2020

Bank of Ireland Group plc
Annual Report

Bank of Ireland

'2020 was an exceptional year with a myriad of challenges for people, communities where we operate, and for all businesses, including banks. At Bank of Ireland, from the start of the COVID-19 crisis, we quickly focused our resources and efforts on protecting and supporting our customers, colleagues and communities. The investment we've made in recent years in transforming our culture, systems and business model underpinned our ability to quickly adapt to the impacts of COVID-19.'

Francesca McDonagh
Group Chief Executive

Inside this report

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

The Group's forward looking statement can be found on page 372.

Strategic Report

2020 key performance highlights

Financial Performance

Loss before tax
€760m
(2019: €645m profit)

Underlying[1] loss before tax
€374m
(2019: €758m profit)

- Return to profitability in H2 2020.
- Net interest margin of 2.00% (2019: 2.14%).
- 6th straight reporting period of reductions; costs reduced by further 4% vs. 2019.
- Irish mortgage market; share increased 2% to 25.5% in 2020.
- Total operating income[2] reduced by 8% versus 2019; lower business income and valuation item movements.

Asset Quality

Impairment charge
€1.1bn
(2019: €215m)

- Net credit impairment charge of €1.1bn (2019: €0.2bn), of which c.60% relates to performing loans.
- NPE ratio increased from 4.4% in 2019 to 5.7%; stable in H2.
- Payment break outcomes more positive than expected; 94% expired and only c.4% have migrated into new arrears status[3].

Transformation

Reduction in underlying operating expenses[2]
4%/€65m
(2019: <4%/€67m)

- Achieved 2021 cost target of c.€1.7bn[4] one year early.
- New cost target of €1.5bn by 2023.
- Further progress in the UK; Northern Ireland strategic review complete.
- Digital progress supports new branch strategy; c.33% of branches to close

Capital

Regulatory CET1 ratio
14.9%
(2019: 15.0%)

Fully loaded CET1 ratio
13.4%
(2019: 13.8%)

- Strong capital position; regulatory CET1 ratio 14.9% and c.510bps headroom to minimum regulatory requirements; fully loaded CET1 ratio 13.4%
- Pre-impairment organic capital generation of 80bps in H2 vs 45bps in H1
- Successfully completed two Additional Tier 1 (AT1) transactions, totalling €975 million.

67%
employee engagement score *(increase of 5% since Q4 2019)*

59:41
male / female appointments to management and leadership positions

77%
reduction in carbon emissions intensity *(on 2011 baseline)*

c.€10m
invested in learning and development for colleagues

10k
secondary school pupils availed of 'Money Smarts', a free financial education programme

€2bn
Sustainable Finance Fund and first bank in Ireland to introduce a green mortgage

Further information on financial measures referred to in our 2020 key performance highlights is found in Alternative performance measures on page 373.

1 *The Group's financial results are presented on an underlying basis. Underlying excludes non-core items which are those items of €386 million that the Group believes obscure the underlying performance trends in the business. For further details on the Group's non-core items see page 52.*
2 *Operating income net of insurance claims.*
3 *Balances now categorised as arrears not in arrears prior to payment breaks; as at 12 February 2021.*
4 *Underlying costs include core transformation investment charges, exclude non-core items of €424 million, levies and regulatory charges of €125 million and impairment of intangible assets and goodwill of €12 million. Including these items total costs were €216 million or 10% higher than 2019. The calculation of which is set out on page 379.*

Chairman's review

Our purpose, to enable our customers, colleagues and communities to thrive, was a clear North Star for the Group in responding to COVID-19. The banking system supported the economy during the pandemic, and will continue to be a key player in the recovery.

Patrick Kennedy *Chairman*

Introduction

The impact of COVID-19 on our society has been unprecedented. On behalf of the Board of Bank of Ireland, I would like to extend our sympathies to all who have been affected by the pandemic. I would also like to thank Francesca and her leadership team, and all of our colleagues across the Group, for their ongoing commitment to our customers over a uniquely challenging year.

A path to post-COVID-19 normality is now becoming visible; however, the consequences of the pandemic will endure for some considerable time for us all, including for Bank of Ireland. Other external challenges include the interest rate environment, and continued uncertainties relating to the UK's decision to leave the European Union.

That said, as the leading lender to the fastest-growing economy in Europe last year, the Group benefits from an extensive customer base and franchise in a country with one of the youngest, fastest-growing populations in the developed world.

Strategy

Good progress was made in 2020 on advancing the Group's strategy. We maintained strong momentum on our key priorities and accelerated certain initiatives in response to changing customer behaviours, needs and expectations.

Our customers availed of a wide range of new digital enhancements during the year. We hit our 2018 Investor Day target to reduce our cost[1] base to c.€1.7 billion one year early and we now target reducing our cost base to €1.5 billion by 2023. We continued to progress our strategic priority to improve returns in our UK business.

In Great Britain, we will have a more focused, smaller, but more profitable business. In Northern Ireland, we will optimise our physical footprint while also investing in technology to support our business. We will also relocate our UK Headquarters from London to Belfast, reinforcing our commitment to Northern Ireland, where Bank of Ireland has had a presence since 1825.

Customer preferences continue to evolve, and our significant transformation investment over recent years has improved our technology infrastructure, digital offering and customer engagement. At the same time, we have seen a sustained decline in the use of our branches. Our customers tell us that they expect visits to branches to reduce further as they move away from cash towards digital and contactless payments. We are adapting to these clear changes in behaviour as we work towards a long-term, sustainable and modern banking system.

Accordingly, following an extensive review of our network, we have taken the decision to close 103 branches in the Republic of Ireland and Northern Ireland. We will continue to operate 182 branches across the island of Ireland. The branches will be an integral part of the Group's strategy of blending physical and digital services to meet our customers' evolving needs.

Capital and Regulation

The resilience of the Bank's business model and balance sheet was well evidenced in 2020. Despite the unprecedented impact of the pandemic, the Group ended the year with a strong capital position. This is after taking a prudent and comprehensive view of the

[1] *The Group's financial results are presented on an underlying basis. Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business.*

Related pages

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impact of COVID-19 on our loan book, as well as continuing to invest in the Group's transformation.

We also benefitted from relief provided by our regulators as they accelerated implementation of measures which resulted in lowering risk weightings for our SME loan book, and changing the capital treatment of our software assets. This was one of a number of supportive regulatory changes following the onset of the pandemic. Countercyclical buffers were set to zero in Ireland and the UK; the ECB also announced an acceleration of changes to the composition of banks' Pillar 2 Requirements; and the introduction of a Systemic Risk Buffer in Ireland was deferred. Collectively, these measures have bolstered the strong headroom the Group has over its minimum regulatory capital requirements, and we acknowledge the regulators' supportive actions.

In relation to capital requirements, we believe it important for institutions to be able to plan over a medium-to-long term cycle. We encourage as much visibility and stability as possible from our regulators on this matter, as is the case in many other regulated sectors. This is important for potential future providers of capital to the sector.

Remuneration

Certain participants in the Irish banking sector remain at a competitive disadvantage due to the remuneration restrictions that apply. These restrictions are far reaching, and prohibit the Group from approaching remuneration in a similar way to other corporates – both banking and non-banking – with whom we compete for talent. Meanwhile, the substantial increase in the presence of international financial services firms in Ireland has led to greater intensity in competition for talent in a variety of areas, including key prudential functions. The restrictions are a concern for investors, as they seek assurance that the Group can attract and retain talent and that management is appropriately incentivised to deliver sustainable returns.

The Irish banking system received extraordinary support during the financial crisis of a decade ago, for which we remain very grateful. Bank of Ireland is unique amongst Irish banks in being the only institution to have fully repaid the Irish taxpayer, which we did in 2013; the State is now showing a sizeable profit on its investment in the Group. Having repaid the taxpayer in full, Bank of Ireland's view is that it should now be permitted to develop a more normalised remuneration approach, aligned to European Banking Authority Guidelines, which have been significantly extended to be much stricter than what operated in the past, with a much clearer emphasis on risk management and sustainability.

Purpose and Culture

Our purpose, to enable our customers, colleagues and communities to thrive, was a clear North Star for the Group in responding to COVID-19. The banking system supported the economy during the pandemic, and will continue to be a key player in the recovery.

