interest rate of a financial instrument were generally recognised as the related services were provided. Commissions and fees arising from negotiating, or participating in the negotiations of a transaction with a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses were recognised on completion of the underlying transaction.

Financial assets

1. Recognition, classification and measurement:

From 1 January 2018, the Group applies the following accounting policies to the classification, recognition and measurement policies to financial assets

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

- financial assets at amortised cost;
- financial assets at FVOCI; or
- financial assets at fair value through profit or loss.

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

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

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

(a) Financial assets at amortised cost

Debt instruments

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

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

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

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

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

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at FVOCI where it meets both of the following conditions and has not been designated as measured at FVTPL:

1 Group accounting policies *(continued)*

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

Purchases and sales of debt instruments at fair value through OCI are recognised on trade date. Gains and losses arising from changes in fair value are included in OCI. Interest revenue using the effective interest method and FX gains and losses on the amortised cost of the financial asset are recognised in the income statement. The impairment loss allowance for ECL does not reduce the carrying amount but an amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement. On derecognition, the cumulative gain or loss previously recognised in OCI is reclassified to the income statement.

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

Regular way purchases and sales of financial assets measured at FVOCI are recognised on trade date.

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

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

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

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

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

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

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

Impairment of financial instruments

Scope
The Group recognises impairment loss allowances for ECL on the following categories of financial instruments unless measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments;
- lease receivables recognised under IAS 17 'Leases';
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance contracts';
- receivables and contract assets recognised under IFRS 15 'Revenue from contracts with customers'.

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

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

1 Group accounting policies *(continued)*

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

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

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

With the exception of POCI financial assets, a financial instrument may migrate between stages from one reporting date to the next.

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

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

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

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

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

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

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

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

1 Group accounting policies *(continued)*

Forbearance
Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower. Prior to any decision to grant forbearance, the Group performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to stage 3 (unless a purchased or originated credit-impaired financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

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

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

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

Until 31 December 2017, under the requirements of IAS 39, the Group categorised its financial assets as: financial assets at fair value through profit or loss (FVTPL); loans and receivables; held to maturity or available for sale (AFS) financial assets and determined the classification of its financial assets at initial recognition. The Group's policies for classification, recognition and measurement of financial assets for the comparative period for the year ended 31 December 2017 under IAS 39 were as follows:

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

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

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

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

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

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

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

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

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

(d) **Available for sale (AFS)**
AFS financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

If an AFS financial asset is derecognised or impaired the cumulative gain or loss previously recognised in OCI is reclassified to the income statement.

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

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

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

1 Group accounting policies *(continued)*

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

Impairment of financial instruments (IAS 39)

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events;
(a) delinquency in contractual payments of principal or interest;
(b) cash flow difficulties;
(c) breach of loan covenants or conditions;
(d) deterioration of the borrower's competitive position;
(e) deterioration in the value of collateral;
(f) external rating downgrade below an acceptable level;
(g) initiation of bankruptcy proceedings; and
(h) granting a concession to a borrower, for economic or legal reasons relating to the borrower's financial difficulty that would otherwise not be considered.

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

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

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

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

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

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

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

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

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of

1 Group accounting policies *(continued)*

terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

Financial liabilities
Under both IFRS 9 and IAS 39, the Group classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at FVTPL or is required to measure liabilities mandatorily at FVTPL such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

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

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

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

The Group designates certain financial liabilities at FVTPL as set out in note 59 to the financial statements.

From 1 January 2018, the movement in own credit risk related to financial liabilities designated at FVTPL is recorded in OCI unless this would create or enlarge an accounting mismatch in profit or loss for the Group (in which case all gains or losses are recognised in profit or loss).

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

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

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

Financial guarantees
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the original or modified terms of a debt instrument.

Financial guarantees held by the Group
A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. From 1 January 2018, where the Group is the holder of such a guarantee and it is considered integral to the contractual terms of the guaranteed debt instrument(s), the guarantee is not accounted for separately but is considered in the determination of the impairment loss allowance for ECL of the guaranteed instrument(s).

1 Group accounting policies *(continued)*

Financial guarantees issued by the Group
The Group issues financial guarantees to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities and in connection with the performance of customers under payment obligations related to contracts and the payment of import duties. Under both IFRS 9 and IAS 39, the Group's liability under an issued financial guarantee contract is initially measured at fair value. The liability is subsequently measured at the higher of the initial measurement, less, from 1 January 2018, the cumulative amount of income recognised in accordance with the principles of IFRS 15, and the amount of the impairment loss allowance for ECL determined in accordance with the requirements of IFRS 9. Up until 31 December 2017, subsequent to initial recognition, they were measured at the higher of the initial measurement, less cumulative amortisation, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

Any change in the liability is taken to the income statement and recognised on the balance sheet within provisions. Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Under IFRS 9, no impairment loss allowance for ECL is recognised on a financial asset, or portion thereof, which has been offset.

Valuation of financial instruments

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

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, 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 FVTPL, the fair values reflect changes in the Group's own credit spread.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

Group accounts

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

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

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

Business combinations
Except where predecessor accounting applies, subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

1 Group accounting policies *(continued)*

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

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

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

2 Associates and Joint Ventures

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

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

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

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

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at FVTPL.

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

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

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

3 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 FVTPL, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities classified at FVOCI, are recognised in OCI. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in OCI.

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

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

1 Group accounting policies *(continued)*

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

Leases
1 **A Group company is the lessee**
The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

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

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

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

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

Sale and repurchase agreements and lending of assets
Assets sold subject to repurchase agreements ('repos') are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

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

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

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

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

Derivative financial instruments and hedge accounting
The Group made an accounting policy choice under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each 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 that are not financial assets, are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the entire host contract is not carried at FVTPL.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cash flow of the hedged items within a range of 80% to 125%.

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

1 Group accounting policies *(continued)*

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

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate commercial loan or a FVOCI (previously AFS) bond. If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

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

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement' as adopted by the EU. Under these provisions, the Group applies portfolio fair value hedge accounting of interest rate risk to its demand deposit book. The Group resets portfolio fair value hedges of its demand deposit book on a weekly basis and other macro fair values hedges are reset on a monthly basis.

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in OCI are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in OCI at that time remains in OCI and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately reclassified to the income statement.

Property, plant and equipment

Freehold land and buildings are initially recognised at cost, and subsequently are revalued annually to fair value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the reporting date.
All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation.

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

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:

- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.

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

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

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

Investment property

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

1 Group accounting policies *(continued)*

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between three and ten years.

(b) Other intangible assets

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

Computer software and other intangible assets are assessed for impairment indicators annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indicators exist, the asset's recoverable amount is estimated. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its VIU.

(c) Goodwill

Goodwill represents the excess of 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 DC and DB plans. A DB plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A DC plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

The asset or liability recognised in the balance sheet in respect of DB pension plans is the present value of the DB obligation at the reporting date minus the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

Remeasurements of the net DB liability / (asset) that are recognised in OCI include:

- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net DB liability / (asset).

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

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

(b) Short-term employee benefits

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

1 Group accounting policies *(continued)*

(c) Termination payments

Termination payments are recognised as an expense at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:

- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Income taxes

(a) Current income tax

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

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

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

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as 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 OCI is also recognised in OCI and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity.

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 the component of equity in which the equity transaction is recognised, 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 (FX) reserve*

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

6 *Revaluation reserve*

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

7 *Available for sale reserve (AFS) (IAS 39 only)*

The AFS 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.

1 Group accounting policies *(continued)*

9 ***Stock premium account***
Where the Bank issues shares at a premium a sum equal to the aggregate amount of value of the premium on those shares is transferred to the share premium account. Where, pursuant to Section 84 of the Companies Act 2014, there has been a reduction of the 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.

10 ***Debt instruments at fair value through other comprehensive income (FVOCI) reserve***
The debt instruments at FVOCI reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI together with the impact of fair value hedge accounting, less the ECL allowance recognised in profit or loss.

11 ***Liability credit reserve***
The liability credit reserve represents the cumulative changes in the fair value of financial liabilities designated as at FVTPL that are attributable to changes in the credit risk of those liabilities, other than those recognised in profit or loss.

Life assurance operations

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

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

Investment contracts are accounted for in accordance with IFRS 9 and previously IAS 39. All of the Group's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

The Group recognises an asset for deferred acquisition costs relating to investment contracts. Upfront fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

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

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

The ViF asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both 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. The impairment requirements of IFRS 4 are applied to these assets. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

Collateral

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

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

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

Operating segments

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

1 Group accounting policies *(continued)*

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 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 and 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 32 for further information.

Impact of new accounting standards

The following standards and amendments to standards will be relevant to the Group but were not effective at 31 December 2018 and have not been applied in preparing these financial statements. There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in future reporting periods. The Group's current view of the impact of these accounting changes is outlined as follows:

Pronouncement
IFRS 16 'Leases'

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

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

As permitted under IFRS 16, the Group has elected to apply the standard under the modified retrospective application rather than full retrospective application. Under the modified retrospective application, the Group as a lessee is not required to restate comparative information, instead recognising the cumulative effect of initially applying the standard as an adjustment to retained earnings.

As permitted, the Group is availing of the following exemptions:
- short-term leases (lease term of 12 months or less); and
- leases for which the underlying asset is of low value.

The Group will recognise the lease payments associated with those leases as an expense.

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

Impact
The principal impact on the Group will be in relation to property leases that the Group, as the lessee, currently accounts for as operating leases under IAS 17. The Group will recognise a lease liability for leases previously classified as operating leases, measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate (IBR). The Group will recognise a right of use (RoU) asset equal to the lease liability, adjusted by the amounts of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately prior to date of initial application. The estimated quantitative impact on initial adoption of IFRS 16 is an increase in both assets and liabilities of approximately c.€0.8 billion. This translates to c.20 basis points of CET 1 capital on a fully loaded basis from 1 January 2019 as the assets being recognised will be risk weighted at 100%. The Group expects that there will be no material impact to retained earnings at 1 January 2019.

Pronouncement
IFRIC 23 'Uncertainty over income tax treatments'

Nature of change
IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The revised standard was endorsed by the EU on 23 October 2018.

Effective date
Financial periods beginning on or after 1 January 2019

Impact
While the Group continues to engage with the tax authorities in respect of the treatment of certain commercial transactions (including certain legacy transactions), the Group continues to believe that it is appropriate to consider these matters on a transaction by transaction basis and the tax treatments adopted for each transaction are appropriate. As such, the IFRIC is not expected to have a significant impact on the Group.

1 Group accounting policies *(continued)*

Pronouncement
IFRS 17 'Insurance contracts'

Nature of change
IFRS 17 replaces IFRS 4 'Insurance contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance contract liabilities, ensuring an entity provides relevant information that faithfully represents those contracts.

The standard is still subject to EU endorsement.

Effective date
Currently the effective date is for financial periods beginning on or after 1 January 2021, however the International Accounting Standards Board (IASB) is considering delaying the mandatory implementation date by 1 year to 2022. Earlier application of the standard is permissible.

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

2 Critical accounting estimates and judgements

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

(a) Impairment loss allowance on financial assets
The measurement of impairment loss allowance requires significant judgement and is dependent in large part on complex impairment models. In arriving at impairment loss allowances, accounting judgements and estimates which could have a material influence on the quantum of impairment loss allowance and net impairment charge include:

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- generation of forward-looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances;
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as Probability of Default (PD) and Loss Given Default (LGD);
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- determining the period over which to measure ECL for uncommitted revolving credit facilities (RCF);
- valuing collateral and determining timeframe to realisation and likely net sale proceeds;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- determining what Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

The Group's approach to measurement of impairment loss allowances and associated methodologies, including the key macroeconomic variables applied at 31 December 2018, is set out in the credit risk methodologies section on pages 151 to 158.

The quantum of impairment loss allowance is impacted by the application of three probability weighted future macro-economic scenarios. The table on page 84 indicates the approximate extent to which the impairment loss allowance at 31 December 2018 was increased by virtue of applying multiple scenarios rather than only a central scenario.

At 31 December 2018, the impairment loss allowance for Residential Mortgages of €537 million includes a management adjustment of €92 million. This reflects consideration of factors specific to that portfolio including the evolving nature of impairment modelling under IFRS 9, measurement uncertainty and the non-linear relationship between macroeconomic indicators and associated credit losses. The corresponding adjustment on transition to IFRS 9 on 1 January 2018 was €150 million, with the reduction to €92 million reflecting model refinements and parameter updates applied at 31 December 2018 which resulted in a portion of the opening adjustment being embedded in the impairment model outputs.

For the year ended 31 December 2017 the following critical accounting estimates and judgements applied under IAS 39.
The Group reviewed its loan portfolios for impairment on an ongoing basis. The Group first assessed whether objective evidence of impairment existed. This assessment was performed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. Impairment provisions were also recognised for losses not specifically identified but, which experience and observable data indicated, were present in the portfolio at the date of assessment.

Management used estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the

2 Critical accounting estimates and judgements *(continued)*

Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance		Additional impairment loss allowance on stage 1 and 2 financial instruments	
	Impact €m	% Impact	Impact €m	% Impact
Residential Mortgages	7	2%	4	10%
Non-property SME and Corporate	9	1%	9	7%
Property and construction	5	1%	5	13%
Consumer	1	1%	1	1%
Total	**22**	**1%**	**19**	**7%**

The following table indicates the approximate extent to which impairment loss allowance, excluding Group management adjustments, would be higher or lower than reported were a 100% weighting applied to the upside and downside future macroeconomic scenarios respectively:

Impact of applying only an upside or downside scenario rather than applying multiple probability-weighted scenarios	Impact of applying a 100% weighting to the upside scenario		Impact of applying a 100% weighting to the downside scenario	
	€m	%	€m	%
Residential Mortgages	(130)	(29%)	162	37%
Non-property SME and Corporate	(36)	(6%)	59	9%
Property and construction	(23)	(6%)	39	9%
Consumer	(8)	(5%)	12	7%
Total	**(197)**	**(12%)**	**272**	**17%**

amount and timing of future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience was supplemented with significant management judgement to assess whether current economic and credit conditions were such that the actual level of impairment losses was likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the reporting date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors were taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience. The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the credit risk methodologies section on pages 151 to 158.

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

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

In addition to containing judgements in relation to the assumed value of residential properties for provisioning, the Retail Ireland Residential mortgage collective mortgage impairment charges contained key assumptions relating to: 'time to sale'; 'loss emergence periods'; 'weighted average cure rates'; and 'weighted average repayment rates'. The assumptions relating to the assumed value of underlying properties securing the loans, together with all other key collective impairment provisioning model factors, were reviewed as part of the Group's 2017 year end and 2017 half year financial reporting cycle.

2 Critical accounting estimates and judgements *(continued)*

The collective impairment provisions on the Retail Ireland mortgage portfolio could be sensitive to movements in any one of these assumptions, or a combination thereof. The sensitivities and estimated impacts set out below were based on movements in each of these individual assumptions in isolation at 31 December 2017.

- A 1% absolute increase in the 'forced sale discount' assumptions would have increased collective impairment provisions by c.€5 million.
- A 1% absolute increase in the 'disposal costs' assumption would have increased collective impairment provisions by c.€4 million.
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would have increased collective impairment provisions by c.€3 million.
- A 1% absolute increase in the 'weighted average cure rate' assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would have reduced collective impairment provisions by c.€1 million.
- A 1% absolute increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would have reduced collective impairment provisions by c.€2 million.

A further important judgemental area was in relation to the level of impairment provisions applied to the Property and construction portfolio. At 31 December 2017, Property and construction loans before impairment provisions were €8.7 billion including NPEs of €1.7 billion, against which the Group held provisions for impairment of €0.7 billion.

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

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

(b) Taxation

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

At 31 December 2018, the net DTA was €1,123 million (2017: €1,184 million), of which €1,162 million (2017: €1,253 million) related to trading losses. See note 38. The closing DTA includes €1.1 billion of Irish trading losses and €0.1 billion of UK trading losses.

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

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

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

Irish tax legislation does not currently contain any restriction on the use of carried forward tax losses. However, there was previously a restriction, between 2009 and 2013, which limited to 50% the amount of current year Irish taxable profits that could be offset by carried forward Irish tax losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses to 25% from 1 April 2016. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the DTA at 31 December 2018.

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

2 Critical accounting estimates and judgements *(continued)*

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

Based on the Group's projections, the DTA in respect of tax losses is estimated to be recovered in full by the end of 2030 (2017: 2036).

Another significant judgement relates to a series of liability management exercises that the Group conducted between 2009 and 2011 in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HM Revenue & Customs (HMRC), over the last number of years as it considers these transactions. HMRC has concurred with the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. HMRC has challenged the tax treatment of gains in the amount of £168 million (€189 million) arising in respect of one transaction. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made. See note 20.

(c) Retirement benefits

The Group sponsors a number of DB pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member mortality and other demographic assumptions. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the DB pension liability to changes in the key assumptions is set out in note 48.

(d) Life assurance operations

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

The ViF asset is measured by projecting expected future surpluses using best estimate and market consistent assumptions and a risk free interest rate curve.

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and projected long-term economic trends.

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the reporting date and could significantly affect the value attributed to the in force business. The ViF business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period. A quantitative analysis of the sensitivity of profit to changes in the key life assurance assumptions is set out in note 40.

3 Transition from IAS 39 to IFRS 9

As set out in the basis of preparation and the Group accounting policies, the Group has adopted IFRS 9 as endorsed by the EU. The Group has availed of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of the classification and measurement requirements of IFRS 9. Accordingly, differences in the carrying amount of financial instruments arising from the adoption of IFRS 9 are recognised in equity as at 1 January 2018.

A description of the IFRS 9 accounting policies is set out in pages 68 to 72 of this document. A reconciliation of the balance sheet classification as at 1 January 2018 under IAS 39 to the classification under IFRS 9 is included in note 64 for the Group and note 65 for the Bank. (Separately identifying by measurement category the changes in the carrying amount arising from reclassification and remeasurement on transition to IFRS 9). In addition, a reconciliation of the closing impairment provision under IAS 39 and provision under IAS 37 at 31 December 2017 to the opening loss allowance at 1 January 2018 determined in accordance with IFRS 9 for the Group and the Bank are included on pages 233 and 241 respectively.

Stockholders' equity	Group €m	Bank €m
As reported under IAS 39 / 37 at 31 December 2017	7,958	6,663
Impact of remeasurement (after tax)	(113)	(122)
As reported under IFRS 9 at 1 January 2018	**7,845**	**6,541**

4 Operating segments

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

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

Wealth and Insurance (formerly Bank of Ireland Life)
Wealth and Insurance includes the Group's life assurance subsidiary New Ireland Assurance Company plc (NIAC) which distributes protection, investment and pension products to the Irish market, through independent financial brokers, its own tied Financial Advisor network and the Group's distribution channels, which include Private Banking as a tied agent of NIAC. It also includes the Group's general insurance brokerage Bank of Ireland Insurance Services, which offers home and car insurance cover through its agency with insurance providers. Both the Private Banking and Bank of Ireland Insurance Services businesses transferred from the Retail Ireland division to the Wealth and Insurance division following an organisational restructure during the year.

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

Corporate and Treasury (C&T)
C&T incorporates the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business, across the RoI, UK and internationally, with offices in Ireland, the UK, the United States, Germany and France. During 2018, Group Treasury (which manages capital together with funding and liquidity risk) joined the division.

Group Centre
Group Centre comprises Group Manufacturing, Group Finance, Group Risk, Group Internal Audit (GIA), Group Marketing and Group Human Resources. These Group central functions establish and oversee policies and provide and manage certain processes and delivery platforms for the divisions.

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

Basis of preparation of segmental information
The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are considered to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management structures. The CEO and CFO review the Group's internal reporting based around these segments to assess performance and allocate resources. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant. 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 2018, the Group amended the basis of allocating funding and liquidity costs across the divisions which resulted in an increase in net interest income for 2018 in the Retail UK division of €15 million with a corresponding decrease in net interest income in the Retail Ireland division of €11 million and the C&T division of €4 million, compared to the former basis.

Gross external revenue comprises interest income calculated using the effective interest rate, interest income on finance leases and hire purchase receivables, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other leasing income, other operating income and share of results of associates and joint ventures.

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

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit excludes:
- cost of restructuring programme;
- gain on disposal of property;
- gross-up for policyholder tax in the Wealth and Insurance business;
- Investment return on treasury shares held for policy holders
- gain / loss on disposal / liquidation of business activities;
- Tracker Mortgage Examination;
- cost of corporate reorganisation and establishment of a new holding company; and
- charge arising on the movement in the Group's credit spreads[1].

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

[1] *Prior to 1 January 2018, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges are now accounted for through OCI.*

4 Operating segments *(continued)*

Group 2018	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[1] €m	BOIG Group plc €m	BOIG plc €m	Group €m
Net interest income	**992**	**(9)**	**596**	**555**	**10**	**2**	**2,146**	**(3)**	**2,143**
Other income, net of insurance claims	272	203	21	166	14	(17)	659	1	660
Total operating income, net of insurance claims	**1,264**	**194**	**617**	**721**	**24**	**(15)**	**2,805**	**(2)**	**2,803**
Other operating expenses	(719)	(121)	(363)	(182)	(361)	5	(1,741)	1	(1,740)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	*(719)*	*(119)*	*(361)*	*(182)*	*(151)*	*5*	*(1,527)*	*1*	*(1,526)*
- Transformation Investment charge	*-*	*-*	*-*	*-*	*(113)*	*-*	*(113)*	*-*	*(113)*
- Levies and regulatory charges	*-*	*(2)*	*(2)*	*-*	*(97)*	*-*	*(101)*	*-*	*(101)*
Depreciation and amortisation	(57)	(6)	(35)	(12)	(103)	1	(212)	-	(212)
Total operating expenses	**(776)**	**(127)**	**(398)**	**(194)**	**(464)**	**6**	**(1,953)**	**1**	**(1,952)**
Underlying operating profit / (loss) before impairment charges on financial assets	**488**	**67**	**219**	**527**	**(440)**	**(9)**	**852**	**(1)**	**851**
Net impairment gains / (losses) on financial instruments	157	-	(74)	(41)	-	-	42	-	42
Share of results of associates and joint ventures	4	-	37	-	-	-	41	-	41
Underlying profit / (loss) before tax	**649**	**67**	**182**	**486**	**(440)**	**(9)**	**935**	**(1)**	**934**

Reconciliation of underlying profit before tax to profit before tax	**Group €m**
Underlying profit before tax	934
Cost of restructuring programme	(111)
Gain on disposal of property	7
Gross-up for policyholder tax in the Wealth and Insurance business	(7)
Investment return on treasury shares held for policyholders	6
Gain / (loss) on disposal / liquidation of business activities	5
Tracker Mortgage Examination charges	-
Cost of corporate reorganisation and establishment of a new holding company	-
Charge arising on the movement in the Group's credit spreads	-
Profit before tax	**834**

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

4 Operating segments *(continued)*

Restated[1] 2017	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[2] €m	Group €m
Net interest income	**1,065**	**12**	**579**	**575**	**20**	**(3)**	**2,248**
Other income, net of insurance claims	287	238	9	231	25	11	801
Total operating income, net of insurance claims	1,352	250	588	806	45	8	3,049
Other operating expenses	(742)	(128)	(382)	(202)	(377)	1	(1,830)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	*(741)*	*(128)*	*(378)*	*(202)*	*(179)*	*1*	*(1,627)*
- Transformation Investment charge	*-*	*-*	*-*	*-*	*(104)*	*-*	*(104)*
- Levies and regulatory charges	*(1)*	*-*	*(4)*	*-*	*(94)*	*-*	*(99)*
Depreciation and amortisation	(61)	(5)	(27)	(11)	(65)	-	(169)
Total operating expenses	**(803)**	**(133)**	**(409)**	**(213)**	**(442)**	**1**	**(1,999)**
Underlying operating profit / (loss) before impairment charges on financial assets	549	117	179	593	(397)	9	1,050
Net impairment gains / (losses) on financial instruments	148	-	(115)	(48)	-	-	(15)
Share of results of associates and joint ventures	4	-	39	-	-	-	43
Underlying profit / (loss) before tax	**701**	**117**	**103**	**545**	**(397)**	**9**	**1,078**

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

[1] *Comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) to incorporate the Private Banking and Insurance Services business units which were previously reported within Retail Ireland. This has resulted in an increase of €11 million in the underlying profit before tax of Wealth and Insurance and a corresponding decrease in the underlying profit before tax of Retail Ireland for the year ended 31 December 2017; (ii) the Group's decision to re-organise the C&T segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in a decrease of €8 million in the underlying profit before tax of C&T and a corresponding increase in Group Centre for the year ended 31 December 2017 and (iii) the reclassification of €7 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges), €3 million and depreciation and amortisation €4 million for 2017. The Transformation Investment charge has been booked in Group Centre for the current and comparative year.*

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

4 Operating segments *(continued)*

Group 2018 Analysis by operating segment	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	**53**	**-**	**69**	**-**	**-**	**-**	**122**
External assets	35,507	17,062	33,755	32,643	4,705	(3)	123,669
Inter segment assets	63,747	727	2,580	86,609	25,316	(178,979)	-
Total segmental assets	**99,254**	**17,789**	**36,335**	**119,252**	**30,021**	**(178,982)**	**123,669**
Other Bank assets							27
Group assets							**123,696**
External liabilities	52,124	16,830	26,236	14,243	4,180	5	113,618
Inter segment liabilities	44,936	257	7,486	103,958	22,334	(178,971)	-
Total segmental liabilities	**97,060**	**17,087**	**33,722**	**118,201**	**26,514**	**(178,966)**	**113,618**
Other Bank liabilities							880
Group liabilities							**114,498**

Group 2017[1] Analysis by operating segment	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	**59**	**-**	**69**	**-**	**-**	**-**	**128**
External assets	36,060	17,329	33,884	28,530	6,754	(3)	122,554
Inter segment assets	60,152	860	3,034	82,723	26,503	(173,272)	-
Total segmental assets	**96,212**	**18,189**	**36,918**	**111,253**	**33,257**	**(173,275)**	**122,554**
Other Bank assets							33
Group assets							**122,587**
External liabilities	51,636	17,167	25,701	14,947	3,431	5	112,887
Inter segment liabilities	42,631	275	9,162	95,160	26,031	(173,259)	-
Total segmental liabilities	**94,267**	**17,442**	**34,863**	**110,107**	**29,462**	**(173,254)**	**112,887**
Other Bank liabilities							1,000
Group liabilities							**113,887**

[1] *Comparative figures have been restated to reflect the Group's decision to re-organise the Wealth and Insurance operating segment to incorporate the Private Banking and Bank of Ireland Insurance Services business units which were previously reported within Retail Ireland. On an underlying basis, this has resulted in an increase in the Wealth and insurance division of €58 million in total assets and an increase of €13 million in total liabilities as at 31 December 2017, with a corresponding decrease in the Retail Ireland division.*

4 Operating segments *(continued)*

Group 2018 Gross revenue by operating segments	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	BOIG Group plc €m	BOIG plc €m	Group €m
Gross external revenue	1,359	1,253	1,097	677	61	(3)	4,444	1	4,445
Inter segment revenues	486	(38)	47	422	238	(1,155)	-	-	-
Gross revenue before claims paid	**1,845**	**1,215**	**1,144**	**1,099**	**299**	**(1,158)**	**4,444**	**1**	**4,445**
Insurance contract liabilities and claims paid	-	(951)	-	-	(4)	-	(955)	-	(955)
Gross revenue	**1,845**	**264**	**1,144**	**1,099**	**295**	**(1,158)**	**3,489**	**1**	**3,490**
Interest expense	**(92)**	**-**	**(199)**	**80**	**(175)**	**7**	**(379)**	**(3)**	**(382)**
Capital expenditure	**12**	**12**	**70**	**3**	**182**	**-**	**279**	**-**	**279**

Group 2017[1] Gross revenue by operating segments	Retail Ireland €m	Wealth and Insurance €m	Retail UK[2] €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,336	1,903	1,075	880	78	(12)	5,260
Inter segment revenues	562	66	41	451	148	(1,268)	-
Gross revenue before claims paid	**1,898**	**1,969**	**1,116**	**1,331**	**226**	**(1,280)**	**5,260**
Insurance contract liabilities and claims paid	-	(1,643)	-	-	(3)	-	(1,646)
Revenue attributable to BOIG plc	-	-	-	-	-	-	-
Gross revenue	**1,898**	**326**	**1,116**	**1,331**	**223**	**(1,280)**	**3,614**
Interest expense	**(109)**	**(1)**	**(178)**	**7**	**(127)**	**14**	**(394)**
Capital expenditure	**22**	**4**	**49**	**11**	**193**	**-**	**279**

Group 2018 Geographical analysis	Republic of Ireland €m	United Kingdom[2] €m	Rest of World €m	Other reconciling items €m	BOIG Group plc €m	BOIG plc €m	Group €m
Gross external revenue	3,196	1,148	101	(1)	4,444	1	4,445
Inter segment revenues	(94)	(115)	(25)	234	-	-	-
Gross revenue before claims paid	**3,102**	**1,033**	**76**	**233**	**4,444**	**1**	**4,445**
Insurance contract liabilities and claims paid	(951)	-	(4)	-	(955)	-	(955)
Gross revenue	**2,151**	**1,033**	**72**	**233**	**3,489**	**1**	**3,490**
Capital expenditure	**209**	**70**	**-**	**-**	**279**	**-**	**279**
External assets	86,915	35,458	1,296	-	123,669		
Inter segment assets	10,457	4,518	1,053	(16,028)	-		
Total assets	**97,372**	**39,976**	**2,349**	**(16,028)**	**123,669**		
Other Bank assets					27		
Group assets					**123,696**		
External liabilities	86,636	26,901	81	-	113,618		
Inter segment liabilities	3,419	10,508	2,101	(16,028)	-		
Total liabilities	**90,055**	**37,409**	**2,182**	**(16,028)**	**113,618**		
Other Bank liabilities					880		
Group liabilities					**114,498**		

[1] *As outlined on page 89, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment which resulted in a decrease of €30 million in business income in Retail Ireland and a corresponding increase in Wealth and Insurance for the year ended 31 December 2017.*

[2] *Prior year figures have been restated to reflect leasing income included in gross revenue.*

4 Operating segments *(continued)*

Group 2017 Geographical analysis	Republic of Ireland €m	United Kingdom[1] €m	Rest of World €m	Other reconciling items €m	Total €m
Gross external revenue	3,946	1,217	109	(12)	5,260
Inter segment revenues	141	69	16	(226)	-
Gross revenue before claims paid	**4,087**	**1,286**	**125**	**(238)**	**5,260**
Insurance contract liabilities and claims paid	(1,643)	-	(3)	-	(1,646)
Gross revenue	**2,444**	**1,286**	**122**	**(238)**	**3,614**
Capital expenditure	**230**	**49**	**-**	**-**	**279**
External assets	84,566	36,009	1,979	-	122,554
Inter segment assets	12,555	4,718	568	(17,841)	-
Total assets	**97,121**	**40,727**	**2,547**	**(17,841)**	**122,554**
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**

5 Interest income

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

There was no further charge in 2018 (2017: €96 million) in respect of redress under the Tracker Mortgage Examination Review. However there was a reallocation of €12 million charged to interest income from operating expenses during the year (see note 14).

Interest income recognised on loans and advances to customers

In 2018, €86 million of interest was recognised on credit-impaired loans and advances to customers. In 2017, €74 million of interest income was recognised on impaired loans and advances to customers on which a specific impairment provision had been recognised.

In 2018, €93 million of interest was received on credit-impaired loans and advances to customers. In 2017, €78 million of interest income was received on impaired loans and advances to customers on which a specific impairment provision had been recognised.

In 2018, interest income received on total forborne loans and advances to customers was €158 million (2017: €178 million).

In 2018, interest recognised on total forborne loans and advances to customers was €162 million (2017: €154 million).

Group	2018 €m	2017 €m
Financial assets measured at amortised cost		
Loans and advances to customers	2,249	2,241
Loans and advances to banks	28	15
Debt securities at amortised cost	12	-
Held to maturity financial assets[2]	-	29
NAMA senior bonds	-	3
Interest income on financial assets measured at amortised cost	**2,289**	**2,288**
Financial assets at fair value through other comprehensive income		
Debt securities at fair value through other comprehensive income	46	-
Available for sale financial assets	-	95
	2,335	**2,383**
Negative interest on financial liabilities	19	11
Interest income calculated using the effective interest method	**2,354**	**2,394**
Interest income on finance leases and hire purchase receivables	159	152
Interest income	**2,513**	**2,546**

[1] *Prior year figures have been restated to reflect leasing income included in gross revenue.*
[2] *2017 included €18 million of amortisation transferred from AFS reserve in relation to the assets reclassified from AFS to maturity.*

5 Interest income *(continued)*

Transferred from cash flow hedge reserve
Interest income also includes a charge of €61 million (2017: €2 million charge) transferred from the cash flow hedge reserve (see page 63).

Interest income recognised on debt securities at fair value through other comprehensive income (FVOCI)
Interest income on FVOCI financial assets is recognised net of interest of €27 million on derivatives which are in a hedge relationship with the relevant financial asset.

Interest income recognised on available for sale (AFS) financial assets
On 31 December 2017, under IAS 39 interest income on AFS assets was recognised net of interest expense of €86 million on derivatives which are in a hedge relationship with the relevant asset. Under IFRS 9 financial assets which were classified as AFS have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL.

6 Interest expense

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

Interest expense recognised on subordinated liabilities
Interest expense on subordinated liabilities is recognised on an Effective Interest Rate (EIR) basis net of interest income of €19 million (2017: €21 million) on derivatives which are in a hedge relationship with the relevant liability.

Interest expense recognised on debt securities in issue
Interest expense on debt securities in issue is recognised on an EIR basis net of interest income of €58 million (2017: €57 million) on derivatives which are in a hedge relationship with the relevant liability.

Group	**2018 €m**	**2017 €m**
Customer accounts	164	201
Subordinated liabilities	102	77
Debt securities in issue	79	82
Deposits from banks	24	20
Interest expense on financial liabilities measured at amortised cost	**369**	**380**
Negative interest on financial assets	13	14
Interest expense	**382**	**394**

7 Net insurance premium income

Group	**2018 €m**	**2017 €m**
Gross premiums written	1,807	1,431
Ceded reinsurance premiums	(311)	(87)
Net insurance premium income	**1,496**	**1,344**

8 Fee and commission income and expense

Group 2018 Income	**Retail Ireland €m**	**Wealth and Insurance €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Group €m**
Retail banking customer fees	277	-	106	42	-	425
Credit related fees	8	-	6	16	-	30
Insurance commissions	-	13	2	-	-	15
Asset management fees	-	3	-	-	-	3
Brokerage fees	1	-	1	-	-	2
Other	11	7	5	23	-	46
Fee and commission income	**297**	**23**	**120**	**81**	**-**	**521**

8 Fee and commission income and expense *(continued)*

Group 2017 Income	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Group €m
Retail banking customer fees	276	-	116	39	-	431
Credit related fees	11	-	9	26	-	46
Insurance commissions	-	13	2	-	-	15
Asset management fees	-	4	-	-	-	4
Brokerage fees	1	-	1	-	-	2
Other	9	6	4	26	-	45
Fee and commission income	**297**	**23**	**132**	**91**	**-**	**543**

There have been no significant changes to any of the line items above as a result of the adoption of IFRS 15 for the year ended 31 December 2018.

Expense

Fee and commission expense of €224 million (2017: €217 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

9 Net trading income

Net trading income includes the gains and losses on financial instruments held for trading and those designated at FVTPL (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €13 million (2017: €28 million) in relation to net charge arising from FX.

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €63 million (2017: net gain of €9 million) offsetting a net charge from hedged items of €63 million (2017: net gain of €9 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement in 2018 amounted to €nil (2017: €nil).

Group	2018 €m	2017 €m
Financial assets designated at fair value	-	14
Financial liabilities designated at fair value	62	(79)
Related derivatives held for trading	(77)	49
	(15)	**(16)**
Net income from financial instruments mandatorily measured at fair value through profit or loss[1]		
Other financial instruments held for trading	28	177
Securities and non-trading debt	18	-
Loans and advances	14	-
Equities[2]	10	-
	55	**161**
Net fair value hedge ineffectiveness	-	-
Cash flow hedge ineffectiveness	-	-
Net trading income	**55**	**161**

The impact on the Group's income statement of the gains arising on the movement in credit spreads on the Group's own debt and deposits during 2017 is set out below. Under IFRS 9 credit spreads are reported in the liabilities credit reserve of the consolidated statement of OCI.