To achieve our purpose, an appropriate corporate culture must be embedded across the organisation. We have adapted our culture very significantly over the last three years, and there has been further improvement in 2020 in our engagement and cultural embedding scores, assessed through staff surveys with very high participation rates. In cultural embedding, Bank of Ireland's score surpassed the global average for financial services for the first time in 2020.

Crises provide a true test of an organisation's culture; under pressure, we revert to our default behaviours. The speed, agility and customer focus with which colleagues responded to COVID-19 provided real-life evidence of the changes in Bank of Ireland in recent years.

Responsible and Sustainable Business

An effective and transparent Responsible and Sustainable Business (RSB) strategy is a fundamental expectation of all stakeholders, including investors, customers and colleagues. The Group fully endorses this expectation.

Following its commitment to the UN Principles for Responsible Banking in 2019, the Group has made good progress on its RSB agenda during 2020. Amongst other things, we undertook an exercise to understand the impact the Group's products and services have on the environment and society and we engaged with a broad range of stakeholders to understand their priorities. This has informed the development of our new RSB strategy, overseen by the Board's Nominations, Governance and Responsible Business Committee. Our RSB strategy is detailed from page 20 and sets out the Group's overarching approach to this critical area.

Board

As COVID-19 became a reality in early March, the Board moved to holding two meetings every week; this heightened level of engagement continued for a number of months. In total, the Board met 31 times during the year, and 84 times including all Committee meetings.

The Board's initial focus was on ensuring the health and safety of our colleagues and customers, the continuity of Group operations, and the availability and reliability of service to our customers. The Board also dedicated significant time to:

- our strategy, including how COVID-19 would impact it;
- supports required by customers facing financial distress as a consequence of the pandemic;
- the potential financial and capital impact of COVID-19 on the Group;
- the role of the Group and the banking industry generally in supporting the Irish economy.

There were a number of changes to the Board in 2020. Patrick Haren and Patrick Mulvihill retired at the end of the year, having each served nine years. They both made significant contributions to the Group, bringing experience, insight, rigour and exceptional commitment to their roles, and leave with our gratitude and very best wishes. Patrick Haren was succeeded as Deputy Chairman and Senior Independent Director by Richard Goulding, who has served as an independent Non-Executive Director since 2017. Patrick Mulvihill was succeeded as Chair of the Group Audit Committee by Evelyn Bourke.

In November, Giles Andrews joined the Board. As a highly respected FinTech pioneer, Giles brings extensive experience in financial technology and technology transformation, as well as strong investment, lending and management experience.

We are committed to ensuring that we have the right balance of skills and experience within the Board. Eight of our nine non-executive directors have spent their careers in financial services, across the gamut of the sector. There is significant breadth of business line experience, including in corporate, business and retail lending; asset management; general insurance; life and pensions; health insurance; and FinTech. This is complemented by deep functional experience in risk, technology, operations, finance and regulatory management.

Diversity across all its dimensions is important to us, and gender diversity has been a particular area of focus for the Group at both workforce and Board level. Currently, the gender ratio on our Board is 45% female and 55% male.

Distributions

In light of the evolving COVID-19 pandemic, and following the recommendation of the ECB in March 2020 on dividend distributions for all significant institutions, the Group withdrew its proposed dividend for the year ended 31 December 2019.

In December 2020, the ECB provided updated guidance on distributions, requesting banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions, until 30 September 2021.

The Board recognises the importance of distributions to shareholders, and our policy of approving distributions on a prudent and progressive basis remains unchanged. Our focus is on a return to profitability and our objective is for distributions to recommence as soon as possible based on performance and capital position.

Outlook

As the world recovers to a different economy, more reliant on technology, we must be ready. Whatever time any organisation thought it had to transform has been reduced by the consequences of the pandemic. We have commenced a strategic refresh process, and will communicate an updated strategy and financial targets to shareholders later in the year.

Successful delivery for shareholders will require the combination of rigorous prioritisation with very high-quality execution. Bank of Ireland has a proven track record of effecting transformation in recent years, and, while the external environment remains uncertain, the Board remains confident that the Group is well placed to deliver value for its shareholders through the cycle.

Patrick Kennedy

Patrick Kennedy
Chairman

Eoin Lowry *(Head of Agriculture at Bank of Ireland)*

Chief Executive's review

Through an exceptionally challenging year, we continued to transform and deliver on our strategic objectives, while providing ongoing support to our customers, colleagues and communities.

Francesca McDonagh *Group Chief Executive*

2020 was an exceptional year with a myriad of challenges for people, communities where we operate, and for all businesses, including banks. At Bank of Ireland, from the start of the COVID-19 crisis, we quickly focused our resources and efforts on protecting and supporting our customers, colleagues and communities. The investment we've made in recent years in transforming our culture, systems and business model underpinned our ability to quickly adapt to the impacts of COVID-19.

At the same time, we maintained discipline and focus on our strategic priorities throughout 2020. We have further reduced costs and improved our efficiency. We built on the delivery of new digital capabilities to enhance customer service with customer complaints reducing and our Net Promoter Score (NPS) increasing significantly. Our market shares increased in Irish mortgages and SME lending, and we made good progress in the reshaping of our UK business.

The external environment

COVID-19 has devastated many families and businesses across Ireland and the UK. The impacts of COVID-19 on the Irish and UK economies during 2020 have been significant, leading to reduced levels of credit formation and business income. The low interest rate environment continued to negatively impact the Group's revenue, including net interest income and margins. The prolonged negotiation of final Brexit terms also created significant uncertainty, especially for business customers, for much of the year given that 16% of Irish services exports and 9% of Irish goods exports go to the UK.

These external factors are reflected in our 2020 financial results. The Group has reported an underlying[1] loss before tax of €374 million, including an IFRS 9 impairment charge of €1,133 million. While the pandemic has had a material impact on earnings, the Group returned to profitability in the second half of 2020.

Capital has remained strong, with a fully loaded CET1 ratio at the end of December 2020 of 13.4%, and a regulatory CET1 ratio of 14.9%.

The Group has comprehensively captured the impact of COVID-19 in our €1,133 million impairment charge. Asset quality remains strong and over 90% of payment breaks offered to customers at the start of the pandemic have now concluded with a return to pre COVID-19 repayment terms, supporting an impairment charge at the lower end of our previous guidance.

While the low interest rate environment and the impact of the COVID-19 pandemic will continue to present near-term challenges, the overall economic outlook is positive. The Irish and UK economies are expected to see a recovery in Gross Domestic Product in 2021, underpinned by the rollout of vaccine immunisation programmes.

While it will take time to settle, the conclusion of post Brexit trade negotiations between the EU and the UK also provides clarity and confidence for future investment decisions, particularly for business customers.

Purpose and culture

The Group's purpose is to enable our customers, colleagues and communities to thrive. This purpose has guided our pandemic response throughout the year.

Customers

Supporting our customers is core to our purpose, beneficial for the wider economy and supports the Group's growth ambitions. During 2020, we launched a comprehensive suite of measures for our personal and business customers, including over 100,000 payment breaks for customers in Ireland and the UK. Specific

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supports were provided for vulnerable customers, and a nationwide fraud awareness campaign was launched in line with an acceleration in digital banking adoption by customers. All key customer service metrics strengthened during the year including customer complaints which fell by 22% in Ireland from 2019 and the Group's customer NPS which improved by 5 points from the end of 2019.

Throughout the year, we continued to support our customers through various lending schemes, and we are an active participant in Government guaranteed lending schemes in Ireland and the UK. An additional €1 billion was made available to support homebuilding and green investment. As we enter 2021, we continue to support our customers while maintaining risk and pricing discipline.

Colleagues

The response of our colleagues to the challenges of the pandemic has been outstanding. I feel proud and grateful for the hard work of all our colleagues during 2020, especially those on the frontline who have supported our customers throughout the year. Our agile ways of working have enabled more than 75% of colleagues to work from home with minimal impacts on our customers and businesses. We have also delivered physical and mental health initiatives to promote colleague wellbeing. In survey responses, our colleagues have recognised this with engagement up by +5 points to 67% since Q4 2019 and culture embedding improved by +11 points to 77%, 3 percentage points ahead of the Global Financial Services benchmark.

Communities

The Group is embedded in the communities we serve, and our role in supporting those communities was never more important than during 2020. We are playing a key role in the re-boot of the Irish economy, with a 2% increase in mortgage market share to 25.5%, and a leading share in business lending. The Group's €1 million COVID-19 Emergency Community Fund was dispersed to meet urgent needs arising from the pandemic. We particularly focused on customers and communities impacted by COVID-19 and Brexit. In addition, the Group's €4 million Begin Together campaign is improving financial, physical, and mental wellbeing in communities across the island of Ireland and includes a partnership with Business to Arts to assist the arts sector.

Strategic progress

2020 has seen good progress in delivery of our strategic priorities to transform the Bank, serve customers brilliantly, and grow sustainable profits, including:

- a reduction in costs for the sixth consecutive reporting period; down 4% in 2020 and 10% in the past three years;
- new digital customer propositions, including the rollout of our new mobile app, mobile payment capability, and new digital customer platforms in Wealth and Insurance. This progress supports increased customer preference for digital fulfilment, with a 26% increase in customers using the new mobile app since launch in 2020;
- a 2% increase in our mortgage market share in Ireland, while maintaining commercial discipline on risk and pricing;
- further strategic progress in the UK, growing our bespoke lending by c.£0.6 billion since launch, delivering a 9% reduction in costs, and completing our strategic review of Northern Ireland;
- the launch of our new Responsible and Sustainable Business strategy, which includes setting science based targets across our portfolios by 2022; and
- maintenance of strong capital ratios, with a buffer of c.510 basis points to our 2021 minimum regulatory capital requirements.

Digital banking

Customers are increasingly banking digitally and 2020 has seen an accelerated shift in this direction. At Bank of Ireland, c.70% of sales of key banking products are now originated digitally, and in-branch transactions are c.93% automated.

Digital journeys are being enhanced through our investments in over 15 End-to-End redesigned sales and servicing journeys for customers. Customer experience has improved by making processes simpler and reducing application times, with the Group benefitting from enhanced customer advocacy and cost efficiency.

Innovation through the rollout of new customer propositions is also at the forefront of our digital investment; c.810k customers have successfully migrated to the Group's new mobile app which delivered a 50% increase in functionality. Customers appreciate the investment, evidenced by a +19 point improvement in mobile app Customer Effort Scores compared to 2019, a key measurement of customer satisfaction.

The trend towards digital engagement accelerated in 2020, with 69% of customer interaction with everyday banking products going through digital channels, up 7 points on 2019. This trend, and the positive reaction to the roll out of our enhanced digital offerings, leads us to believe that we are now at a tipping point in terms of customer behaviour. In line with this, we are taking action to reshape our branch network and ensure our mix of physical and digital service reflects our customers' changing preferences.

During 2021, we will reduce our physical footprint in the island of Ireland, closing c.33% of branches, while continuing to increase our digital service offerings. In the Republic of Ireland, we are working with An Post, the Irish post office, to ensure that customers of the branches to be closed will still have access to banking services within an average distance of 0.5 kilometres from the closed branch. We are committed to supporting all customers through this period of change.

Wealth and Insurance

The Group has a unique position and opportunity in the Irish market as the only universal bancassurer, providing in-house product manufacturing and distribution. This ensures the Group captures all economic profits from the product life cycle. At the end of 2020, the Wealth and Insurance business had c.€20 billion of assets under management, and contributed 38% of Group business income. We further grew penetration of the bank customer base to 35%, up from 32% in 2019.

We are continuing to strengthen the digital capabilities of this business with enhanced customer propositions across pension platforms (with a 90% reduction in onboarding times), Wealth and Insurance advice platforms (45% of customer transactions are now through direct channels), and broker channels.

Favourable demographics and market changes underscore future growth opportunities in Wealth and Insurance. The proven strength of our franchise, coupled with our digital investments, make us well placed to benefit from these opportunities.

Costs

Our strategic focus on cost reduction has continued. In 2020, costs reduced for the sixth successive reporting period and we have achieved our 2018 Investor Day target of a c.€1.7 billion cost base one year early.

Cost reductions have been delivered across a broad range of staff and non-staff initiatives and we continue to see additional opportunities to reduce our cost base and improve efficiency.

We target 2021 costs to be less than €1.65 billion and we are today announcing a new medium-term cost target for 2023 of €1.5 billion.

This new target equates to a c.20% reduction in costs since 2017 having absorbed significant investment in our people and infrastructure over that period.

UK

Strategic progress in our retail businesses in the UK continued in 2020. Net interest income was stable, costs reduced by 9%, while new lending volumes in 2020 were £1 billion lower. This reflects our strategy to improve new business mix towards higher margin lending, including c.£0.6 billion of new Bespoke mortgage lending since launch in 2019.

Further progress is necessary to improve returns in our UK business. The strategic review of the Northern Ireland retail business was completed. This will result in a material restructure of the Northern Ireland business. c.50% of branches will close, helping to reduce costs. We will further simplify our product offering, leveraging our expertise in car finance and mortgages. We will also relocate our UK Head Office from London to Belfast.

The UK strategy will continue to focus on higher lending margins, lower costs, a reduction in deposit costs and operating with a smaller balance sheet. Consistent with this, during 2021, we expect the UK loan book to reduce by c.10%, reduced deposit volumes, margins to be in line with 2020 exit margins and costs to reduce by a further c.3%.

Responsible and Sustainable Business

Today we publish our new Responsible and Sustainable Business strategy 'Investing in Tomorrow', which we developed throughout 2020. This strategy comprises three key pillars; enabling current and future colleagues to thrive, enhancing customers' financial wellbeing, and supporting the green transition.

As part of this, we have committed to setting science based targets to align our lending to the Paris Climate Agreement. We are also committing to become Net Zero in our own operations by 2030. During 2020 we enhanced our RSB governance at both Board and management levels. We completed a materiality assessment, an initial impact assessment of the Group's products and services, and launched the Group's inaugural Green Bond Framework. We also increased the size of our Sustainable Finance Fund in 2020 by €1 billion to €2 billion.

Financial performance

The Group posted an underlying loss before tax of €374 million in 2020 with COVID-19 having a material impact on financial performance. Total income was 8% lower than 2019 with a return to profitability in the second half of 2020.

The Group's loan book decreased by €2.9 billion during 2020 (€0.8 billion on a constant currency basis) due to foreign exchange and other movement of €1.8 billion and impairment charges of €1.1 billion. Stable net lending includes €0.7 billion of revolving credit facility (RCF) drawdowns. Total new lending volumes, excluding RCF activity, of €13.3 billion were 19% lower than 2019, reflecting reduced activity in our core markets.

Net interest income of €2,115 million was 2% lower than 2019. The benefits of reduced liability costs and higher margins on new UK lending was more than offset by reduced yields on liquid assets and structural hedges. Liquid assets as a proportion of average interest earning assets increased to 26% in 2020 compared to 23% in 2019. Net interest margin (NIM) was 2.00%. The Group's NIM reflects the positive impact from new lending margins and our strong commercial pricing discipline, offset by growth in liquid assets and lower structural hedge income.

Fees and other income arise from diversified business activities including wealth, bancassurance, foreign exchange, and transactional banking fees. Business income of €557 million, including share of associates and joint ventures (JVs), is 21% lower than 2019, driven primarily from reduced levels of economic activity. A loss of €61 million on valuations and other items was reported in 2020.

Business income includes Wealth and Insurance income which decreased 23% versus 2019 due to lower new business sales and impact of assumption changes. Retail Ireland income decreased 18% from lower transaction fees and foreign exchange income. Corporate and Treasury fee income reduced by 10% from lower underwriting income. Share of associates and JV income reduced by €43 million in 2020 due to UK travel restrictions.

Delivery on transforming our culture, systems and business model continues to drive efficiencies across the Group.

Operating expenses (excluding levies and regulatory charges and impairment of intangible assets and goodwill) reduced by 4% compared to 2019 and includes €25 million of COVID-19 related expenses. We have successfully achieved our cost target of c.€1.7 billion one year early. Non-core charges of €386 million include €245 million related to business model restructuring, including €189 million voluntary redundancy costs, and a €136 million non-core charge taken in the first half of 2020 relating to impairment of intangible software assets. The voluntary redundancy costs will result in a €114 million in annualised staff costs when completed.