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

[1] *Net income from other financial assets mandatorily measured at FVTPL includes interest income from debt instruments and dividend income from equities. It also includes realised and unrealised gains and losses.*

[2] *Non-trading equities and debt securities mandatorily measured at FVTPL are reported in the balance sheet under the caption 'Other financial assets at FVTPL'. The income from life assurance investments which also comprise 'Other financial assets at FVTPL' is reported in note 10 Life assurance investment income, gains and losses.*

10 Life assurance investment income, gains and losses

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Wealth and Insurance, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts. These instruments are mandatorily measured at FVTPL.

	2018 €m	2017 €m
(Losses) / gains on other financial assets held on behalf of Wealth and Insurance policyholders	(341)	429
Gains on investment property held on behalf of Wealth and Insurance policyholders	11	21
Life assurance investment income, gains and losses	**(330)**	**450**

11 Other leasing income and expense

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL), a wholly owned subsidiary of the Group which was acquired in 2017. MLL is a car and commercial leasing and fleet management company based in the UK. Other leasing income relates to operating leases. Other leasing expense includes depreciation of €23 million related to rental vehicles (2017: €nil).

Group	2018 €m	2017 €m
Other leasing income	52	3
Other leasing expense	(41)	(3)
Net other leasing income	**11**	**-**

12 Other operating income

Group	2018 €m	2017 €m
Other insurance income	53	56
Movement in Value of in Force asset (note 40)	6	25
Elimination of investment return on treasury stock held for the benefit of policyholders in the Wealth and Insurance business	3	-
Transfer from debt instruments at fair value through other comprehensive income reserve on asset disposal (note 25)	2	-
Dividend income	2	20
Transfer from available for sale reserve on asset disposal (note 26)	-	69
Other income	19	-
Other operating income	**85**	**170**

13 Insurance contract liabilities and claims paid

Group	2018 €m	2017 €m
Claims paid		
Policy surrenders	824	1,001
Death and critical illness claims	158	152
Annuity payments	83	76
Other claims	70	65
Gross claims paid	**1,135**	**1,294**
Recovered from reinsurers	(103)	(93)
Net claims paid	**1,032**	**1,201**
Change in insurance contract liabilities		
Change in reinsured liabilities	(202)	24
Change in gross liabilities	125	421
Net change in insurance contract liabilities	**(77)**	**445**
Insurance contract liabilities and claims paid	**955**	**1,646**

14 Other operating expenses

Group Administrative expenses and staff costs	2018 €m	Restated[1] 2017 €m
Staff costs excluding restructuring and Transformation Investment staff costs	867	904
Levies and regulatory charges	101	99
- Irish bank levy	*29*	*29*
- Other	*72*	*70*
Amortisation of intangible assets (note 35)	178	134
Transformation Investment charge	113	104
Depreciation of property, plant and equipment (note 37)	34	35
Reversal of impairment on property (note 37)	(4)	(4)
Other administrative expenses excluding cost of restructuring programme	651	808
Total	**1,940**	**2,080**
Total staff costs are analysed as follows:		
Wages and salaries	650	685
Retirement benefit costs (DB plans) (note 48)	120	125
Social security costs	74	76
Retirement benefit costs (DC plans)	27	23
Other staff expenses	9	8
	880	**917**
Staff costs capitalised	(13)	(13)
Staff costs excluding restructuring and Transformation Investment staff costs	**867**	**904**
Additional restructuring and Transformation Investment staff costs:		
Included in cost of restructuring programme (note 15)	74	48
Included in Transformation Investment charge	15	13
Total staff costs recognised in the income statement	**956**	**965**

The Group has incurred levies and regulatory charges of €101 million (2017: €99 million). The charge for 2018 primarily reflects the Group's contribution to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund, along with the charges for the FSCS levy and the Irish bank levy.

Transformation Investment income statement charge of €113 million (2017: €104 million) includes associated application and infrastructure costs which will be included as part of the Transformation Investment charge until it is customer supporting.

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

14 Other operating expenses *(continued)*

There was no further charge in 2018 (2017: €74 million) in respect of the Tracker Mortgage Examination Review. However, there was a reallocation of €12 million to interest income which reduced operating expenses during the year (see note 5).

Group **Average number of staff (full time equivalents)**	**2018**	**2017**
Retail Ireland	2,875	4,185
Retail UK	1,607	1,707
Bank of Ireland Life	899	900
Corporate and Treasury	610	652
Group Centre	4,604	3,752
Total	**10,595**	**11,196**

Staff numbers

At 31 December 2018, the number of staff (full time equivalents) was 10,367 (2017: 10,892) (Bank 2018: 8,933; 2017: 9,380).

In addition to the reduction in the average number of staff employed by the Group, the table also reflects the ongoing centralisation of support functions in order to maximise operating efficiencies.

Bank **Staff costs**	**2018** **€m**	**2017** **€m**
Total staff costs are analysed as follows:		
Wages and salaries	561	579
Retirement benefit costs[1] (defined benefit plans) (note 48)	103	103
Social security costs	63	64
Retirement benefit costs (defined contribution plans)	24	20
Other staff expenses	6	2
	757	**768**
Staff costs capitalised	(10)	(13)
Staff costs excluding restructuring and platforms investment staff costs	**747**	**755**
Additional restructuring and platforms investment staff costs:		
Included in cost of restructuring programme	74	48
Included in Transformation Investment charge	15	13
Total staff costs recognised in the income statement	**836**	**816**
Average number of staff (full time equivalents)	9,137	9,696

15 Cost of restructuring programme

	2018 **€m**	**2017** **€m**
Transformation Investment costs	93	48
- Staff costs (note 14)	*74*	*48*
- Property related costs	*11*	*-*
- Programme management costs	*8*	*-*
Other restructuring charges	18	-
- Impairment of property, plant and equipment (note 37)	*9*	*-*
- Impairment of intangible assets (note 35)	*6*	*-*
- Other related costs	*3*	*-*
Total	**111**	**48**

During 2018, the Group recognised a charge of €111 million of which €93 million relates to Transformation Investment costs and €18 million relating to other restructuring charges as set out in the table above. A restructuring charge of €48 million was incurred in 2017, primarily related to changes in employee numbers.

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

16 Auditor’s remuneration (excluding VAT)

Group		Current Auditor				Former Auditor			
	Note	RoI (i) €m	Overseas (ii) €m	2018 €m	2017 €m	RoI €m	Overseas €m	2018 €m	2017 €m
Audit and assurance services									
Statutory audit		2.6	0.7	3.3	-	-	-	-	3.5
Assurance services	(iii)	0.6	-	0.6	-	-	-	-	2.1
		3.2	0.7	3.9	-	-	-	-	5.6
Other services									
Taxation services		-	-	-	-	-	-	-	0.1
Other non-audit services		-	-	-	-	-	-	-	0.2
Total Auditor’s remuneration		**3.2**	**0.7**	**3.9**	**-**	**-**	**-**	**-**	**5.9**

On 19 April 2018, PricewaterhouseCoopers (Former Auditor), resigned as Auditor of the Group.

Disclosure of Auditor’s fees is made in accordance with Section 322 of the Companies Act which mandates the disclosure of fees in particular categories and that fees paid to the Group Auditor only (KPMG) for services provided to the Group be disclosed in this format. All years presented are on that basis.

The amounts in the table above relate to fees payable to KPMG from the date of their appointment for services provided.

(i) Fees paid to the Statutory Auditor, KPMG;
(ii) Fees paid to overseas Auditors principally consist of fees paid to KPMG UK in the UK; and
(iii) Assurance services consist primarily of review of the interim financial statements, fees in connection with reporting to regulators including the CBI, letters of comfort and review of compliance with the Government Guarantee Schemes. (2017: €2.1 million including fees in respect of the 2017 Corporate Reorganisation).

17 Net impairment gains / (losses) on financial instruments

Group	2018 €m	2017 €m
Loans and advances to customers	36	(15)
- Cash recoveries	*49*	48
- Movement in impairment loss allowances / impairment provisions (note 29)	*(13)*	*(63)*
Loan commitments	6	-
Net impairment gains / (losses) on financial instruments	**42**	**(15)**

Loans and advances to customers at amortised cost

Net impairment gains / (losses)
The Group’s net impairment gains / (losses) on loans and advances to customers at amortised cost is set out in this table. The comparative figures for the prior year have not been restated and are presented on an IAS 39 classification and measurement basis.

Group	2018 €m	2017 €m
Residential mortgages	47	137
- Retail Ireland	*60*	*131*
- Retail UK	*(13)*	*6*
Non-property SME and corporate	14	(84)
- Republic of Ireland SME	*54*	*(20)*
- UK SME	*1*	*(24)*
- Corporate	*(41)*	*(40)*
Property and construction	12	(60)
- Investment	*17*	*(54)*
- Land and development	*(5)*	*(6)*
Consumer	(37)	(8)
Total	**36**	**(15)**

17 Net impairment gains / (losses) on financial instruments *(continued)*

Group **Impairment charges / (reversals) on loans and advances to customers by nature of impairment provision**	**2017 €m**
Specific charge individually assessed	(181)
Specific charge collectively assessed	43
Incurred but not reported	123
Total impairment charge	**(15)**

18 Share of results of associates and joint ventures (after tax)

Group	**2018 €m**	**2017 €m**
First Rate Exchange Services (note 34)	37	40
Associates (note 33)	4	3
Share of results of associates and joint ventures (after tax)	**41**	**43**

19 Gain / (loss) on disposal / liquidation of business activities

Group	**2018 €m**	**2017 €m**
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	4	(11)
Other	1	6
Gain / (loss) on disposal / liquidation of business activities	**5**	**(5)**

As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During 2018, the Group voluntarily appointed a liquidator to manage the winding up of a number of foreign operations. Upon appointment of the liquidator, the Group is considered to have lost control of the foreign operations and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative FX gains of €4 million relating to these foreign operations from the FX reserve to the income statement during 2018 (2017: losses of €11 million).

20 Taxation

The effective taxation rate on a statutory profit basis for 2018 is 19% (2017: 19%).

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

Group **Recognised in income statement**	**2018** **€m**	**2017** **€m**
Current tax		
Irish Corporation Tax		
- Current year	23	16
- Adjustment in respect of prior year	3	(19)
Double taxation relief	-	(2)
Foreign tax		
- Current year	57	75
- Adjustments in respect of prior year	(5)	-
Current tax charge	**78**	**70**
Deferred tax		
Current year profits	91	17
Adjustments in respect of prior year	10	12
Impact of Corporation Tax rate change	-	10
Reassessment of the value of tax losses carried forward	-	(2)
Origination and reversal of temporary differences	(19)	53
Deferred tax charge	**82**	**90**
Taxation charge	**160**	**160**

Group **Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge**	**2018** **€m**	**2017** **€m**
Current tax		
Profit before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2017: 12.5%)	104	107
Effects of:		
Foreign earnings subject to different rates of tax	42	34
Wealth and Insurance companies - different basis of accounting	-	21
Impact of corporation tax rate change on deferred tax	-	10
Adjustments in respect of prior year	8	(7)
Share of results of associates and joint ventures shown post tax in the income statement	(5)	(5)
Other adjustments for tax purposes	11	2
Reassessment of the value of tax losses carried forward	-	(2)
Taxation charge	**160**	**160**

20 Taxation *(continued)*

	2018			2017		
	Pre-tax €m	Tax €m	Net of Tax €m	Pre-tax €m	Tax €m	Net of Tax €m
Debt instruments at fair value through other comprehensive income reserve						
Changes in fair value	(157)	20	(137)	-	-	-
Transfer to income statement						
- Asset disposal	(2)	-	(2)	-	-	-
Net change in debt instruments at fair value through other comprehensive income reserve	**(159)**	**20**	**(139)**	**-**	**-**	**-**
Available for sale reserve						
Gain on reclassification for held to maturity portfolio	-	-	-	52	(7)	45
Changes in fair value	-	-	-	24	(2)	22
Transfer to income statement						
- On asset disposal	-	-	-	(69)	9	(60)
- Amortisation	-	-	-	(18)	2	(16)
Net change in reserve	**-**	**-**	**-**	**(11)**	**2**	**(9)**
Remeasurement of the net defined benefit pension liability	**156**	**(27)**	**129**	**(127)**	**14**	**(113)**
Cash flow hedge reserve						
Changes in fair value	(1)	-	(1)	203	(24)	179
Transfer to income statement	(56)	6	(50)	(334)	40	(294)
Net change in cash flow hedge reserve	**(57)**	**6**	**(51)**	**(131)**	**16**	**(115)**
Net change in foreign exchange reserve	**10**	**-**	**10**	**(147)**	**-**	**(147)**
Net change in revaluation reserve	**1**	**(6)**	**(5)**	**16**	**(1)**	**15**
Liability credit reserve						
Changes in fair value of liabilities designated at fair value through profit or loss due to own credit risk	43	(6)	37	-	-	-
Other comprehensive income for the year	**(6)**	**(13)**	**(19)**	**(400)**	**31**	**(369)**

21 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 page 164. 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. Derivatives classified as held for hedging comprise only those derivatives to which the Group applies hedge accounting.

The Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €1.7 billion at 31 December 2018 (2017: €2.3 billion):

- €1.3 billion (2017: €1.4 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €0.4 billion (2017: €0.9 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2018, cash collateral of €0.2 billion (2017: €0.6 billion) was held against these assets and is reported within deposits from banks (note 41).

At 31 December 2018, placements with other banks and loans and advances to customers include cash collateral of €0.4 billion (2017: €0.5 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.4 billion (2017: €0.5 billion) and is reported within loans and advances to banks (note 23) and loans and advances to customers (note 29).

21 Derivative financial instruments *(continued)*

Group	2018 Contract notional amounts €m	2018 Fair values Assets €m	2018 Fair values Liabilities €m	2017 Contract notional amounts €m	2017 Fair values Assets €m	2017 Fair values Liabilities €m
Derivatives held for trading						
Foreign exchange derivatives						
Currency swaps	4,027	38	34	4,954	45	38
Currency forwards	2,068	14	26	1,426	16	14
Over the counter currency options	356	3	3	593	6	6
Total foreign exchange derivatives held for trading	**6,451**	**55**	**63**	**6,973**	**67**	**58**
Interest rate derivatives						
Interest rate swaps	148,350	1,000	1,214	117,575	1,161	1,432
Cross currency interest rate swaps	1,185	106	95	1,145	125	122
Over the counter interest rate options	9,815	17	33	8,594	16	31
Interest rate futures	6,038	1	2	3,598	3	1
Exchange traded interest rate options	-	-	-	5	-	-
Forward rate agreements	10,575	2	2	3,759	2	1
Total interest rate derivatives held for trading	**175,963**	**1,126**	**1,346**	**134,676**	**1,307**	**1,587**
Equity contracts, commodity contracts and credit derivatives						
Equity index-linked contracts held	1,812	65	56	2,112	206	6
Commodity contracts	24	21	21	68	6	6
Credit derivatives	100	1	-	162	1	2
Total equity contracts and credit derivatives	**1,936**	**87**	**77**	**2,342**	**213**	**14**
Total derivative assets / liabilities held for trading	**184,350**	**1,268**	**1,486**	**143,991**	**1,587**	**1,659**
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	44,205	361	306	31,291	234	300
Cross currency interest rate swaps	-	-	-	11	-	-
Total designated as fair value hedges	**44,205**	**361**	**306**	**31,302**	**234**	**300**
Derivatives designated as cash flow hedges						
Cross currency interest rate swaps	8,136	81	15	7,474	393	1
Interest rate swaps	2,012	14	12	9,385	134	27
Total designated as cash flow hedges	**10,148**	**95**	**27**	**16,859**	**527**	**28**
Total derivative assets / liabilities held for hedging	**54,353**	**456**	**333**	**48,161**	**761**	**328**
Total derivative assets / liabilities	**238,703**	**1,724**	**1,819**	**192,152**	**2,348**	**1,987**

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €1.7 billion at 31 December 2018 (2017: €2.3 billion):

- €1.3 billion (2017: €1.4 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €0.4 billion (2017: €0.9 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2018, cash collateral of €0.2 billion (2017: €0.6 billion) was held against these assets and is reported within deposits from banks (note 41).

At 31 December 2018, placements with other banks and loans and advances to customers include cash collateral of €0.4 billion (2017: €0.8 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.4 billion (2017: €0.6 billion) and is reported within loans and advances to banks (note 23) and loans and advances to customers (note 29).

21 Derivative financial instruments *(continued)*

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

Bank	2018			2017		
	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held for trading						
Foreign exchange derivatives						
Currency swaps	4,074	38	30	5,002	40	36
Currency forwards	2,089	14	30	1,451	21	15
Over the counter currency options	356	3	3	593	6	6
Total foreign exchange derivatives held for trading	**6,519**	**55**	**63**	**7,046**	**67**	**57**
Interest rate derivatives						
Interest rate swaps	202,032	1,202	1,376	166,394	1,353	1,578
Cross currency interest rate swaps	1,199	64	95	1,037	47	122
Over the counter interest rate options	9,805	17	30	8,584	16	28
Interest rate futures	6,038	1	2	3,598	3	2
Exchange traded interest rate options	-	-	-	5	-	-
Forward rate agreements	10,575	2	2	3,759	1	1
Total interest rate derivatives held for trading	**229,649**	**1,286**	**1,505**	**183,377**	**1,420**	**1,731**
Equity contracts, commodity contracts and credit derivatives						
Equity index-linked contracts held	1,812	65	56	2,112	206	6
Commodity contracts	24	21	21	68	6	6
Credit derivatives	466	15	-	520	4	1
Total designated as fair value hedges	**2,302**	**101**	**77**	**2,700**	**216**	**13**
Total derivative assets / liabilities held for trading	**238,470**	**1,442**	**1,645**	**193,123**	**1,703**	**1,801**
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	31,802	238	286	20,977	127	263
Cross currency interest rate swaps	-	-	-	11	-	-
Total designated as fair value hedges	**31,802**	**238**	**286**	**20,988**	**127**	**263**
Derivatives designated as cash flow hedges						
Cross currency interest rate swaps	8,136	81	15	7,474	393	1
Interest rate swaps	441	10	4	6,945	131	11
Total designated as cash flow hedges	**8,577**	**91**	**19**	**14,419**	**524**	**12**
Total derivative assets / liabilities held for hedging	**40,379**	**329**	**305**	**35,407**	**651**	**275**
Total derivative assets / liabilities	**278,849**	**1,771**	**1,950**	**228,530**	**2,354**	**2,076**
Amounts include:						
Due from / to Group undertakings	40,381	99	149	36,664	102	102

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships. At 31 December 2018, the Group held the following instruments in either fair value or cash flow hedge relationships.

21 Derivative financial instruments *(continued)*

The timing of the nominal amounts of hedging instruments (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

Group Hedging strategy - 2018	Up to 1 year €m	1-2 years €m	2-5 years €m	>5 years €m
Fair value hedge				
Interest rate risk				
- Interest rate swap - notional amount	3,847	3,549	9,271	6,725
- Average fixed interest rate	0.76%	0.88%	0.69%	0.78%
Foreign exchange risk				
- Cross currency interest rate swap - notional amount	-	-	-	-
- Average EUR - GBP foreign exchange rate	-	-	-	-
Cash flow hedge				
Interest rate risk				
- Interest rate swap - notional amount	-	-	644	1,368
- Average fixed interest rate	-	-	0.95%	1.21%
Foreign exchange risk				
- Cross currency interest rate swap - notional amount	3,157	4,974	5	-
- Average EUR - GBP foreign exchange rate	0.88	0.89	0.87	-

Fair value hedges

Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and FX exposure on the Group's fixed rate debt held, fixed rate mortgages, customer accounts and debt issued portfolios. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows.

Group Items designated as hedging instruments and hedge ineffectiveness 2018 Risk category	Hedging instrument[1]	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument Assets €m	 Liabilities €m	Changes in value used to calculate hedge ineffectiveness[2,3] €m	Ineffectiveness recognised in profit or loss[2,3] €m
Interest rate risk	Interest rate swaps	44,205	361	(306)	(63)	-
Foreign exchange risk	Cross currency interest rate swaps	-	-	-	-	-
Total		**44,205**	**361**	**(306)**	**(63)**	**-**

Group 2018 Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item Assets €m	 Liabilities €m	Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item Assets €m	 Liabilities €m	Changes in value used for calculating hedge ineffectiveness €m	Remaining adjustments for discounted hedges €m
Interest rate risk						
Debt instruments measured at FVOCI	11,079	-	-	-	(53)	(77)
Debt securities at amortised cost	3,479	-	32	-	(37)	-
Loans and advances to customers	7,305	-	(14)	-	21	4
Deposits from banks	-	385	-	-	(1)	-
Customer accounts	-	13,837	-	(120)	143	1
Debt securities in issue	-	9,382	-	(107)	(10)	-
Foreign exchange risk						
Debt instruments measured at FVOCI	-	-	-	-	-	-
Total	**21,863**	**23,604**	**18**	**(227)**	**63**	**(72)**

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's fair value hedges.*

21 Derivative financial instruments *(continued)*

Cash flow hedges
The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows.

Group **2018** **Risk category and hedging instrument[1]**	**Nominal amount of the hedging instrument €m**	**Carrying amount of the hedging instrument**		**Changes in value used for calculating hedge ineffectiveness €m**	**Changes in the value of the hedging instrument recognised in other comprehensive income €m**	**Ineffectiveness recognised profit or loss[2,3] €m**	**Amount reclassified from the cash flow hedge reserve to profit or loss[3,4] €m**
		Assets €m	**Liabilities €m**				
Interest rate risk							
Interest rate swaps	2,012	14	(12)	29	(29)	-	(67)
Foreign exchange risk							
Cross currency interest rate swaps	8,136	81	(15)	(3)	3	-	12
Total	**10,148**	**95**	**(27)**	**26**	**(26)**	**-**	**(55)**

Group **2018** **Risk category**	**Changes in the hedged risk used for calculating hedge ineffectiveness €m**	**Cash flow hedge reserve €m**	**Remaining adjustments for discounted hedges €m**
Interest rate risk	(30)	2	19
Foreign exchange risk	3	(1)	-
Total	**(27)**	**1**	**19**

In 2018, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur.

Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (see page 63).

A reconciliation of the movements in the cash flow hedge reserve for 2018 is shown in the table.

Group	**2018 €m**
Changes in fair value	
- Interest rate risk	(8)
- Foreign exchange risk	9
Transfer to income statement	
Interest income	
- Interest rate risk	25
- Foreign exchange risk	(86)
Net trading income / (expense)	
- Interest rate risk	43
- Foreign exchange risk	74
Deferred tax on reserve movements	(6)
Net change in cash flow hedge reserve	**51**

1 *All hedging instruments are included within derivative financial instruments on the balance sheet.*
2 *Ineffectiveness is included within net trading income / (expense) on the income statement.*
3 *There are no material causes of ineffectiveness in the Group's fair value hedges.*
4 *€nil relates to amounts transferred to profit or loss for which hedge accounting was previously applied but for which hedged future cash flows are not expected to occur. The line items affected in profit or loss because of the reclassification are net interest income and net trading income / (expense).*

21 Derivative financial instruments *(continued)*

The Bank designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships. At 31 December 2018, the Group held the following instruments in either fair value or cash flow hedge relationships.

The timing of the nominal amounts of hedging instruments (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

Bank 2018 Hedging strategy	**Up to 1 year €m**	**1-2 years €m**	**2-5 years €m**	**>5 years €m**
Fair value hedge				
Interest rate risk				
- Interest rate swap	2,793	2,256	7,267	5,750
- Average fixed interest rate (%)	0.56%	0.95%	0.74%	0.74%
Foreign exchange risk				
- Cross currency interest rate swap	-	-	-	-
- Average EUR - GBP foreign exchange rate	-	-	-	-
Cash flow hedge				
Interest rate risk				
- Interest rate swap	-	-	434	8
- Average fixed interest rate (%)	-	-	0.86%	4.00%
Foreign exchange risk				
- Cross currency interest rate swap	3,157	4,974	5	-
- Average EUR - GBP foreign exchange rate	0.88	0.89	0.87	-

Fair value hedges
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and FX exposure on the Bank's fixed rate debt held, fixed rate mortgages, customer accounts and debt issued portfolios. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows.

Bank Items designated as hedging instruments and hedge ineffectiveness 2018 Risk category	**Hedging instrument[1]**	**Nominal amount of the hedging instrument €m**	**Carrying amount of the hedging instrument Assets €m**	**Carrying amount of the hedging instrument Liabilities €m**	**Changes in value used to calculate hedge ineffectiveness[2,3] €m**	**Ineffectiveness recognised in profit or loss[2,3] €m**
Interest rate risk	Interest rate swaps	31,802	238	(286)	(36)	-
Foreign exchange risk	Cross currency interest rate swaps	-	-	-	-	-
Total		**31,802**	**238**	**(286)**	**(36)**	**-**

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's fair value hedges.*

21 Derivative financial instruments *(continued)*

Bank 2018 Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item Assets €m	 Liabilities €m	Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item Assets €m	 Liabilities €m	Changes in value used for calculating hedge ineffectiveness €m	Remaining adjustments for discounted hedges €m
Interest rate risk						
Debt instruments measured at FVOCI	11,079	-	-	-	(52)	81
Debt securities at amortised cost	2,889	-	32	-	(37)	-
Loans and advances to customers	187	-	(1)	-	-	(1)
Deposits from banks	-	385	-	-	(1)	-
Customer accounts	-	13,837	-	(120)	143	(1)
Debt securities in issue	-	3,339	-	(31)	(16)	-
Foreign exchange risk						
Debt instruments measured at FVOCI	-	-	-	-	-	-
Total	**14,155**	**17,561**	**31**	**(151)**	**37**	**79**

Cash flow hedges
The Bank designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows.

Bank 2018 Risk category and hedging instrument[1]	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument Assets €m	 Liabilities €m	Changes in value used for calculating hedge ineffectiveness €m	Changes in the value of the hedging instrument recognised in other comprehensive income €m	Ineffectiveness recognised profit or loss[2,3] €m	Amount reclassified from the cash flow hedge reserve to profit or loss[3,4] €m
Interest rate risk							
Interest rate swaps	441	10	(4)	32	(32)	-	(61)
Foreign exchange risk							
Cross currency interest rate swaps	8,136	81	(15)	(3)	3	-	12
Total	**8,577**	**91**	**(19)**	**29**	**29**	**-**	**(49)**

Bank 2018 Risk category	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discounted hedges €m
Interest rate risk	(33)	4	12
Foreign exchange risk	3	(1)	-
Total	**(30)**	**3**	**12**

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income / (expense) on the income statement.*
[3] *There are no material causes of ineffectiveness in the Bank's fair value hedges.*
[4] *€nil relates to amounts transferred to profit or loss for which hedge accounting was previously applied but for which hedged future cash flows are not expected to occur. The line items affected in profit or loss because of the reclassification are net interest income and net trading income / (expense).*

21 Derivative financial instruments *(continued)*

In 2018, there were no forecast transactions to which the Bank had applied hedge accounting which were no longer expected to occur.

Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (see page 63).

A reconciliation of the movements in the cash flow hedge reserve for 2018 is shown in the table.

Bank	2018 €m
Changes in fair value	
- Interest rate risk	(9)
- Foreign exchange risk	9
Transfer to income statement	
Interest income	
- Interest rate risk	20
- Foreign exchange risk	(86)
Net trading income / (expense)	
- Interest rate risk	41
- Foreign exchange risk	74
Deferred tax on reserve movements	(4)
Net change in cash flow hedge reserve	**45**

Cash flow hedges

At 31 December 2017, the Group designated certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge are shown in the consolidated statement of changes in equity.

As at 31 December 2017, the years in which the hedge cash flows are expected to occur are as follows:

2017	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Group					
Forecast receivable cash flows	5,319	1,808	63	28	7,218
Forecast payable cash flows	(16)	(11)	-	(2)	(29)
Bank					
Forecast receivable cash flows	5,319	1,804	48	15	7,186
Forecast payable cash flows	(16)	(11)	-	(2)	(29)

As at 31 December 2017, the years in which the hedge cash flows are expected to impact the income statement are as follows:

2017	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Group					
Forecast receivable cash flows	7,114	18	64	22	7,218
Forecast payable cash flows	(19)	(8)	-	(2)	(29)
Bank					
Forecast receivable cash flows	7,114	14	49	9	7,186
Forecast payable cash flows	(19)	(8)	-	(2)	(29)

22 Other financial assets at fair value through profit or loss

Other financial assets at FVTPL include assets managed on a fair value basis by the life assurance business and those assets which do not meet the requirements in order to be measured at FVOCI or amortised cost.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2018, such assets were €12,314 million (2017: €12,814 million).

Other financial assets of €1,846 million (2017: €1,640 million) primarily relates to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

At 31 December 2018, New Ireland Assurance Company (NIAC) plc held ordinary shares of BOIG plc, the Bank's ultimate parent company, with a fair value of €16 million (2017: €30 million), for the benefit of life assurance policyholders.

Included within other financial assets are subordinated bonds issued by NAMA with a nominal value of €70 million (2017: €281 million) and a fair value of €76 million (2017: €293 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State and the payment of interest and repayment of capital is dependent on the performance of NAMA. These bonds were previously reported in AFS financial assets and have been reclassified in accordance with IFRS 9 from 1 January 2018. A gain of €9 million was recognised in respect of the partial disposal of NAMA subordinated bonds for the year ended 31 December 2018.

Group	2018 €m	2017 €m
Assets linked to policyholder liabilities		
Equity securities	9,244	10,024
Unit trusts	1,142	1,072
Debt securities	1,089	915
Government bonds	839	803
	12,314	**12,814**
Other financial assets		
Debt securities	844	348
Government bonds	804	1,178
Equity securities	110	64
Unit trusts	88	50
	1,846	**1,640**
Other financial assets at fair value through profit or loss	**14,160**	**14,454**

23 Loans and advances to banks

From 1 January 2018 loans and advances to banks have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to banks from loans and receivables to financial assets at amortised cost or financial assets mandatorily at FVTPL, and measuring the associated impairment loss allowance on loans and advances to banks on a 12 month or lifetime ECL approach. The comparative figures have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Loans and advances to banks at FVTPL include assets managed on a fair value basis by the life assurance business and those assets which do not meet the requirements in order to be measured at FVOCI or amortised cost.

Placements with other banks includes cash collateral of €0.4 billion (2017: €0.4 billion) placed with derivative counterparties in relation to net derivative liability positions (note 21) (Bank: €0.4 billion (2017: €0.6 billion)).

Mandatory deposits with central banks includes €1,400 million relating to collateral in respect of the Group's issued bank notes in Northern Ireland (2017: €1,340 million).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2018, the fair value of this collateral was €16 million (2017: €200 million). This balance is now included in loans and advances to banks at fair value through profit and loss (Bank: €16 million (2017: €200 million)).

Loans and advances to banks includes €213 million (2017: €446 million) of assets held on behalf of Wealth and Insurance life policyholders.

Further information on the credit risk of loans and advances to banks can be found in note 30, financial risk management.

There has been no significant change in the impairment loss allowance on loans and advances to banks held at amortised cost since 1 January 2018. The composition of loans and advances to banks at amortised cost by stage is set out on page 136 and the asset quality of loans and advances to banks at amortised cost is set out on page 150.

23 Loans and advances to banks *(continued)*

	Group 2018 €m	Group 2017 €m	Bank 2018 €m	Bank 2017 €m
Placements with banks	831	1,473	12,278	11,919
Mandatory deposits with central banks	1,449	1,369	13	10
Securities purchased with agreement to resell	-	200	-	200
Funds placed with the Central Bank of Ireland not on demand	28	19	-	-
	2,308	**3,061**	12,291	12,129
Less impairment loss allowance on loans and advances to banks	(1)	-	(12)	-
Loans and advances to banks at amortised cost[1]	**2,307**	**3,061**	12,279	12,129
Loans and advances to banks at fair value through profit and loss[2]	318	-	21	-
Loans and advances to banks	**2,625**	**3,061**	12,300	12,129
Amounts include:				
Due from Group undertakings			11,741	11,339

24 Debt securities at amortised cost

From 1 January 2018 financial assets which were classified as available for sale under IAS 39 have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL, and measuring the associated impairment loss allowance on debt securities at amortised cost on a 12 month or lifetime ECL approach as appropriate. Comparative notes have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis. Details of the impairment loss allowances are set out in note 30.

2018	Group €m	Bank €m
Government bonds	3,313	2,853
Other debt securities at amortised cost	559	3,200
Asset backed securities	57	-
Less impairment loss allowance[3]	(1)	(3)
Debt securities at amortised cost	**3,928**	**6,050**
Amounts include:		
Due from Group undertakings	-	3,200

[1] *The Group had no provision for impairment on loans and advances to banks at 31 December 2017.*
[2] *Loans and advances to banks at FVTPL are not subject to impairment under IFRS 9.*
[3] *There are no significant changes in the impairment loss allowance on debt securities at amortised cost, assets are stage 1.*

25 Financial assets at fair value through other comprehensive income

From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL, and measuring the associated impairment loss allowance on financial assets at FVOCI or debt securities at amortised cost on a 12 month or lifetime ECL approach as appropriate. Comparative notes have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement. Further details are available in the IAS 39 to IFRS 9 transitional disclosures (notes 64 and 65).

At 31 December 2018, debt instruments at FVOCI with a fair value of €67 million had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

The impairment loss allowance for ECL on debt instruments at FVOCI does not reduce the carrying amount but an amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement.

The impairment loss allowance on debt instruments at FVOCI was €nil at 31 December 2017. Details of the impairment loss allowance on debt instruments at FVOCI are set out on page 137.

In 2018, the Group sold debt instruments at FVOCI of €85 million which resulted in a transfer of €2 million from the debt instruments at FVOCI reserve to the income statement (note 12).

At 31 December 2018, financial assets at FVOCI included €543 million placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required (2017: €1.7 billion) included in Available for sale.

2018	**Group €m**	**Bank €m**
Debt instruments at fair value through other comprehensive income		
Government bonds	6,074	6,074
Other debt securities		
- listed	5,974	5,974
- unlisted	-	-
Total debt instruments at fair value through other comprehensive income	**12,048**	**12,048**
Impairment loss allowance on debt instruments at fair value through other comprehensive income[1]	**(3)**	**(3)**

2018 Fair value	**Group €m**	**Bank €m**
Closing balance 31 December 2017	-	-
Impact of adopting IFRS 9 on 1 January 2018 (note 64, 65)	10,118	10,118
Opening balance 1 January 2018	**10,118**	**10,118**
Additions	4,652	4,652
Redemptions and disposals	(2,541)	(2,541)
Revaluation, exchange and other adjustments	(181)	(181)
Closing balance 31 December 2018	**12,048**	**12,048**

[1] *There are no significant changes in the impairment loss allowance on debt instruments at FVOCI, assets are stage 1.*

26 Available for sale financial assets

	Group		Bank	
	2018 €m	2017 €m	2018 €m	2017 €m
Government bonds	-	7,491	-	7,008
Other debt securities				
- listed	-	5,394	-	4,680
- unlisted	-	313	-	292
Equity securities				
- unlisted	-	25	-	5
Available for sale financial assets	**-**	**13,223**	**-**	**11,985**

	Group		Bank	
Analysis of movement on available for sale financial assets	2018 €m	2017 €m	2018 €m	2017 €m
Balance at the beginning of year	13,223	10,794	11,985	9,330
Impact of adopting IFRS 9	(13,223)	-	(11,985)	-
Restated balance at 1 January 2018	-	10,794	-	9,330
Additions	-	4,763	-	4,667
Redemptions	-	(2,530)	-	(2,282)
Reclassifications from held to maturity financial assets	-	1,833	-	1,833
Disposals	-	(1,471)	-	(1,447)
Revaluation, exchange and other adjustments	-	(166)	-	(116)
Impairment	-	-	-	-
At end of year	**-**	**13,223**	**-**	**11,985**

From 1 January 2018 AFS financial assets have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as either financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL. Details of the IFRS 9 impact, reclassifications and re-measurement as at 1 January 2018 are set out in notes 64 and 65.

At 31 December 2017, unlisted debt securities included subordinated bonds issued by NAMA with a nominal value of €281 million and a fair value of €293 million. These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds.

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

At 31 December 2017, AFS financial assets included €0.2 billion pledged as collateral in respect of customer deposits and debt securities in issue (excluding Monetary Authority secured funding).

In 2017, the Group sold other AFS financial assets of €1.5 billion which resulted in a transfer of €69 million from the AFS reserve to the income statement (note 12). At 31 December 2017, AFS financial assets included €1.7 billion placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required.