A net credit impairment charge of €1,133 million on financial instruments in 2020 compared to €215 million in 2019.

This charge, c.60% of which was taken on performing loans, reflects the impact on IFRS 9 models of Forward Looking Information (FLI) from the Group's latest macro-economic outlook, a management adjustment related to the risk that longer-term credit supports may be required for customers affected by COVID-19 and actual loan loss experience in the period.

Actual loan losses in the period of €437 million, primarily in corporate and property portfolios, include €253 million on legacy property exposures. The Group's impairment coverage increased to 2.9% from 1.6% at December 2019. Subject to no further deterioration in the economic conditions or outlook, the majority of the credit impairment risk associated with COVID-19 has been captured; we expect the 2021 impairment charge to be materially lower than 2020.

Our non-performing exposures (NPEs) increased by €1 billion to €4.5 billion, equating to an NPE ratio of 5.7% of gross customer loans. This increase, all of which occurred in the first six months of 2020, primarily reflects credit migration in our property and construction portfolios, and the implementation of the new Definition of Default regulatory framework.

Our regulatory CET1 capital ratio of 14.9% and fully loaded CET1 capital ratio of 13.4% at December 2020 remain strong despite elevated levels of impairment charges in the period. Pre-provision organic capital generation and the reversal of the dividend declared in respect of 2019 was more than offset by the impact of credit deterioration, transformation investment and other movements. Minimum regulatory capital requirements were reduced by c.188 basis points in 2020 with the Group's 2021 requirement set at 9.77%. The Group's 14.9% regulatory CET1 capital ratio at December 2020 provides headroom of c.510 basis points to our 2021 requirements. We expect 2021 CET1 ratios to remain broadly in line with December 2020 levels.

Sustainable returns

The challenges impacting on the operating environment during 2020 have been significant. Nonetheless, as set out, the Group's swift and proactive response was enabled by our investment in transformation prior to the pandemic. The Group successfully adapted to the challenges it faced, ensuring ongoing support to customers, colleagues and communities while remaining focused on strategic delivery, in particular the continued lowering of costs, the launch of new digital customer propositions, and improvements in the profile of our UK business.

Looking to 2021, while we recognise the necessary ongoing restrictions and consequent challenges as we start the new year, we anticipate these will moderate as the vaccine rollout progresses in our major markets. We have sufficient capital to support economic recovery, we are investing in our digital capabilities and customer propositions, we are continuing to reduce our costs, and we are making progress on our UK restructuring. We are committed to responsibly developing our long term franchises, to serve our customers brilliantly and deliver sustainable returns to our shareholders.

In 2018 the Group held an Investor Day which set out our strategic priorities for the period to 2021. We will provide an update on our strategy and outlook for 2021-24, including refreshed medium term targets, later this year.

In the meantime, keep well and stay safe.

Francesca McDonagh
Group Chief Executive

Our Ambition, Purpose and Values

Amplified in response to COVID-19

Our Ambition, Purpose and Values were amplified in response to COVID-19, as challenges and restrictions were experienced by communities on a global scale. We demonstrated our commitment to customers and stakeholders, by rapidly adapting our approach and safely delivering service and supports at a time of great need.

Our ambition

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

National Champions are recognised as consumer champions, drivers of economic growth with strong market shares, employers of choice, and having strong brand positions. As we work to deliver on this ambition, we continue to transform the Bank of Ireland experience for our customers, colleagues and communities. There is no doubt that 2020 was an exceptional year - presenting enormous challenges for so many. We acknowledged this by striving to support our customers, colleagues and the communities where we all live and work.

We invested in our colleagues and their wellbeing and continued to transform customer experiences by progressing with digital transformation initiatives and online products that meet customers' expectations around a shifting digital culture in society. We introduced a range of measures designed to make it easier for our customers to bank with us.

To achieve our ambition, in June 2018, we set out three clear strategic priorities as part of a three-year plan; to transform the Bank, serve customers' brilliantly and grow sustainable profits. During the COVID-19 pandemic, we have demonstrated that this strategy is flexible enough to adapt to rapidly changing external events.

Our purpose

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

Customers are at the heart of our business and always come first. In 2020 we connected and supported them throughout the pandemic, with a range of initiatives and supports to assist throughout the crisis.

Colleagues keep our organisation working, by innovating and adapting to meet our customers' needs - never more than 2020 when they went above and beyond to deliver, in spite of challenging circumstances and a rapid transition to remote working.

Communities are where we live and work, and include groups such as our customers, shareholders, regulators and governments. Throughout 2020, we built on these relationships when the role of communities became ever so important. This is something we will continue to build on as we work towards rebooting the economy.

Our values

Our purpose is supported by four key values which guide us in everything we say and do and these values are embedded in how we run our business. In 2020, these values guided our actions as we mobilised to continue to serve customers brilliantly.

Customer focused

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

One Group, One Team

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

Agile

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

Accountable

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

Our strategy

To transform the Bank, serve customers brilliantly and grow sustainable profits

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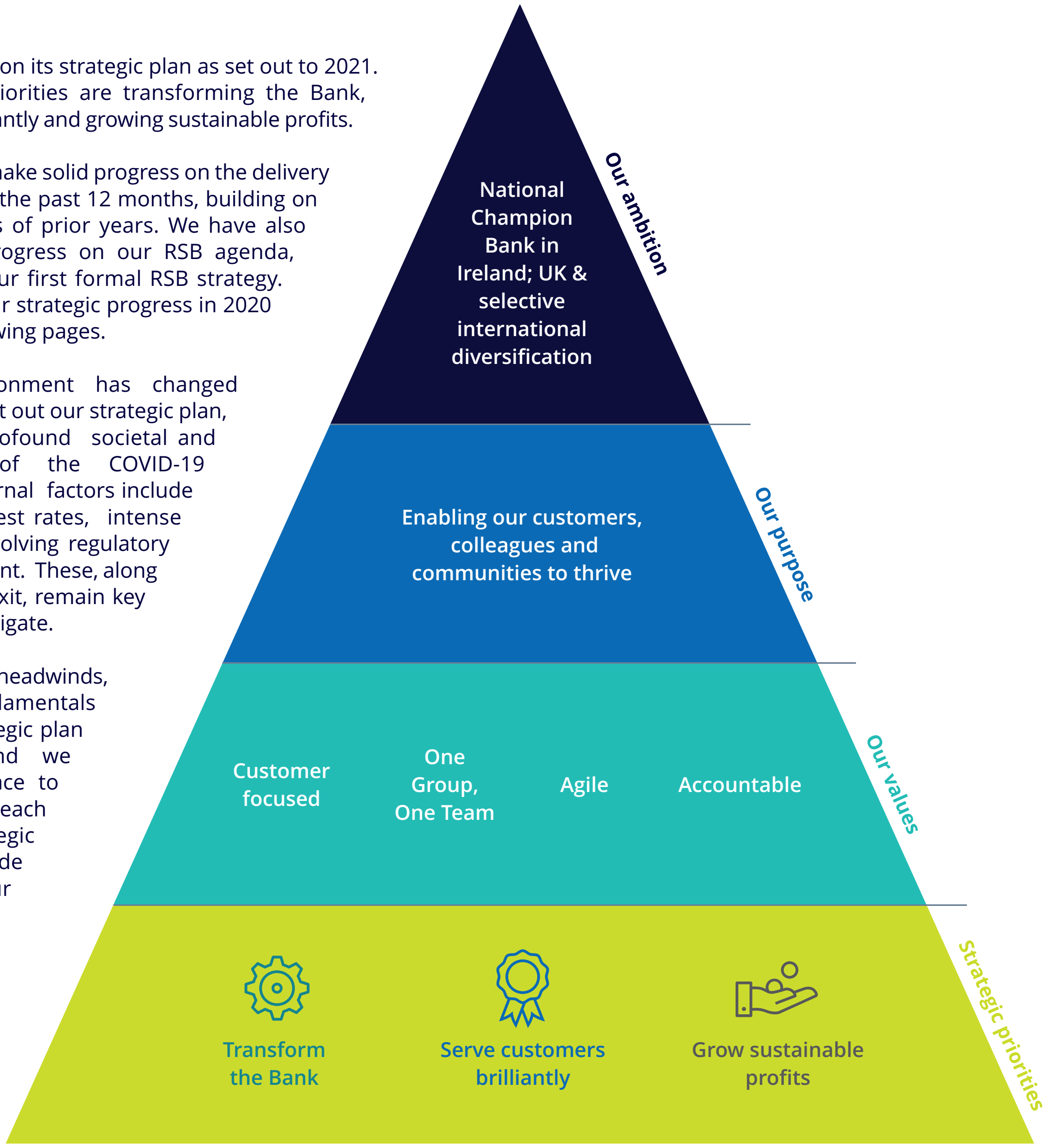
Divisional review (page 58)

The Group is delivering on its strategic plan as set out to 2021. Our three strategic priorities are transforming the Bank, serving customers brilliantly and growing sustainable profits.

We have continued to make solid progress on the delivery of these priorities over the past 12 months, building on the strong foundations of prior years. We have also continued to make progress on our RSB agenda, including developing our first formal RSB strategy. The key highlights of our strategic progress in 2020 are set out on the following pages.

Our operating environment has changed significantly since we set out our strategic plan, amplified by the profound societal and economic impacts of the COVID-19 pandemic. Other external factors include lower-for-longer interest rates, intense competition and the evolving regulatory and political environment. These, along with the impact of Brexit, remain key challenges for us to navigate.

Notwithstanding these headwinds, the economic fundamentals underpinning our strategic plan remain supportive and we have clear plans in place to deliver further against each of our three strategic priorities. And we provide an update on our strategy, including refreshed medium-term targets, later in the year.



Our strategy *(continued)*
Transform the Bank

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

2020 brought Apple Pay and Google Pay to our customers: more functionality, security and speed

This represents further proof of our strategic progress in systems transformation, with fully-digitised processes across key customer journeys. The current account customer journey is now the single largest channel of account origination, and given the amplified shift in customer preferences to digital across all customer groups, we're on course to activate more business this way in the future. Other milestones reached are a fully digitised mortgage-application process, a newly digitised small business lending proposition and card control features added for mobile app and 365 online customers.

Culture

We are on a multi-year culture transformation journey. Strengthening our culture will contribute to positive customer outcomes, long-term customer relationships, growth in sustainable revenue and improved staff engagement and talent acquisition.

Target outcomes

- Improved customer centricity.
- Best-in-class employee engagement.
- All management and leadership appointments to represent a 50:50 gender ratio by 2021.

How we performed in 2020

- The Group Colleague Culture Embedding Index, which measures the awareness, understanding, belief and demonstration of our purpose and values, continues to improve - up 11 points on 2019 to 77% and is now three points ahead of the Global Financial Services benchmark.
- Our colleague engagement score continues to increase and is up 5 points on Q4 2019 to 67%, reflecting our continued focus. Enabling current and future colleagues to thrive remains a core focus and is now a core pillar of our new RSB strategy (page 20).
- Since March, we have launched a range of dedicated colleague supports as part of our response to COVID-19 including mental health, physical wellbeing and health supports.
- In 2020, the Group's gender ratio of management and leadership appointments was 59% male: 41% female. This figure is slightly down on last year, partially reflecting COVID-19 impacts. The Group remains committed to achieving a 50:50 ratio in 2021 and is continuing to invest in dedicated programmes such as 'RISE' which builds gender-balanced talent and accelerates female leaders of the future.
- During 2020, Bank of Ireland's 'With Pride Network' was recognised with both the LGBTQ+ Inclusion Award at the Diversity in Tech Awards; and the Best LGBT+ Employee Resource Group at the GALA Award.
- Following on from last year, our online colleague recognition portal was established to recognise achievements of co-workers in a remote-working environment. Over 6,500 colleagues were nominated, with 55 finalists attending a Virtual Recognition Awards ceremony in December.

Related pages

Responsible & sustainable business (page 20)
Risk review (page 45)
Divisional review (page 58)

Systems

We are making a significant investment to transform our technology. This investment is critical to support our business growth, as well as improving efficiency and enhancing service to our customers.

Target outcomes

- Improved customer experience.
- Simplification of products and processes.
- Excellence in digitisation and robotics.
- Transforming our technology.

How we performed in 2020

- Our new mobile app was delivered in 2020 to over 800,000 customers and saw over 50% increased functionality rolled out throughout the year including Google Pay and Apple Pay deployments.
- We have improved key customer journeys through greater automation and robotics, enabling customers to increase their level of self-service. In Q3 2020, we introduced a new digital mortgage journey for first-time buyers allowing customers to apply for and fully draw-down a mortgage online, with 40% of all applicants now applying via this channel.
- Over the year we have digitised 15 retail sales journeys via our End-to-End process. This includes our small business lending proposition; and our digital insurance wallet which now generates c.38% of general insurance sales.
- We also enhanced voice automation services in areas such as online banking activation and mortgage arrears' payments, enabling telephone customers to self-serve at any time.
- All Bank Automated Teller Machines (ATMs) for RoI & UK (c.4,000 devices and 1 million transactions per day) were successfully migrated to an outsourced service provider in 2020, reducing costs and further simplifying our IT architecture.
- To enable widespread remote working, the Group provided significant digital workplace enhancements including a full suite of tools to enable secure collaboration across the organisation.
- We continue to invest in and transform our technology across key customer data and security platforms; enhance our data management, and ensure we meet regulatory requirements while reducing operational risk.

Business model

We are committed to optimising our business model and ensuring our organisation is efficient and effective. We are simplifying our structures, making our teams more effective and improving the management of third-party providers. This will help us to become leaner, more agile and even closer to our customers.

Target outcomes

- A more simplified and customer centric organisation.
- Effective and sustainable sourcing arrangements.

How we performed in 2020

- During 2020, we continued to invest in our customer-facing businesses and building internal capability in key areas such as IT change-delivery and analytics, while achieving a €15 million or 2% reduction in staff costs excluding pension costs compared to 2019.
- A voluntary redundancy programme approved in Q3 will see c.1,450 full-time employees leaving the Group on a phased basis, and will bring staff numbers below 9,000 for the medium-term.
- The global pandemic has accelerated the move toward remote working, with two thirds of staff working from home for the majority of the year. We have reduced our occupied office space by 29% over the last three years; and exited four sites in Dublin in 2020. As we embed remote and more flexible ways of working, including agile hubs across the RoI, we will continue to review our property footprint.
- In Q4, we announced the simplification of our Personal current account fee structure replacing 26 existing fees and charges with a single monthly fee of €6, increasing transparency for customers and significantly reducing operational complexity.
- We have digitised more than 15 retail sales and servicing journeys through our End-to-End process in 2020; improving customer experience, reducing operational risk and delivering more than €20 million in cost savings.

Our strategy *(continued)*

Serve customers brilliantly

We are committed to building a customer-focused organisation that invests in improving service and digital capabilities, while also getting the basics right. We listen to customers and respond to their feedback.

Over 100,000 payment breaks, flexible financial options and faster SME payments

Enabling our customers to thrive is at the heart of our purpose, and in 2020 our actions were more important than ever. We quickly stepped up with a range of supports to help business and personal customers affected by COVID-19: ranging from working capital, trade finance and foreign currency assistance, to flexible payment arrangements. Extra resources were made available as we made changes to our branch network, diverting attention to the areas our customers needed us most. We also waived contactless fees, committed to fast-track payments for more than 1,000 SME suppliers.

Embedding voice of customer in our businesses

Customers are always at the very heart of our business, but never more than this year as we've seen their expectations around product, service and banking preferences - particularly in relation to digital - evolve at an accelerated pace. We are committed to supporting our customers' needs and financial wellbeing by offering customer-centric propositions and services to enable them to thrive in all circumstances.

Target outcomes

- Significant improvement in customer satisfaction and advocacy.
- Serving customers during their key life moments.
- Customer centricity at the heart of our culture.