27 Other debt securities

From 1 January 2018, other debt securities have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as debt securities at amortised cost. Details of the IFRS 9 reclassification for the Bank are set out in note 65.

At 31 December 2017, other debt securities held by the Bank included assets with a carrying value and fair value of €2,195 million which had been reclassified from AFS financial assets in previous years. In 2017 no gain or loss would have been recognised in OCI had the assets not been reclassified. During 2017, interest income of €4 million was recognised on the assets.

Up to 1 January 2018 the reclassified debt securities were accounted for in line with the Group's accounting policy on loans and receivables set out in note 1 on page 72.

Bank	2018 €m	2017 €m
Other debt securities	**-**	**2,195**
Amounts include:		
Other debt securities issued by Group undertakings	-	2,195

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

28 Assets classified as held for sale

Group	2018 €m	2017 €m
UK credit card portfolio	602	-
Property held for sale	-	28
At end of year	**602**	**28**

Following a strategic review carried out in 2018, Retail UK is in the process of disposing of its UK credit card loan portfolio. As a result, these assets in the amount of €600 million net of impairment loss allowance have been reclassified from loans and advances to customers together with €2 million of related interest receivable reclassified from other assets to assets classified as held for sale. The assets continue to be measured at amortised cost using the effective interest rate method net of the related impairment loss allowance and the disposal is expected to be completed in early 2019.

During 2017, the Group decided to sell a property located in central Dublin. The sale was completed in 2018 resulting in a gain of €7 million and the reclassification of €9 million from the revaluation reserve to retained earnings.

29 Loans and advances to customers

From 1 January 2018 loans and advances to customers have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to customers from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at FVTPL, and measuring the impairment loss allowance on loans and advances to customers at amortised cost on a 12 month and lifetime ECL approach as appropriate. Comparative figures have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Loans and advances to customers includes cash collateral of €0.1 billion (2017: €0.1 billion) placed with derivative counterparties in relation to net derivative liability positions (note 21) (Bank 2018: €0.1 billion, 2017: €0.1 billion).

Loans and advances to customers at FVTPL represent the Life Loan mortgage product, which was offered by the Group until November 2010. The cash flows of the Life Loans are not considered to consist solely of payments of principal and interest, and as such are classified as FVTPL.

There were no financial assets that were initially purchased or originated credit-impaired during 2018.

29 Loans and advances to customers *(continued)*

	Group 2018 €m	Group 2017 €m	Bank 2018 €m	Bank 2017 €m
Loans and advances to customers at amortised cost	74,428	75,556	38,713	39,562
Finance leases and hire purchase receivables	3,372	2,931	1,172	1,104
	77,800	**78,487**	**39,885**	**40,666**
Less allowance for impairment charges on loans and advances to customers[1]	(1,698)	(2,359)	(1,219)	(1,648)
Loans and advances to customers at amortised cost	**76,102**	**76,128**	**38,666**	**39,018**
Loans and advances to customers at fair value through profit or loss[2]	261	-	160	-
Total loans and advances to customers	**76,363**	**76,128**	**38,826**	**39,018**
Amounts include				
Due from joint ventures and associates	119	98	n/a	n/a
Due from Group undertakings	n/a	n/a	1,223	2,091

The Group's portfolios of loans and advances to customers to customers at amortised cost at 31 December 2018 are classified as follows:

Group **2018**	**Gross carrying amount at amortised cost €m**	**Impairment loss allowance €m**	**Total loans and advances to customers at amortised cost €m**
Loans and advances to customers at amortised cost	77,800	(1,698)	76,102
Loans and advances to customers classified as held for sale	630	(30)	600
Total	**78,430**	**(1,728)**	**76,702**

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost for the year ended 31 December 2018.

The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions.

Group **31 December 2018** **Gross carrying amount at amortised cost including held for sale (before impairment loss allowance)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Stage 1 - 12 month ECL (not credit impaired)	41,096	16,547	6,343	4,816	68,802
Stage 2 - Lifetime ECL (not credit impaired)	1,873	1,850	1,102	250	5,075
Stage 3 - Lifetime ECL (credit impaired)	2,465	1,067	843	108	4,483
Purchased / originated credit-impaired	3	1	66	-	70
Gross carrying amount at 31 December 2018	**45,437**	**19,465**	**8,354**	**5,174**	**78,430**

[1] *The comparative figures for the prior year have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.*
[2] *Loans and advances to customers at FVTPL are not subject to impairment under IFRS 9.*

29 Loans and advances to customers *(continued)*

Group 1 January 2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Closing balance 31 December 2017	46,659	18,763	8,747	4,318	78,487
Impact of adopting IFRS 9 on 1 January 2018 (note 64)	(294)	(140)	(23)	-	(457)
Opening balance 1 January 2018	**46,365**	**18,623**	**8,724**	**4,318**	**78,030**
Stage 1 - 12 month ECL (not credit impaired)	41,168	15,209	5,850	3,948	66,175
Stage 2 - Lifetime ECL (not credit impaired)	2,319	1,909	1,313	273	5,814
Stage 3 - Lifetime ECL (credit impaired)	2,875	1,457	1,494	97	5,923
Purchased / originated credit-impaired	3	48	67	-	118
Gross carrying amount at 1 January 2018	**46,365**	**18,623**	**8,724**	**4,318**	**78,030**

Group 2018 Gross carrying amount including held for sale (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit impaired) €m	Stage 2 - Lifetime ECL (not credit impaired) €m	Stage 3 - Lifetime ECL (credit impaired) €m	Purchased / originated (credit impaired)[1,2] €m	Total gross carrying amount €m
Closing balance 31 December 2017					78,487
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					(457)
Opening balance 1 January 2018[3]	**66,175**	**5,814**	**5,923**	**118**	**78,030**
Total net transfers	(430)	143	287	-	-
- to 12-month ECL not credit-impaired	*3,119*	*(3,093)*	*(26)*	-	-
- to lifetime ECL not credit-impaired	*(3,301)*	*3,956*	*(655)*	-	-
- to lifetime ECL credit-impaired	*(248)*	*(720)*	*968*	-	-
Net changes in exposure	3,211	(875)	(984)	(7)	1,345
Impairment loss allowances utilised[4]	-	-	(748)	(42)	(790)
Exchange adjustments	(191)	(12)	(6)	(1)	(210)
Measurement reclassification and other movements	37	5	11	2	55
Gross carrying amount at 31 December 2018	**68,802**	**5,075**	**4,483**	**70**	**78,430**

Bank 2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Stage 1 - 12 month ECL (not credit impaired)	9,604	16,244	5,977	1,878	33,703
Stage 2 - Lifetime ECL (not credit impaired)	661	1,633	995	98	3,387
Stage 3 - Lifetime ECL (credit impaired)	904	1,006	754	61	2,725
Purchased / originated credit-impaired	3	1	66	-	70
Gross carrying amount at 31 December 2018	**11,172**	**18,884**	**7,792**	**2,037**	**39,885**

[1] *Included in the table above are purchased or originated credit-impaired assets of €70 million, €68 million of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*
[2] *The total amount of undiscounted ECL at initial recognition on financial assets that were initially purchased or originated credit impaired during the year is €nil.*
[3] *The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 2017 positions.*
[4] *Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2018 includes €352 million of contractual amounts outstanding that are still subject to enforcement activity.*

29 Loans and advances to customers *(continued)*

Bank **1 January 2018** **Gross carrying amount at amortised cost** **(before impairment loss allowance)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Closing balance 31 December 2017	12,442	18,364	8,012	1,848	40,666
Impact of adopting IFRS 9 on 1 January 2018 (note 65)	-	(232)	(24)	-	(256)
Opening balance 1 January 2018	**12,442**	**18,132**	**7,988**	**1,848**	**40,410**
Stage 1 - 12 month ECL (not credit impaired)	10,642	15,189	5,452	1,675	32,958
Stage 2 - Lifetime ECL (not credit impaired)	745	1,630	1,154	109	3,638
Stage 3 - Lifetime ECL (credit impaired)	1,052	1,265	1,315	64	3,696
Purchased / originated credit-impaired	3	48	67	-	118
Gross carrying amount at 1 January 2018	**12,442**	**18,132**	**7,988**	**1,848**	**40,410**

Bank **2018** **Gross carrying amount (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit impaired) €m**	**Stage 2 - Lifetime ECL (not credit impaired) €m**	**Stage 3 - Lifetime ECL (credit impaired) €m**	**Purchased / originated (credit impaired)[1,2] €m**	**Total gross carrying amount €m**
Closing balance 31 December 2017					40,666
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					(256)
Opening balance 1 January 2018[3]	**32,958**	**3,638**	**3,696**	**118**	**40,410**
Total net transfers	(412)	263	149	-	-
- to 12-month ECL not credit-impaired	*1,411*	*(1,390)*	*(21)*	-	-
- to lifetime ECL not credit-impaired	*(1,672)*	*2,037*	*(365)*	-	-
- to lifetime ECL credit-impaired	*(151)*	*(384)*	*535*	-	-
Net changes in exposure	1,516	(596)	(591)	(7)	322
Impairment loss allowances utilised[4]	-	-	(570)	(42)	(612)
Exchange adjustments	(18)	9	(3)	(1)	(13)
Measurement reclassification and other movements	(341)	73	44	2	(222)
Gross carrying amount at 31 December 2018	**33,703**	**3,387**	**2,725**	**70**	**39,885**

[1] *Included in the table above are purchased or originated credit-impaired assets of €70 million, €68 million of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*

[2] *The total amount of undiscounted ECL at initial recognition on financial assets that were initially purchased or originated credit impaired during the year is €nil.*

[3] *The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 2017 positions.*

[4] *Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2018 includes €288 million of contractual amounts outstanding that are still subject to enforcement activity.*

29 Loans and advances to customers *(continued)*

Group 2018 Impairment loss allowance including held for sale	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Stage 1 - 12 month ECL (not credit impaired)	14	50	4	52	120
Stage 2 - Lifetime ECL not credit impaired	31	74	38	33	176
Stage 3 - Lifetime ECL credit impaired	492	501	369	70	1,432
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2018	**537**	**625**	**411**	**155**	**1,728**

Group 1 January 2018 Impairment loss allowance	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Closing balance 31 December 2017	706	826	739	88	2,359
Impact of adopting IFRS 9 on 1 January 2018 (note 64)	(64)	109	(4)	50	91
Opening balance 1 January 2018	**642**	**935**	**735**	**138**	**2,450**
Stage 1 - 12 month ECL (not credit impaired)	13	60	7	41	121
Stage 2 - Lifetime ECL (not credit impaired)	30	84	42	33	189
Stage 3 - Lifetime ECL (credit impaired)	599	754	685	64	2,102
Purchased / originated credit-impaired	-	37	1	-	38
Impairment loss allowance at 1 January 2018	**642**	**935**	**735**	**138**	**2,450**

Group 2018 Impairment loss allowance including held for sale	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					2,359
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					91
Opening balance 1 January 2018	**121**	**189**	**2,102**	**38**	**2,450**
Total net transfers	7	44	(51)	-	-
- to 12-month ECL not credit-impaired	*56*	*(46)*	*(10)*	-	-
- to lifetime ECL not credit-impaired	*(43)*	*125*	*(82)*	-	-
- to lifetime ECL credit-impaired	*(6)*	*(35)*	*41*	-	-
Net impairment (losses) / gains in income statement	1	(53)	61	4	13
- Re-measurement	*(1)*	*(38)*	*166*	*4*	*131*
- Net changes in exposure	*15*	*(25)*	*(138)*	-	*(148)*
- ECL model parameter and / or methodology changes	*(13)*	*10*	*33*	-	*30*
Impairment loss allowances utilised	-	-	(748)	(42)	(790)
Exchange adjustments	-	-	(2)	-	(2)
Measurement reclassification and other movements	(9)	(4)	70	-	57
Impairment loss allowance at 31 December 2018	**120**	**176**	**1,432**	**-**	**1,728**

29 Loans and advances to customers *(continued)*

Bank 2018 Impairment loss allowance	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Stage 1 - 12 month ECL (not credit impaired)	8	47	3	13	71
Stage 2 - Lifetime ECL not credit impaired	13	66	37	12	128
Stage 3 - Lifetime ECL credit impaired	160	478	344	37	1,019
Purchased / originated credit-impaired	-	1	-	-	1
Impairment loss allowance at 31 December 2018	**181**	**592**	**384**	**62**	**1,219**

Bank 1 January 2018 Impairment loss allowance	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Closing balance 31 December 2017	209	725	664	50	1,648
Impact of adopting IFRS 9 on 1 January 2018 (note 65)	(7)	96	(1)	18	106
Opening balance 1 January 2018	**202**	**821**	**663**	**68**	**1,754**
Stage 1 - 12 month ECL (not credit impaired)	5	54	7	14	80
Stage 2 - Lifetime ECL (not credit impaired)	12	72	39	12	135
Stage 3 - Lifetime ECL (credit impaired)	185	658	616	42	1,501
Purchased / originated credit-impaired	-	37	1	-	38
Impairment loss allowance at 1 January 2018	**202**	**821**	**663**	**68**	**1,754**

Bank 2018 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					1,648
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					106
Opening balance 1 January 2018	**80**	**135**	**1,501**	**38**	**1,754**
Total net transfers	22	13	(35)	-	-
- to 12-month ECL not credit-impaired	*37*	*(29)*	*(8)*	*-*	*-*
- to lifetime ECL not credit-impaired	*(11)*	*64*	*(53)*	*-*	*-*
- to lifetime ECL credit-impaired	*(4)*	*(22)*	*26*	*-*	*-*
Net impairment (losses) / gains in income statement	(25)	(21)	38	3	(5)
- Re-measurement	*(25)*	*8*	*184*	*4*	*171*
- Net changes in exposure	*4*	*(40)*	*(155)*	*(1)*	*(192)*
- ECL model parameter and / or methodology changes	*(4)*	*11*	*9*	*-*	*16*
Impairment loss allowances utilised	-	-	(570)	(42)	(612)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(6)	1	85	2	82
Impairment loss allowance at 31 December 2018	**71**	**128**	**1,019**	**1**	**1,219**

29 Loans and advances to customers *(continued)*

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

Group **2017**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €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**

Bank **2017**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €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**

Under IAS 39, impairment provisions included specific and IBNR provisions. IBNR provisions were recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicated, were present in the portfolio at the date of assessment.

	31 December 2017 €m
Specific provisions individually assessed	1,661
Specific provisions collectively assessed	332
Incurred but not reported	366
Total impairment provision	**2,359**

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

The movement in both the gross carrying amount and impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost by portfolio asset class for the 2018 is set out in the following tables.

The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions.

29 Loans and advances to customers *(continued)*

Residential Mortgages

Group 2018 Residential mortgages - Gross carrying amount (before impairment loss allowance)	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired €m**	**Total impairment loss allowance €m**
Closing balance 31 December 2017					46,659
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					(294)
Opening balance 1 January 2018	**41,168**	**2,319**	**2,875**	**3**	**46,365**
Total net transfers	158	(192)	34	-	-
- to 12-month ECL not credit-impaired	*2,388*	*(2,388)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(2,168)*	*2,643*	*(475)*	-	-
- to lifetime ECL credit-impaired	*(62)*	*(447)*	*509*	-	-
Net changes in exposure	(70)	(251)	(364)	-	(685)
Impairment loss allowances utilised	-	-	(76)	-	(76)
Exchange adjustments	(169)	(4)	(4)	-	(177)
Measurement reclassification and other movements	9	1	-	-	10
Gross carrying amount at 31 December 2018	**41,096**	**1,873**	**2,465**	**3**	**45,437**

Group 2018 Residential mortgages - Impairment loss allowance	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired €m**	**Total impairment loss allowance €m**
Closing balance 31 December 2017					706
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					(64)
Opening balance 1 January 2018	**13**	**30**	**599**	**-**	**642**
Total net transfers	(7)	32	(25)	-	-
- to 12-month ECL not credit-impaired	*28*	*(28)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(34)*	*75*	*(41)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(15)*	*16*	-	-
Net impairment (losses) / gains in income statement	8	(31)	(17)	-	(40)
- Re-measurement	*20*	*(29)*	*(36)*	-	*(45)*
- Net changes in exposure	*(12)*	*(7)*	*(14)*	-	*(33)*
- ECL model parameter and / or methodology changes	-	*5*	*33*	-	*38*
Impairment loss allowances utilised	-	-	(76)	-	(76)
Exchange adjustments	-	-	(1)	-	(1)
Measurement reclassification and other movements	-	-	12	-	12
Impairment loss allowance at 31 December 2018	**14**	**31**	**492**	**-**	**537**

Impairment loss allowances utilised on Residential mortgages at amortised cost during 2018 includes €69 million of contractual amounts outstanding that are still subject to enforcement activity.

29 Loans and advances to customers *(continued)*

Bank 2018 Residential mortgages - Gross carrying amount (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					12,442
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					-
Opening balance 1 January 2018	**10,642**	**745**	**1,052**	**3**	**12,442**
Total net transfers	-	(16)	16	-	-
- to 12-month ECL not credit-impaired	*736*	*(736)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(708)*	*913*	*(205)*	-	-
- to lifetime ECL credit-impaired	*(28)*	*(193)*	*221*	-	-
Net changes in exposure	(1,123)	(66)	(142)	-	(1,331)
Impairment loss allowances utilised	-	-	(20)	-	(20)
Exchange adjustments	(25)	(2)	(2)	-	(29)
Measurement reclassification and other movements	110	-	-	-	110
Gross carrying amount at 31 December 2018	**9,604**	**661**	**904**	**3**	**11,172**

Bank 2018 Residential mortgages - Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					209
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					(7)
Opening balance 1 January 2018	**5**	**12**	**185**	**-**	**202**
Total net transfers	11	(1)	(10)	-	-
- to 12-month ECL not credit-impaired	*13*	*(13)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(2)*	*18*	*(16)*	-	-
- to lifetime ECL credit-impaired	*-*	*(6)*	*6*	-	-
Net impairment (losses) / gains in income statement	(10)	1	1	-	(8)
- Re-measurement	*(9)*	*1*	*(14)*	-	*(22)*
- Net changes in exposure	*(1)*	*(1)*	*4*	-	*2*
- ECL model parameter and / or methodology changes	*-*	*1*	*11*	-	*12*
Impairment loss allowances utilised	-	-	(20)	-	(20)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	2	1	4	-	7
Impairment loss allowance at 31 December 2018	**8**	**13**	**160**	**-**	**181**

Impairment loss allowances utilised on Residential mortgages at amortised cost during 2018 includes €18 million of contractual amounts outstanding that are still subject to enforcement activity.

29 Loans and advances to customers *(continued)*

Non-property SME and corporate

Group 2018 Non-property SME and corporate - Gross carrying amount (before impairment loss allowance)	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired €m**	**Total impairment loss allowance €m**
Closing balance 31 December 2017					18,763
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					(140)
Opening balance 1 January 2018	**15,209**	**1,909**	**1,457**	**48**	**18,623**
Total net transfers	(485)	325	160	-	-
- to 12-month ECL not credit-impaired	*368*	*(350)*	*(18)*	-	-
- to lifetime ECL not credit-impaired	*(736)*	*806*	*(70)*	-	-
- to lifetime ECL credit-impaired	*(117)*	*(131)*	*248*	-	-
Net changes in exposure	1,792	(387)	(250)	(7)	1,148
Impairment loss allowances utilised	-	-	(287)	(42)	(329)
Exchange adjustments	4	(1)	(1)	-	2
Measurement reclassification and other movements	27	4	(12)	2	21
Gross carrying amount at 31 December 2018	**16,547**	**1,850**	**1,067**	**1**	**19,465**

Group 2018 Non-property SME and corporate - Impairment loss allowance	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired €m**	**Total impairment loss allowance €m**
Closing balance 31 December 2017					826
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					109
Opening balance 1 January 2018	**60**	**84**	**754**	**37**	**935**
Total net transfers	8	1	(9)	-	-
- to 12-month ECL not credit-impaired	*17*	*(10)*	*(7)*	-	-
- to lifetime ECL not credit-impaired	*(6)*	*22*	*(16)*	-	-
- to lifetime ECL credit-impaired	*(3)*	*(11)*	*14*	-	-
Net impairment (losses) / gains in income statement	(11)	(9)	22	5	7
- Re-measurement	*(13)*	*(3)*	*94*	*4*	*82*
- Net changes in exposure	*4*	*(10)*	*(73)*	*1*	*(78)*
- ECL model parameter and / or methodology changes	*(2)*	*4*	*1*	-	*3*
Impairment loss allowances utilised	-	-	(287)	(42)	(329)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(7)	(2)	21	-	12
Impairment loss allowance at 31 December 2018	**50**	**74**	**501**	**-**	**625**

Impairment loss allowances utilised on non-property SME and corporate during 2018 includes €149 million of contractual amounts outstanding that are still subject to enforcement activity.

29 Loans and advances to customers *(continued)*

Bank 2018 Non-property SME and corporate - Gross carrying amount (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					18,364
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					(232)
Opening balance 1 January 2018	**15,189**	**1,630**	**1,265**	**48**	**18,132**
Total net transfers	(356)	241	115	-	-
- to 12-month ECL not credit-impaired	*351*	*(334)*	*(17)*	-	-
- to lifetime ECL not credit-impaired	*(619)*	*681*	*(62)*	-	-
- to lifetime ECL credit-impaired	*(88)*	*(106)*	*194*	-	-
Net changes in exposure	1,854	(324)	(163)	(7)	1,360
Impairment loss allowances utilised	-	-	(233)	(42)	(275)
Exchange adjustments	9	13	-	-	22
Measurement reclassification and other movements	(452)	73	22	2	(355)
Gross carrying amount at 31 December 2018	**16,244**	**1,633**	**1,006**	**1**	**18,884**

Bank 2018 Non-property SME and corporate - Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					725
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					96
Opening balance 1 January 2018	**54**	**72**	**658**	**37**	**821**
Total net transfers	8	-	(8)	-	-
- to 12-month ECL not credit-impaired	*17*	*(10)*	*(7)*	-	-
- to lifetime ECL not credit-impaired	*(6)*	*21*	*(15)*	-	-
- to lifetime ECL credit-impaired	*(3)*	*(11)*	*14*	-	-
Net impairment (losses) / gains in income statement	(9)	(8)	11	4	(2)
- Re-measurement	*(12)*	*20*	*74*	*4*	*86*
- Net changes in exposure	*4*	*(34)*	*(65)*	-	*(95)*
- ECL model parameter and / or methodology changes	*(1)*	*6*	*2*	-	*7*
Impairment loss allowances utilised	-	-	(233)	(42)	(275)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(6)	2	50	2	48
Impairment loss allowance at 31 December 2018	**47**	**66**	**478**	**1**	**592**

Impairment loss allowances utilised on non-property SME and corporate during 2018 includes €149 million of contractual amounts outstanding that are still subject to enforcement activity.

29 Loans and advances to customers *(continued)*

Property and construction

Group 2018 Property and construction - Gross carrying amount (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					8,747
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					(23)
Opening balance 1 January 2018	**5,850**	**1,313**	**1,494**	**67**	**8,724**
Total net transfers	(68)	29	39	-	-
- to 12-month ECL not credit-impaired	*313*	*(309)*	*(4)*	-	-
- to lifetime ECL not credit-impaired	*(340)*	*448*	*(108)*	-	-
- to lifetime ECL credit-impaired	*(41)*	*(110)*	*151*	-	-
Net changes in exposure	567	(234)	(361)	-	(28)
Impairment loss allowances utilised	-	-	(350)	-	(350)
Exchange adjustments	(1)	(6)	(1)	(1)	(9)
Measurement reclassification and other movements	(5)	-	22	-	17
Gross carrying amount at 31 December 2018	**6,343**	**1,102**	**843**	**66**	**8,354**

Group 2018 Property and construction - Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					739
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					(4)
Opening balance 1 January 2018	**7**	**42**	**685**	**1**	**735**
Total net transfers	2	18	(20)	-	-
- to 12-month ECL not credit-impaired	*5*	*(4)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(2)*	*26*	*(24)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(4)*	*5*	-	-
Net impairment (losses) / gains in income statement	(3)	(21)	21	(1)	(4)
- Re-measurement	*(3)*	*(15)*	*67*	-	*49*
- Net changes in exposure	-	*(9)*	*(47)*	*(1)*	*(57)*
- ECL model parameter and / or methodology changes	-	*3*	*1*	-	*4*
Impairment loss allowances utilised	-	-	(350)	-	(350)
Exchange adjustments	-	-	(1)	-	(1)
Measurement reclassification and other movements	(2)	(1)	34	-	31
Impairment loss allowance at 31 December 2018	**4**	**38**	**369**	**-**	**411**

Impairment loss allowances utilised on Property and construction during 2018 includes €111 million of contractual amounts outstanding that are still subject to enforcement activity.

29 Loans and advances to customers *(continued)*

Bank 2018 Property and construction - Gross carrying amount (before impairment loss allowance)	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total impairment loss allowance €m**
Closing balance 31 December 2017					8,012
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					(24)
Opening balance 1 January 2018	**5,452**	**1,154**	**1,315**	**67**	**7,988**
Total net transfers	(49)	45	4	-	-
- to 12-month ECL not credit-impaired	*291*	*(287)*	*(4)*	-	-
- to lifetime ECL not credit-impaired	*(309)*	*406*	*(97)*	-	-
- to lifetime ECL credit-impaired	*(31)*	*(74)*	*105*	-	-
Net changes in exposure	581	(202)	(279)	-	100
Impairment loss allowances utilised	-	-	(307)	-	(307)
Exchange adjustments	(2)	(2)	(1)	(1)	(6)
Measurement reclassification and other movements	(5)	-	22	-	17
Gross carrying amount at 31 December 2018	**5,977**	**995**	**754**	**66**	**7,792**

Bank 2018 Property and construction - Impairment loss allowance	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired €m**	**Total impairment loss allowance €m**
Closing balance 31 December 2017					664
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					(1)
Opening balance 1 January 2018	**7**	**39**	**616**	**1**	**663**
Total net transfers	1	18	(19)	-	-
- to 12-month ECL not credit-impaired	*4*	*(3)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(2)*	*24*	*(22)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(3)*	*4*	-	-
Net impairment (losses) / gains in income statement	(3)	(18)	25	(1)	3
- Re-measurement	*(2)*	*(15)*	*114*	-	*97*
- Net changes in exposure	-	*(6)*	*(90)*	*(1)*	*(97)*
- ECL model parameter and / or methodology changes	*(1)*	*3*	*1*	-	*3*
Impairment loss allowances utilised	-	-	(307)	-	(307)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(2)	(2)	29	-	25
Impairment loss allowance at 31 December 2018	**3**	**37**	**344**	**-**	**384**

Impairment loss allowances utilised on Property and construction during 2018 includes €111 million of contractual amounts outstanding that are still subject to enforcement activity.

[1] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially purchased or originated credit impaired during the year is €nil.*

29 Loans and advances to customers *(continued)*

Consumer

Group 2018 Consumer - Gross carrying amount including held for sale (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Purchased / originated credit- impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					4,318
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					-
Opening balance 1 January 2018	**3,948**	**273**	**97**	**-**	**4,318**
Total net transfers	(35)	(19)	54	-	-
- to 12-month ECL not credit-impaired	*50*	*(46)*	*(4)*	-	-
- to lifetime ECL not credit-impaired	*(57)*	*59*	*(2)*	-	-
- to lifetime ECL credit-impaired	*(28)*	*(32)*	*60*	-	-
Net changes in exposure	922	(3)	(9)	-	910
Impairment loss allowances utilised	-	-	(35)	-	(35)
Exchange adjustments	(25)	(1)	-	-	(26)
Measurement reclassification and other movements	6	-	1	-	7
Gross carrying amount at 31 December 2018	**4,816**	**250**	**108**	**-**	**5,174**

Group 2018 Consumer - Impairment loss allowance including held for sale	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Purchased / originated credit- impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					88
Impact of adopting IFRS 9 on 1 January 2018 (note 64)					50
Opening balance 1 January 2018	**41**	**33**	**64**	**-**	**138**
Total net transfers	4	(7)	3	-	-
- to 12-month ECL not credit-impaired	*6*	*(4)*	*(2)*	-	-
- to lifetime ECL not credit-impaired	*(1)*	*2*	*(1)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(5)*	*6*	-	-
Net impairment (losses) / gains in income statement	7	8	35	-	50
- Re-measurement	*(5)*	*9*	*41*	-	*45*
- Net changes in exposure	*23*	*1*	*(4)*	-	*20*
- ECL model parameter and / or methodology changes	*(11)*	*(2)*	*(2)*	-	*(15)*
Impairment loss allowances utilised	-	-	(35)	-	(35)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	-	(1)	3	-	2
Impairment loss allowance at 31 December 2018	**52**	**33**	**70**	**-**	**155**

Impairment loss allowances utilised on Consumer during 2018 includes €23 million of contractual amounts outstanding that are still subject to enforcement activity.

29 Loans and advances to customers *(continued)*

Bank 2018 Consumer - Gross carrying amount (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired[1] €m	Total impairment loss allowance €m
Closing balance 31 December 2017					1,848
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					-
Opening balance 1 January 2018	**1,675**	**109**	**64**	**-**	**1,848**
Total net transfers	(7)	(7)	14	-	-
- to 12-month ECL not credit-impaired	*33*	*(33)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(36)*	*37*	*(1)*	-	-
- to lifetime ECL credit-impaired	*(4)*	*(11)*	*15*	-	-
Net changes in exposure	204	(4)	(7)	-	193
Impairment loss allowances utilised	-	-	(10)	-	(10)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	6	-	-	-	6
Gross carrying amount at 31 December 2018	**1,878**	**98**	**61**	**-**	**2,037**

Bank 2018 Consumer - Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired €m	Total impairment loss allowance €m
Closing balance 31 December 2017					50
Impact of adopting IFRS 9 on 1 January 2018 (note 65)					18
Opening balance 1 January 2018	**14**	**12**	**42**	**-**	**68**
Total net transfers	2	(4)	2	-	-
- to 12-month ECL not credit-impaired	*3*	*(3)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1)*	*1*	*-*	-	-
- to lifetime ECL credit-impaired	*-*	*(2)*	*2*	-	-
Net impairment (losses) / gains in income statement	(3)	4	1	-	2
- Re-measurement	*(2)*	*2*	*10*	-	*10*
- Net changes in exposure	*1*	*1*	*(4)*	-	*(2)*
- ECL model parameter and / or methodology changes	*(2)*	*1*	*(5)*	-	*(6)*
Impairment loss allowances utilised	-	-	(10)	-	(10)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	-	-	2	-	2
Impairment loss allowance at 31 December 2018	**13**	**12**	**37**	**-**	**62**

Impairment loss allowances utilised on Consumer during 2018 includes €10 million of contractual amounts outstanding that are still subject to enforcement activity.

[1] *The total amount of undiscounted ECL at initial recognition on financial assets that were initially purchased or originated credit impaired during the year is €nil.*

29 Loans and advances to customers *(continued)*

	Group 2018 €m	Group 2017 €m	Bank 2018 €m	Bank 2017 €m
Gross investment in finance leases:				
Not later than 1 year	1,114	1,045	381	404
Later than 1 year and not later than 5 years	2,526	2,099	869	774
Later than 5 years	12	14	5	8
	3,652	**3,158**	**1,255**	**1,186**
Unearned future finance income on finance leases	(280)	(227)	(83)	(82)
Net investment in finance leases	**3,372**	**2,931**	**1,172**	**1,104**
The net investment in finance leases is analysed as follows:				
Not later than 1 year	1,029	970	356	376
Later than 1 year and not later than 5 years	2,332	1,948	812	721
Later than 5 years	11	13	4	7
	3,372	**2,931**	**1,172**	**1,104**

Finance leases and hire purchase receivables

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

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers. At 31 December 2018, the accumulated allowance for uncollectable minimum lease payments receivable was €nil (2017: €nil). A related ECL has been recognised under IFRS 9 in 2018.

Securitisations

Loans and advances to customers include balances that have been securitised but not derecognised, comprising both residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to structured entities, which then issue securities to third party investors or to other entities within the Group. All of the Group's securitisation structured entities are consolidated. See note 58 for further details.

30 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 2018.

The Group's approach to managing capital is also included in this note on page 165.

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 and from certain other financial transactions such as those entered into by the Group with financial institutions, sovereigns and state institutions.

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

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

Default risk

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

30 Financial risk management *(continued)*

- deterioration in macroeconomic or general market conditions;
- deterioration in a borrower's capacity to service its credit obligation;
- a credit event (e.g. a corporate transaction);
- a natural or manmade disaster;
- regulatory change, or technological development that causes an abrupt deterioration in credit quality;
- a mismatch between the currency of a borrower's income and their borrowing / repayments; and
- environmental factors that impact on the credit quality of the counterparty.

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

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

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

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

Credit risk management

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.

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

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

Credit policy
The core values and principles governing the provision of credit are contained in Group Credit Policy which is approved by the 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 Risk Appetite Statement and applicable credit limits, the lessons learned from the Group's loss history, the markets in which the business units operate and the products which they provide.

Lending authorisation
The Group's credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings. All exposures above certain levels require approval by the 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. Certain retail loan applications may be approved automatically where they meet both approved policy rules and minimum thresholds for the score produced by internal credit scoring tools.

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

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

The Court approves a framework of country maximum exposure guide points which are used as benchmarks for the setting of

30 Financial risk management *(continued)*

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 impairment

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

The Group's credit risk rating systems and impairment models and methodologies play a key role in quantifying the appropriate level of impairment loss allowance. Further details are provided in the section on credit risk methodologies on page 151.

An analysis of the Group's impairment loss allowances at 31 December 2018 is set out on page 137.

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

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

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 repayment source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally envisaged. Various types of collateral are accepted, including property, securities, cash, guarantees and insurance.

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

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in the tables on page 131.

Counterparty credit risk arising from derivatives

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

30 Financial risk management *(continued)*

Group 2018 Loan to value (LTV) ratio of total Retail Ireland mortgages[1,2]	Owner occupied Not credit-impaired €m	 Credit-impaired €m	 Total €m	Buy to let Not credit-impaired €m	 Credit-impaired €m	 Total €m	Total Not credit-impaired €m	 Credit-impaired €m	 Total €m
Less than 50%	7,165	154	7,319	1,016	54	1,070	8,181	208	8,389
51% to 70%	6,660	168	6,828	797	86	883	7,457	254	7,711
71% to 80%	2,761	100	2,861	229	71	300	2,990	171	3,161
81% to 90%	1,986	105	2,091	205	195	400	2,191	300	2,491
91% to 100%	550	102	652	60	96	156	610	198	808
Subtotal	**19,122**	**629**	**19,751**	**2,307**	**502**	**2,809**	**21,429**	**1,131**	**22,560**
101% to 120%	108	143	251	47	138	185	155	281	436
121% to 150%	30	100	130	20	107	127	50	207	257
Greater than 151%	22	143	165	32	263	295	54	406	460
Subtotal	**160**	**386**	**546**	**99**	**508**	**607**	**259**	**894**	**1,153**
Total	**19,282**	**1,015**	**20,297**	**2,406**	**1,010**	**3,416**	**21,688**	**2,025**	**23,713**
Weighted average LTV[3]:									
Stock of Retail Ireland mortgages at year end			59%			76%			61%
New Retail Ireland mortgages during the year			72%			51%			71%

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

Property values are determined by reference to the property valuations held[4], indexed to the RPPI CSO. The indexed LTV profile of the Retail Ireland mortgage loan book contained in the table above is based on the CSO RPPI at October 2018.

Group 2018 Loan to value (LTV) ratio of total Retail UK mortgages	Standard Not credit-impaired £m	 Credit-impaired £m	Buy to let Not credit-impaired £m	 Credit-impaired £m	Self certified Not credit-impaired £m	 Credit-impaired £m	Total Not credit-impaired £m	 Credit-impaired £m	 Total £m
Less than 50%	2,125	33	2,192	24	525	30	4,842	87	4,929
51% to 70%	3,210	44	3,464	38	677	56	7,351	138	7,489
71% to 80%	1,896	21	1,174	20	221	29	3,291	70	3,361
81% to 90%	2,096	14	456	19	128	19	2,680	52	2,732
91% to 100%	698	14	59	6	29	8	786	28	814
Subtotal	**10,025**	**126**	**7,345**	**107**	**1,580**	**142**	**18,950**	**375**	**19,325**
101% to 120%	39	5	9	2	7	5	55	12	67
121% to 150%	20	2	2	-	6	1	28	3	31
Greater than 150%	5	3	-	1	1	1	6	5	11
Subtotal	**64**	**10**	**11**	**3**	**14**	**7**	**89**	**20**	**109**
Total	**10,089**	**136**	**7,356**	**110**	**1,594**	**149**	**19,039**	**395**	**19,434**
Weighted average LTV[3]:									
Stock of Retail UK mortgages at year end[3]	66%	67%	58%	66%	58%	67%	62%	67%	62%
New Retail UK mortgages during year[3]	76%	-	60%	-	n/a	-	72%	-	72%

[1] *Excluded from the above table are purchased or originated credit-impaired loans of €2.8 million, €1.8 million of which were no longer credit-impaired at 31 December 2018 due to improvement in credit risk since purchase of origination. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*

[2] *Excluded from the above tables are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 29).*

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

[4] *Loan to value profile was previously based solely on the indexation of original valuations obtained prior to loan drawdown. During 2018, the Group completed an exercise to ensure that recent valuations from external professionals were held for all NPEs in excess of €300,000 and these valuations, indexed as appropriate, have been reflected in the above table where available.*

30 Financial risk management *(continued)*

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), impairment loss allowances, and individual large credit-impaired exposures.

Credit risk, including compliance with key credit risk limits, is monitored and reported monthly in the Court Risk Report. This report is presented to and discussed by the GRPC and the 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, the 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 GIA, reviews the quality and management of credit risk assets across the Group. Using a risk based approach, GCR carries out periodic reviews of Group lending portfolios, lending units and credit units.

Management of challenged assets

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

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

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. Such strategies may include, where appropriate, one or a combination of measures such as a temporary reduction in contractual payments, a term extension, capitalisation of arrears, adjustment or non-enforcement of covenants and / or more permanent restructuring measures. Forbearance requests are assessed on a case by case basis, taking due consideration of the individual circumstances and risk profile of the borrower.

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

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

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

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

Asset quality - Loans and advances to customers

Asset quality methodology for the year ended 31 December 2018

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

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

30 Financial risk management *(continued)*

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

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

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

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

Further information on the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in the Credit risk methodologies section on pages 151 to 158.

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

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

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

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

Asset quality methodology for the year ended 31 December 2017

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

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

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

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

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

'Neither past due nor impaired' ratings
Mappings to external rating agencies are indicative only, as additional factors such as collateral will be taken into account by the Group in assigning a credit grade to a counterparty:
- high quality ratings applied to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group had an excellent repayment experience. For both forborne and non-forborne loans, high quality ratings were derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale. These ratings are broadly aligned to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings applied to good quality loans that were performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also included some element of the Group's retail portfolios. For both forborne and non-forborne loans, satisfactory quality ratings were derived from grades 5 to 7 on the thirteen point

30 Financial risk management *(continued)*

grade scale and grade 3 on the seven point grade scale. These ratings are broadly equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings applied to certain mortgage forbearance arrangements where the customer was making full interest and capital repayments;

- acceptable quality ratings applied to loans to customers with increased risk profiles that were subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings were derived from grades 8 and 9 on the thirteen point grade scale and grade 4 on the seven point scale. These ratings are broadly equivalent to external ratings of B+. In addition, acceptable quality ratings applied to certain mortgage forbearance arrangements where the customer was making at least full interest payments; and
- lower quality ratings applied to those loans that were neither past due nor impaired where the Group required a work-down or work-out of the relationship unless an early reduction in risk was achievable. For both forborne and non-forborne loans, lower quality ratings were derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale, grade 5 on the seven point grade scale and external ratings equivalent to B or below. In addition, lower quality ratings applied to certain mortgage forbearance arrangements where the customer was making less than full interest payments.

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

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

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

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

NPEs

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

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

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

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

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

30 Financial risk management *(continued)*

Bank **2018** **Risk profile of loans and advances to customers - NPEs**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Credit-impaired	905	1,007	754	61	2,727
Not credit-impaired[1]	104	121	57	-	282
Total	**1,009**	**1,128**	**811**	**61**	**3,009**

Bank **2017** **Risk profile of loans and advances to customers - NPEs**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Impaired	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**

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

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and PD percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings		
PD Grade	**PD %**	**Indicative S&P type external ratings**
1-4	0% ≤ PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5-7	0.26% ≤ PD < 1.45%	BBB, BBB-, BB+, BB
8-9	1.45% ≤ PD < 3.60%	BB-, B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

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

30 Financial risk management *(continued)*

Financial assets

Composition and risk profile

The table below summarises the composition and risk profile of the Group and Bank's financial assets subject to impairment. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Group	2018					2017
Financial assets exposure including held for sale by stage (before impairment loss allowance)	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total €m**	**Total €m**
Financial assets measured at amortised cost						
Loans and advances to customers	68,802	5,075	4,483	70	78,430	78,487
Loans and advances to banks	2,302	6	-	-	2,308	3,061
Debt securities	3,929	-	-	-	3,929	-
Other financial assets	6,294	-	-	-	6,294	7,754
Total financial assets measured at amortised cost	**81,327**	**5,081**	**4,483**	**70**	**90,961**	**89,302**
Debt instruments at fair value through other comprehensive income	12,048	-	-	-	12,048	-
Available for sale financial assets	-	-	-	-	-	13,223
Total	**93,375**	**5,081**	**4,483**	**70**	**103,009**	**102,525**

Bank	2018					2017
Financial assets exposure by stage (before impairment loss allowance)	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total €m**	**Total €m**
Financial assets measured at amortised cost						
Loans and advances to customers	33,703	3,387	2,725	70	39,885	39,018
Loans and advances to banks	12,285	6	-	-	12,291	12,129
Debt securities	6,053	-	-	-	6,053	-
Other financial assets	3,235	-	-	-	3,235	5,402
Total financial assets measured at amortised cost	**55,276**	**3,393**	**2,725**	**70**	**61,464**	**56,548**
Debt instruments at fair value through other comprehensive income	12,048	-	-	-	12,048	-
Available for sale financial assets	-	-	-	-	-	-
Total	**67,324**	**3,393**	**2,725**	**70**	**73,512**	**56,548**

At 31 December 2018, purchased or originated credit-impaired assets included €68 million (Bank 2018: €68 million) of assets which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as purchased or originated credit-impaired until derecognition.

Loans and advances to customers excludes €261 million (Bank 2018: €160 million) of loans mandatorily at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are therefore excluded from impairment related tables (see note 29).

At 31 December 2018, other financial assets includes: cash and balances at central banks of €6,035 million (2017: €7,379 million) and items in the course of collection from other banks of €259 million (2017: €307 million). At 31 December 2018, the Bank's other financial assets includes: cash and balances at central banks of €3,164 million (2017: €5,310 million) and items in the course of collection from other banks of €71 million (2017: €91 million).

The above table excludes loan commitments, guarantees and letters of credit of €15,505 million at 31 December 2018 (2017: €nil) (Bank 2018: €10,406 million, 2017: €nil) that are subject to impairment (see note 47).

[1] *At 31 December 2018, purchased or originated credit-impaired assets included €68 million of assets with an impairment loss allowance of €nil which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as purchased or originated credit-impaired until derecognition.*

30 Financial risk management *(continued)*

Impairment loss allowance
The impairment loss allowance on financial assets is set out in the table below. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Group	2018					2017
Impairment loss allowance on financial assets including held for sale	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total €m**	**Total €m**
Financial assets measured at amortised cost						
Loans and advances to customers	120	176	1,432	-	1,728	2,359
Loans and advances to banks	1	-	-	-	1	-
Debt securities	1	-	-	-	1	-
Other financial assets	2	-	-	-	2	-
Total financial assets measured at amortised cost	**124**	**176**	**1,432**	**-**	**1,732**	**2,359**
Debt instruments at fair value through other comprehensive income	3	-	-	-	3	-
Available for sale financial assets	-	-	-	-	-	-
Total	**127**	**176**	**1,432**	**-**	**1,735**	**2,359**

Bank	2018					2017
Impairment loss allowance on financial assets	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total €m**	**Total €m**
Financial assets measured at amortised cost						
Loans and advances to customers	71	128	1,019	1	1,219	1,648
Loans and advances to banks	12	-	-	-	12	-
Debt securities	3	-	-	-	3	-
Other financial assets	1	-	-	-	1	-
Total financial assets measured at amortised cost	**87**	**128**	**1,019**	**1**	**1,235**	**1,648**
Debt instruments at fair value through other comprehensive income	3	-	-	-	3	-
Available for sale financial assets	-	-	-	-	-	-
Total	**90**	**128**	**1,019**	**1**	**1,238**	**1,648**

There was €nil impairment on loans and advances to banks, debt securities at amortised cost, other financial assets, debt instruments at FVOCI and AFS financial assets at 31 December 2017.

[1] *At 31 December 2018, purchased or originated credit-impaired assets included €nil (Bank 2018: €nil) of assets with an impairment loss allowance of €nil (Bank 2018: €nil) which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as purchased or originated credit-impaired until derecognition.*

30 Financial risk management *(continued)*

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Group and Bank's loans and advances to customers at amortised cost. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Group Loans and advances to customers including held for sale Composition and risk profile (before impairment loss allowance)[1]	2018				2017	
	Not credit-impaired €m	Credit-impaired €m	Total €m	Total %	Total €m	Total %
Residential mortgages	42,969	2,465	45,434	58%	46,659	60%
- Retail Ireland	*21,688*	*2,025*	*23,713*	*30%*	*24,069*	*31%*
- Retail UK	*21,281*	*440*	*21,721*	*28%*	*22,590*	*29%*
Non-property SME and corporate	18,397	1,067	19,464	25%	18,763	24%
- RoI SME	*6,871*	*729*	*7,600*	*10%*	*8,213*	*11%*
- UK SME	*1,491*	*79*	*1,570*	*2%*	*1,703*	*2%*
- Corporate	*10,035*	*259*	*10,294*	*13%*	*8,847*	*11%*
Property and construction	7,445	843	8,288	11%	8,747	11%
- Investment	*6,892*	*760*	*7,652*	*10%*	*8,277*	*10%*
- Land and development	*553*	*83*	*636*	*1%*	*470*	*1%*
Consumer	5,066	108	5,174	6%	4,318	5%
Total	**73,877**	**4,483**	**78,360**	**100%**	**78,487**	**100%**
Impairment loss allowance on loans and advances to customers	**296**	**1,432**	**1,728**	**2%**	**2,359**	**3%**

2018 Bank Loans and advances to customers Composition and risk profile (before impairment loss allowance)[1]	Not credit-impaired €m	Credit-impaired €m	Total €m	Total %
Residential mortgages	10,265	904	11,169	28%
- Retail Ireland	*6,772*	*675*	*7,447*	*19%*
- Retail UK	*3,493*	*229*	*3,722*	*9%*
Non-property SME and corporate	17,877	1,006	18,883	48%
- RoI SME	*7,087*	*727*	*7,814*	*20%*
- UK SME	*202*	*33*	*235*	*1%*
- Corporate	*10,588*	*246*	*10,834*	*27%*
Property and construction	6,972	754	7,726	19%
- Investment	*6,456*	*686*	*7,142*	*18%*
- Land and development	*516*	*68*	*584*	*1%*
Consumer	1,976	61	2,037	5%
Total	**37,090**	**2,725**	**39,815**	**100%**
Impairment loss allowance on loans and advances to customers	**199**	**1,019**	**1,218**	**3%**

[1] *Excluded from the table above are purchased or originated credit-impaired assets of €70 million (Bank 2018: €70 million) , €68 million (Bank 2018: €68 million) of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*

30 Financial risk management *(continued)*

Asset quality - not credit-impaired
The tables below summarises the composition and impairment loss allowance of loans and advances to customers at amortised cost that are not credit-impaired.

Group	Stage 1				Stage 2			
2018 Not credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**
Residential mortgages	41,096	52%	14	0.03%	1,873	2%	31	1.66%
- Retail Ireland	*20,403*	*26%*	*5*	*0.02%*	*1,285*	*1%*	*15*	*1.17%*
- Retail UK	*20,693*	*26%*	*9*	*0.04%*	*588*	*1%*	*16*	*2.72%*
Non-property SME and corporate	16,547	22%	50	0.30%	1,850	2%	74	4.00%
- RoI SME	*5,890*	*8%*	*29*	*0.49%*	*981*	*1%*	*43*	*4.38%*
- UK SME	*1,232*	*2%*	*3*	*0.24%*	*259*	*-*	*11*	*4.25%*
- Corporate	*9,425*	*12%*	*18*	*0.19%*	*610*	*1%*	*20*	*3.28%*
Property and construction	6,343	8%	4	0.06%	1,102	1%	38	3.45%
- Investment	*5,820*	*7%*	*4*	*0.07%*	*1,072*	*1%*	*38*	*3.54%*
- Land and development	*523*	*1%*	*-*	*0.00%*	*30*	*-*	*-*	*-*
Consumer	4,816	6%	52	1.08%	250	-	33	13.20%
Total	**68,802**	**88%**	**120**	**0.17%**	**5,075**	**5%**	**176**	**3.47%**

Bank	Stage 1				Stage 2			
2018 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**
Residential mortgages	9,604	24%	8	0.08%	661	2%	13	1.97%
- Retail Ireland	*6,364*	*16%*	*5*	*0.08%*	*408*	*1%*	*5*	*1.23%*
- Retail UK	*3,240*	*8%*	*3*	*0.09%*	*253*	*1%*	*8*	*3.16%*
Non-property SME and corporate	16,244	40%	47	0.29%	1,633	3%	66	4.04%
- RoI SME	*6,106*	*15%*	*29*	*0.48%*	*981*	*2%*	*41*	*4.18%*
- UK SME	*129*	*-*	*-*	*-*	*73*	*-*	*6*	*8.22%*
- Corporate	*10,009*	*25%*	*18*	*0.18%*	*579*	*1%*	*19*	*3.28%*
Property and construction	5,977	15%	3	0.05%	995	2%	37	3.72%
- Investment	*5,484*	*14%*	*3*	*0.05%*	*972*	*2%*	*37*	*3.81%*
- Land and development	*493*	*1%*	*-*	*-*	*23*	*-*	*-*	*-*
Consumer	1,878	5%	13	0.69%	98	-	12	12.24%
Total	**33,703**	**84%**	**71**	**0.21%**	**3,387**	**7%**	**128**	**3.78%**

30 Financial risk management *(continued)*

The table below provides analysis of the asset quality of loans and advances to customers at amortised cost that are not credit-impaired based on mapping the IFRS 9 twelve month PD of each loan to a PD grade based on the table provided on page 135.

Group 2018 Not credit-impaired loans and advances to customers including held for sale Asset quality[1] - PD grade	**Residential mortgages**		**Non-property SME and corporate**		**Property and construction**		**Consumer**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**	**€m**	**%**	**€m**	**%**
Stage 1										
1-4	22,622	52%	5,421	30%	5,244	70%	84	2%	33,371	45%
5-7	16,185	38%	6,505	35%	1,038	14%	2,208	44%	25,936	35%
8-9	1,535	4%	4,076	22%	56	1%	1,590	31%	7,257	10%
10-11	754	2%	545	3%	5	-	934	18%	2,238	3%
Total Stage 1	**41,096**	**96%**	**16,547**	**90%**	**6,343**	**85%**	**4,816**	**95%**	**68,802**	**93%**
Stage 2										
1-4	96	-	191	1%	69	1%	-	-	356	1%
5-7	227	-	356	2%	696	10%	7	-	1,286	2%
8-9	377	1%	521	3%	157	2%	22	1%	1,077	1%
10-11	1,173	3%	782	4%	180	2%	221	4%	2,356	3%
Total Stage 2	**1,873**	**4%**	**1,850**	**10%**	**1,102**	**15%**	**250**	**5%**	**5,075**	**7%**
Not credit-impaired										
1-4	22,718	52%	5,612	31%	5,313	71%	84	2%	33,727	46%
5-7	16,412	38%	6,861	37%	1,734	24%	2,215	44%	27,222	37%
8-9	1,912	5%	4,597	25%	213	3%	1,612	32%	8,334	11%
10-11	1,927	5%	1,327	7%	185	2%	1,155	22%	4,594	6%
Total not credit-impaired	**42,969**	**100%**	**18,397**	**100%**	**7,445**	**100%**	**5,066**	**100%**	**73,877**	**100%**

Bank 2018 Not credit-impaired loans and advances to customers Asset quality[1] - PD grade	**Residential mortgages**		**Non-property SME and corporate**		**Property and construction**		**Consumer**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**	**€m**	**%**	**€m**	**%**
Stage 1										
1-4	4,176	41%	6,209	35%	5,037	72%	16	1%	15,438	41%
5-7	4,462	44%	6,025	34%	904	13%	618	31%	12,009	32%
8-9	617	6%	3,473	19%	31	1%	1,116	57%	5,237	14%
10-11	349	3%	537	3%	5	-	128	6%	1,019	3%
Total Stage 1	**9,604**	**94%**	**16,244**	**91%**	**5,977**	**86%**	**1,878**	**95%**	**33,703**	**90%**
Stage 2										
1-4	20	-	129	-	55	1%	-	-	204	1%
5-7	74	1%	316	2%	649	9%	6	-	1,045	3%
8-9	114	1%	463	3%	135	2%	14	1%	726	2%
10-11	453	4%	725	4%	156	2%	78	4%	1,412	4%
Total Stage 2	**661**	**6%**	**1,633**	**9%**	**995**	**14%**	**98**	**5%**	**3,387**	**10%**
Not credit-impaired										
1-4	4,196	41%	6,338	35%	5,092	73%	16	1%	15,642	42%
5-7	4,536	45%	6,341	36%	1,553	22%	624	31%	13,054	35%
8-9	731	7%	3,936	22%	166	3%	1,130	58%	5,963	16%
10-11	802	7%	1,262	7%	161	2%	206	10%	2,431	7%
Total not credit-impaired	**10,265**	**100%**	**17,877**	**100%**	**6,972**	**100%**	**1,976**	**100%**	**37,090**	**100%**

[1] *Excluded from the table above are purchased or originated credit-impaired loans of €70 million (Bank 2018: €70 million) with impairment loss allowances of €68 million (Bank 2018: €68 million) which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination. These loans will remain classified as Purchased or Originated Credit-impaired loans until derecognition.*

30 Financial risk management *(continued)*

The tables below summarises the composition and impairment loss allowance of the Group and Bank's loans and advances to customers at amortised cost that are credit-impaired (i.e. stage 3).

Group 2018 Credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance	**Credit-impaired loans €m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**
Residential mortgages	2,465	3%	492	20%
- Retail Ireland	*2,025*	*2%*	*444*	*22%*
- Retail UK	*440*	*1%*	*48*	*11%*
Non-property SME and corporate	1,067	1%	501	47%
- RoI SME	*729*	*1%*	*340*	*47%*
- UK SME	*79*	*-*	*37*	*47%*
- Corporate	*259*	*-*	*124*	*48%*
Property and construction	843	1%	369	44%
- Investment	*760*	*1%*	*321*	*42%*
- Land and development	*83*	*-*	*48*	*58%*
Consumer	108	-	70	65%
Total credit-impaired	**4,483**	**5%**	**1,432**	**32%**

Bank 2018 Credit-impaired loans and advances to customers Composition and impairment loss allowance	**Credit-impaired loans €m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**
Residential mortgages	904	2%	160	18%
- Retail Ireland	*675*	*2%*	*133*	*20%*
- Retail UK	229	-	27	12%
Non-property SME and corporate	1,006	3%	478	48%
- RoI SME	*727*	*2%*	*340*	*47%*
- UK SME	*33*	*-*	*19*	*58%*
- Corporate	*246*	*1%*	*119*	*48%*
Property and construction	754	2%	344	46%
- Investment	*686*	*2%*	*304*	*44%*
- Land and development	*68*	*-*	*40*	*59%*
Consumer	61	-	37	61%
Total credit-impaired	**2,725**	**7%**	**1,019**	**37%**

All loans and advances to customers that are greater than 90 days past due are classified as being credit-impaired. All credit-impaired loans and advances to customers are risk rated PD grade 12.

30 Financial risk management *(continued)*

Segmental analysis

Group **31 December 2018** **Risk profile of loans and advances to customers including held for sale (before impairment loss allowance)**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Stage 1 - 12 month ECL (not credit impaired)	29,482	25,337	13,983	68,802
Stage 2 - Lifetime ECL (not credit impaired)	2,753	1,378	944	5,075
Stage 3 - Lifetime ECL (credit impaired)	3,430	781	272	4,483
Purchased / originated credit-impaired	4	66	-	70
Gross carrying amount at 31 December 2018	**35,669**	**27,562**	**15,199**	**78,430**

Group **1 January 2018** **Risk profile of loans and advances to customers (before impairment loss allowance)**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Closing balance 31 December 2017	37,005	28,330	13,152	78,487
Impact of adopting IFRS 9 on 1 January 2018 (note 64)	(294)	-	(163)	(457)
Opening balance 1 January 2018	**36,711**	**28,330**	**12,989**	**78,030**
Stage 1 - 12 month ECL (not credit impaired)	29,050	25,480	11,645	66,175
Stage 2 - Lifetime ECL (not credit impaired)	3,020	1,735	1,059	5,814
Stage 3 - Lifetime ECL (credit impaired)	4,633	1,048	242	5,923
Purchased / originated credit-impaired	8	67	43	118
Gross carrying amount at 1 January 2018	**36,711**	**28,330**	**12,989**	**78,030**

Group **2018** **Risk profile of loans and advances to customers including held for sale - NPEs**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Credit-impaired	3,432	781	272	4,485
Not credit-impaired[1]	407	80	12	499
Total	**3,839**	**861**	**284**	**4,984**

2017 **Risk profile of loans and advances to customers - NPEs**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Impaired	3,089	675	279	4,043
Past due greater than 90 days but not impaired	299	165	-	464
Neither impaired nor past due greater than 90 days	1,761	242	11	2,014
Total	**5,149**	**1,082**	**290**	**6,521**

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

30 Financial risk management *(continued)*

Geographical and industry analysis of loans and advances to customers

The following table provides a geographical and industry breakdown of total loans including loans held for sale (before impairment loss allowances).

Group	2018				2017			
Geographical / industry analysis[1]	RoI €m	UK €m	RoW €m	Total €m	RoI €m	UK €m	RoW €m	Total €m
Personal	25,875	24,736	-	50,611	26,036	24,941	-	50,977
- Residential mortgages	*23,716*	*21,721*	-	*45,437*	*24,069*	*22,590*	-	*46,659*
- Other consumer lending	*2,159*	*3,015*	-	*5,174*	*1,967*	*2,351*	-	*4,318*
Property and construction	7,099	1,255	-	8,354	6,593	2,154	-	8,747
- Investment	*6,518*	*1,200*	-	*7,718*	*6,220*	*2,057*	-	*8,277*
- Land and development	*581*	*55*	-	*636*	*373*	*97*	-	*470*
Business and other services	6,191	1,487	413	8,091	5,964	1,628	484	8,076
Manufacturing	3,935	415	458	4,808	2,804	625	547	3,976
Distribution	2,234	195	51	2,480	2,190	153	27	2,370
Agriculture	1,653	233	-	1,886	1,581	293	-	1,874
Transport	891	129	61	1,081	997	125	66	1,188
Financial	498	59	22	579	617	39	50	706
Energy	467	58	15	540	499	59	15	573
Total	**48,843**	**28,567**	**1,020**	**78,430**	**47,281**	**30,017**	**1,189**	**78,487**

Repossessed collateral

In 2018, the Group and Bank 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.

	Group		Bank	
Repossessed collateral	2018 €m	2017 €m	2018 €m	2017 €m
Residential properties				
Ireland	19	20	7	4
UK and other	7	8	4	4
	26	**28**	**11**	**8**
Other	1	1	-	-
Total	**27**	**29**	**11**	**8**

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

30 Financial risk management *(continued)*

Group forbearance disclosures
The Group's total risk profile of loans and advances to customers at amortised cost at 31 December 2018 of €78.4 billion is available on page 138. Exposures are before impairment loss allowance.

Group **2018** **Loans and advances to customers including held for sale at amortised cost - Composition**	**Stage 1 (not credit-impaired) €m**	**Stage 2 (not credit-impaired) €m**	**Stage 3 (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total €m**
Non-forborne loans and advances to customers					
Residential mortgages	41,088	828	675	1	42,592
- Retail Ireland	*20,396*	*363*	*336*	*1*	*21,096*
- Retail UK	*20,692*	*465*	*339*	*-*	*21,496*
Non-property SME and corporate	16,543	975	296	1	17,815
- RoI SME	*5,886*	*517*	*208*	*1*	*6,612*
- UK SME	*1,232*	*203*	*20*	*-*	*1,455*
- Corporate	*9,425*	*255*	*68*	*-*	*9,748*
Property and construction	6,330	239	45	66	6,680
- Investment	*5,808*	*236*	*26*	*66*	*6,136*
- Land and development	*522*	*3*	*19*	*-*	*544*
Consumer	4,816	244	89	-	5,149
Total non-forborne loans and advances to customers	**68,777**	**2,286**	**1,105**	**68**	**72,236**
Forborne loans and advances to customers					
Residential mortgages	8	1,045	1,790	2	2,845
- Retail Ireland	*7*	*922*	*1,689*	*2*	*2,620*
- Retail UK	*1*	*123*	*101*	*-*	*225*
Non-property SME and corporate	4	875	771	-	1,650
- RoI SME	*4*	*464*	*521*	*-*	*989*
- UK SME	*-*	*56*	*59*	*-*	*115*
- Corporate	*-*	*355*	*191*	*-*	*546*
Property and construction	13	863	798	-	1,674
- Investment	*12*	*836*	*734*	*-*	*1,582*
- Land and development	*1*	*27*	*64*	*-*	*92*
Consumer	-	6	19	-	25
Total forborne loans and advances to customers	**25**	**2,789**	**3,378**	**2**	**6,194**

Group **2018** **Risk profile of loans and advances to customers at amortised cost - NPEs**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Non-forborne loans and advances to customers					
Credit-impaired	676	297	45	89	1,107
Not credit-impaired	28	16	13	3	60
Total non-forborne loans and advances to customers	**704**	**313**	**58**	**92**	**1,167**
Forborne loans and advances to customers					
Credit-impaired	1,790	771	798	19	3,378
Not credit-impaired	249	128	62	-	439
Total forborne loans and advances to customers	**2,039**	**899**	**860**	**19**	**3,817**

[1] *At 31 December 2018, forborne purchased or originated credit-impaired loans included €2 million of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvement in credit risk. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*

30 Financial risk management *(continued)*

IAS 39 Comparatives

Loan to value tables for Residential mortgage portfolios

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

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

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

30 Financial risk management *(continued)*

Risk profile of loans and advances to customers

The tables 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 2017 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
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%**

Bank 2017 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
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%**

30 Financial risk management *(continued)*

'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 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**
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**

Bank 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**
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**

30 Financial risk management *(continued)*

Group forbearance disclosures

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

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	**1,153**	**1,176**	**1,190**	**28**	**3,547**

30 Financial risk management *(continued)*

The table below provides an analysis of NPEs over the following categories: 'non-forborne' and 'forborne'.

Group 2017 Risk profile of loans and advances to customers - NPEs	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
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**

Asset quality: Other financial instruments
The tables below summarises the asset quality of debt instruments at FVOCI by IFRS 9 twelve month PD grade for Group and Bank.

2018	Group				Bank			
Debt instruments at fair value through other comprehensive income - Asset quality	Stage 1		Total		Stage 1		Total	
	€m	%	€m	%	€m	%	€m	%
PD Grade								
1-4	11,115	92%	11,115	92%	11,115	92%	11,115	92%
5-7	933	8%	933	8%	933	8%	933	8%
8-9	-	-	-	-	-	-	-	-
10-11	-	-	-	-	-	-	-	-
Total	**12,048**	**100%**	**12,048**	**100%**	**12,048**	**100%**	**12,048**	**100%**

The tables below summarises the asset quality of debt securities at amortised cost by IFRS 9 twelve month PD grade for Group and Bank.

2018	Group				Bank			
Debt securities at amortised cost (before impairment loss allowance) - Asset quality	Stage 1		Total		Stage 1		Total	
	€m	%	€m	%	€m	%	€m	%
PD Grade								
1-4	3,917	100%	3,917	100%	6,053	100%	6,053	100%
5-7	12	-	12	-	-	-	-	-
8-9	-	-	-	-	-	-	-	-
10-11	-	-	-	-	-	-	-	-
Total	**3,929**	**100%**	**3,929**	**100%**	**6,053**	**100%**	**6,053**	**100%**

30 Financial risk management *(continued)*

The tables below summarises the asset quality of loans and advances to banks at amortised cost by IFRS 9 twelve month PD grade for Group and Bank.

Group 2018 Loans and advances to banks at amortised cost (before impairment loss allowance) Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	2,244	97%	-	-	2,244	97%
5-7	1	-	-	-	1	-
8-9	57	3%	6	100%	63	3%
10-11	-	-	-	-	-	-
Total	**2,302**	**100%**	**6**	**100%**	**2,308**	**100%**

Bank 2018 Loans and advances to banks at amortised cost (before impairment loss allowance) Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	12,227	100%	-	-	12,227	99%
5-7	1	-	-	-	1	-
8-9	57	-	6	100%	63	1%
10-11	-	-	-	-	-	-
Total	**12,285**	**100%**	**6**	**100%**	**12,291**	**100%**

Asset quality: Other financial instruments not within the scope of IFRS 9

Other financial instruments as set out in the table include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include trading securities, derivative financial instruments, loans and advances to banks at fair value, other financial instruments at FVTPL (excluding equity instruments) and any reinsurance assets. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

	Group				Bank			
	2018		2017		2018		2017	
Other financial instruments with ratings equivalent to:	€m	%	€m	%	€m	%	€m	%
AAA to AA-	3,693	46%	12,459	52%	126	7%	6,374	22%
A+ to A-	2,773	34%	9,119	38%	1,147	60%	9,257	32%
BBB+ to BBB-	1,077	13%	1,769	7%	355	19%	12,628	44%
BB+ to BB-	203	3%	281	1%	195	10%	279	1%
B+ to B-	313	4%	87	1%	58	3%	84	-
Lower than B-	23	-	320	1%	16	1%	322	1%
Total	**8,082**	**100%**	**24,035**	**100%**	**1,897**	**100%**	**28,944**	**100%**
Amounts include:								
Due from Group undertakings					90		13,629	

30 Financial risk management *(continued)*

Credit risk methodologies

Credit risk methodologies for the year ended 31 December 2018

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

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

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

The primary model measures used are:

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

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

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

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

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

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

Non-retail internal rating systems
The Group has adopted the Foundation Internal Ratings Based (IRB) approach for most of its non-retail portfolios. Under this approach, the Group calculates its own estimates for PD and uses supervisory estimates of LGD and credit conversion factors. To calculate PD under the FIRB approach, the Group assesses the credit quality of borrowers based on transaction and borrower specific characteristics. Scorecards are developed for each significant portfolio or type of lending, with outputs used to assign a PD grade to each borrower.

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

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

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

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

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

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

30 Financial risk management *(continued)*

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

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

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

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

Impairment models are described further below.

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

The Group mitigates model risk for credit rating and impairment models as follows:

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

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

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

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

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

In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However this may not be the case for very highly collateralised loans, such as residential mortgages at low loan to value ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the year. The Group's methodologies for valuation of property collateral are set out on page 154, noting further that Forward Looking Information (FLI) (see page 155) is applied as appropriate to RoI and UK property collateral values in measuring impairment loss allowances under IFRS 9. The Group's critical accounting estimates and judgements, including those with respect to impairment of financial instruments, are set out in note 2 to the consolidated financial statements.

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

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

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

30 Financial risk management *(continued)*

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

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

Together, the current point-in-time IFRS 9 PD and future point-in-time IFRS 9 PDs are used to generate an IFRS 9 lifetime PD expectation for each FLI scenario. The scenario weighted averages are used to generate an overall IFRS 9 lifetime PD expectation. At origination of a new financial instrument, these expectations are stored, together with prepayment estimates where relevant, and allow for comparison at future reporting dates as one of the key determinants as to whether a 'significant increase in credit risk' has occurred. As lifetime PD was not calculated historically, the Group used reasonable and supportable information available without undue cost or effort to approximate the residual IFRS 9 lifetime PD expectations at initial recognition for most financial instruments originated prior to the adoption of IFRS 9 on 1 January 2018.

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

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

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

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

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

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

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

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

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

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

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

30 Financial risk management *(continued)*

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

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

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

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

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

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

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

Methodologies for valuation of property collateral
The Group's approach to the determination of the market value of property collateral is set out in a Court-approved Group Property Collateral Valuation Policy, supported by GRPC-approved Group Property Collateral Valuation Guidelines, and is summarised below. The Group's approach to applying FLI to those values for the purposes of measuring impairment loss allowance for the year ended 31 December 2018 is set out in the Court-approved Group Impairment Policy and is described on page 155.

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

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

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

30 Financial risk management *(continued)*

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

FLI

FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the GRPC and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Group generally uses three RoI FLI scenarios and three UK FLI scenarios, being a central scenario, an upside scenario and a downside scenario, all extending over a five year forecast period. In each case the central scenario is based on internal and external information and management judgement. The Group keeps under review the need for FLI for other economies.

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

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

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

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

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

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

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

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

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

30 Financial risk management *(continued)*

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

Credit risk methodologies for the year ended 31 December 2017

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

Methodology for loan loss provisioning under IAS 39
All credit exposures, either individually or collectively, were regularly reviewed for objective evidence of impairment. Where such evidence of impairment existed, the exposure was measured for an impairment provision. The criteria used to determine if there was objective evidence of impairment included:

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

At 31 December 2017, the following events required the completion of an impairment assessment to determine whether a loss event had occurred at the reporting date that might lead to recognition of impairment losses:

- loan asset had fallen 90 days past due;
- a forbearance measure had been requested by a borrower and formally assessed; and
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there was evidence of a loss event and / or borrower financial distress.

Portfolio specific events for Residential mortgages

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

Portfolio specific events for larger SME / corporate and property loans

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

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

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

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

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

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

30 Financial risk management *(continued)*

portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which were based on historical experience (i.e. amount and timing of cash flows / LGD) were regularly compared against current experience in the loan book and current market conditions.

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

The provisioning model assumptions and parameters used historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflected the definition of cure per the CBI 'Impairment Provisioning and Disclosure Guidelines' (May 2013) which required satisfactory completion of a twelve month probation period, while being less than 30 days past due. Where there was objective evidence of impairment on a collective basis, this was reported as a specific provision ('collective specific') in line with individually assessed loans. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision for the year ended 31 December 2017 is set out in the tables on pages 119 and 99.

Methodology for establishing incurred but not reported (IBNR) provisions

Impairment provisions were also recognised for losses not specifically identified but which, experience and observable data indicated, were present in the portfolio / group of exposures at the date of assessment. These were described as IBNR provisions. Statistical models were used to determine the appropriate level of IBNR provisions for a portfolio / group of exposures with similar credit risk characteristics (e.g. asset type, geographical location, forbearance classification). These models estimated latent losses taking into account three observed and / or estimated parameters / assumptions:
- loss emergence rates (based on historic grade migration experience and current PD grades, offset by cure expectations where appropriate);
- the emergence period (historic experience adjusted to reflect current conditions); and
- LGD rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

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

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

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

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

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

Methodology for loan loss provisioning and forbearance

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

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

Individually assessing impairment and forbearance

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

Collectively assessing impairment and forbearance[2]

Forborne exposures were pooled together for collective impairment provisioning, including IBNR provision calculations. Assumptions and parameters used to create the portfolio provision(s) took into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period), adjusted where appropriate to reflect current conditions, and required the

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

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

30 Financial risk management *(continued)*

satisfactory completion of a twelve month probation period, while being less than 30 days past due. Management adjustments were also applied, as appropriate, where historical observable data on forborne assets might be limited. Impairment provisioning methodologies and provisioning model parameters and assumptions applied to forborne loan pools were reviewed regularly, and revised as necessary, to ensure that they remained reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This included a comparison of actual experience to expected outcome.

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

Impaired loans review
Irrespective of the valuation methodology applied, it was Group policy to review impaired loans above agreed thresholds semi-annually, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision. Where information was obtained between reviews that impacted expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions), an immediate review and assessment of the required impairment provision was undertaken. An impaired loan was restored to unimpaired status when the contractual amount of principal and interest was deemed to be fully collectible. Typically, a loan was deemed to be fully collectible based on an updated assessment by the Group of the borrower's financial circumstances. The assessment included a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may have been agreed with the Group as part of a sustainable forbearance arrangement.