2020 highlights

- Customers remained at the heart of our response and we reacted to the rapidly unfolding crisis by diverting branch staff to our contact centres to answer over 2,000 calls a day, as well as issuing 2 million SMS notifications, over five times the normal rate, across our customer network in March alone.
- We saw a significant improvement in customer satisfaction through our Customer Effort Score (CES), which measures ease of customers' service experience across all channels, and continued to improve by 5 points to 54 in December 2020.
- Customer complaints were down 22% down on 2019 in the Republic of Ireland and 45% lower than 2018. This is the lowest yearly volume of complaints on record. In Retail UK we launched our First Contact initiative to reduce customer complaints, resulting in a reduction of 37% compared to 2019.
- Since March we provided over 100,000 payment breaks to personal and business customers impacted by the pandemic in Ireland and the UK.
- We continued to develop our Financial Wellbeing programme, which focuses on empowering people to thrive financially and make better financial decisions. Read more about Financial Wellbeing (page 26).
- We provided enhanced services and supports in our Vulnerable Customer Unit (VCU) - which played a central role in our COVID-19 response, with a new 'Just A Minute' (JAM) Card to help our more vulnerable customers' discreetly convey their need for more time. We also introduced a carers' debit card to provide a safe and secure way for carers to manage the daily living expenses of those in their care.
- We supported the €2 billion SBCI COVID-19 Credit Guarantee Scheme launched to provide liquidity to SMEs in the Republic of Ireland.

Related pages

Responsible & sustainable business *(page 20)*
Risk review *(page 45)*
Divisional review *(page 58)*

Investing in digital and physical channels

We are investing in all channels to improve customer experience and service. We are re-designing and digitising high-priority journeys, upgrading service in our branches and contact centres, reallocating colleagues to customer facing roles and upgrading advisory services through colleague training and development.

Target outcomes

- Great customer experience and increased digitally-enabled customer journeys.
- Extend the API foundation for Open Banking.

How we performed in 2020

- We continued to enhance our digital capabilities as our customers' needs changed with over 70% of personal customer applications now originating via digital channels (up from 62% in H1 2019), including 95% of cards, over 70% of personal loans and over 60% of personal current account applications.
- Strong Digital Channel growth continued in 2020, mostly driven by mobile app adoption. Our mobile app traffic is up 32% in the past two years (2020 vs. 2018) with 38% of personal loan applications now made via this channel.
- We saw over 240 million visits across all digital channels including Group Website in 2020, up 9% on 2019.
- Our new digital personal current account customer application journey (via camera-enabled device) takes only six minutes to complete on average. It is now the customer channel of choice with over 50% of applications being made via this route.
- In 2020, 45% of Wealth and Insurance customers transacted through our direct or digital channels supported by the Wealth and Insurance Digital Advice Platform, which enables End-to-End digital sales and fulfilment, up from 39% in 2019.
- We provided enhanced Open Banking through Application Programming Interfaces (APIs) providing customer data, device authentication and payments' services for customers on both digital and Open Banking channels.

Our brand strategy

We have identified our brand purpose and drivers, putting the customer at the heart of everything we do. We have repositioned our brand to bring our purpose to life in a way that differentiates us and offers real value to our customers, colleagues and communities. This positioning brings the constituent parts of the business together and is now reflected in our advertising and sponsorship assets. Our creative brand position will sustain us over the next three to five years.

Target outcome

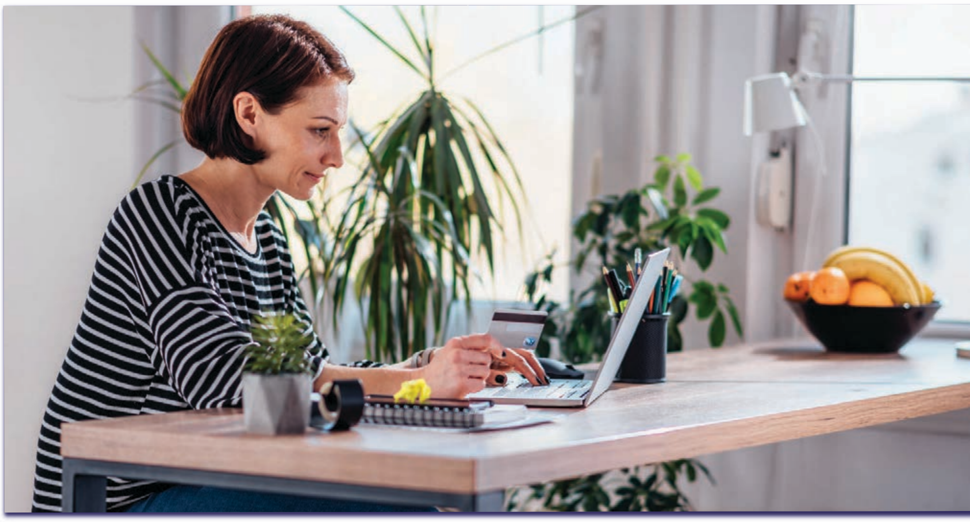
- To become the number one banking brand in Ireland.

How we performed in 2020

- Our 'Begin' brand campaign is now in its second year of investment and has helped to amplify our brand, as demonstrated by our strong Customer Effort Score up 5 points in 2020 with a key focus on 'Financial Wellbeing'.
- Our brand consideration metrics continue to improve, increasing 2% to 21% in 2020.
- In 2020 we aligned many of the Group's philanthropic activities under one umbrella 'Begin Together' which is a three-year, €4 million programme designed to support community-focused initiatives across the island of Ireland. This includes €1 million for the Begin Together Arts Fund launched in September 2020, in partnership with Business to Arts.
- In August 2020 we launched a multi-platform 'Fraud Awareness' campaign to highlight the dangers and tactics employed by criminals to trick customers into providing their banking details.
- We continued to proudly sponsor Irish Rugby across the four provinces and are proud sponsors of the Emerald Warriors, Ireland's leading LGBTQ rugby club.

Our strategy *(continued)*
Grow sustainable profits

We are focused on delivering sustainable returns for our shareholders. This is based on business growth in our key markets to expand lending, grow fee income and increase revenue sustainability. At the same time, we are reducing our costs each year as we drive efficiency and streamline our business.



New digital advice platform: End-to-End applications and 35% uptake of investment products

More improvements as part of our technology transformation came in the form of our newly enhanced Wealth and Insurance digital advice and transaction platform – a first to market proposition. As Ireland's only bancassurer we increased penetration of our Wealth and insurance products from within the Bank's customer base, with product uptake of more than 35%. The platform provides an online one-stop-shop for customers opening an investment plan tailored to their unique risk profile, and caters for those who wish to invest regularly from a remote setting.

Business growth

Creating growth in our Irish business will increase lending volumes, interest income and fee income. We are working towards our goal to be a lead supporter of home building and home buying in Ireland, and to grow our wealth management and insurance business. As Ireland's leading retail and commercial bank and the only bancassurer in the market, we are building on our strengths, in particular the demand for housing and supportive demographic changes as called out in 'Ireland 2040, the National Planning Framework'.

Target outcomes

- To become the National Champion Bank in Ireland with UK and selective international diversification.
- To be the leading supporter of home building and home buying in Ireland
- Continue to build on our Wealth and Insurance business
- Measured and commercially disciplined loan book growth in our Irish and international acquisition finance businesses; improve sustainable returns in our Retail UK business.

How we performed in 2020

- Underlying loss before tax of €374 million, with net lending volumes of €0.1 billion.
- Market share in new mortgage lending Ireland of 25.5%.
- Across the Group, we approved €1.1 billion in Residential development funding which will deliver c.11,000 residential units, including c.760 social housing units and c.3,000 student units over the coming years.
- In September 2020, we launched our Green Bond Framework enabling us to issue Green Bonds while financing additional projects across renewable energy, green buildings, and clean transportation. In 2020, we also doubled our Sustainable Finance Fund to €2 billion.
- The Group retained its position as Ireland's leading Corporate Bank with gross new lending of €2.8 billion. With loans and advances to customers closing at €16.4 billion, broadly flat on the year.
- Despite industry-wide disruption, we maintained our market share in lending to SMEs across Manufacturing, Agriculture, Retail Convenience and Healthcare.
- We continued to leverage our position as Ireland's only bancassurer, by increasing the penetration of Wealth and Insurance products to our Bank customer base to 35%, up 3 points on the prior year.
- Strong capital position maintained, with a fully loaded Common Equity Tier 1 (CET1) ratio of 13.4% at December 2020, pre-impairment organic capital generation of c.125 basis points.