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

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

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

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

Funding and 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.

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

Liquidity risk statement
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 Risk Appetite Statement and associated limits and the Group's Funding and Liquidity Policy, both of which are approved by the Court on the recommendation of ALCO.

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

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

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

30 Financial risk management *(continued)*

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

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

Liquidity risk management consists of two main activities:

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

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

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

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

A key part of this assessment is cash flow forecasting that includes assumptions on the likely behavioural cash flows of certain customer products. Estimating these behavioural cash flows allows the Group assess the stability of its funding sources and potential liquidity requirements in both business as usual and stressed scenarios. The stressed scenarios incorporate Group specific and systemic risks and are run at different levels of possible, even if unlikely, severity. Actions and strategies available to mitigate the impacts of the stress scenarios are evaluated as to their appropriateness. Stress test results are reported to ALCO, the CRC and the Court.

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

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

Liquidity risk reporting

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

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

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

Liquidity risk measurement

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

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,239 million and ¡11,003 million respectively (2017: €5,766 million and €10,878 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. Customer accounts include a number of term accounts that contain access features. These allow the customer to access a portion or all of their deposits notwithstanding that this withdrawal could result in a financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the following table:

30 Financial risk management *(continued)*

Group 2018 Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	6,033	-	-	-	-	6,033
Trading securities	-	-	-	6	23	29
Derivative financial instruments	195	19	176	664	670	1,724
Other financial assets at fair value through profit or loss[1]	1,204	23	30	1,623	1,913	4,793
Loans and advances to banks	237	2,250	138	-	-	2,625
Debt securities at amortised cost	-	61	274	1,386	2,207	3,928
Financial assets at fair value through other comprehensive income	-	469	913	5,748	4,918	12,048
Loans and advances to customers including held for sale (before impairment provisions)	2,217	4,179	7,048	28,949	36,298	78,691
Total	**9,886**	**7,001**	**8,579**	**38,376**	**46,029**	**109,871**
Liabilities						
Deposits from banks	78	367	-	-	-	445
Monetary Authorities secured funding	-	251	224	2,179	-	2,654
Customer accounts	65,517	6,189	4,137	2,923	205	78,971
Derivative financial instruments	205	31	102	617	864	1,819
Debt securities in issue	-	1,176	230	4,802	2,082	8,290
Subordinated liabilities	-	-	-	464	1,643	2,107
Short positions in trading securities	16	-	-	-	-	16
Dividend payable to parent	800	-	-	-	-	800
Total	**66,616**	**8,014**	**4,693**	**10,985**	**4,794**	**95,102**

Group 2017 Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	7,379	-	-	-	-	7,379
Trading securities	-	-	-	38	30	68
Derivative financial instruments	155	271	283	823	816	2,348
Other financial assets at 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
Loans and advances to customers (before impairment provisions)	1,663	5,099	7,122	27,400	37,203	78,487
Total	**10,872**	**8,349**	**9,187**	**34,720**	**45,795**	**108,923**
Liabilities						
Deposits from banks	87	699	-	-	-	786
Monetary Authorities secured funding	-	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
Short positions in trading securities	-	-	-	-	-	-
Dividend payable to parent	800	-	-	-	-	800
Total	**62,237**	**9,229**	**6,670**	**11,358**	**4,198**	**93,692**

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

30 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 2018 and 2017 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows.

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 2018 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	78	367	-	-	-	445
Monetary Authorities secured funding	-	254	234	2,197	-	2,685
Customer accounts	65,369	6,207	4,306	2,919	215	79,016
Debt securities in issue	-	1,234	158	5,238	2,370	9,000
Subordinated liabilities	-	31	88	844	1,810	2,773
Contingent liabilities	364	49	70	109	15	607
Commitments	14,206	36	852	57	-	15,151
Dividend payable to parent	800	-	-	-	-	800
Total	**80,817**	**8,178**	**5,708**	**11,364**	**4,410**	**110,477**

Group 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	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[1]	14,674	22	1,113	54	-	15,863
Dividend payable to parent	800	-	-	-	-	800
Total	**77,067**	**9,321**	**8,150**	**11,853**	**3,477**	**109,868**

As set out in note 21, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered with economic hedging intent to which the Bank does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Bank applies hedge accounting.

The following tables 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.

[1] *Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain commitments. Commitments: 1- 5 years has been restated by €2,502 million from €2,556 million to €54 million and demand has been restated by €2,502 million from €12,172 million to €14,674 million with no change to total commitments.*

30 Financial risk management *(continued)*

Group 2018 Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	124	589	1,830	-	2,543
Gross settled derivative liabilities - inflows	-	(108)	(523)	(1,802)	-	(2,433)
Gross settled derivative liabilities - net flows	**-**	**16**	**66**	**28**	**-**	**110**
Net settled derivative liabilities	-	113	265	733	121	1,232
Total derivatives held with hedging intent	**-**	**129**	**331**	**761**	**121**	**1,342**
Derivative liabilities held with trading intent	627	-	-	-	-	627
Total derivative cash flows	**627**	**129**	**331**	**761**	**121**	**1,969**

Group 2017 Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	328	162	571	-	1,061
Gross settled derivative liabilities - inflows	-	(304)	(140)	(528)	-	(972)
Gross settled derivative liabilities - net flows	**-**	**24**	**22**	**43**	**-**	**89**
Net settled derivative liabilities	-	86	213	726	287	1,312
Total derivatives held with hedging intent	**-**	**110**	**235**	**769**	**287**	**1,401**
Derivative liabilities held with trading intent	631	-	-	-	-	631
Total derivative cash flows	**631**	**110**	**235**	**769**	**287**	**2,032**

The following tables summarise the maturity profile of the Bank's financial liabilities (excluding those arising on derivative financial instruments) at 31 December 2018 and 2017 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 consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Bank 2018 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	108	3,605	364	441	563	5,081
Monetary Authorities secured funding	-	250	-	750	-	1,000
Customer accounts	51,969	4,294	1,741	1,399	215	59,618
Debt securities in issue	-	402	45	1,720	154	2,321
Subordinated liabilities	-	31	85	832	1,759	2,707
Contingent liabilities	345	49	70	49	15	528
Commitments	10,064	-	-	-	-	10,064
Dividend payable to parent	800	-	-	-	-	800
Total	**63,286**	**8,631**	**2,305**	**5,191**	**2,706**	**82,119**

30 Financial risk management *(continued)*

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
Commitments[1]	9,605	-	-	2	-	9,607
Dividend payable to parent	800	-	-	-	-	800
Total	**59,592**	**7,590**	**4,367**	**6,287**	**2,497**	**80,333**

The following tables 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 2018 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	-	118	586	1,829	-	2,533
Gross settled derivative liabilities - inflows	-	(109)	(524)	(1,801)	-	(2,434)
Gross settled derivative liabilities - net flows	**-**	**9**	**62**	**28**	**-**	**99**
Net settled derivative liabilities	-	113	265	731	117	1,226
Total derivatives held with hedging intent	**-**	**122**	**327**	**759**	**117**	**1,325**
Derivative liabilities held with trading intent	627	-	-	-	-	627
Total derivative cash flows	**627**	**122**	**327**	**759**	**117**	**1,952**

Bank 2017 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**

[1] *Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain commitments. Commitments: 1- 5 years has been restated by €2,502 million from €2,429 million to €2 million and demand has been restated by €2,502 million from €7,178 million to €9,605 million with no change to total commitments.*

30 Financial risk management *(continued)*

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 Risk Appetite Statement 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 CRC, the GRPC and the ALCO, which has primary responsibility for the oversight of market risk in the Group. The relevant limits and other controls are set by ALCO.

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

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

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

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

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

The table below shows total VaR at 31 December 2018 was €1.1 million (€0.8 million in 2017). Total VaR is the sum of overall interest rate, FX and traded credit VaR. Overall Interest Rate VaR is a correlated measure of trading book interest rate and discretionary Interest Rate Risk in The Banking Book (IRRBB).

Group and Bank Total VaR	2018 €m	2017 €m
Total	1.1	0.8

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 2018 and the preceding year end were as follows:

Group Structural FX position	2018 €m	2017 €m
Sterling - net asset position	2,365	2,396
US dollar - net asset position	577	547
Total structural FX position	**2,942**	**2,943**

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. The sub-categories of life insurance risk such as mortality, longevity and persistency risk each relate to different sources of loss which arise as a result of writing life insurance business.

Risk management
Life insurance risk is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the board of NIAC which is delegated through internal governance structures. Aggregate life insurance risk exposure and exposure to the sub-categories of life insurance risk are monitored through the GRPC supporting risk appetite measures.

The risks that arise as a result of writing life insurance business are also managed by a number of governance fora as well as senior management. The minimum standards required when managing these risks are set out in a suite of NIAC board approved policies.

NIAC transfers some life insurance risk to reinsurance companies who then meet an agreed share of the claims that arise on a book of business in return for a premium. This creates a credit exposure to these reinsurance companies which is managed within the NIAC risk management framework with responsibilities delegated through the Reinsurance Risk Policy. A review of the panel of reinsurers that may be used and the structure of reinsurance arrangements is carried out at least annually. Senior members of the management team with actuarial and underwriting expertise contribute to the effective oversight of this risk.

Risk measurement
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.

30 Financial risk management *(continued)*

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 40 on page 176.

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 on a quarterly basis. NIAC's ORSA report in respect of the NIAC annual assessment is also presented to the GRPC on an annual basis.

Capital management

Capital management objectives and policies
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 / European Central Bank (ECB) and economic capital based on internal models are used by the Group as the basis for its capital management. The Group seeks to maintain sufficient capital to ensure that these requirements are met.

The current status of capital adequacy, including risk dashboards and risk appetite compliance, is reported to senior executives and the Court through the Court Risk Report on a monthly basis.

Group **Capital resources**	**2018** **€m**	**2017** **€m**
Stockholders' equity	8,456	7,958
Other equity instruments	740	740
Non-controlling interests - equity	2	2
Total equity	**9,198**	**8,700**
Undated subordinated loan capital	121	122
Dated subordinated loan capital	1,986	1,988
Total capital resources	**11,305**	**10,810**

31 Modified financial assets

The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime ECL, and where the modification did not result in derecognition.

2018	**Group** **€m**	**Bank** **€m**
Financial assets modified during the year		
Amortised cost before modification	923	776
Net modification gains (i.e. net of impairment gains impact)	6	6
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month ECL during the year as at 31 December 2018	894	480

32 Shares in Group undertakings

During 2017, the Bank invested in €200 million of Additional tier 1 (AT1) securities issued by BOIMB.

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. No impairment charge was recognised in 2018 (2017: €6 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 requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement.

The recoverable amount calculations performed for the significant 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.

Bank	**2018 €m**	**2017 €m**
At beginning of year	4,177	4,060
Exchange adjustments	(15)	(69)
Acquisitions	-	271
Disposal of investments	-	(7)
Repayment of investments	(1)	(72)
Impairment of investments	-	(6)
At end of year	**4,161**	**4,177**
Group undertakings		
of which:		
- Credit Institutions	3,453	3,468
- Others	708	709
	4,161	**4,177**

33 Interest in associates

The Group has availed of the venture capital exemption in accounting for its interests in associates. In line with the accounting policy set out on page 76, these interests have been designated at initial recognition at FVTPL. Changes in the fair value of these interests are included in the share of results of associates (after tax) line on the income statement.

In presenting details of the associates of the Group, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

Group	**2018 €m**	**2017 €m**
At beginning of year	59	56
Decrease in investments	(15)	(11)
Increase in investments	5	11
Share of results after tax (note 18)	4	3
At end of year	**53**	**59**

34 Interest in joint ventures

Group	2018 €m	2017 €m
At beginning of year	69	71
Exchange adjustments	(1)	(3)
Share of results after tax (note 18)	37	40
- First Rate Exchange Services	*37*	*40*
Dividends received	(36)	(39)
At end of year	**69**	**69**

For further information on joint ventures refer to note 58 Interests in other entities.

35 Intangible assets and goodwill

Group	2018					2017				
	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost										
At 1 January	**31**	**71**	**1,560**	**208**	**1,870**	**-**	**101**	**1,379**	**201**	**1,681**
Additions	-	-	207	-	207	-	-	233	2	235
Acquisitions	-	-	-	-	-	31	-	-	15	46
Disposals / write-offs	-	-	-	(1)	(1)	-	(29)	(46)	(5)	(80)
Reclassifications	3	-	-	(3)	-	-	-	-	-	-
Exchange adjustments	-	-	1	-	1	-	(1)	(6)	(5)	(12)
At 31 December	**34**	**71**	**1,768**	**204**	**2,077**	**31**	**71**	**1,560**	**208**	**1,870**
Accumulated amortisation										
At 1 January	-	(70)	(893)	(128)	(1,091)	-	(99)	(829)	(118)	(1,046)
Disposals / write-offs	-	(1)	-	2	1	-	29	46	5	80
Impairment	-	-	(6)	-	(6)	-	-	-	-	-
Amortisation charge for the year (note 14)	-	-	(158)	(20)	(178)	-	-	(115)	(19)	(134)
Exchange adjustments	-	-	(3)	2	(1)	-	-	5	4	9
At 31 December	**-**	**(71)**	**(1,060)**	**(144)**	**(1,275)**	**-**	**(70)**	**(893)**	**(128)**	**(1,091)**
Net book value	**34**	**-**	**708**	**60**	**802**	**31**	**1**	**667**	**80**	**779**

35 Intangible assets and goodwill *(continued)*

The category 'computer software internally generated' includes the Transformation Investment asset with a carrying value of €253 million (2017: €163 million).

Goodwill
In 2017, the Group acquired 100% of the ordinary share capital of Marshall Leasing Limited (MLL), a car and commercial vehicle leasing and fleet management company based in the UK.

In 2017 goodwill was recognised on the acquisition date relates to the expected growth, cost synergies and the value of MLL's workforce which cannot be separately recognised as an intangible asset. During 2018, the Group finalised the accounting for the acquisition of MLL with the result that goodwill has been increased by €3 million from €31 million to €34 million and intangible assets have been reduced by €3 million from €15 million to €12 million. The goodwill has been allocated to the Group's Retail UK segment and is not expected to be deductible for tax purposes.

Impairment Review - Goodwill
Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of goodwill to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its ViU, where the value in use is the present value of the future cash flows expected to be derived from the asset.

Impairment testing of goodwill
Goodwill is allocated to cash generating units at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.

The calculation of the recoverable amount of goodwill for each of these cash generating units is based upon a value in use calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance.

The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement. The recoverable amount calculations performed for the significant amounts of goodwill are sensitive to changes in the following key assumptions:

Cash flow forecasts
Cash flow forecasts are based on internal management information for a period of up to five years, after which a growth factor appropriate for the business is applied. Initial cash flows are based on performance in the twelve month period ended 31 December 2018 and the next four years' cash flows are consistent with approved plans for each business.

Growth rates
Growth rates beyond five years are determined by reference to local economic growth, inflation projections or long term bond yields. The assumed long term growth rate for MLL is 3%.

Discount rate
The discount rate applied to MLL is the pre-tax weighted average cost of capital for the Group increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows. A rate of 12% has been used in the model.

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed by the Directors in the review. The Directors consider that reasonably possible changes in key assumptions used to determine the recoverable amount of MLL, would not result in any impairment of goodwill. No impairment has been identified as at 31 December 2018 (2017: €nil).

Impairment review - intangible assets
Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount.

There was €6 million impairment identified in the year ended 31 December 2018 (2017: €nil).

35 Intangible assets and goodwill *(continued)*

Bank	2018				2017			
	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	**49**	**1,441**	**107**	**1,597**	**76**	**1,250**	**106**	**1,432**
Additions	-	195	-	195	-	237	2	239
Disposals / write-offs	-	-	(1)	(1)	(27)	(41)	-	(68)
Exchange adjustments	-	1	-	1	-	(5)	(1)	(6)
At 31 December	**49**	**1,637**	**106**	**1,792**	**49**	**1,441**	**107**	**1,597**
Accumulated amortisation								
At 1 January	**(49)**	**(787)**	**(61)**	**(897)**	**(76)**	**(720)**	**(50)**	**(846)**
Disposals / write-offs	-	-	2	2	27	41	-	68
Impairment	-	(6)	-	(6)	-	-	-	-
Amortisation charge for the year	-	(155)	(13)	(168)	-	(111)	(12)	(123)
Exchange adjustments	-	(2)	-	(2)	-	3	1	4
At 31 December	**(49)**	**(950)**	**(72)**	**(1,071)**	**(49)**	**(787)**	**(61)**	**(897)**
Net book value	**-**	**687**	**34**	**721**	**-**	**654**	**46**	**700**

Impairment review - intangible assets
There was €6 million impairment identified in the Bank's intangible assets in 2018 (2017: €nil).

36 Investment properties

In 2018, rental income from investment property amounted to €48 million (2017: €43 million). Expenses directly attributable to investment property generating rental income was €5 million (2017: €8 million). There were no expenses directly attributable to investment properties which are not generating rental income for 2018 or 2017.

In 2018, a number of real estate funds, totalling €15 million were reclassified from investment properties to other financial assets at FVTPL.

At 31 December 2018, the Group held investment property of €1,037 million (2017: €912 million) on behalf of Wealth and Insurance policyholders.

Group	2018 €m	2017 €m
At beginning of year	912	864
Exchange adjustment	(3)	(9)
Additions	123	74
Revaluation	33	40
Reclassifications	(15)	-
Disposals	(13)	(57)
At end of year	**1,037**	**912**

37 Property, plant and equipment

Group 2018	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2018	**155**	**156**	**385**	**15**	**11**	**722**
Exchange adjustments	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Additions	-	-	50	2	20	72
Disposals / write-offs	-	(2)	(57)	-	-	(59)
Reversal of impairment (note 14)	4	-	-	-	-	4
Revaluation recognised in other comprehensive income	11	-	-	-	-	11
Reclassifications	-	10	8	-	(18)	-
At 31 December 2018	**170**	**164**	**386**	**17**	**13**	**750**
Accumulated depreciation						
At 1 January 2018	**-**	**(88)**	**(192)**	**(8)**	**-**	**(288)**
Exchange adjustments	-	-	(3)	-	-	(3)
Impairment	-	-	(9)	-	-	(9)
Disposals / write-offs	-	2	43	-	-	45
Charge for the year (notes 11,14)	-	(10)	(43)	(4)	-	(57)
At 31 December 2018	**-**	**(96)**	**(204)**	**(12)**	**-**	**(312)**
Net book value at 31 December 2018	**170**	**68**	**182**	**5**	**13**	**438**

At 31 December 2018, property, plant and equipment held at fair value was €170 million (2017: €155 million). The historical cost of property, plant and equipment held at fair value was €76 million (2017: €76 million). The net book value of property, plant and equipment held at cost less accumulated depreciation and impairment was €268 million (2017: €279 million).

During 2018, the Group disposed of an office building in Dublin. This asset had been reclassified from property, plant and equipment to assets classified as held for sale. In 2017 this asset was held at fair value less costs to sell and the disposal was completed in 2018.

37 Property, plant and equipment *(continued)*

Group 2017	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2017	**167**	**187**	**301**	**25**	**14**	**694**
Exchange adjustments	(2)	(1)	(4)	-	-	(7)
Acquisitions	-	-	90	-	-	90
Additions	-	-	7	6	31	44
Disposals / write-offs	-	(40)	(32)	(16)	-	(88)
Reversal of impairment (note 14)	4	-	-	-	-	4
Revaluation recognised in 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 14)	-	(9)	(23)	(3)	-	(35)
At 31 December 2017	**-**	**(88)**	**(192)**	**(8)**	**-**	**(288)**
Net book value at 31 December 2017	**155**	**68**	**193**	**7**	**11**	**434**

Bank 2018	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2018	**128**	**153**	**291**	**16**	**12**	**600**
Exchange adjustments	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Additions	-	-	2	2	19	23
Disposals / write-offs	-	(2)	(44)	-	-	(46)
Reversal of impairment	2	-	-	-	-	2
Revaluation recognised in other comprehensive income	11	-	-	-	-	11
Reclassifications	-	10	8	-	(18)	-
At 31 December 2018	**141**	**161**	**257**	**18**	**13**	**590**
Accumulated depreciation						
At 1 January 2018	**-**	**(89)**	**(189)**	**(9)**	**-**	**(287)**
Exchange adjustments	-	-	2	-	-	2
Impairment	-	-	(9)	-	-	(9)
Disposals / write-offs	-	2	41	-	-	43
Charge for the year	-	(10)	(21)	(4)	-	(35)
At 31 December 2018	**-**	**(97)**	**(176)**	**(13)**	**-**	**(286)**
Net book value at 31 December 2018	**141**	**64**	**81**	**5**	**13**	**304**

37 Property, plant and equipment *(continued)*

Property, plant and equipment in 2018 held at fair value was €141 million (2017: €128 million). The historical cost of property, plant and equipment held at fair value in 2018 was €50 million (2017: €50 million). The net book value of property plant and equipment in 2018 held at cost less accumulated depreciation and impairment amounted to €163 million (2017: €185 million).

Bank 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	**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
A revaluation of Group property was carried out as at 31 December 2018.

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	**2018 €m**	**2017 €m**	**2018 €m**	**2017 €m**
Contracted but not provided for in the financial statements	11	31	9	30
Authorised by the Directors but not contracted	199	161	193	159

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.

37 Property, plant and equipment *(continued)*

Minimum future rentals under non-cancellable operating leases
Included in this table, for 2018, is an amount of €8 million in relation to sub-lease rental (2017: €10 million) (Bank 2018: €6 million, 2017: €7 million).

Included in receivable for 2018 is €49 million (2017: €48 million) for future income receivable from existing car rental contracts relating to MLL.

Group	2018		2017	
	Payable €m	Receivable €m	Payable €m	Receivable €m
Not later than 1 year	63	28	64	26
Later than 1 year (not later than 5 years)	223	32	236	33
Later than 5 years	394	1	441	2

Bank	2018		2017	
	Payable €m	Receivable €m	Payable €m	Receivable €m
Not later than 1 year	57	2	58	2
Later than 1 year (not later than 5 years)	203	5	215	5
Later than 5 years	373	-	418	1

Finance leases
The Group leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal. At 31 December 2018, the net carrying amount of the assets held under finance leases was €5 million (2017: €7 million).

Group	2018			2017		
	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	4	-	4	4	-	4
Later than 1 year not later than 5 years	1	-	1	3	-	3

Bank	2018			2017		
	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	4	-	4	4	-	4
Later than 1 year not later than 5 years	1	-	1	3	-	3

38 Deferred tax

	Group		Bank	
	2018 €m	2017 €m	2018 €m	2017 €m
The movement on the deferred tax account is as follows:				
At beginning of year	1,184	1,236	1,143	1,143
Income statement charge (note 20)	(82)	(90)	(76)	(50)
Impact of adopting IFRS 9 (notes 64, 65)	33	-	24	-
Pensions and other retirement benefits	(27)	-	(29)	-
Debt instruments at fair value through other comprehensive income	20	-	20	-
Additional tier 1 - credit to equity (note 52)	7	7	7	7
Cash flow hedges credit / (charge) to other comprehensive income	6	16	4	13
Liability credit reserve - credit / (charge) to other comprehensive income	(6)	14	(6)	16
Available for sale financial assets - credit / (charge) to other comprehensive income	-	2	-	-
Revaluation of property	(6)	(1)	(6)	(1)
Other movements (including foreign exchange)	(6)	-	9	15
At end of year	**1,123**	**1,184**	**1,090**	**1,143**
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Unutilised tax losses	1,162	1,253	1,082	1,121
Pensions and other post retirement benefits	28	70	15	59
Accelerated capital allowances on equipment used by the Group / Bank	26	14	17	13
Impact of adopting IFRS 9	19	-	12	-
Cash flow hedge reserve	11	5	10	6
Impairment loss allowance	-	15	-	15
Other temporary differences	21	17	12	3
Deferred tax assets	**1,267**	**1,374**	**1,148**	**1,217**
Deferred tax liabilities				
Wealth and Insurance	(35)	(57)	-	-
Debt instruments at fair value through other comprehensive income	(20)	-	(19)	-
Property revaluation surplus	(20)	(13)	(19)	(11)
Liability credit reserve	(6)	-	(6)	-
Available for sale reserve	-	(49)	-	(47)
Other temporary differences	(63)	(71)	(14)	(16)
Deferred tax liabilities	**(144)**	**(190)**	**(58)**	**(74)**
Represented on the balance sheet as follows:				
Deferred tax assets	1,165	1,237	1,090	1,143
Deferred tax liabilities	(42)	(53)	-	-
	1,123	**1,184**	**1,090**	**1,143**

In accordance with IAS 12, in presenting the deferred tax balances above, the Group offsets DTA and deferred tax liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the DTAs and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €461 million (2017: €432 million).

The DTA of €1,165 million (2017: €1,237 million) shown on the balance sheet is after netting by jurisdiction (€1,267 million before netting by jurisdiction (2017: €1,374 million)). This includes an amount of €1,162 million at 31 December 2018 (2017: €1,253 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses.

The recognition of a DTA requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the DTAs can be utilised to the extent they have not already reversed.

The Group's projections of future taxable profits is based on forecasts covering its 5 year strategic planning period to 2023 and incorporates estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes, margins, costs and impairment losses. The Group assumes long-term growth in profitability from year 5 in line with macroeconomic projections.

38 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 2030 (2017: 2036).

The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's DTAs, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits from the 5th year of the strategic planning period was decreased by two percentage points, the Group estimates that this would increase the recovery period by one year.

Net DTAs at 31 December 2018 of €1.1 billion (2017: €1.2 billion) are expected to be recovered after more than one year.

The Group has US tax losses carried forward which are subject to a twenty year life, and are scheduled to expire in the period 2025 to 2029. A DTA of €46 million (2017: €44 million) has not been recognised in respect of these losses as an annual limitation on use will result in their expiring unused.

39 Other assets

	Group		Bank	
	2018 €m	**2017 €m**	**2018 €m**	**2017 €m**
Reinsurance asset	942	740	-	-
ViF asset (note 40)	571	565	-	-
Sundry and other debtors	333	289	66	87
Interest receivable[1]	278	254	246	218
Accounts receivable and prepayments	106	145	73	98
Trade receivables and contract assets	52	-	40	-
Other assets	**2,282**	**1,993**	**425**	**403**
Trade receivables and contract assets				
Trade receivables	48	-	36	-
Contract assets	4	-	4	-
Less: impairment loss allowance on trade receivables and contract assets	-	-	-	-
Total trade receivable and contract assets	**52**	**-**	**40**	**-**
Other assets are analysed as follows:				
Within 1 year	707	634	384	377
After 1 year	1,575	1,359	41	26
	2,282	**1,993**	**425**	**403**
The movement in the reinsurance asset is noted below:				
At beginning of year	740	765	-	-
New business	217	10	-	-
Changes in business	(15)	(35)	-	-
At end of year	**942**	**740**	**-**	**-**

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €8 billion (2017: €24.0 billion) in note 30 on page 150.

[1] *Interest receivable is subject to impairment under IFRS 9; the loss allowance on interest receivable is presented in the balance sheet along with the financial asset to which it relates.*

40 Life assurance business

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The ViF asset, which is presented gross of attributable tax, represents the present value of future profits, less an allowance for the cost of required capital, expected to arise from insurance contracts written by the balance sheet date. It is determined by projecting the future surpluses and other cash flows attributable to the shareholder arising from these contracts and discounting using risk free interest rates as specified under the Solvency II directive.

The process used in determining the key economic and experience assumptions is as follows:

Interest rates and unit growth rate
Interest rates and unit-growth rates are based on a range of duration specific rates determined by a risk free yield curve. This yield curve is provided by the 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.

Group **ViF asset**	**2018** **€m**	**2017** **€m**
At beginning of year	565	540
Income statement movement in ViF asset (gross of tax)	6	25
At end of year	**571**	**565**

Group **Sensitivities: impact on annual profit before tax**	**2018** **€m**	**2017** **€m**
1% increase in interest rates and unit growth rates	(26)	(27)
1% decrease in interest rates and unit growth rates	18	20
10% improvement in mortality	25	19
10% improvement in longevity[1]	(31)	(30)
10% improvement in morbidity	10	9
10% deterioration in persistency	(21)	(21)
10% increase in equity and property markets	35	38
5% improvement in maintenance expenses	19	17
0.5% widening in bond spreads[2]	(51)	(70)

While this table shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Volatility Adjustment
The Volatility Adjustment (VA) is an addition to the risk-free curve under the Solvency II regulations which is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. The VA is based on a risk-corrected spread on the assets in a reference portfolio. NIAC obtained approval to use VA from the CBI in January 2018.

[1] *Impact on Annuity book of business.*
[2] *Includes impact of VA.*

41 Deposits from banks

	Group 2018 €m	Group 2017 €m	Bank 2018 €m	Bank 2017 €m
Monetary Authority secured funding	2,037	3,553	386	1,806
Deposits from banks	445	786	5,013	4,315
Deposits from banks	**2,482**	**4,339**	**5,399**	**6,121**
Amounts include:				
Due to Group undertakings	-	-	4,627	3,628

Deposits from banks include cash collateral of €0.2 billion (2017: €0.6 billion) received from derivative counterparties in relation to net derivative asset positions (note 21) (Bank 2018: €0.2 billion, 2017: €0.5 billion).

Group	2018				2017			
Monetary Authority secured funding	**TLTRO €m**	**TFS €m**	**ILTR €m**	**Total €m**	**TLTRO €m**	**TFS €m**	**ILTR €m**	**Total €m**
Deposits from banks	386	1,427	224	2,037	1,806	1,353	394	3,553
Debt securities in issue (note 43)	617	-	-	617	1,455	-	-	1,455
Total	**1,003**	**1,427**	**224**	**2,654**	**3,261**	**1,353**	**394**	**5,008**

Bank	2018				2017			
Monetary Authority secured funding	**TLTRO €m**	**TFS €m**	**ILTR €m**	**Total €m**	**TLTRO €m**	**TFS €m**	**ILTR €m**	**Total €m**
Deposits from banks	386	-	-	386	1,806	-	-	1,806
Debt securities in issue (note 43)	617	-	-	617	1,455	-	-	1,455
Total	**1,003**	**-**	**-**	**1,003**	**3,261**	**-**	**-**	**3,261**

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 by March 2021, in line with the terms and conditions of the TLTRO facility.

Drawings under the Term Funding Scheme (TFS) from the BoE 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 financial assets at FVOCI and loans and advances to customers.

42 Customer accounts

	Group		Bank	
	2018 €m	**2017 €m**	**2018 €m**	**2017 €m**
Current accounts	33,199	30,715	32,705	30,656
Demand deposits	26,828	26,034	15,819	15,198
Term deposits and other products	18,057	17,954	9,618	9,992
Customer accounts at amortised cost	**78,084**	**74,703**	**58,142**	**55,846**
Term deposits at fair value through profit or loss	887	1,363	1,507	1,993
Total customer accounts	**78,971**	**76,066**	**59,649**	**57,839**
Amounts include:				
Due to BOIG plc	72	197	72	197
Due to associates and joint ventures	10	43	n/a	n/a
Due to Group undertakings	n/a	n/a	2,845	3,143

The movement in own credit risk related to the Group's customer accounts designated at fair value through profit and loss for the year is shown below. Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.

There were no amounts presented in OCI relating to liabilities that the Group designated at fair value through profit and loss which were derecognised during the year.

The carrying amount of the customer accounts designated as at FVTPL at 31 December 2018 was €31 million lower (Bank: €36 million lower) than the contractual amount due at maturity (2017: €2 million higher; Bank: €nil). This is set out in note 59.

At 31 December 2018, the Group's largest 20 customer deposits amounted to 3% (2017: 4%) of customer accounts. Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. Information on the contractual maturities of customer accounts is set out on page 160 in the Financial risk management note.

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 161).

Term deposits and other products include €67 million (2017: €91 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Schemes (DGS)) Regulations 2015, eligible deposits of up to €100,000 per depositor per credit institution are covered. Eligible deposits includes credit balances in current accounts, demand deposit accounts and term deposit accounts. The scheme is administered by the CBI and is funded by the credit institutions covered by the scheme.

On 24 November 2015, the European Commission (EC) released a proposal, European Deposit Insurance Scheme (EDIS), designed to achieve a common European deposit protection scheme by 2024.

The EU (Bank Recovery and Resolution) Regulations 2015, which transposed the Bank Recovery and Resolution Directive (BRRD) into Irish Law, provides that covered deposits (i.e. eligible deposits up to €100,000) are excluded from the scope of the bail-in tool. The bail-in tool enables a resolution authority to write 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 (FSCS) (in respect of eligible deposits with Bank of Ireland (UK) plc).

2018 Movement in own credit risk on deposits at FVTPL	**Group €m**	**Bank €m**
Balance at beginning of the year	12	24
Recognised in other comprehensive income	(30)	(38)
Balance at end of the year[1]	**(18)**	**(14)**

[1] *Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.*

43 Debt securities in issue

There were no amounts presented in OCI relating to liabilities that the Group designated at fair value through profit and loss which were derecognised during the year.

Following a realignment in 2018 of the collateral pledged by the Group against its TLTRO funding, the element of the TLTRO funding that is classified as Debt Securities in Issue has reduced to €615 million (2017: €1,450 million), with a corresponding increase in the element classified as Bank Deposits.

The carrying amount of the debt securities in issue designated as at FVTPL at 31 December 2018 was €19 million higher than the contractual amount due at maturity (2017: €31 million higher). This is set out in note 59.

	Group		Bank	
	2018 €m	**2017 €m**	**2018 €m**	**2017 €m**
Bonds and medium term notes	6,795	5,258	1,985	805
Monetary Authorities secured funding (note 41)	617	1,455	617	1,455
Other debt securities in issue	973	1,141	-	42
Debt securities in issue at amortised cost	**8,385**	**7,854**	**2,602**	**2,302**
Debt securities in issue at fair value through profit or loss	522	536	161	174
Total debt securities in issue	**8,907**	**8,390**	**2,763**	**2,476**
Amounts include:				
Due to BOIG plc	n/a	n/a	1,185	-

The movement on debt securities in issue is analysed as follows:

	Group		Bank	
	2018 €m	**2017 €m**	**2018 €m**	**2017 €m**
Opening balance	8,390	10,697	2,476	3,693
Issued during the year	2,056	172	1,184	-
Redemptions	(1,501)	(2,184)	(846)	(1,038)
Repurchases	(42)	(183)	(42)	(173)
Other movements	4	(112)	(9)	(6)
Closing balance	**8,907**	**8,390**	**2,763**	**2,476**

2018 **Movement in own credit risk on debt securities in issue at FVTPL**	**Group €m**	**Bank €m**
Balance at beginning of the year	3	3
Recognised in other comprehensive income	(13)	(13)
Balance at end of the year[1]	**(10)**	**(10)**

[1] *Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.*

44 Liabilities to customers under investment and insurance contracts

Wealth and Insurance writes the following life assurance contracts that contain insurance risk:

Non-unit linked life assurance contracts
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

Non-unit linked annuity contracts
These contracts provide the policyholder with an income until death (principally longevity and market risk).

Unit linked insurance contracts
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated based on recognised actuarial methods with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using a gross premium method of valuation.

The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate:
The interest rates used are based on risk free rates published by EIOPA in line with the Solvency II Directive.

Mortality and morbidity:
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.

Maintenance expenses:
Allowance is made for future policy costs and expense inflation explicitly.

Options and guarantees
The Group has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

Uncertainties associated with insurance contract cash flows and risk management activities
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of insurance contract liabilities.

Group Investment contract liabilities	2018 €m	2017 €m
Liabilities to customers under investment contracts, at fair value	**5,239**	**5,766**

The movement in gross life insurance contract liabilities can be analysed as follows:

Group Insurance contract liabilities	2018 €m	2017 €m
At beginning of year	10,878	10,458
New business	1,496	1,338
Changes in existing business	(1,371)	(918)
At end of year	**11,003**	**10,878**

Credit risk
Reinsurance programmes are in place to restrict the amount of exposure on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

Capital management and available resources
The Solvency II framework came into full effect from 1 January 2016 and introduced new capital, risk management, governance and reporting requirements for all European insurance entities. Under Solvency II, insurance entities are required to hold technical provisions to meet liabilities to policyholders using best estimate assumptions plus a risk margin. In addition, entities are required to hold a risk based Solvency Capital Requirement (SCR) which is calculated by considering the capital required to withstand a number of shock scenarios.