Related pages

Responsible & sustainable business (page 20)
Risk review (page 45)
Divisional review (page 58)

Continued cost reduction

We expect our costs[1] to reduce every year, delivering a total cost base of €1.65 billion in 2021 and €1.5 billion in 2023.

Target outcomes

- Reduction of costs from €1.9 billion in 2017 to €1.65 billion in 2021 and €1.5 billion in 2023.
- Reduction in costs every year.
- Underlying cost income ratio of c.50% over longer timeframe.

How we performed in 2020

- Further progress on our cost journey, with operating expenses of €1.7 billion now 4% lower than 2019 despite additional costs related to COVID-19 of €25 million.
- The Group has achieved its original 2021 cost target of c.€1.7 billion set in 2018 , one year earlier than planned.
- Reduction in operating expenses has been achieved in 2020 through ongoing organisational simplification, improved ways of working, more efficient IT transformation and a continued focus on strategic sourcing.
- Underlying cost income ratio increased by 1% compared with 2019.
- Announcing a more ambitious target of €1.5 billion for 2023.

Reshaping the UK business

We are committed to the UK market where our focus is on improving sustainable returns. We have commenced a multi-year restructuring programme that will reduce our balance sheet, enabling us to lower our funding and operating costs, and focus on higher margin businesses across mortgages, Car Finance and Travel Money.

Target outcomes

- Improving sustainable returns.
- Improve lending margins.
- Lower cost of funding, acquisition and servicing.

How we performed in 2020

- We announced in Q3 2020 our intention to further restructure the Retail UK business, to reduce our balance sheet; enabling us to lower our funding and operating costs, and focus on higher-margin businesses across mortgages, Car Finance and Travel Money.
- Pre-provision operating contribution of £224 million was up 16% on 2019.
- In 2020, we reduced our UK cost base (excluding impairment of goodwill) by £25 million, improving our cost income ratio from 60% to 53%.
- We have begun to re-shape our loan portfolios by running down our lower-margin mortgages, while growing our 'Bespoke' mortgage offering by 48% in 2020 and broadening our broker network to 200 over the last two years.
- In Northern Ireland, we have completed our strategic review, which will result in a material restructure of the business; delivering a reduced physical footprint, product simplification and lower costs.
- We completed the migration of our UK credit card business to Jaja in October 2020.

[1] *Costs and operating expenses refers to underlying operating expenses (before levies regulatory charges and impairment of intangible assets and goodwill).*

Responsible and Sustainable Business at Bank of Ireland

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

Following our commitment to the UN Principles for Responsible Banking (UNPRB) in October 2019, our focus in 2020 was to work on better understanding our impact, the issues important to our stakeholders and our baseline.

All of this work has informed the development of our new RSB strategy, which is being launched in conjunction with our annual results and which sets out our key environmental, social and governance priorities. We recognise the ever-growing expectations from our investors, customers and society – for increased action as well as transparency – and we are cognisant of the growing regulatory requirements around the Environmental, Social and Corporate Governance (ESG) agenda.

For the first time, we are reporting our progress against our UNPRB commitments and in line with TCFD recommendations.

Governance and accountability

The Nomination, Governance and Responsible Business (NGRB) Committee oversees the Group's RSB Strategy and monitors the Group's progress against its UNPRB and other commitments. At senior executive level, the Chief Strategy Officer (CSO) has been delegated responsibility for development and delivery of the RSB strategy, as well as its integration into our overall Group strategy. The CSO is supported in this by the RSB Team and the RSB Forum, an advisory group which comprises senior business and functional Executives from across the Group. Both the NGRB and the Group Executive Committee (GEC) receive regular updates on RSB.

Our commitments

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

UN Principles for Responsible Banking

Bank of Ireland signed the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking in October 2019. Providing a framework for a sustainable banking industry, the UN Principles help to align the banking sector with the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Task Force on Climate-Related Financial Disclosures

Bank of Ireland is a supporter of the Taskforce on Climate-related Financial Disclosures (TCFD), a voluntary and consistent climate-related financial risk disclosure framework.

BUSINESS IN THE COMMUNITY IRELAND | #LowCarbonPledge

Low Carbon Pledge

Bank of Ireland signed the Business in the Community Ireland's Low Carbon Pledge in 2018 and committed to reducing our Scope 1 & 2 greenhouse gas emissions intensity by 50% by 2030.

Investing in Tomorrow

Throughout 2020, we have developed our new Responsible and Sustainable Business strategy 'Investing in Tomorrow'.

Related pages
CEO review *(page 8)*
Our ambition, purpose and values *(page 12)*
Our strategy *(page 13)*

Investing in Tomorrow

We believe that by investing time, money, effort and resources in making things happen, we're giving tomorrow a better chance. Our new RSB strategy aligns with our purpose of 'enabling customers, colleagues and communities to thrive' and also helps to achieve our ambition of being a National Champion Bank.

The strategy comprises three pillars – enabling colleagues to thrive, enhancing financial wellbeing and supporting the green transition – and these are built on strong foundations which guide our commitment to being a responsible and sustainable business. The strategy was informed by our materiality and impact assessments which are outlined on the following pages.

Our Responsible and Sustainable Business Strategy

Enabling colleagues to thrive

We will be a 'digitally able' learning organisation that values inclusion and diversity, reflecting society and our customer base.

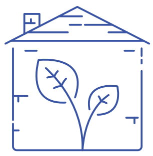
Focus areas
Digitally able
Employability
Inclusive development

Enhancing financial wellbeing

We aim to empower people to thrive financially by enabling them to make better financial decisions.

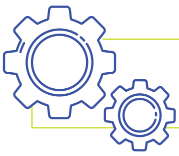
Focus areas
Financial capability
Financial inclusion
Financial confidence

Supporting the green transition



We are committed to working with our customers, colleagues and communities to support their transition to a resilient, Net Zero economy by 2050.

Focus areas
Set science-based targets
Provide sustainable financing
Decarbonise own operations
Manage climate-related risks
Transparently report



Foundations

Underpinned by strong foundations which guide our commitment to being a responsible and sustainable business.

Developing our strategy

In developing our RSB strategy, we engaged with our stakeholders to understand what was important to them and we undertook an assessment of the impact we have on society and the environment.

Listening to our stakeholders

Understanding the role we play and the impact we have on our many stakeholder groups helps to inform our RSB strategy and improve the quality of our reporting, while also highlighting risks and emerging trends that may be on our customers or investors' radars.

We engage regularly with our stakeholders through a variety of media, including surveys, social media, meetings, working groups and more.

To inform the development of our new RSB strategy, we conducted our first materiality assessment in 2020. This allowed us to get a deeper understanding of the issues important to our stakeholders. There were four steps in the materiality assessment exercise.

Materiality assessment

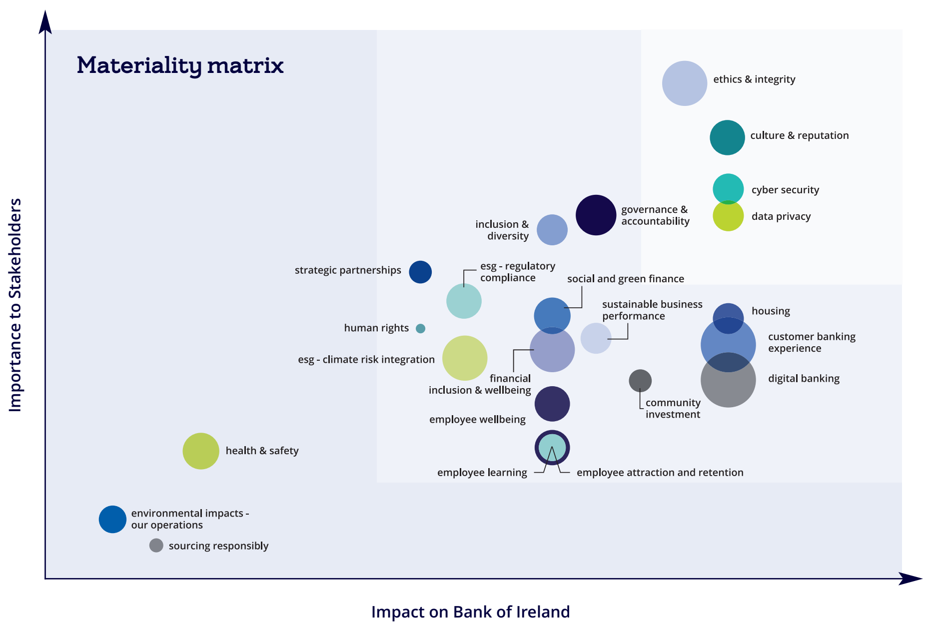
1. **Horizon Scanning**
   We engaged a specialist external consultancy to support our materiality assessment. To start, we completed a horizon scanning exercise to understand the key issues in this agenda. This was informed by our purpose, values and strategic priorities, existing surveys with customers and colleagues, peer reviews, regulation and a review of trends, media and relevant research. A shortlist of 25 topics was produced from this exercise.