As part of the disclosure requirements, the Group's life assurance entity, NIAC, annually publishes a public document called the Solvency and Financial Condition Report (SFCR) setting out more detail on its solvency and capital management.

45 Other liabilities

	Group		Bank	
	2018 €m	**2017 €m**	**2018 €m**	**2017 €m**
Notes in circulation	1,278	1,222	-	-
Dividend payable to parent	800	800	800	800
Sundry creditors	285	282	56	86
Accrued interest payable	230	204	105	95
Accruals and deferred income	33	151	10	52
Short position in trading securities	16	-	16	-
Finance lease obligations	4	7	5	7
Other	616	616	289	322
Other liabilities	**3,262**	**3,282**	**1,281**	**1,362**
Other liabilities are analysed as follows:				
Within 1 year	3,219	3,160	1,246	1,309
After 1 year	43	122	35	53
	3,262	**3,282**	**1,281**	**1,362**

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.

46 Provisions

Group	**Restructuring €m**	**Onerous contracts €m**	**Legal and other €m**	**Total €m**
As at 1 January 2018	20	2	183	205
Exchange adjustment	-	-	-	-
Charge to income statement	64	-	30	94
Utilised during the year	(62)	-	(131)	(193)
Unused amounts reversed during the year	(2)	-	(20)	(22)
As at 31 December 2018	**20**	**2**	**62**	**84**

Group **Expected utilisation**	**Restructuring €m**	**Onerous contracts €m**	**Legal and other €m**	**Total €m**
Less than 1 year	15	-	57	72
1 to 2 years	1	1	2	4
2 to 5 years	3	1	2	6
5 to 10 years	1	-	1	2
Total	**20**	**2**	**62**	**84**

46 Provisions *(continued)*

Bank	Restructuring €m	Onerous contracts €m	Legal and other €m	Total €m
As at 1 January 2018	20	2	48	70
Exchange adjustment	-	-	-	-
Charge to income statement	64	-	10	74
Utilised during the year	(62)	-	(34)	(96)
Unused amounts reversed during the year	(2)	-	(8)	(10)
As at 31 December 2018	**20**	**2**	**16**	**38**

Bank Expected utilisation	Restructuring €m	Onerous contracts €m	Legal and other €m	Total €m
Less than 1 year	15	-	11	26
1 to 2 years	1	1	2	4
2 to 5 years	3	1	2	6
5 to 10 years	1	-	1	2
Total	**20**	**2**	**16**	**38**

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

At 31 December 2017, the Group held a provision of €158 million in relation to the ongoing industry wide Tracker Mortgage Examination (Bank: €35 million).

During 2018, the Group made considerable progress in contacting and remediating the majority of the remaining impacted customers.

In 2018, the Group also reviewed a number of accounts previously remediated in 2011 (prior to the Tracker Mortgage Examination) to ensure that customers had been treated consistently. Following this review, the Group found that some customers should have been offered the option of a tracker rate at an earlier date. These customers have now been offered redress and compensation to reflect the fact that they should have been on a tracker rate earlier (€9 million in 2018) (Bank: €2 million). The additional redress and compensation is covered within the existing Tracker Mortgage Examination provision. Whilst there was no increase in the provision in 2018, €12 million of the provision charge was reallocated to interest income (note 5) from other operating expenses (note 14) during the year.

The Group utilised €116 million of the provision during 2018 covering redress, compensation and related costs (Bank: €31 million). The Group expects that the majority of the remaining €42 million provision will be fully utilised within 12 months of the balance sheet date (Bank: €4 million).

While the redress and compensation element of the provision is largely known, there are still a number of uncertainties as to the eventual total cost of the examination and the administrative sanctions proceedings. Management has therefore exercised judgement to determine the appropriate provision in respect of certain key items in addition to the core elements of the redress and compensation to be paid to customers. These key judgemental items principally comprise the following:

- **appeals:** customers can pursue certain other options in respect of the determination as to whether they are impacted and the quantum of redress and compensation offered by the Group including lodging appeals to an independent appeals panel in the 12 months after receiving their letter offering redress and compensation. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals;
- **programme costs:** in determining the provision in respect of the examination, management has had to consider a range of costs associated with bringing the examination to an ultimate conclusion. This includes costs associated with the running of the appeals panel, tax liabilities that the Group will settle on behalf of customers, data system costs, tracing agents and various oversight and governance processes, including any potential fine relating to the conclusion of the ongoing CBI administrative sanctions proceedings.

47 Loss allowance provision on loan commitments and financial guarantees

Group	2018		2017	
	Amount €m	Loss allowance €m	Amount €m	Loss allowance €m
Loan commitments (note 63)	15,151	28	15,863	-
Guarantees and irrevocable letters of credit (note 63)	354	1	445	-
	15,505	**29**	**16,308**	**-**

Bank	2018		2017	
	Amount €m	Loss allowance €m	Amount €m	Loss allowance €m
Loan commitments (note 63)	10,064	19	9,607	-
Guarantees and irrevocable letters of credit (note 63)	342	4	415	-
	10,406	**23**	**10,022**	**-**

From 1 January 2018 loan commitments and guarantees and irrevocable letters of credit have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments and financial guarantees and irrevocable letters of credit on a 12 month or lifetime ECL approach.

The loss allowance on loan commitments are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9) and separate from the impairment loss allowance. To the extent a facility includes both a loan and an undrawn commitment; it is only the impairment attributable to the undrawn commitment that is presented in this table. The impairment loss allowance attributable to the loan is shown as part of the financial asset to which the loan commitment relates.

The loss allowance provision on loan commitments and guarantees and irrevocable letters of credit is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions.

At 31 December 2018, the Group held an impairment loss allowance of €29 million (Bank: €23 million) on loan commitments and financial guarantees, of which €18 million are classified as Stage 1, €9 million as Stage 2 and €2 million as Stage 3 (Bank: Stage 1; €16 million, Stage 2; €5 million and Stage 3; €2 million).

Prior to the adoption of IFRS 9, provision in respect of loan commitments and guarantees and irrevocable letters of credit were measured in accordance with IAS 37. Prior year comparative figures have not been restated.

The table below summarises the asset quality of loan commitments and financial guarantees by IFRS 9 twelve month PD grade which are not credit-impaired. Credit-impaired loan commitments are €61 million (Bank: €55 million) while credit-impaired guarantees and irrevocable letters of credit are €8 million (Bank: €8 million) for the year ended 31 December 2018.

Group 2018 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	7,034	48%	187	42%	7,221	48%	81	27%	19	44%	100	29%
5-7	5,539	38%	39	9%	5,578	37%	198	65%	3	7%	201	58%
8-9	1,888	13%	122	27%	2,010	13%	19	6%	4	9%	23	7%
10-11	184	1%	97	22%	281	2%	5	2%	17	40%	22	6%
Total	**14,645**	**100%**	**445**	**100%**	**15,090**	**100%**	**303**	**100%**	**43**	**100%**	**346**	**100%**

47 Loss allowance provision on loan commitments and financial guarantees *(continued)*

Bank 2018 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	3,919	41%	165	47%	4,084	41%	74	25%	19	44%	93	28%
5-7	3,889	40%	26	7%	3,915	39%	195	67%	3	7%	198	59%
8-9	1,705	18%	108	31%	1,813	18%	17	6%	4	9%	21	6%
10-11	144	1%	53	15%	197	2%	5	2%	17	40%	22	7%
Total	**9,657**	**100%**	**352**	**100%**	**10,009**	**100%**	**291**	**100%**	**43**	**100%**	**334**	**100%**

48 Retirement benefit obligations

The Group and Bank sponsor a number of DB and DC schemes in Ireland and overseas. The DB schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Willis Towers Watson.

The most significant DB scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the total liabilities across all Group sponsored DB schemes (80% of the total liabilities across all of the Bank DB schemes) at 31 December 2018. The BSPF and all of the Group's other RoI and UK DB schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of DB and DC) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in late 2014 and a new DC scheme, RetireWell, was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other DB plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

Regulatory Framework

The Group operates the DB plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to assess whether the scheme has 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.

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**	**100.0%**

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

48 Retirement benefit obligations *(continued)*

continues to make additional deficit-reducing contributions to the BSPF arising from the 2013 Group Pensions Review. During 2018, the Group accelerated the payment of €82 million of these additional contributions. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €58 million for the BSPF and are payable between 2019 and 2020.

The next formal triennial valuation of the BSPF will be carried out during 2019 based on the position at 31 December 2018.

The actuarial valuations are available for inspection by members but are not available for public inspection.

Group UK pension scheme
The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €nil million in 2018 (2017: €9 million).

Guaranteed Minimum Pensions (GMP)
Included in past service cost is an amount c.€4 million related to GMP equalisation which impacts certain of the Group's and Bank's UK pension schemes.

Financial and Demographic assumptions
The assumptions used in calculating the accounting costs and obligations of the Group's DB pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary, with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments.

The assumption for RoI price inflation is informed by reference to the 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 index-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.

The significant financial assumptions used in measuring the Group's and Bank's DB pension liability under IAS 19 are set out in the table below.

Financial assumptions	2018 % p.a.	2017 % p.a.
Irish schemes		
Discount rate	2.00	2.10
Inflation rate	1.35	1.65
Rate of general increase in salaries[1]	1.85	2.15
Rate of increase in pensions in payment[1]	0.78	0.98
Rate of increase to deferred pensions	1.30	1.60
UK schemes		
Discount rate	2.95	2.75
Consumer Price Inflation	2.20	2.20
Retail Price Inflation	3.20	3.20
Rate of general increase in salaries[1]	3.70	3.70
Rate of increase in pensions in payment[1]	2.16	2.16
Rate of increase to deferred pensions	2.20	2.20

Mortality assumptions
The mortality assumptions adopted for Irish pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland mortality investigations that are considered a best fit for the Group's expected future mortality experience.

Mortality assumptions	2018 years	2017 years
Longevity at age 70 for current pensioners		
Males	17.8	17.7
Females	19.3	19.2
Longevity at age 60 for active members currently aged 60 years		
Males	27.3	27.2
Females	29.1	29.0
Longevity at age 60 for active members currently aged 40 years		
Males	29.7	29.6
Females	31.2	31.1

[1] *Weighted average increase across all Group schemes.*

48 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	2018			2017		
	Irish Pension Plans €m	UK Pension Plans[1] €m	Total €m	Irish Pension Plans €m	UK Pension Plans[1] €m	Total €m
Income statement credit / (charge)						
Other operating expenses	(99)	(21)	(120)	(99)	(26)	(125)
Cost of restructuring programme	1	1	2	1	2	3
Statement of other comprehensive income						
Impact of remeasurement	155	1	156	(203)	76	(127)
Balance sheet obligations	**(252)**	**24**	**(228)**	**(481)**	**3**	**(478)**
This is shown on the balance sheet as:						
Retirement benefit obligation			(274)			(536)
Retirement benefit asset			46			58
Total net liability			**(228)**			**(478)**

Bank	2018			2017		
	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	**(145)**	**12**	**(133)**	**(387)**	**(9)**	**(396)**
This is shown on the balance sheet as:						
Retirement benefit obligation			(167)			(442)
Retirement benefit asset			34			46
Total net liability			**(133)**			**(396)**

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

48 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	**2018**			**2017**		
	Present value of obligation €m	**Fair value of plan assets €m**	**Surplus/ (deficit) of plans €m**	**Present value of obligation €m**	**Fair value of plan assets €m**	**Surplus/ (deficit) of plans €m**
At 1 January	**(7,726)**	**7,248**	**(478)**	**(7,738)**	**7,292**	**(446)**
Cost of restructuring programme						
- Negative past service cost	2	-	2	3	-	3
Other operating expenses	(277)	157	(120)	(198)	73	(125)
- Current service cost	*(109)*	*-*	*(109)*	*(117)*	*-*	*(117)*
- Past service cost	*(4)*	*-*	*(4)*	*-*	*-*	*-*
- Interest (expense) / income	*(164)*	*157*	*(7)*	*(170)*	*162*	*(8)*
- Impact of settlements	*-*	*-*	*-*	*89*	*(89)*	*-*
Return on plan assets not included in income statement	-	(101)	(101)	-	(39)	(39)
Change in demographic assumptions	-	-	-	15	-	15
Change in financial assumptions	202	-	202	(103)	-	(103)
Experience gains / (losses)	53	-	53	(5)	-	(5)
Employer contributions	-	212	212	-	217	217
- Deficit reducing[1]	*-*	*117*	*117*	*-*	*124*	*124*
- Other	*-*	*95*	*95*	*-*	*93*	*93*
Employee contributions	(10)	10	-	(11)	11	-
Benefit payments	271	(271)	-	252	(252)	-
Changes in exchange rates	10	(8)	2	59	(54)	5
At 31 December	**(7,475)**	**7,247**	**(228)**	**(7,726)**	**7,248**	**(478)**
The above amounts are recognised in the financial statements as follows: (charge) / credit						
Other operating expenses	(277)	157	(120)	(198)	73	(125)
Cost of restructuring programme	2	-	2	3	-	3
Total amount recognised in income statement	**(275)**	**157**	**(118)**	**(195)**	**73**	**(122)**
Changes in financial assumptions	202	-	202	(103)	-	(103)
Return on plan assets not included in income statement	-	(101)	(101)	-	(39)	(39)
Change in demographic assumptions	-	-	-	15	-	15
Changes in exchange rates	10	(8)	2	59	(54)	5
Experience gains / (losses)	53	-	53	(5)	-	(5)
Total remeasurements in other comprehensive income	**265**	**(109)**	**156**	**(34)**	**(93)**	**(127)**
Total past service cost comprises						
Impact of restructuring programme	2	-	2	3	-	3
Other operating expenses	(4)	-	(4)	-	-	-
Total	**(2)**	**-**	**(2)**	**3**	**-**	**3**

[1] *Deficit-reducing contributions consist principally of additional contributions related to the Group's Pensions Reviews.*

48 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	**2018**			**2017**		
	Present value of obligation €m	**Fair value of plan assets €m**	**Surplus / (deficit) of plans €m**	**Present value of obligation €m**	**Fair value of plan assets €m**	**Surplus / (deficit) of plans €m**
At 1 January	**(7,257)**	**6,861**	**(396)**	**(7,283)**	**6,933**	**(350)**
Cost of restructuring programme						
- Negative past service cost	2	-	2	3	-	3
Other operating expenses	(257)	148	(109)	(179)	65	(114)
- Current service cost	*(99)*	*-*	*(99)*	*(108)*	*-*	*(108)*
- Negative past service cost	*(4)*	*-*	*(4)*	*-*	*-*	*-*
- Interest (expense) / income	*(154)*	*148*	*(6)*	*(160)*	*154*	*(6)*
- Impact of settlements	*-*	*-*	*-*	*89*	*(89)*	*-*
Return on plan assets not included in income statement	-	(66)	(66)	-	(60)	(60)
Change in demographic assumptions	-	-	-	14	-	14
Change in financial assumptions	187	-	187	(91)	-	(91)
Experience gains / (losses)	49	-	49	(7)	-	(7)
Employer contributions	-	197	197	-	203	203
- Deficit-reducing[1]	*-*	*108*	*108*	*-*	*118*	*118*
- Other	*-*	*89*	*89*	*-*	*85*	*85*
Employee contributions	(8)	8	-	(9)	9	-
Benefit payments	255	(255)	-	237	(237)	-
Changes in exchange rates	10	(7)	3	58	(52)	6
At 31 December	**(7,019)**	**6,886**	**(133)**	**(7,257)**	**6,861**	**(396)**
The above amounts are recognised in the financial statements as follows: (charge) / credit						
Other operating expenses	(257)	148	(109)	(179)	65	(114)
Cost of restructuring programme	2	-	2	3	-	3
Total amount recognised in income statement	**(255)**	**148**	**(107)**	**(176)**	**65**	**(111)**
Changes in financial assumptions	187	-	187	(91)	-	(91)
Return on plan assets not included in income statement	-	(66)	(66)	-	(60)	(60)
Change in demographic assumptions	-	-	-	14	-	14
Changes in exchange rates	10	(7)	3	58	(52)	6
Experience gains / (losses)	49	-	49	(7)	-	(7)
Total remeasurements in other comprehensive income	**246**	**(73)**	**173**	**(26)**	**(112)**	**(138)**
Total past service cost comprises						
Impact of restructuring programme	2	-	2	3	-	3
Other operating expenses	(4)	-	(4)	-	-	-
Total	**(2)**	**-**	**(2)**	**3**	**-**	**3**

[1] *Deficit-reducing contributions are additional contributions related to the Group's Pensions Reviews.*

48 Retirement benefit obligations *(continued)*

The retirement benefit schemes' assets in Group and the Bank include BOIG plc shares amounting to €5 million (2017: €7 million) and one property occupied by Group companies to the value of €41 million (2017: €38 million).

	Group		Bank	
Asset breakdown	**2018 €m**	**2017 €m**	**2018 €m**	**2017 €m**
Liability Driven Investment (unquoted)	2,280	2,272	2,280	2,272
Cash and other (quoted)	1,016	382	993	369
Equities (quoted)	896	1,706	695	1,467
Property (unquoted)	724	648	696	621
Corporate bonds (quoted)	457	463	447	452
Private equities (unquoted)	357	296	357	296
Government bonds (quoted)	354	329	256	232
Property and infrastructure (quoted)	331	432	331	432
Senior secured loans (unquoted)	292	285	292	285
Hedge funds (unquoted)	279	181	279	181
Reinsurance (unquoted)	261	254	261	254
Total fair value of assets	**7,247**	**7,248**	**6,887**	**6,861**

Sensitivity of defined benefit obligation to key assumptions
The following tables set 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) 2018 €m**	**Impact on defined benefit obligation Increase / (decrease) 2017 €m**	**Impact on defined benefit obligation Increase / (decrease) 2018 €m**	**Impact on defined benefit obligation Increase / (decrease) 2017 €m**
RoI schemes				
Discount rate				
- Increase of 0.25%	(288)	(304)	(267)	(282)
- Decrease of 0.25%	310	328	287	303
Inflation rate				
- Increase of 0.10%	80	85	74	79
- Decrease of 0.10%	(70)	(83)	(64)	(77)
Salary growth				
- Increase of 0.10%	27	29	24	25
- Decrease of 0.10%	(26)	(28)	(23)	(24)
Life expectancy				
- Increase of 1 year	183	185	170	172
- Decrease of 1 year	(182)	(184)	(169)	(172)

48 Retirement benefit obligations *(continued)*

Impact on defined benefit obligations	Group		Bank	
	Impact on defined benefit obligation increase / (decrease) 2018 €m	Impact on defined benefit obligation increase / (decrease) 2017 €m	Impact on defined benefit obligation increase / (decrease) 2018 €m	Impact on defined benefit obligation increase / (decrease) 2017 €m
UK schemes				
Discount rate				
- Increase of 0.25%	(67)	(71)	(65)	(69)
- Decrease of 0.25%	72	77	70	74
RPI inflation				
- Increase of 0.10%	19	21	19	20
- Decrease of 0.10%	(17)	(18)	(16)	(17)
Salary growth				
- Increase of 0.10%	3	3	3	3
- Decrease of 0.10%	(5)	(3)	(4)	(3)
Life expectancy				
- Increase of 1 year	42	44	41	42
- Decrease of 1 year	(42)	(44)	(41)	(42)

While the DB obligation tables 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.

Impact on plan assets	Group		Bank	
	Impact on plan assets increase / (decrease) 2018 €m	Impact on plan assets increase / (decrease) 2017 €m	Impact on plan assets increase / (decrease) 2018 €m	Impact on plan assets increase / (decrease) 2017 €m
All schemes				
Sensitivity of plan assets to a movement in global equity markets with allowance for other correlated diversified asset classes				
- Increase of 5.00%	90	128	79	115
- Decrease of 5.00%	(90)	(128)	(79)	(115)
Sensitivity of liability-matching assets to a 25bps movement in interest rates				
- Increase of 0.25%	(264)	(271)	(260)	(267)
- Decrease of 0.25%	280	287	276	283
Sensitivity of liability-matching assets to a 10bps movement in inflation rates				
- Increase of 0.10%	71	74	71	74
- Decrease of 0.10%	(70)	(73)	(69)	(72)

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.

48 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.20 years for the Irish plans and c.20 years for the UK plans.

Expected employer contributions for 2019 are €120 million for the Group and €114 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 €58 million for the BSPF and are payable between 2019 and 2020. Expected employee contributions for 2019 are €10 million for the Group and €8 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 proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the DB liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio.

For measurement of the obligation in the financial statements under IAS 19, however, the DB obligation is calculated using a discount rate set with reference to high-quality corporate bond yields.

The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net DB deficit recorded on the balance sheet.

In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. During 2017, the level of both euro and sterling interest rate and inflation hedging was increased in the BSPF LDI portfolio to 75% of assets and a similar increase to 75% was executed for the Bank Affiliated Pension Fund. These changes have reduced asset volatility and provide a better match to the fund's liabilities.

The investment in bonds is discussed further below.

Changes in bond yields
The LDI approach invests in cash, government bonds, interest rate and inflation swaps, and other financial derivatives to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. It also provides a closer match to the expected timing of cash flow / pension payments. The portfolio broadly hedges against movements in long-term interest rates although it only hedges a portion of the BSPF's interest rate risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities. However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.

Inflation risk
The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the 2013 Group Pensions Review changes have further limited this exposure. The LDI portfolio broadly hedges against movements in inflation expectations although it only hedges a portion of the BSPF's inflation risks.

Furthermore, the portfolio does not protect against differences between expectations for eurozone average inflation and the fund's Irish inflation exposure.

Life expectancy
The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the Trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but are not limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, FX risk, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

49 Subordinated liabilities

		Group		Bank	
	Note	2018 €m	2017 €m	2018 €m	2017 €m
Undated loan capital					
The Governor and Company of the Bank of Ireland					
Stg£75 million 13⅜% Perpetual Subordinated Bonds	(a)	85	85	85	85
Bristol & West plc					
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	(b)	36	37	-	-
		121	**122**	**85**	**85**
Dated loan capital					
The Governor and Company of the Bank of Ireland					
€1,002 million 10% Fixed Rate Subordinated Notes 2020	(c)	214	222	214	222
Stg£197 million 10% Fixed Rate Subordinated Notes 2020		2	2	2	2
€250 million 10% Fixed Rate Subordinated Notes 2022	(d)	264	264	264	264
€750 million 4.25% Fixed Rate Subordinated Notes 2024	(e)	753	759	753	759
Stg£300 million 3.425% Fixed Rate Reset Callable Subordinated Notes 2027	(f)	330	334	330	334
US$500 million 4.425% Fixed Rate Reset Callable Subordinated Notes 2027	(f)	423	407	423	407
		1,986	**1,988**	**1,986**	**1,988**
Total subordinated liabilities		**2,107**	**2,110**	**2,071**	**2,073**
of which:					
Due to BOIG plc		753	741	753	741

Subordinated liabilities in issue at 31 December 2018

Undated loan capital

The principal terms and conditions of the subordinated liabilities which were in issue by the Group and the Bank in 2018 are set out below:

(a) The 13³/₈% Perpetual Subordinated Bonds were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. The Bank became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to the Bank.

(b) These preference shares, which are non-redeemable, non-equity shares, rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc. Holders of the preference shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. This preference dividend will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to the Bank, the Bank entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the preference shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to the preference shares that remained following the transfer of business would be protected. Under the Guarantee, the Bank agreed, subject to certain conditions, to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

The Guarantee contains provisions to the effect that the rights of the Bank's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of the Bank and (ii) subordinated creditors of the Bank other than those whose claims rank, or are expressed to rank, pari passu or junior to the payments under the Guarantee.

Dated loan capital

Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves.

49 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 2018 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 EU (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event), or (ii) Tax reasons (additional amounts payable on the Notes). Any redemption before the Maturity Date is subject to such approval by the Competent Authority as may be required by the 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 EU (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability and Noteholders acknowledge that the notes may be subject to the exercise of Irish statutory loss absorption powers by the relevant resolution authority. Redemption in whole but not in part is at the option of the 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.

50 Corporate reorganisation

Establishment of new holding company, BOIG 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).

51 Capital stock

As outlined in note 50, the Group undertook a corporate reorganisation during 2017 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 2018 or 2017.

Preference stock - Stg£1 each and €1.27 each
As at 31 December 2018 and 2017, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year.

On a winding up of, or other return of capital, by the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

Group and Bank Authorised	2018	2017
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

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2018 and consequently the preference stockholders were not entitled to vote at the Annual General Court (AGC) held on 20 April 2018.

Group and Bank Allotted and fully paid	2018	2017
Eur€	**€m**	**€m**
32.363 billion units of ordinary stock of €0.05 each (2017: 32.363 billion units)	1,618	1,618
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
	1,625	**1,625**

51 Capital stock *(continued)*

Group	Ordinary stock		Treasury stock	
Movements in ordinary and treasury stock (units)	**2018**	**2017**	**2018**	**2017**
At beginning of year	32,363,275,074	32,336,532,036	-	48,751,727
Stock sold / (purchased) and held for the benefit of life assurance policyholders	-	(65,117,079)	-	65,117,079
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**	**32,363,275,074**	**-**	**-**

Bank	Ordinary stock		Treasury stock	
Movements in ordinary and treasury stock (units)	**2018**	**2017**	**2018**	**2017**
At beginning of year	32,363,275,074	32,363,275,073	-	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**	**32,363,275,074**	**-**	**-**

52 Other equity instruments - Additional tier 1

	Group		Bank	
	2018 €m	**2017 €m**	**2018 €m**	**2017 €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 2018, the Group paid €55 million relating to the coupons on its AT1 securities (2017: €55 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.

53 Cash and cash equivalents

From 1 January 2018 cash and cash equivalents to banks have been classified and measured in accordance with IFRS 9. This involved reclassifying cash and cash equivalents from loans and receivables to amortised cost financial assets, and measuring the impairment loss allowance on cash and cash equivalents at amortised cost on a 12 month or lifetime ECL approach as appropriate. The comparative figures for the prior period have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Cash and cash equivalents comprise cash in hand and balances with central banks and banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

There was no significant movement in ECL during the year.

Cash and cash equivalents for the Group in 2018 reduced by €1,850 million during the year including a decrease of €27 million due to the effect of foreign currency exchange translation (2017: increase of €1,902 million despite a decrease of €159 million due to the effect of foreign currency translation).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

Group	2018 €m	2017 €m
Cash and balances at central banks	6,035	7,379
Loans and advances to banks (with an original maturity of less than 3 months)	2,316	2,822
Cash and cash equivalents	**8,351**	**10,201**
Less impairment loss allowance on cash and balances at central banks	(2)	-
Cash and cash equivalents at amortised cost	**8,349**	**10,201**

Cash and balances at central banks is made up as follows:

Group	2018 €m	2017 €m
United Kingdom (Bank of England)	2,872	2,190
Republic of Ireland (Central Bank of Ireland)	2,582	4,137
United States (Federal Reserve)	143	668
Other (cash holdings)	436	384
Total	**6,033**	**7,379**

54 Changes in liabilities arising from financing activities

	2018			2017		
	Subordinated liabilities €m	Interest on subordinated liabilities €m	Dividend on ordinary stock €m	Subordinated liabilities €m	Interest on subordinated liabilities €m	Dividend on ordinary stock €m
At beginning of year	2,110	49	800	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	-	(117)	-	-	(88)	-
- Dividend on ordinary stock paid in cash	-	-	-	-	-	(200)
Non-cash changes						
- Charge to income statement	-	121	-	-	98	-
- Fair value hedge adjustments	(21)	-	-	(20)	-	-
- Exchange adjustments	18	-	-	(19)	-	-
- Other movements	-	-	-	3	-	-
At end of year	**2,107**	**53**	**800**	**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 49. Interest accrued on subordinated liabilities is included within other liabilities.

55 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 BoE and its subsidiary, The BoE 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 2018 are set out in notes 29 and 42.

(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 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 48.

The Group occupies one property owned by the Group's pension schemes. At 31 December 2018, the value of this property was €41 million (2017: €38 million). In 2018, the rental income paid to the Group's pension schemes was €2 million (2017: €2 million).

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €nil in 2018 (2017: €9 million).

At 31 December 2018, the Group's pension schemes assets included BOIG plc shares amounting to €5 million (2017: €7 million).

(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 56.

(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, BOIG 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%.

55 Related party transactions *(continued)*

Group Companies Acts disclosure Loans	Balance as at 1 January 2018[1] €'000	Balance as at 31 December 2018[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2018[2] €'000	Repayments during the year ended 31 December 2018[3] €'000
Directors at 31 December 2018				
E Bourke				
Credit card total	2	3	6	-
Current account total	-	-	-	-
Total	**2**	**3**	**6**	**-**
A Keating				
Credit card total[4]	-	2	6	-
Total	**-**	**2**	**6**	**-**
P Kennedy				
Mortgages total	2,981	-	2,980	2,988
Credit card total	1	2	14	-
Current account total	-	-	-	-
Total	**2,982**	**2**	**2,994**	**2,988**
F McDonagh				
Mortgage total	-	981	986	14
Total	**-**	**981**	**986**	**14**
F Muldoon				
Mortgage total	135	103	134	36
Credit card total	9	4	15	-
Total	**144**	**107**	**149**	**36**
P Mulvihill				
Credit card total	-	-	-	-
Current account total	-	-	-	-
Total	**-**	**-**	**-**	**-**

K Atkinson, I Buchanan, R Goulding, A Kane (resigned 31 July 2018), P Haren, D Marston (resigned 30 September 2018) and S Pateman had no loans from the Group in 2018. No advances were made during the year. No amounts were waived during 2018.

None of the loans were credit impaired as at 31 December 2018 or at 31 December 2017. There is no interest which having fallen due on the above loans has not been paid in 2018 (2017: €nil).

All Directors have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 201.

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; RCF are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

55 Related party transactions *(continued)*

Group Companies Acts disclosure 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**	**-**

[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; RCF are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

55 Related party transactions *(continued)*

(ii) Loans to connected persons on favourable terms

Group 2018 Loans to connected persons[1] on favourable terms[2]	Balance as at 31 December 2018[3] €'000	Maximum amounts outstanding during 2018[4] €'000	Number of persons as at 31 December 2018	Maximum number of persons during 2018
E Bourke	1	4	2	2

Group 2017 Loans to connected persons[1] on favourable terms[2]	Balance as at 31 December 2017[3] €'000	Maximum amounts outstanding during 2017[4] €'000	Number of persons as at 31 December 2017	Maximum number of persons during 2017
Directors no longer in office at 31 December 2017				
R Boucher	-	1	1	1

(iii) Loans to connected persons - Central Bank licence condition disclosures

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- the aggregate maximum amount outstanding during the year for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

Group 2018 Connected persons[1] of the following Directors	Balance as at 31 December 2018[3] €'000	Maximum amounts outstanding during 2018[4] €'000	Number of persons as at 31 December 2018	Maximum number of persons during 2018
Persons connected to P Kennedy	1,574	1,656	1	1
Persons connected to F Muldoon[5]	-	-	-	-
Persons connected to E Bourke	508	594	2	2

Group 2017 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

[1] *Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*
[2] *Terms similar to those available to staff generally.*
[3] *Balance includes principal and interest.*
[4] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[5] *All loans to persons connected to F Muldoon requiring disclosure have been repaid.*

55 Related party transactions *(continued)*

(iv) Key management personnel (KMP) - loans and deposits (IAS 24)
For the purposes of IAS 24 'Related party disclosures', the Group has 28 KMPs (2017: 25) which comprise the Directors, the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to Executive Directors, the GEC comprises the Head of Group Strategy Development, Chief Executive Markets and Treasury, Chief Executive, Retail (UK), Chief Executive, Retail Ireland, Chief Operating Officer, Group Chief Risk Officer, Interim Head of Group Human Resources, Chief Executive, Corporate Banking and the Head of Group Marketing. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

Other than as indicated, all loans to NEDs 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 NEDs 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 2018 Key management personnel	Balance as at 1 January 2018[1,2] €'000	Balance as at 31 December 2018[1] €'000	Maximum amounts outstanding during 2018[3] €'000	Total number of relevant KMP as at 1 January 2018	Total number of relevant KMP as at 31 December 2018
Loans	6,031	4,635	8,076	16	21
Deposits	6,421	11,479	19,956	23	28

Group IAS 24 Disclosures 2017 Key management personnel	Balance as at 1 January 2017[1,2] €'000	Balance as at 31 December 2017[1] €'000	Maximum amounts outstanding during 2017[3] €'000	Total number of relevant KMP as at 1 January 2017	Total number of relevant KMP as at 31 December 2017
Loans	6,092	6,031	6,655	16	16
Deposits	4,743	6,421	14,544	21	24

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2018 or 31 December 2017.

Included in the above IAS 24 loan disclosure figures are loans to key management personnel and close family members of KMP on preferential staff rates, amounting to €47,785 (2017: €31,847).

None of the loans were credit-impaired at 31 December 2018 or at 31 December 2017. There was no interest which having fallen due on the above loans has not been paid (2017: €nil).

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

(v) Compensation of KMP
Details of compensation paid to KMP are provided below:

Group Remuneration	2018 €'000	2017 €'000
Salaries and other short-term benefits[4]	8,936	8,372
Post employment benefits[5]	767	886
Termination benefits[6]	1,065	401
Total	**10,768**	**9,659**
Number of KMP	28	25

[1] *Balance includes principal and interest.*
[2] *The opening balance includes balances and transactions with KMP who retired during 2017 and are not related parties during 2018. Therefore these KMPs are not included in the maximum amounts outstanding.*
[3] *These figures include credit card exposures at the maximum statement balance. In all cases 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 €2.9 million during 2018 (2017: €3.1 million). In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[4] *Comprises gross salary, Employer Pay Related Social Insurance contributions, fees, cash in lieu of pension, car allowance and other short-term benefits paid in the year.*
[5] *This comprises Employer contributions paid to pension funds.*
[6] *These include, inter alia, contractual payments due in lieu of notice periods.*

55 Related party transactions *(continued)*

(vi) Directors' remuneration

Details of Director's remuneration are provided in this table. No other fees or bonuses were paid to Directors during 2018 (2017: €nil). No stock options were granted or exercised during 2018 (2017: €nil).

The Non-Executive Directors' fees are paid by or receivable from BOIG plc.

Group	2018 €'000	2017 €'000
Fees	651	802
Other emoluments	1,999	2,026
Post employment benefits[1]		
- Defined benefit plans	45	285
- Defined contribution plans	8	8
Total Directors' remuneration	**2,703**	**3,121**

56 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) *Guarantee schemes*

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme)

Although the Group no longer has any guaranteed liabilities under the ELG Scheme, the ELG Scheme shall continue to exist until terminated by the Minister for Finance. Pending that termination, the Bank, BoIMB and Bank of Ireland (UK) plc continue to be bound by the terms of the ELG Scheme including the provision of certain covenants and an indemnity for the costs of the ELG Scheme in favour of the Minister pursuant to the Scheme documents of the ELG Scheme. No fees were payable in respect of the year ended 2018 (2017: €nil)

European Communities (Deposit Guarantee Schemes (DGS)) Regulations 2015

Details of the deposits protected by these schemes are set out in note 42.

(b) *National Asset Management Agency Investment DAC (NAMAID)*

The Group, through its wholly-owned subsidiary NIAC, holds 17 million B shares in NAMAID, corresponding to one-third of the 51 million B shares issued by NAMAID, acquired at a cost of €17 million. NAMAID also issued 49 million A shares to National Asset Management Agency (NAMA). As a result the Group holds 17% of the total ordinary share capital of NAMAID.

NAMAID is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transferred eligible bank assets and which issued the NAMA senior bonds and NAMA subordinated debt as consideration for those assets. The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAID. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAID and the appointment of a Chairman. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group). A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and is limited to the yield on ten year State bonds. A dividend of €0.2 million was received by the Group on 31 March 2018 (31 March 2017: €0.2 million).

(c) 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

Group	2018 €m	2017 €m
Assets		
Unguaranteed senior bonds issued by AIB	232	182
Unguaranteed subordinated bonds issued by AIB	15	32
NAMA subordinated bonds (note 22)	76	293
Bonds issued by the State	5,472	4,762
Other financial assets at fair value through the profit and loss		
Bonds issued by the State	245	367
Loans and advances to banks		
AIB	17	13
Liabilities		
Customer Accounts		
State (including agencies & entities under its control or joint control)	1,070	1,485
IBRC (in Special Liquidation) and its associates	-	28
Debt securities in issue		
State (including agencies & entities under its control or joint control)	134	147

[1] *The amounts shown relate to post employment benefits accrued for two Directors during 2018 (2017: two).*

56 Summary of relations with the State *(continued)*

control. This includes transactions with AIB Group plc and subsidiaries (AIB), Permanent TSB Group Holdings plc, Government departments, local authorities, county councils, embassies, NAMA, NAMAID and the National Treasury Management Agency (NTMA) which are all considered to be ‘controlled’ by the Government. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. The amounts outstanding at 31 December 2018 and 2017 in respect of these transactions, which are considered individually significant, are set out above.

During 2018, the Group disposed of NAMA subordinated bonds with a nominal value of €211 million which resulted in a gain on disposal reported in net trading income, see note 9.

(d) Irish bank levy

The Finance Act (No 2) 2013 introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The annual levy paid by the Group in October 2018 was €29 million (October 2017: €29 million). The Finance Act 2016, enacted in December 2016, confirmed the revised basis on which the levy would be calculated for the years 2017 to 2021. The revised levy equals 59% of each financial institution’s Deposit Interest Retention Tax (DIRT) payment for a particular year with the levy for 2017 and 2018 based on the DIRT payment for 2016. The revised levy for 2019 and 2020 is to be based on the 2017 DIRT payment and the revised levy for 2021 is to be based on the 2019 DIRT payment.

57 Principal undertakings

The Parent company of the Group is The Governor and Company of the Bank of Ireland (the ‘Bank’).

The principal Group undertakings for 2018 were:

Group 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 2018, the total amount outstanding in respect of mortgage covered securities issued was €8.3 billion (2017: €7.0 billion). In 2018, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €12.8 billion (2017: €10.2 billion).

BoIMB issues other debt securities under BoIMB’s obligation to the CBI within the terms of the Special Mortgage Backed Promissory Note (SMBPN) programme. At 31 December 2018, BoIMB had no such debt securities in issue (2017: €nil).

[1] Direct subsidiary of The Governor and Company of the Bank of Ireland.
[2] This entity is a subsidiary of First Rate Exchange Services Holdings Limited (FRESH), a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.

58 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 75 and 76.

(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 2018 were €29.9 billion (2017: €29.6 billion) and liabilities were €27.6 billion (2017: €27.3 billion).

The activities of BOIMB are subject to the Asset Covered Securities Act 2001 to 2007 which imposes certain restrictions over the assets of BoIMB. Total assets of BoIMB at 31 December 2018 were €19.6 billion (2017: €17 billion) and liabilities were €18.0 billion (2017: €15.8 billion).

The Group's life assurance entity, NIAC, is required to hold shareholder equity that exceeds a solvency capital requirement, see note 44 for details. In addition, the Group's Isle of Man insurance entity is required to hold shareholder equity that exceeds the solvency requirements specified by the Isle of Man Financial Services Authority.

Under Section 357 (1)(b) of the Companies Act 2014, the Bank has given an irrevocable guarantee to meet the liabilities, commitments and contingent liabilities entered into by certain Group undertakings. For further details on the Group's undertakings please see note 66 to the Bank financial statements. At 31 December 2018, the commitments of these undertakings amounted to €132 million (2017: €176 million).

(c) Structured entities

In the case of structured entities, in considering whether it controls the investee, the Group applies judgement around whether it has the ability to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power to affect the amount of its returns. The Group considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In the case of some venture capital investments, in considering whether it controls the investee the Group applies judgement around whether it has the ability to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power to affect the amount of its returns. The Group may hold 50% or more of the voting power of an entity, but has been considered to have significant influence, rather than control of the entity because the Group is not involved in directing the relevant activities of the entity and does not have the right to remove the manager of the entity.

In each case the Group considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, even though the Group normally owns less than half of the voting rights of those entities.

The Group does not consider it controls an investee when:

- the Group's only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

The Group holds interests in a number of structured entities (Brunel Residential Mortgage Securitisation No. 1 plc, Bowbell No. 1 plc), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. All of the assets and liabilities of these entities are restricted. Total assets amounted to €1.1 billion (2017: €4.8 billion) and liabilities amounted to €1.0 billion (2017: €2.5 billion).

In 2016, the Group entered into a CDS transaction transferring a portion of the credit risk on a reference portfolio of performing Irish SME and corporate exposures to Grattan Securities DAC (Grattan). During 2017, the Group entered into a further CDS transaction transferring a portion of the credit risk on a reference portfolio of performing leveraged acquisition finance exposures to Mespil Securities DAC (Mespil). No assets or liabilities were transferred to Grattan or Mespil as part of the transactions. Grattan and Mespil each cash collateralised their exposure under the respective CDSs through the issue of credit linked notes to third party investors. The reference portfolios can, at the option of the Group, be replenished up to the third anniversary of the dates of issue of the notes. The protection provided by Grattan matures in 2024, while that provided by Mespil matures in 2025.

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In 2018 and 2017 the Group did not provide financial or other support, nor does it expect or intend to do so.

All of these entities are consolidated in the Group's financial statements.

(d) Treatment of changes in control of a subsidiary during the reporting period

From time to time, the Group may wind up a wholly owned company. During this process, the Group voluntarily appoints a liquidator to manage the winding up of relevant entities. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and accounts for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative FX gains / losses

58 Interests in other entities *(continued)*

relating to these companies from the FX reserve to the income statement. In 2018, €4 million gain was transferred (2017: €11 million loss) (see note 19).

(e) Joint arrangements
A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture.

The table below shows the Group's principal joint arrangements for the year ended 31 December 2018.

All joint ventures investments are unquoted and are measured using the equity method of accounting. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2018 or cumulatively in respect of these entities. Other than disclosed in note 63, 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 2018 or cumulatively in respect of these entities. The Group does not have any contingent liabilities in respect of these entities other than its investment to date.

(g) Unconsolidated structured entities
The Group has incorporated certain entities to provide investment opportunities to clients in international commercial properties. The Group considers that it sponsors these entities where it continues to be involved in the entity or if it is in receipt of income from the entity during the year. At 31 December 2018, there was 1 entity (2017: 1). At 31 December 2018 the total gross asset value of these entities was €32 million (2017: €51 million).

With regard to the remaining unconsolidated structured entity, it is an infrastructure fund manager whose principal activity is managing property investments. In 2018, the Group did not receive asset management fees from this entity.

This structured entity is not consolidated, the associated fee and commission income in relation to this entity was €nil for 2018 (2017: €0.4 million) and is included in the Group's financial statements.

The carrying amount of assets and liabilities in relation to this entity in the Group's financial statements is €nil (2017: €nil).

The Group's maximum exposure to loss in respect of its unconsolidated structured entities is €nil (2017: €nil).

In relation to this entity, there are no contractual arrangements that require the Group to provide financial support.

(h) Coterminous year end dates
The Group consolidates certain entities where the entity does not have the same year end reporting date as the Group. This is to ensure the reporting dates of these Group entities are kept consistent with the principal legal agreements used to engage in its core business.

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

59 Measurement basis of financial assets and financial liabilities

Group	At fair value through profit or loss		Debt instruments at fair value through other comprehensive income	Held at amortised cost	Derivatives designated as hedging instruments	Insurance contracts	Total
2018	Mandatorily €m	Designated €m	€m	€m	€m	€m	€m
Financial assets							
Cash and balances at central banks	-	-	-	6,033	-	-	6,033
Items in the course of collection from other banks	-	-	-	259	-	-	259
Trading securities	29	-	-	-	-	-	29
Derivative financial instruments	1,268	-	-	-	456	-	1,724
Other financial assets at fair value through profit or loss	14,160	-	-	-	-	-	14,160
Loans and advances to banks	318	-	-	2,307	-	-	2,625
Financial assets at fair value through other comprehensive income	-	-	12,048	-	-	-	12,048
Debt securities at amortised cost	-	-	-	3,928	-	-	3,928
Asset classified as held for sale	-	-	-	602	-	-	602
Loans and advances to customers	261	-	-	76,102	-	-	76,363
Interest in associates	-	53	-	-	-	-	53
Other financial assets	-	-	-	278	-	-	278
Total financial assets	**16,036**	**53**	**12,048**	**89,509**	**456**	**-**	**118,102**
Financial liabilities							
Deposits from banks	-	-	-	2,482	-	-	2,482
Customer accounts	-	887	-	78,084	-	-	78,971
Items in the course of transmission to other banks	-	-	-	268	-	-	268
Derivative financial instruments	1,486	-	-	-	333	-	1,819
Debt securities in issue	-	522	-	8,385	-	-	8,907
Liabilities to customers under investment contracts	-	5,239	-	-	-	-	5,239
Insurance contract liabilities	-	-	-	-	-	11,003	11,003
Loss allowance provision on loan commitments and financial guarantees	-	-	-	29	-	-	29
Subordinated liabilities	-	-	-	2,107	-	-	2,107
Other financial liabilities	-	-	-	3,246	-	-	3,246
Short positions in trading securities	16	-	-	-	-	-	16
Total financial liabilities	**1,502**	**6,648**	**-**	**94,601**	**333**	**11,003**	**114,087**

59 Measurement basis of financial assets and financial liabilities *(continued)*

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
Other financial assets	-	-	-	-	-	254	-	254
Total financial assets	**234**	**1,655**	**14,513**	**13,223**	**527**	**87,129**	**-**	**117,281**
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
Other financial liabilities	-	-	-	-	-	3,282	-	3,282
Short positions in trading securities	-	-	-	-	-	-	-	-
Total financial liabilities	**300**	**1,659**	**7,665**	**-**	**28**	**92,551**	**10,878**	**113,081**

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

Group	2018		2017	
	Fair values €m	Contractual amount due on maturity €m	Fair values €m	Contractual amount due on maturity €m
Customer accounts	887	918	1,363	1,361
Liabilities to customers under investment contracts	5,239	5,239	5,766	5,766
Debt securities in issue	522	503	536	505
Financial liabilities designated at fair value through profit or loss	**6,648**	**6,660**	**7,665**	**7,632**

59 Measurement basis of financial assets and financial liabilities *(continued)*

Bank	At fair value through profit or loss		Debt instruments at fair value through other comprehensive income	Held at amortised cost	Derivatives designated as hedging instruments	Insurance contracts	Total
2018	Mandatorily €m	Designated €m	€m	€m	€m	€m	€m
Financial assets							
Cash and balances at central banks	-	-	-	3,163	-	-	3,163
Items in the course of collection from other banks	-	-	-	71	-	-	71
Trading securities	29	-	-	-	-	-	29
Derivative financial instruments	1,442	-	-	-	329	-	1,771
Other financial assets at fair value through profit or loss	121	-	-	-	-	-	121
Loans and advances to banks	21	-	-	12,279	-	-	12,300
Financial assets at fair value through other comprehensive income	-	-	12,048	-	-	-	12,048
Debt securities at amortised cost	-	-	-	6,050	-	-	6,050
Loans and advances to customers	-	160	-	38,666	-	-	38,826
Other financial assets	-	-	-	246	-	-	246
Total financial assets	**1,613**	**160**	**12,048**	**60,475**	**329**	**-**	**74,625**
Financial liabilities							
Deposits from banks	-	-	-	5,399	-	-	5,399
Customer accounts	-	1,507	-	58,142	-	-	59,649
Items in the course of transmission to other banks	-	-	-	147	-	-	147
Derivative financial instruments	1,645	-	-	-	305	-	1,950
Debt securities in issue	-	161	-	2,602	-	-	2,763
Loss allowance provision on loan commitments and financial guarantees	-	-	-	23	-	-	23
Subordinated liabilities	-	-	-	2,071	-	-	2,071
Other financial liabilities	-	-	-	1,265	-	-	1,265
Short positions in trading securities	16	-	-	-	-	-	16
Total financial liabilities	**1,661**	**1,668**	**-**	**69,649**	**305**	**-**	**73,283**

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.

Bank	2018		2017	
	Fair values €m	Contractual amount due on maturity €m	Fair values €m	Contractual amount due on maturity €m
Customer accounts	1,507	1,544	1,993	1,993
Liabilities to customers under investment contracts	-	-	-	-
Debt securities in issue	161	171	174	171
Financial liabilities designated at fair value through profit or loss	**1,668**	**1,715**	**2,167**	**2,164**

59 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
Other financial assets	-	-	-	-	-	218	218
Total financial assets	**127**	**1,771**	**45**	**11,985**	**524**	**58,962**	**73,414**
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
Other financial liabilities	-	-	-	-	-	1,362	1,362
Short positions in trading securities	-	-	-	-	-	-	-
Total financial liabilities	**263**	**1,801**	**2,168**	**-**	**12**	**67,845**	**72,089**

60 Fair values of assets and liabilities

Fair value of assets and liabilities
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1
Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2
Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3
Inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and financial liabilities recognised and subsequently measured at fair value
All financial instruments are initially recognised at fair value. The Group subsequently measures the following instruments at FVTPL or at FVOCI: trading securities, other financial assets and financial liabilities designated at FVTPL, derivatives, loans and advances to customers held at fair value, loans and advances to banks held at fair value, financial assets held at FVOCI, customer accounts held at fair value and debt securites in issue held at fair value. In 2017, AFS financial assets were measured at fair value in

60 Fair values of assets and liabilities *(continued)*

accordance with IAS 39. From 1 January 2018 financial assets which were classified as AFS have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9.

A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by the management of the relevant business unit. The valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent both across the Group and compared to prior reporting periods.

Loans and advances to customers held at fair value
These consist of assets mandatorily measured at FVTPL, which predominantly relate to 'Life loan mortgage products'. Unlike a standard mortgage product, borrowers do not make any periodic repayments and the outstanding loan balance increases through the life of the loan as interest due is capitalised. The mortgage is typically repaid out of the proceeds of the sale of the property. These assets are valued using DCF models which incorporate unobservable inputs (level 3 inputs).

Loans and advances to banks held at fair value
These consist of assets mandatorily measured at FVTPL, and includes assets managed on a fair value basis by the life assurance business and those assets that do not meet the requirements in order to be measured at FVOCI or amortised cost.

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Financial assets at fair value through other comprehensive income (FVOCI)
From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 68 to 72.

Financial assets at FVOCI predominantly consist of government bonds and listed debt securities. Debt securities at amortised cost consist mainly of government bonds, asset backed securities and other debt securities. For these assets where an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

Financial assets and financial liabilities held for trading
These instruments are valued using observable market prices (level 1 inputs), directly from a recognised pricing source or an independent broker or investment bank.

Derivative financial instruments
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, FX rates, equity prices and counterparty credit (level 2 inputs).

The fair values of the Group's derivative financial liabilities reflect the impact of changes in own credit spreads derived from observable market data (debit valuation adjustment). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment). 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.

During the year, the Group refined the inputs into the derivative valuation adjustments for bid offer spreads, credit valuation adjustment and funding valuation adjustment. The Group deemed these revisions to be changes in accounting estimates and has applied them prospectively in accordance with IAS8 'Accounting policies, changes in accounting estimates and errors'. The revisions resulted in a net gain of €43 million to the income statement.

Other financial assets at fair value through profit or loss (FVTPL)
These consist of assets mandatorily at FVTPL, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data i.e. level 1 or level 2 inputs. A small number of assets have been valued using DCF models, which incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

60 Fair values of assets and liabilities *(continued)*

Available for sale financial assets
From 1 January 2018 financial assets which were classified as AFS have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9.

Under IAS 39, for AFS financial assets for which an active market exists, fair value was determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

A small number of assets were valued using vendor prices, which were not considered to represent observable market data, or DCF models which incorporate unobservable inputs (level 3 inputs).

Securities with terms and conditions substantially similar to the NAMA subordinated debt trade in an active market. The quoted price of these securities has been used to value the NAMA subordinated debt (level 2 inputs).

Interest in associates
Investments in associates, which are venture capital investments, are accounted for at FVTPL and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as DCF analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

Customer accounts
Customer accounts designated at FVTPL consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group or other comparable financial institutions (level 2 inputs).

A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see above), leaving the Group with no net valuation risk due to those non-observable inputs.

Liabilities to customers under insurance and investment contracts
In line with the accounting policy set out on page 81, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the reporting date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

Debt securities in issue
Debt securities in issue with a fair value of €522 million (2017: €536 million) are measured at FVTPL, in order to reduce an accounting mismatch which would otherwise arise from hedging derivatives. Their fair value is based on valuation techniques incorporating observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to market observable credit spreads of similar instruments issued by the Group or other comparable financial institutions (level 2 inputs).

A small number of the debt securities in issue are valued using additional unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these debt securities in issue would not have a significant impact.

(b) Financial assets and liabilities held at amortised cost
For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks
From 1 January 2018, loans and advances to banks have been reclassified from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 68 to 72.

The estimated fair value of floating rate placements and overnight placings which are held at amortised cost is their carrying amount. The estimated fair value of fixed interest bearing placements which are held at amortised cost is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers held at amortised cost
From 1 January 2018 loans and advances to customers have been reclassified from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 68 to 72.

The fair value of both fixed and variable rate loans and advances to customers held at amortised cost is estimated using valuation techniques which include the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the reporting date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

60 Fair values of assets and liabilities *(continued)*

The method used to calculate the fair values of these assets has not changed under IFRS 9.

Debt securities at amortised cost
From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 68 to 72.

For debt securities at amortised cost for which an active market exists, fair value has been determined directly from observable market process (level 1 inputs).

Deposits from banks and customer accounts
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on DCFs using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue and subordinated liabilities
The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a DCF model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread (level 2 and level 3 inputs).

(c) Fair value on offsetting positions
Where the Group manages certain financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group applies the exception allowed under paragraph 48 of IFRS 13. That exception permits the Group to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, the Group measures the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

(d) Fair value of non-financial assets
Investment properties
Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs taken into consideration include occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Property
A revaluation of Group property was carried out as at 31 December 2018. All freehold and long leasehold commercial properties were valued by Lisney (or its partner, Sanderson Weatherall) as external valuers, with the exception of some select properties which were valued internally by the Group's qualified surveyors. External valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs).

Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Assets classified as held for sale
In 2017, the fair value of the property held for sale was based on a Lisney valuation received in November 2017.

60 Fair values of assets and liabilities *(continued)*

The following 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	2018				2017			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value								
Trading securities	29	-	-	29	68	-	-	68
Derivative financial instruments	1	1,705	18	1,724	3	2,301	44	2,348
Loans and advances to customers	-	-	261	261	-	-	-	-
Loans and advances to banks	-	318	-	318	-	-	-	-
Other financial assets at FVTPL	13,559	478	123	14,160	13,941	451	62	14,454
Financial assets at fair value through other comprehensive income	11,996	52	-	12,048	-	-	-	-
AFS financial assets	-	-	-	-	12,853	321	49	13,223
Interest in associates	-	-	53	53	-	-	59	59
Non-financial assets held at fair value								
Investment property	-	-	1,037	1,037	-	-	912	912
Property held at fair value	-	-	170	170	-	-	155	155
Assets classified as held for sale	-	-	-	-	-	-	28	28
	25,585	**2,553**	**1,662**	**29,800**	**26,865**	**3,073**	**1,309**	**31,247**
Financial liabilities held at fair value								
Customer accounts	-	860	27	887	-	1,360	3	1,363
Derivative financial instruments	2	1,810	7	1,819	1	1,985	1	1,987
Liabilities to customers under investment contracts	-	5,239	-	5,239	-	5,766	-	5,766
Insurance contract liabilities	-	11,003	-	11,003	-	10,878	-	10,878
Debt securities in issue	-	520	2	522	-	534	2	536
Short positions in trading securities	16	-	-	16	-	-	-	-
	18	**19,432**	**36**	**19,486**	**1**	**20,523**	**6**	**20,530**
Fair value of financial assets held at amortised cost								
Loans and advances to banks	5	2,302	-	2,307	-	3,061	-	3,061
Loans and advances to customers (including assets held for sale)	-	-	73,220	73,220	-	-	73,075	73,075
Debt securities at amortised cost	3,901	-	12	3,913	-	-	-	-
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	2,482	-	2,482	-	4,339	-	4,339
Customer accounts	-	78,089	-	78,089	-	74,718	-	74,718
Debt securities in issue	5,627	2,368	351	8,346	4,492	3,051	395	7,938
Subordinated liabilities	42	2,005	102	2,149	54	2,147	120	2,321

60 Fair values of assets and liabilities *(continued)*

Bank	2018				2017			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value								
Trading securities	29	-	-	29	68	-	-	68
Derivative financial instruments	1	1,751	19	1,771	3	2,304	47	2,354
Loans and advances to customers	-	-	160	160	-	-	-	-
Loans and advances to banks	-	21	-	21	-	-	-	-
Other financial assets at FVTPL	-	75	46	121	-	-	45	45
Financial assets at fair value through other comprehensive income	11,996	52	-	12,048	-	-	-	-
AFS financial assets	-	-	-	-	11,688	293	5	11,986
Non-financial assets held at fair value								
Property held at fair value	-	-	141	141	-	-	127	127
	12,026	**1,899**	**366**	**14,291**	**11,759**	**2,597**	**224**	**14,580**
Financial liabilities held at fair value								
Deposits from banks	-	-	-	-	-	1	-	1
Customer accounts	-	1,480	27	1,507	-	1,989	3	1,992
Derivative financial instruments	2	1,922	26	1,950	2	2,074	-	2,076
Debt securities in issue	-	159	2	161	-	172	2	174
Short positions in trading securities	16	-	-	16	-	-	-	-
	18	**3,561**	**55**	**3,634**	**2**	**4,236**	**5**	**4,243**
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	12,279	-	12,279	-	12,129	-	12,129
Loans and advances to customers	-	-	37,104	37,104	-	-	37,189	37,189
Debt securities at amortised cost	2,839	-	3,200	6,039	-	-	-	-
Other debt securities	-	-	-	-	-	-	2,195	2,195
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	5,399	-	5,399	-	6,120	-	6,120
Customer accounts	-	58,133	-	58,133	-	55,849	-	55,849
Debt securities in issue	794	1,773	-	2,567	-	2,322	-	2,322
Subordinated liabilities	-	2,005	102	2,107	-	2,147	120	2,267

60 Fair values of assets and liabilities *(continued)*

Group Movements in level 3 assets 2018	Loans advances customers €m	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Investment property €m	Property held at fair value €m	Assets classified as held for sale €m	Total €m
Opening Balance	-	62	44	49	59	912	155	28	1,309
Impact of adopting IFRS 9 on 1 January 2018	269	77	-	(49)	-	-	-	-	297
Opening Balance 1 January 2018	**269**	**139**	**44**	**-**	**59**	**912**	**155**	**28**	**1,606**
Exchange Adjustment	-	-	-	-	-	-	-	-	-
Total gains or losses in:									
Profit or loss									
- Net trading income	14	14	(4)	-	-	-	-	-	24
- Reversal of impairment charges	-	-	-	-	-	-	4	-	4
- Revaluation	-	-	-	-	-	29	-	-	29
- Impairment gains / (losses) on financial instruments	-	-	-	-	-	-	-	-	-
- Share of results of associates	-	-	-	-	4	-	-	-	4
- Life assurance investment income and gains	-	-	-	-	-	-	-	-	-
- Other operating income	-	2	-	-	-	-	-	-	2
- Gain on disposal of assets held for sale	-	-	-	-	-	-	-	7	7
Other comprehensive income	-	-	-	-	-	-	11	-	11
Additions	-	2	-	-	5	123	-	-	130
Disposals	-	(22)	-	-	(15)	(12)	-	(35)	(84)
Redemptions	(22)	(12)	-	-	-	-	-	-	(34)
Reclassifications	-	-	-	-	-	(15)	-	-	(15)
Transfers out of level 3									
- from level 3 to level 2	-	-	(27)	-	-	-	-	-	(27)
Transfers into level 3									
- from level 2 to level 3	-	-	5	-	-	-	-	-	5
Closing balance	**261**	**123**	**18**	**-**	**53**	**1,037**	**170**	**-**	**1,662**
Other transfers									
- from level 1 to level 2	-	-	-	-	-	-	-	-	-
- from level 2 to level 1	-	-	-	-	-	-	-	-	-
Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year									
- Net trading income	15	14	(4)	-	-	-	-	-	25
- Reversal of impairment charges	-	-	-	-	-	-	1	-	1
- Revaluation	-	-	-	-	-	-	-	-	-
- Life assurance investment income and gains	-	-	-	-	-	29	-	-	29
- Other operating income	-	1	-	-	-	-	-	-	1
- Share of results of associates	-	-	-	-	4	-	-	-	4

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2018 which were unavailable at 31 December 2017.The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets. The transfer from level 2 to level 1 arose as a result of the availability of level 1 inputs at 31 December 2018 which were unavailable at 31 December 2017.

60 Fair values of assets and liabilities *(continued)*

Group **2017** **Movements in level 3 assets**	**Other financial assets at FVTPL**	**Derivative financial instruments**	**Available for sale financial assets**	**Interest in associates**	**Investment property**	**Property held at fair value**	**Assets classified as held for sale**	**Total**
Opening Balance	49	54	75	56	864	167	-	1,265
Exchange Adjustment	-	(2)	-	-	(9)	(1)	-	(12)
Total gains or losses in:								
Profit or loss								
- Net trading income	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	14	(5)	-	-	-	-	-	9
- Reversal of impairment charges	-	-	-	-	-	3	-	3
- Revaluation	-	-	-	-	-	8	-	8
- Life assurance investment income and gains	-	-	-	-	42	-	-	42
- Other operating income	-	-	20	-	(2)	-	-	18
- Share of results of associates	-	-	-	3	-	-	-	3

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2017 which were unavailable at 31 December 2016.The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets. The transfer from level 2 to level 1 arose as a result of the availability of level 1 inputs at 31 December 2017 which were unavailable at 31 December 2016.

60 Fair values of assets and liabilities *(continued)*

Bank **Movements in level 3 assets** **2018**	**Loans advances customers €m**	**Other financial assets at FVTPL €m**	**Derivative financial instruments €m**	**Available for sale financial assets €m**	**Property held at fair value €m**	**Assets classified as held for sale €m**	**Total €m**
Opening Balance	-	45	47	5	127	-	224
Impact of adopting IFRS 9 on 1 January 2018	160	9	-	(5)	-	-	164
Opening balance at 1 January 2018	**160**	**54**	**47**	**-**	**127**	**-**	**388**
Exchange Adjustment	-	-	-	-	-	-	-
Total gains or losses in:							
Profit or loss							
- Net trading income	-	(3)	(4)	-	-	-	(7)
- Reversal of impairment charges	-	-	-	-	3	-	3
Other comprehensive income							
Additions	-	-	-	-	11	-	11
Disposals	-	(5)	-	-	-	-	(5)
Redemptions	-	-	-	-	-	-	-
Reclassifications	-	-	(3)	-	-	-	(3)
Transfers out of level 3							
- from level 3 to level 2	-	-	(27)	-	-	-	(27)
Transfers into level 3							
- from level 2 to level 3	-	-	6	-	-	-	6
Closing balance	**160**	**46**	**19**	**-**	**141**	**-**	**366**
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	-	6	18	-	-	-	24
- Interest income	-	-	-	-	1	-	1

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2018 which were unavailable at 31 December 2017. The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets. There were no transfers between level 1 and level 2.

Bank **2017** **Movements in level 3 assets**	**Other financial assets at FVTPL**	**Derivative financial instruments**	**Available for sale financial assets**	**Property held at fair value**	**Total**
Opening Balance	32	54	16	140	242
Exchange Adjustment	-	(2)	-	(1)	(3)
Total gains or losses in:					
Profit or loss					
- Net trading income	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	14	(5)	-	-	9
- Interest income	-	-	-	-	-

60 Fair values of assets and liabilities *(continued)*

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2018 which were unavailable at 31 December 2017. The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets. There were no transfers between level 1 and level 2.

Group	**2018**				**2017**			
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	3	1	2	6	19	1	660	680
Exchange adjustments	-	-	-	-	-	-	-	-
Total gains or losses in:								
Profit or loss								
- Net trading income	(2)	9	-	7	4	2	2	8
- Other comprehensive income	(1)	-	-	(1)	-	-	-	-
Additions	30	-	-	30	3	-	2	5
Disposals								
Redemptions and maturities	-	-	-	-	-	(1)	(128)	(129)
Reclassifications	-	-	-	-	-	-	-	-
Transfers out of level 3								
- from level 3 to level 2	(3)	(6)	-	(9)	(23)	(1)	(534)	(558)
Transfers into level 3								
- from level 2 to level 3	-	3	-	3	-	-	-	-
Closing balance	**27**	**7**	**2**	**36**	**3**	**1**	**2**	**6**
Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year								
Net trading income	1	(6)	-	(5)	-	(1)	(1)	(2)

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities. The transfers from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these liabilities. There were no transfers between levels 1 and 2.

Bank	**2018**				**2017**			
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	3	-	2	5	19	2	302	323
Exchange adjustments	-	-	-	-	-	-	-	-
Total gains or losses in:								
Profit or loss								
- Net trading income	(2)	37	-	35	3	1	-	4
- Other comprehensive income	(2)	-	-	(2)				
Additions	31	-	-	31	3	-	-	3
Redemptions and maturities	-	(10)	-	(10)	-	(5)	(128)	(133)
Reclassifications	-	(3)	-	(3)	-	3	-	3
Transfers out of level 3								
- from level 3 to level 2	(3)	(6)	-	(9)	(22)	(1)	(172)	(195)
Transfers in to level 3								
- from level 2 to level 3	-	8	-	8	-	-	-	-
Closing balance	**27**	**26**	**2**	**55**	**3**	**-**	**2**	**5**
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	2	(38)	-	(36)	-	(1)	(1)	(2)

60 Fair values of assets and liabilities *(continued)*

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities. The transfers from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these liabilities. There were no transfers between levels 1 and 2.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Group Level 3 assets	Valuation technique	Unobservable input	Fair value 2018 €m	Fair value 2017 €m	Range 2018 %	Range 2017 %
Loans and advances to customers	Discounted cash flow	Discount on market rate[1] Collateral charges	261	-	2.75%-4.5% 1.50%-7.5%	-
Other financial assets at fair value through profit or loss	Discounted cash flow Equity Value less discount	Discount rate[1] Discount	123	62	Third party pricing 0%-50%	Third party pricing 0%-50%
Derivative financial instruments	Discounted cash flow Option pricing model	Counterparty credit spread[2]	18	44	0%-4%	0%-4%
AFS financial assets	Market comparable companies	Discount rate[1] EBITDA multiple[3] Liquidity factor	-	49	-	Third party pricing
Interest in associates	Market comparable companies	Price of recent investment Earnings multiple[3] Revenue multiple[3]	53	59	Third party pricing	Third party pricing
Investment property	Market comparable property transactions	Property valuation assumptions	1,037	912	Third party pricing	Third party pricing
Property held at fair value	Market comparable property transactions	Property valuation assumptions	170	155	Third party pricing	Third party pricing

[1] *The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
[2] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
[3] *The Group's multiples represent multiples that market participants would use in valuing these investments.*

Note: 100 basis points = 1%

60 Fair values of assets and liabilities *(continued)*

Group

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (continued)

Level 3 liabilities	Valuation technique	Unobservable input	Fair value 2018 €m	Fair value 2017 €m	Range 2018 %	Range 2017 %
Customer accounts	Discounted cash flow Option pricing model	Own credit spread[1]	27	3	0%-4%	0%-4%
Derivative financial instruments	Discounted cash flow Option pricing model	Counterparty credit spread[1]	7	1	0%-4%	Third party pricing 0%-4%
Debt securities in issue	Discounted cash flow	Own credit spread[1]	2	2	0%-0.5%	0%-4%

Bank

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets	Valuation technique	Unobservable input	Fair value 2018 €m	Fair value 2017 €m	Range 2018 %	Range 2017 %
Loans and advances to customers	Discounted cash flow	Discount rate[2]	160	-	4%-5%	-
Other financial assets at fair value through profit or loss	Discounted cash flow Equity Value less discount	Discount rate[2] Discount	46	45	Third party pricing 0%-50%	0%-50%
Derivative financial instruments	Discounted cash flow Option pricing model	Counterparty credit spread[2]	19	47	0%-4%	0%-4%
Property held at fair value	Market comparable property transactions	Property valuation assumptions	141	127	Third party pricing	Third party pricing
AFS financial assets	Market comparable companies	Discount rate[1] EBITDA multiple[3] Liquidity factor	-	5	-	Third party pricing

[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.*

Note: 100 basis points = 1%

60 Fair values of assets and liabilities *(continued)*

Bank

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (continued)

Level 3 liabilities	Valuation technique	Unobservable input	Fair value 2018 €m	Fair value 2017 €m	Range 2018 %	Range 2017 %
Customer accounts	Discounted cash flow Option pricing model	Credit spread[1]	27	3	0%-4%	0%-4%
Derivative financial instruments	Discounted cash flow Option pricing model	Counterparty credit spread[1]	26	-	0%-4%	0%-4% Third party pricing
Debt securities in issue	Discounted cash flow	Own credit spread[1]	2	2	0%-0.5%	0%-4%

The carrying amount and the fair value of the Group 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	2018		2017	
Non-trading financial instruments	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
Assets				
Loans and advances to banks	2,307	2,307	3,061	3,061
Loans and advances to customers (including assets held for sale)	76,102	73,220	76,128	73,075
Debt securities at amortised cost	3,928	3,913	-	-
Liabilities				
Deposits from banks	2,482	2,482	4,339	4,339
Customer accounts	78,084	78,089	74,703	74,718
Debt securities in issue	8,385	8,346	7,854	7,938
Subordinated liabilities	2,107	2,149	2,110	2,321

[1] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*

Note: 100 basis points = 1%

60 Fair values of assets and liabilities *(continued)*

Bank	2018		2017	
Non-trading financial instruments	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
Assets				
Loans and advances to banks	12,279	12,279	12,129	12,129
Loans and advances to customers	38,666	37,104	39,018	37,189
Other debt securities	-	-	2,195	2,195
Debt securities at amortised cost	6,050	6,039	-	-
Liabilities				
Deposits from banks	5,399	5,399	6,120	6,120
Customer accounts	58,142	58,133	55,846	55,849
Debt securities in issue	2,602	2,567	2,302	2,322
Subordinated liabilities	2,071	2,107	2,073	2,267

61 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
2018					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2]	531	610	497	595	(98)
Sale and repurchase / similar products					
Financial assets at fair value through other comprehensive income	38	39	-	-	-
Debt securities at amortised cost	28	28	-	-	-
2017					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2]	633	748	611	729	(118)
Sale and repurchase / similar products					
Available for sale financial assets[3]	147	144	n/a	n/a	n/a

[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.*

n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.

61 Transferred financial assets *(continued)*

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
2018					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2]	531	610	497	595	(98)
Sale and repurchase / similar products					
Financial assets at fair value through other comprehensive income	38	39	-	-	-
Other debt securities[4]	470	412	-	-	-
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

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 BOIMB and held by the Bank as other debt securities, used to service Monetary Authority Funding.*

n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.

62 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group 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[1] instruments €m	Cash[2] collateral received €m	Net amount €m
2018						
Derivative financial assets	1,723	-	1,723	(1,307)	(169)	247
Loans and advances to customers	376	(376)	-	-	-	-
Total	**2,099**	**(376)**	**1,723**	**(1,307)**	**(169)**	**247**
2017						
Derivative financial assets	2,057	-	2,057	(1,395)	(583)	79
Loans and advances to customers	942	(942)	-	-	-	-
Total	**2,999**	**(942)**	**2,057**	**(1,395)**	**(583)**	**79**

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[1] instruments €m	Cash[2] collateral received €m	Deposits by banks[3] €m	Net amount €m
2018							
Derivative financial assets	1,681	-	1,681	(1,307)	(127)	-	247
Loans and advances to banks	1,845	-	1,845	-	-	(1,040)	805
Loans and advances to customers	376	(376)	-	-	-	-	-
Total	**3,902**	**(376)**	**3,526**	**(1,307)**	**(127)**	**(1,040)**	**1,052**
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**

[1] *Amounts of €1,307 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria (2017: €1,395 million).*
[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note 41).*
[3] *Loans and advances to banks of €1,845 million (2017: €2,242 million) and deposits by banks of €1,040 million (2017: €1,571 million) represent balances with a subsidiary undertaking, Bank of Ireland (UK) plc.*

62 Offsetting financial assets and liabilities *(continued)*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

Group 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[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral pledged €m	Net amount €m
2018						
Derivative financial liabilities	1,806	-	1,806	(1,307)	(409)	90
Customer deposits	376	(376)	-	-	-	-
Total	**2,182**	**(376)**	**1,806**	**(1,307)**	**(409)**	**90**
2017						
Derivative financial liabilities	1,914	-	1,914	(1,395)	(465)	54
Customer deposits	942	(942)	-	-	-	-
Total	**2,856**	**(942)**	**1,914**	**(1,395)**	**(465)**	**54**

Bank 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[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral pledged €m	Related amounts not set off in the balance sheet: Loans and advances to banks[3] €m	Net amount €m
2018							
Derivative financial liabilities	1,806	-	1,806	(1,307)	(409)	-	90
Deposits by banks	1,040	-	1,040	-	-	(1,845)	(805)
Customer deposits	376	(376)	-	-	-	-	-
Total	**3,222**	**(376)**	**2,846**	**(1,307)**	**(409)**	**(1,845)**	**715**
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)**

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 €1,307 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria (2017: €1,395 million).*
[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset.*
[3] *Loans and advances to banks of €1,845 million (2017: €2,242 million) and deposits by banks of €1,307 million (2017: €1,395 million) represent balances with a subsidiary undertaking, Bank of Ireland (UK) plc.*

63 Contingent liabilities and commitments

	Group		Bank	
	2018 €m	2017 €m	2018 €m	2017 €m
Contingent liabilities				
Guarantees and irrevocable letters of credit	354	445	342	415
Acceptances and endorsements	6	5	6	5
Other contingent liabilities	247	249	180	183
	607	**699**	**528**	**603**
Commitments				
Documentary credits and short-term trade related transactions	59	71	59	71
Undrawn formal standby facilities, credit lines and other commitments to lend:				
- revocable or irrevocable with original maturity of 1 year or less	11,569	12,618	6,566	6,502
- irrevocable with original maturity of over 1 year	3,523	3,174	3,439	3,034
	15,151	**15,863**	**10,064**	**9,607**

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.

Loss allowance provisions of €29 million (Bank: €23 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 47. Provisions on all other contingent liabilities and commitments are shown in note 46.

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short-term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory, taxation and other actions arising out of its normal business operations.

In February 2019, the Group received a letter before claim from investors in Eclipse film finance schemes asserting various claims in connection with the design promotion and operation of such schemes. The Group's involvement in these schemes was limited to the provision of commercial finance. The Group was not the designer, promoter or operator in respect of any of the schemes. The claims asserted are at a very early stage. Based on the facts currently known, it is not practicable to predict the outcome of these claims as alleged, including the timing or possible aggregate impact.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Included within total commitments above is an amount of €57 million of unrecognised loan commitments to the Group's joint ventures (2017: €109 million).

64 Group IAS 39 to IFRS 9 transitional disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement under IFRS 9 for the Group's financial assets and financial liabilities.

Financial assets IAS 39 balance sheet line item	Note	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m	IFRS 9 balance sheet line item
Cash and balances at central banks		Loans and receivables	7,379	Amortised cost	7,377	Cash and balances at central banks
Items in the course of collection from other banks		Loans and receivables	307	Amortised cost	307	Items in the course of collection from other banks
Trading securities		FVTPL	68	FVTPL (mandatory)	68	Trading securities
Derivative financial instruments (assets)[1]	21	FVTPL	2,348	FVTPL (mandatory)	2,348	Derivative financial instruments (assets)
Other financial assets at FVTPL	22	FVTPL	14,454	FVTPL (mandatory)	14,454	Other financial assets at FVTPL
Loans and advances to banks	23	Loans and receivables	3,061	Amortised cost	2,551	Loans and advances to banks at amortised cost
				FVTPL (mandatory)	509	Loans and advances to banks at FVTPL
Available for sale financial assets	26	Available for sale	13,223	FVOCI	10,118	Debt instruments at FVOCI
				FVTPL (mandatory)	364	Other financial assets at FVTPL
				Amortised cost	2,749	Debt securities at amortised cost
Loans and advances to customers	29	Loans and receivables	76,128	Amortised cost	75,580	Loans and advances to customers at amortised cost
				Amortised cost	19	Debt securities at amortised cost
				FVTPL (mandatory)	269	Loans and advances to customers at FVTPL
				FVTPL (mandatory)	35	Other financial assets at FVTPL
Interest in associates	33	FVTPL	59	FVTPL	59	Interest in associates
Other assets	39	Loans and receivables	254	Amortised cost	254	Other assets
Total			**117,281**		**117,061**	

[1] *At 31 December 2017, €527 million of derivative financial instruments carried as assets were cash flow hedge derivatives.*

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

Financial liabilities IAS 39 balance sheet line item	Note	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m	IFRS 9 balance sheet line item
Deposits from banks	41	Amortised cost	4,339	Amortised cost	4,339	Deposits from banks
Customer accounts	42	Amortised cost	74,703	Amortised cost	74,703	Customer accounts at amortised cost
		FVTPL (designated)	1,363	FVTPL (designated)	1,363	Customer accounts at FVTPL
Items in the course of transmission to other banks		Amortised cost	263	Amortised cost	263	Items in the course of transmission to other banks
Derivative financial instruments (liabilities)[1]	21	FVTPL	1,987	FVTPL (mandatory)	1,987	Derivative financial instruments (liabilities)
Debt securities in issue	43	Amortised cost	7,854	Amortised cost	7,854	Debt securities in issue at amortised cost
		FVTPL (designated)	536	FVTPL (designated)	536	Debt securities in issue at FVTPL
Liabilities to customers under investment contracts	44	FVTPL (designated)	5,766	FVTPL (designated)	5,766	Liabilities to customers under investment contracts
Subordinated liabilities	49	Amortised cost	2,110	Amortised cost	2,110	Subordinated liabilities
Other liabilities - accruals and deferred income	45	Amortised cost	151	Amortised cost	41	Other liabilities - accruals and deferred income
Loss allowance provision on loan commitments and financial guarantees	47	Provisions	-	Provisions	36	Loss allowance provision on loan commitments and financial guarantees
Total			**99,072**		**98,998**	

[1] *At 31 December 2017, €28 million of derivative financial instruments carried as liabilities were cash flow hedge derivatives.*

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

The basis of classification of financial assets under IFRS 9 depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

In order to be accounted for at amortised cost or FVOCI, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest (SPPI).

Within the Wealth and Insurance operating segment, assets which were designated at FVTPL under IAS 39, together with loans and advances to banks which were classified as loans and receivables, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

The majority of the Group's AFS debt instruments have been classified as FVOCI or at amortised cost under IFRS 9, depending on the business model in which they are held.

Certain of the Group's AFS debt instruments, principally NAMA subordinated bonds, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

AFS equity instruments have also been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

Certain loans and advances to customers have been mandatorily classified at FVTPL under IFRS 9. These loans represent the Life Loan mortgage product. The cash flows of these Life Loans are not considered to consist of SPPI, and as such are classified as FVTPL.

The following table provides a reconciliation of the Group's balance sheet by measurement category from IAS 39 to IFRS 9 at 1 January 2018.

Assets	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets at amortised cost				
Cash and balances at central banks				
Opening balance	7,379	-	-	7,379
Increase in impairment loss allowance	-	-	(2)	(2)
Total cash and balances at central banks	**7,379**	**-**	**(2)**	**7,377**
Loans and advances to banks				
Opening balance	3,061	-	-	3,061
To loans and advances to banks at fair value through profit or loss[1]	-	(509)	-	(509)
Increase in impairment loss allowance	-	-	(1)	(1)
Total loans and advances to banks	**3,061**	**(509)**	**(1)**	**2,551**
Debt securities at amortised cost				
Opening balance	-	-	-	-
From available for sale financial assets	-	2,766	-	2,766
From loans and advances to customers	-	19	-	19
Release of available for sale reserve	-	-	(16)	(16)
Increase in impairment loss allowance	-	-	(1)	(1)
Total debt securities at amortised cost	**-**	**2,785**	**(17)**	**2,768**
Loans and advances to customers				
Opening balance	76,128	-	-	76,128
To loans and advances to customers at fair value through profit or loss[2]	-	(281)	-	(281)
To debt securities at amortised cost	-	(19)	-	(19)
To other financial assets at fair value through profit or loss	-	(41)	-	(41)
From other liabilities - accruals and deferred income	-	(110)	-	(110)
From available for sale reserve	-	-	8	8
Increase in impairment loss allowance	-	-	(113)	(113)
Other remeasurements	-	-	8	8
Total loans and advances to customers	**76,128**	**(451)**	**(97)**	**75,580**
Other assets	**254**	**-**	**-**	**254**
Items in the course of collection from other banks	**307**	**-**	**-**	**307**
Total financial assets at amortised cost	**87,129**	**1,825**	**(117)**	**88,837**

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at FVTPL, had an impairment provision under IAS 39. Financial assets at FVTPL are not subject to impairment under IFRS 9.*

[2] *Loans and advances to customers that fail the solely payment of principal and interest (SPPI) test are mandatorily measured at FVTPL. These amounts will continue to be included within the loans and advances to customers line item on the balance sheet with a split out in note 29 to the financial statements. For the purpose of the transitional disclosures, these amounts have been split in order to show the amount that will be remeasured from amortised cost to FVTPL.*

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

Assets *(continued)*	**Carrying amount under IAS 39 31 December 2017 €m**	**Reclassification €m**	**Remeasurement €m**	**Carrying amount under IFRS 9 1 January 2018 €m**
Financial assets measured at fair value through other comprehensive income				
Debt instruments at fair value through other comprehensive income				
Opening balance	-	-	-	-
From available for sale financial assets	-	10,118	-	10,118
Total debt instruments at fair value through other comprehensive income	**-**	**10,118**	**-**	**10,118**
Financial assets measured at fair value through profit or loss				
Trading securities	**68**	**-**	**-**	**68**
Derivative financial instruments	**2,348**	**-**	**-**	**2,348**
Loans and advances to customers mandatorily at fair value through profit or loss				
Opening balance	-	-	-	-
From loans and advances to customers at amortised cost	-	281	-	281
Reversal in impairment loss allowance (IAS 39)[1]	-	-	14	14
Adjustment to fair value	-	-	(26)	(26)
Total loans and advances to customers	**-**	**281**	**(12)**	**269**
Loans and advances to banks mandatorily at fair value through profit or loss				
Opening balance	-	-	-	-
From loans and advances to banks at amortised cost	-	509	-	509
Total loans and advances to banks	**-**	**509**	**-**	**509**
Other financial assets at fair value through profit or loss				
Opening balance	14,454	-	-	14,454
From available for sale financial assets	-	339	-	339
From loans and advances to customers	-	41	-	41
Reversal in impairment loss allowance (IAS 39)[1]	-	-	10	10
Adjustment to fair value	-	-	9	9
Other financial assets at fair value through profit or loss	**14,454**	**380**	**19**	**14,853**
Interest in associates	**59**	**-**	**-**	**59**
Total financial assets at fair value through profit or loss	**16,929**	**1,170**	**7**	**18,106**
Available for sale financial assets				
Opening balance	13,223	-	-	13,223
To debt securities at amortised cost	-	(2,766)	-	(2,766)
To debt instruments at fair value through other comprehensive income	-	(10,118)	-	(10,118)
To other financial assets at fair value through profit or loss	-	(339)	-	(339)
Total available for sale financial assets	**13,223**	**(13,223)**	**-**	**-**
Total exclusive of net deferred tax	**117,281**	**(110)**	**(110)**	**117,061**
Net deferred tax asset / liability				
Net opening balance	1,184	-	-	1,184
Tax on impairment loss allowance - remeasurement	-	-	32	32
Other changes	-	-	1	1
Total net deferred tax	**1,184**	**-**	**33**	**1,217**
Total inclusive of net deferred tax	**118,465**	**(110)**	**(77)**	**118,278**

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at FVTPL had an impairment provision under IAS 39. Financial assets at FVTPL are not subject to impairment under IFRS 9.*

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

Liabilities	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial liabilities at amortised cost				
Deposits from banks	4,339	-	-	4,339
Customer accounts	74,703	-	-	74,703
Items in the course of transmission to other banks	263	-	-	263
Debt securities in issue	7,854	-	-	7,854
Subordinated liabilities	2,110	-	-	2,110
Other liabilities - accruals and deferred income	151	(110)	-	41
Total financial liabilities at amortised cost	**89,420**	**(110)**	**-**	**89,310**
Loss allowance provision on loan commitments and financial guarantees				
Opening balance	-	-	-	-
Increase in loss allowance provision	-	-	36	36
Total loss allowance provision on loan commitments and financial guarantees	**-**	**-**	**36**	**36**
Financial liabilities at fair value through profit or loss				
Customer accounts	1,363	-	-	1,363
Derivative financial instruments	1,987	-	-	1,987
Debt securities in issue	536	-	-	536
Liabilities to customers under investment contracts	5,766	-	-	5,766
Total financial liabilities at fair value through profit or loss	**9,652**	**-**	**-**	**9,652**
Total	**99,072**	**(110)**	**36**	**98,998**

This table provides a summary of the impact of remeasurement on the assets, liabilities and stockholders' equity of the Group on the adoption of IFRS 9 at 1 January 2018:

Impact of adopting IFRS 9 on 1 January 2018	€m
Assets	(77)
Liabilities	(36)
Total impact on assets and liabilities	**(113)**
Impact on equity	**(113)**

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

Equity	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Liability credit reserve				
Opening balance	-	-	-	-
From retained earnings	-	(13)	-	(13)
Total liability credit reserve	**-**	**(13)**	**-**	**(13)**
Available for sale reserve				
Opening balance	341	-	-	341
To debt instruments at fair value through other comprehensive income reserve	-	(269)	-	(269)
To retained earnings	-	(65)	-	(65)
Reduction in available for sale reserve related to assets at amortised cost	-	-	(7)	(7)
Total available for sale reserve	**341**	**(334)**	**(7)**	**-**
Debt Instruments at fair value through other comprehensive income reserve				
Opening balance	-	-	-	-
From available for sale reserve	-	269	-	269
Increase in impairment loss allowance	-	-	3	3
Total debt instruments at fair value through other comprehensive income reserve	**-**	**269**	**3**	**272**
Retained earnings				
Opening balance	4,778	-	-	4,778
Impairment loss allowance - remeasurement	-	-	(156)	(156)
From available for sale reserve	-	65	-	65
To liability credit reserve	-	13	-	13
Other remeasurements	-	-	15	15
Deferred tax on remeasurement	-	-	32	32
Total impact on retained earnings	**4,778**	**78**	**(109)**	**4,747**
Total impact on equity	**5,119**	**-**	**(113)**	**5,006**

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

The following table provides the reconciliation of the Group's closing impairment provision in accordance with IAS 39 and provisions in accordance with IAS 37 to the opening loss allowance determined in accordance with IFRS 9.

Impairment loss allowance	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets at amortised cost				
Opening balance	2,359	-	-	2,359
To financial assets at fair value through profit or loss	-	(8)	-	(8)
To loans and advances to customers at fair value through profit or loss	-	(14)	-	(14)
Increase in impairment loss allowance	-	-	117	117
Total assets at amortised cost	**2,359**	**(22)**	**117**	**2,454**
Financial assets measured at fair value through other comprehensive income reserve				
Opening balance	-	-	-	-
Increase in impairment loss allowance	-	-	3	3
Total financial assets measured at fair value through other comprehensive income	**-**	**-**	**3**	**3**
Fair value through profit or loss				
Loans and advances to customers mandatorily at fair value through profit or loss				
Opening balance	-	-	-	-
From financial assets at amortised cost – loans and advances to customers	-	14	-	14
Reversal in impairment loss allowance (IAS 39)[1]	-	-	(14)	(14)
Total loans and advances to customers mandatorily at fair value through profit or loss	**-**	**14**	**(14)**	**-**
Other financial assets at fair value through profit or loss				
Opening balance	-	-	-	-
From financial assets at amortised cost – loans and advances to customers	-	8	-	8
From available for sale financial assets	-	2	-	2
Reversal in impairment loss allowance (IAS 39)[1]	-	-	(10)	(10)
Total other financial assets at fair value through profit or loss	**-**	**10**	**(10)**	**-**
Total financial assets at fair value through profit or loss	**-**	**24**	**(24)**	**-**
Available for sale financial assets				
Opening balance	2	-	-	2
To other financial assets at fair value through profit or loss	-	(2)	-	(2)
Total available for sale financial assets	**2**	**(2)**	**-**	**-**
Total impairment loss allowance	**2,361**	**-**	**96**	**2,457**

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at FVTPL had an impairment provision under IAS 39. Financial assets at FVTPL are not subject to impairment under IFRS 9.*

64 Group IAS 39 to IFRS 9 transitional disclosures *(continued)*

Loss allowance provision	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Provision on loan commitments and financial guarantees				
Opening balance	-	-	-	-
Increase in loss allowance provision in loan commitments, guarantees and irrevocable letters of credit	-	-	36	36
Total loss allowance provision on loan commitments and financial guarantees	**-**	**-**	**36**	**36**

The following table shows the effects of the reclassification of AFS financial assets under IAS 39 to amortised cost under IFRS 9.

	2018 €m
From available for sale financial assets under IAS 39	2,470
Fair value gain / (loss) that would have been recognised in 2018 in other comprehensive income if the financial assets had not been reclassified	6

65 Bank IAS 39 to IFRS 9 transitional disclosures

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement under IFRS 9 for the Group's financial assets and financial liabilities.

Financial assets IAS 39 balance sheet line item	Note	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m	IFRS 9 balance sheet line item
Cash and balances at central banks		Loans and receivables	5,310	Amortised cost	5,308	Cash and balances at central banks
Items in the course of collection from other banks		Loans and receivables	92	Amortised cost	92	Items in the course of collection from other banks
Trading securities		FVTPL	68	FVTPL (mandatory)	68	Trading securities
Derivative financial instruments (assets)[1]	21	FVTPL	2,354	FVTPL (mandatory)	2,354	Derivative financial instruments (assets)
Other financial assets at FVTPL	22	FVTPL	45	FVTPL (mandatory)	45	Other financial assets at FVTPL
Loans and advances to banks	23	Loans and receivables	12,129	Amortised cost	12,113	Loans and advances to banks at amortised cost
Available for sale financial assets	26	Available for sale	11,985	FVOCI	10,118	Debt instruments at FVOCI
				FVTPL (mandatory)	302	Other financial assets at FVTPL
				Amortised cost	1,560	Debt securities at amortised cost
Other debt securities	27	Loans and receivables	2,195	Amortised cost	2,191	Debt securities at amortised cost
Loans and advances to customers	29	Loans and receivables	39,018	Amortised cost	38,656	Loans and advances to customers at amortised cost
				FVTPL (mandatory)	160	Loans and advances to customers at FVTPL
Other assets	39	Loans and receivables	218	Amortised cost	218	Other assets
Total			**73,414**		**73,185**	

[1] *At 31 December 2017, €524 million of derivative financial instruments carried as assets were cash flow hedge derivatives.*

65 Bank IAS 39 to IFRS 9 transitional disclosures *(continued)*

Financial liabilities

IAS 39 balance sheet line item	Note	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m	IFRS 9 balance sheet line item
Deposits from banks	41	Amortised cost	6,120	Amortised cost	6,120	Deposits from banks
		FVTPL (designated)	1	FVTPL (designated)	1	Deposits from banks at FVTPL
Customer accounts	42	Amortised cost	55,846	Amortised cost	55,846	Customer accounts at amortised cost
		FVTPL (designated)	1,993	FVTPL (designated)	1,993	Customer accounts at FVTPL
Items in the course of transmission to other banks		Amortised cost	142	Amortised cost	142	Items in the course of transmission to other banks
Derivative financial instruments (liabilities)[1]	21	FVTPL	2,076	FVTPL (mandatory)	2,076	Derivative financial instruments (liabilities)
Debt securities in issue	43	Amortised cost	2,302	Amortised cost	2,302	Debt securities in issue at amortised cost
		FVTPL (designated)	174	FVTPL (designated)	174	Debt securities in issue at FVTPL
Subordinated liabilities	49	Amortised cost	2,073	Amortised cost	2,073	Subordinated liabilities
Other liabilities - accruals and deferred income	45	Amortised cost	52	Amortised cost	(53)	Other liabilities - accruals and deferred income
Loss allowance provision on loan commitments and financial guarantees	47	Provisions	-	Provisions	22	Loss allowance provision on loan commitments and financial guarantees
Total			**70,779**		**70,696**	

[1] *At 31 December 2017, €12 million of derivative financial instruments carried as liabilities were cash flow hedge derivatives.*

65 Bank IAS 39 to IFRS 9 transitional disclosures *(continued)*

The basis of classification of financial assets under IFRS 9 depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

In order to be accounted for at amortised cost or FVOCI, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest (SPPI).

The majority of the Bank's AFS debt instruments have been classified as FVOCI or at amortised cost under IFRS 9, depending on the business model in which they are held.

Certain of the Bank's AFS debt instruments, principally NAMA subordinated bonds, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

AFS equity instruments have also been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

Certain loans and advances to customers have been mandatorily classified at FVTPL under IFRS 9.

The following table provides a reconciliation of the Bank's balance sheet by measurement category from IAS 39 to IFRS 9 at 1 January 2018.

Assets	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets at amortised cost				
Cash and balances at central banks				
Opening balance	5,310	-	-	5,310
Increase in impairment loss allowance	-	-	(2)	(2)
Total cash and balances at central banks	**5,310**	**-**	**(2)**	**5,308**
Loans and advances to banks				
Opening balance	12,129	-	-	12,129
Increase in impairment loss allowance	-	-	(16)	(16)
Total loans and advances to banks	**12,129**	**-**	**(16)**	**12,113**
Other debt securities				
Opening balance	2,195	-	-	2,195
To debt securities at amortised cost	-	(2,195)	-	(2,195)
Total other debt securities	**2,195**	**(2,195)**	**-**	**-**
Debt securities at amortised cost				
Opening balance	-	-	-	-
From other debt securities	-	2,195	-	2,195
From available for sale financial assets	-	1,569	-	1,569
Release of available for sale reserve	-	-	(9)	(9)
Increase in impairment loss allowance	-	-	(4)	(4)
Total debt securities at amortised cost	**-**	**3,764**	**(13)**	**3,751**
Loans and advances to customers				
Opening balance	39,018	-	-	39,018
To loans and advances to customers at fair value through profit or loss[1]	-	(160)	-	(160)
From other liabilities - accruals and deferred income	-	(105)	-	(105)
From available for sale reserve	-	-	8	8
Increase in impairment loss allowance	-	-	(109)	(109)
Other remeasurements	-	-	4	4
Total loans and advances to customers	**39,018**	**(265)**	**(97)**	**38,656**
Other assets	**218**	**-**	**-**	**218**
Items in the course of collection from other banks	**92**	**-**	**-**	**92**
Total financial assets at amortised cost	**58,962**	**1,304**	**(128)**	**60,138**

[1] *Loans and advances to customers that fail the solely payment of principal and interest (SPPI) test are mandatorily measured at FVTPL. These amounts will continue to be included within the loans and advances to customers line item on the balance sheet with a split out in note 29 to the financial statements. For the purpose of the transitional disclosures, these amounts have been split in order to show the amount that will be remeasured from amortised cost to FVTPL.*

65 Bank IAS 39 to IFRS 9 transitional disclosures *(continued)*

Assets *(continued)*	**Carrying amount under IAS 39 31 December 2017 €m**	**Reclassification €m**	**Remeasurement €m**	**Carrying amount under IFRS 9 1 January 2018 €m**
Financial assets measured at fair value through other comprehensive income				
Debt instruments at fair value through other comprehensive income				
Opening balance	-	-	-	-
From available for sale financial assets	-	10,118	-	10,118
Total debt instruments at fair value through other comprehensive income	**-**	**10,118**	**-**	**10,118**
Financial assets measured at fair value through profit or loss				
Trading securities	**68**	**-**	**-**	**68**
Derivative financial instruments	**2,354**	**-**	**-**	**2,354**
Loans and advances to customers mandatorily at fair value through profit or loss				
Opening balance	-	-	-	-
From loans and advances to customers at amortised cost	-	160	-	160
Total loans and advances to customers	**-**	**160**	**-**	**160**
Other financial assets at fair value through profit or loss				
Opening balance	45	-	-	45
From available for sale financial assets	-	298	-	298
Adjustment to fair value	-	-	4	4
Other financial assets at fair value through profit or loss	**45**	**298**	**4**	**347**
Total financial assets at fair value through profit or loss	**2,467**	**458**	**4**	**2,929**
Available for sale financial assets				
Opening balance	11,985	-	-	11,985
To debt securities at amortised cost	-	(1,569)	-	(1,569)
To debt instruments at fair value through other comprehensive income	-	(10,118)	-	(10,118)
To other financial assets at fair value through profit or loss	-	(298)	-	(298)
Total available for sale financial assets	**11,985**	**(11,985)**	**-**	**-**
Total exclusive of net deferred tax	**73,414**	**(105)**	**(124)**	**73,185**
Net deferred tax asset / liability				
Net opening balance	1,143	-	-	1,143
Tax on impairment loss allowance - remeasurement	-	-	24	24
Total net deferred tax	**1,143**	**-**	**24**	**1,167**
Total inclusive of net deferred tax	**74,557**	**(105)**	**(100)**	**74,352**

65 Bank IAS 39 to IFRS 9 transitional disclosures *(continued)*

Liabilities	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial liabilities at amortised cost				
Deposits from banks	6,120	-	-	6,120
Customer accounts	55,846	-	-	55,846
Items in the course of transmission to other banks	142	-	-	142
Debt securities in issue	2,302	-	-	2,302
Subordinated liabilities	2,073	-	-	2,073
Other liabilities - accruals and deferred income	52	(105)	-	(53)
Total financial liabilities at amortised cost	**66,535**	**(105)**	**-**	**66,430**
Loss allowance provision on loan commitments and financial guarantees				
Opening balance	-	-	-	-
Increase in loss allowance provision	-	-	22	22
Total loss allowance provision on loan commitments and financial guarantees	**-**	**-**	**22**	**22**
Financial liabilities at fair value through profit or loss				
Customer accounts	1,993	-	-	1,993
Derivative financial instruments	2,076	-	-	2,076
Debt securities in issue	174	-	-	174
Deposits from banks	1	-	-	1
Total financial liabilities at fair value through profit or loss	**4,244**	**-**	**-**	**4,244**
Total	**70,779**	**(105)**	**22**	**70,696**

65 Bank IAS 39 to IFRS 9 transitional disclosures *(continued)*

Equity	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Liability credit reserve				
Opening balance	-	-	-	-
From retained earnings	-	(24)	-	(24)
Total liability credit reserve	**-**	**(24)**	**-**	**(24)**
Available for sale reserve				
Opening balance	326	-	-	326
To debt instruments at fair value through other comprehensive income reserve	-	(269)	-	(269)
To retained earnings	-	(56)	-	(56)
Reduction in available for sale reserve related to assets at amortised cost	-	-	(1)	(1)
Total available for sale reserve	**326**	**(325)**	**(1)**	**-**
Debt Instruments at fair value through other comprehensive income reserve				
Opening balance	-	-	-	-
From available for sale reserve	-	269	-	269
Increase in impairment loss allowance	-	-	3	3
Total debt instruments at fair value through other comprehensive income reserve	**-**	**269**	**3**	**272**
Retained earnings				
Opening balance	3,523	-	-	3,523
Impairment loss allowance - remeasurement	-	-	(156)	(156)
From available for sale reserve	-	56	-	56
To liability credit reserve	-	24	-	24
Other remeasurements	-	-	8	8
Deferred tax on remeasurement	-	-	24	24
Total impact on retained earnings	**3,523**	**80**	**(124)**	**3,479**
Total impact on equity	**3,849**	**-**	**(122)**	**3,727**

This table provides a summary of the impact of remeasurement on the assets, liabilities and shareholders' equity of the Group on the adoption of IFRS 9 at 1 January 2018:

Impact of adopting IFRS 9 on 1 January 2018	€m
Assets	(100)
Liabilities	(22)
Total impact on assets and liabilities	**(122)**
Impact on equity	**(122)**

65 Bank IAS 39 to IFRS 9 transitional disclosures *(continued)*

The following table provides the reconciliation of the Bank's closing impairment provision in accordance with IAS 39 and provisions in accordance with IAS 37 to the opening loss allowance determined in accordance with IFRS 9.

Impairment loss allowance	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets at amortised cost				
Opening balance	1,648	-	-	1,648
Increase in impairment loss allowance	-	-	131	131
Total assets at amortised cost	**1,648**	**-**	**131**	**1,779**
Financial assets measured at fair value through other comprehensive income reserve				
Opening balance	-	-	-	-
Increase in impairment loss allowance	-	-	3	3
Total financial assets measured at fair value through other comprehensive income	**-**	**-**	**3**	**3**
Total impairment loss allowance	**1,648**	**-**	**134**	**1,782**

Loss allowance provision	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Provision on loan commitments and financial guarantees				
Opening balance	-	-	-	-
Increase in loss allowance provision in loan commitments, guarantees and irrevocable letters of credit	-	-	22	22
Total loss allowance provision on loan commitments and financial guarantees	**-**	**-**	**22**	**22**

The following table shows the effects of the reclassification of AFS financial assets under IAS 39 to amortised cost under IFRS 9.

	2018 €m
From available for sale financial assets under IAS 39	1,572
Fair value gain / (loss) that would have been recognised in 2018 in other comprehensive income if the financial assets had not been reclassified	3

66 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, BOIG 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 2018, the Bank has provided a guarantee under Section 357 of the Companies Act, 2014 for the following companies:

Bank of Ireland Commercial Finance Limited, Bank of Ireland Finance Limited, Bank of Ireland Insurance Management Services Limited, Bank of Ireland Insurance Services Limited, Bank of Ireland International Finance Designated Activity Company, 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 10 Company Unlimited Company, BOI-IF Services No 5 Company Unlimited Company, Bushfield Leasing Limited, C and I (Division) Holdings Unlimited Company, Centurion Card Services Limited, Central Pensions Administration Limited, Edendork Leasing Limited, General Investment Trust Designated Activity Company, Hibernian Bank Limited, Hill Wilson Secretarial Limited, IBI Property Nominees Limited, Lansdowne Leasing Unlimited Company, Leopardstown Offices Management Company Limited by Guarantee, Nerling Limited, Nestland Limited, New Ireland Financial Services Limited, New Ireland Investment Managers Limited, New Ireland Life Management Services Limited, Professional Audit Services Limited, Scribe Holdings Limited, The Investment Bank of Ireland Limited, The National Bank of Ireland Limited, Tockhill Unlimited Company, Trustcase Limited, Tustin Limited, Bank of Ireland Asset Management (US) Limited[1] Bank of Ireland Insurance & Investments Limited[1] December Leasing Limited[1] Florenville Limited[1] Kilkenny Promotion Project Limited[1] Rolmur Unlimited Company[1].

(f) The Bank entered into a framework agreement on 28 June 2012 with the CBI (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 of:
(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 or deal in 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:
(i) a first fixed charge over the Bank's right, title, interest and benefit, present and future in and to eligible assets (as

[1] *In member's voluntary liquidation.*

66 Other *(continued)*

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 2018 determined in accordance with FRS 101 is €388 million (2017: €696 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 UK. 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.

67 Post balance sheet events

There are no post balance sheet events that require disclosure in the Financial Statements.

68 Approval of financial statements

The Court of Directors approved the Consolidated and Bank financial statements on 22 February 2019.

Other Information

Other Information
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, LDR, 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, UK, European and other regulators and plans and objectives for future operations. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Such risks and uncertainties include, but are not limited to, those as set out in the ‘Principal Risks and Uncertainties’ (see pages 9 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.

Other disclosures

1. On 15 February 2008 a first floating charge (the Floating Charge) was placed in favour of the CBI over all The Governor and Company of the Bank of Ireland’s right, title, interest and benefit, present and future, in and to (i) the balances now or at any time standing to the credit of The Governor and Company of the Bank of Ireland's account held as a TARGET 2 participant with the CBI; and (ii) certain segregated securities listed in an Eligible Securities Schedule kept by The Governor and Company of the Bank of Ireland for purposes of participating in TARGET 2 ((i) and (ii) together the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

   This Floating Charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:

   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

   On 14 September 2018, The Governor and Company of the Bank of Ireland entered into an Agreement in respect of Continued Participation in Target 2 Ireland with the CBI to restate and modify the terms and conditions applicable to The Governor and Company of the Bank of Ireland’s existing participation in TARGET 2 with effect from 14 September 2018. This Agreement provided that The Governor and Company of the Bank of Ireland would continue to participate in TARGET 2 in accordance with the Agreement and the TARGET 2 Ireland terms and conditions as published on the CBI’s website and that the Floating Charge would continue in full force and effect with respect to such continued and amended participation in TARGET 2.

Alternative performance measures

Further information related to certain measures referred to in the Business Review

Business income is net other income after IFRS income classifications before other gains and other valuation items.

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.

FCR loans 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.

LDR is calculated as being net loans and advances to customers divided by customer deposits.

NPE ratio is calculated as NPEs on loans and advances to customers as a percentage of the gross carrying value of loans and advances to customers.

Organic capital generation consists of attributable profit and movements in regulatory deductions, including the reduction in DTAs deduction (DTAs that rely on future profitability) and movements in the Expected Loss deduction.

Return on assets is calculated as being statutory net profit (being profit after tax) divided by total assets, in line with the requirement in the EU (Capital Requirements) Regulations 2014.

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 4 for further information.

Wholesale funding is comprised of deposits by banks (including collateral received) and debt securities in issue.

The following measures have changed due to the impact of IFRS 9:

Liquid assets are comprised of cash and balances at central banks, loans and advances to banks, debt securities at amortised cost, financial assets at FVOCI and certain financial assets at FVTPL (excluding balances in Wealth and Insurance).

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

Abbreviations

AA	Automobile Association
AFS	Available for sale
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
AML	Anti Money Laundering
AT1	Additional tier 1
BBA	British Bankers' Association
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BOIG plc	Bank of Ireland Group plc
BOIGM	Bank of Ireland Global Markets
BOIMB	Bank of Ireland Mortgage Bank
BRRD	Bank Recovery and Resolution Directive
BSPF	Bank of Ireland Staff Pensions Fund
C&T	Corporate and Treasury
CBI	Central Bank of Ireland
CBSP	Core Banking Systems Programme
CDS	Credit Default Swap
CET 1	Common equity tier 1
CLS	Customer Loans Solutions
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSA	Credit Support Annexes
CSO	Central Statistics Office
DB	Defined benefit
DC	Defined Contribution
DCF	Discounted Cash Flow
DGS	Deposit Guarantee Scheme
DTA	Deferred Tax Asset
DVA	Debit Valuation Adjustment
EAD	Exposure at Default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECL	Expected Credit Loss
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
EU	European Union
FCR	Forborne collateral realisation
FLI	Forward Looking Information
FRESH	First Rate Exchange Services Holdings Limited
FSCS	Financial Services Compensation Scheme
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
GCC	Group Credit Committee
GCR	Group Credit Review
GCRO	Group Chief Risk Officer
GIA	Group Internal Audit
GM&LR	Group Market and Liquidity Risk
GRPC	Group Risk Policy Committee
IAASA	Irish Auditing Accounting Standards Authority
IAS	International Accounting Standards
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standards
IRB	Internal Ratings Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
ISE	Irish Stock Exchange
ISIF	Ireland Strategic Investment Fund
ITSCM	IT Service Continuity Management
IVU	Independent Validation Unit
LGD	Loss Given Default
MCEV	Market Consistent Embedded Value
NAMA	National Asset Management Agency
NED	Non-Executive Director
NIAC	New Ireland Assurance Company plc
NIE	Northern Ireland Electricity
NPE(s)	Non-performing exposures
O-SII	Other Systematically Important Institution
OCI	Other Comprehensive Income
ORSA	Own Risk and Solvency Assessment
OTC	Over the Counter
P2G	Pillar II guidance
P2R	Pillar II requirement
PBT	Profit before tax
PD	Probability of Default
POCI	Purchase or originated credit impaired assets
PRA	Prudential Regulation Authority
PRC	Portfolio Review Committee
RAROC	Risk Adjusted Return on Capital
RCF	Revolving Credit Facilities
REAU	Real Estate Advisory Unit
RMC	Risk Measurement Committee
RoI	Republic of Ireland
RPPI	Residential Property Price Index
RWA	Risk weighted assets
S&P	Standard and Poor's
SID	Senior Independent Director
SME	Small & Medium Enterprises
SRB	Single Resolution Board
SRF	Single Resolution Fund
TLTRO	Targeted Longer Term Refinancing Operation
TOM	Target Operational Model
TtC	Through the Cycle
UK	United Kingdom
ViF	Value of in Force

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