2. **Prioritisation**
   To prioritise, these topics were then explored in a comprehensive stakeholder engagement exercise which sought the views of customers, colleagues, suppliers, trade associations and NGOs among others; through interviews and surveys. Stakeholders were asked to indicate how important they considered each of the topics to be and their reasons for this.

3. **Validation**
   The RSB Forum, together with other senior internal stakeholders, then validated these stakeholder engagement findings and assessed the impact and influence of each of the topics in detail against agreed criteria.

4. **Finalisation**
   The output of this process is the materiality matrix set out below, which plots issues of material importance to stakeholders as well as the bearing they might have on the Group and its ability to influence each of them.

The materiality assessment findings have significantly informed our new RSB strategy and the various topics are reported on throughout this report.



The size of the bubble indicates the level of influence Bank of Ireland believes it has over reach each topic.

Related pages
CEO review (page 8)
Our strategy (page 13)
TCFD report (page 30)

Understanding our impact

In line with Principle 2 (Impact and Target Setting) of the UN Principles for Responsible Banking, the Group carried out an initial impact assessment to understand both the positive and negative impacts of its products and services on society and the environment.

Methodology

In conducting the impact assessment, the Group used the UNEP FI Portfolio Impact Analysis Tool for Banks. This was developed by over 40 UNPRB signatories and UNEP FI Member Banks, including Bank of Ireland, under the leadership of the UNEP FI Positive Impact Initiative. The Bank was an active participant in the consultation and feedback process of the tool development.

The Tool guides banks through a holistic analysis of their retail (consumer and business banking) and wholesale (corporate and investment banking) portfolios. A sector / impact map underpins the tool methodology and seeks to capture positive and negative associations between sectors / activities and the 23 impact areas which are linked to the 17 Sustainable Development Goals (SDGs) in areas comprising social, environmental, governance and economic information.

This initial assessment is presented (see across) against the four requirements for undertaking impact analysis i.e. scope, scale of exposure, context and relevance, and scale and intensity / salience.

The outcome of this impact assessment informed the development of our new RSB strategy. We cross referenced the outcomes of the impact assessment with that of our materiality assessment to ensure the correct focus. As climate has been identified as our most significant negative impact, this has been explored further and is the primary focus of our ‘Supporting the Green Transition’ pillar (see page 28). Building on our positive impact on ‘inclusive healthy economies’, financial inclusion forms a key element of our Enhancing Financial Wellbeing pillar. Employability, both within the Group and more broadly in society, is also a key focus of our RSB strategy.

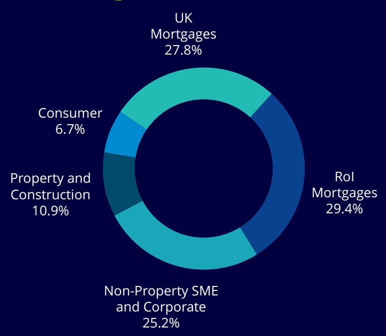
Bank of Ireland continues to be an active member of the Working Group which is developing the UNEP FI Portfolio Impact Analysis Tool. As the tool evolves, we will also refine and update our impact assessment.

Scope

Bank of Ireland’s core business areas in two primary geographies – Ireland and the UK – is included in the scope:

- Consumer Banking (Including Mortgages, Consumer Credit, Car Finance).
- Business Banking (Including Real Estate, Wholesale and Retail Trade, Agriculture).
- Corporate Banking (Including Real Estate, Manufacturing, Agriculture).

Scale of exposure



Context and relevance

- The Irish and UK governments are fully committed to the Paris Climate Agreement and to the implementation of the Sustainable Development Goals.
- Both countries, as well as the EU, have committed to becoming Net Zero by 2050.
- Using the Portfolio Impact Tool, it was assessed that the most relevant needs and challenges in both countries are: climate change, biodiversity, waste and resources and inclusive, healthy economies.
- Engagement with stakeholders through our materiality assessment also informed this.

The above shows the current composition of our €78.8 billion loan portfolio. In terms of portfolio mix, the Group has minimal direct exposure to fossil fuels in energy and extraction, and as a predominantly retail lending bank, we have approximately 70% of our customer lending in residential and commercial property and car finance.

Scale and intensity / salience

The outcome of our initial assessment points to employment, inclusive healthy economies, housing, health and sanitation and mobility as our primary positive impacts, while our negative impacts are in the areas of climate, resource efficiency and security, biodiversity & ecosystem, waste and soil.

For more information and to view our UN PRB Self Assessment Reporting Template, please visit: bankofireland.com/responsible-business

Enabling colleagues to thrive

Our increasingly digital world brings huge opportunities but also demands new skills for colleagues and across society. Unaddressed, the risk is that many will get left behind. We are committed to positive impact inside and outside the Bank, and will be a 'digitally able' learning organisation that values inclusion and diversity, reflecting society and our customer base.

Digitally able
Employability
Inclusive development

We will focus on three areas - being **Digitally Able**, supporting **Employability**, and ensuring **Inclusive Development**.

Digitally able

To fulfil our ambition to be a digitally-enabled bank we will require an understanding of each colleague's skillsets and competencies to build an eco-system of learning supports keeping their careers future fit.

All colleagues have access to content that is focused on making them 'digitally fit' through our digital learning platform, which had 283,377 visits in 2020. Key programmes delivered included:

- The **Career Agility programme** is a twelve week programme helping colleagues to build cross-transferable skills across Personal Effectiveness, Business and Data Proficiency and the Fundamentals of Banking (2,000 registered colleagues).
- **Data Fluency & Project Management Pathway** is designed for all colleagues, encouraging a shift to 'digital first' and 'agile' mindsets and behaviours (Data fluency 1,000 registered and project management 1,500 registered).
- **The Digital Fitness Programme** will support and develop digital practices, tools, and ways of working via the implementation of a digital career platform and digital pathways in 2021.

Employability

Enabling colleagues, current and potential, to stay relevant and future fit in a world of work that is constantly changing and equipped with the skills they need to sustain their career.

In November 2020, the Bank of Ireland Academy was mobilised to provide every colleague with a Career Roadmap that is unique to their skills and capabilities, providing access to relevant learning pathways. To date, this has focused on:

- understanding current colleagues' experience of careers and an improved career journey, and
- using test-and-learn methodology to understand what a colleague requires for Digital Fitness Assessment.

We will further support career development with full implementation of a Digital Career Platform in 2021 which will give colleagues access to mentoring and the opportunity to access to supports and stretch assignments to improve skills.

In addition to providing specialist skills' programmes the Group also ensures all colleagues are supported in their ongoing development, by delivering core programmes to all People Managers and Leaders to enable them to create an environment where all colleagues will thrive. Key programmes delivered in 2020 included:

- ***You as a Manager:*** launched in 2019, and is our core Management Development Programme for all People Managers at Bank of Ireland. In 2020, 64% of our 2,300 People Managers started the programme. However due to the COVID-19 pandemic a 'pause and pivot' approach was required to prioritise focus on critical customer services, while supporting colleagues during the pandemic. The programme has since been remobilised to virtual delivery and will recommence for the first cohort in Q2 2021.
- ***You as a Leader:*** was launched in April 2020 to 350 Leaders from across the Group and is designed to help them to lead, grow, connect and be as effective as possible during COVID-19 and beyond. The focus for 2021 is to build Leaders' technical and digital acumen on leading technology and digital topics to enable more informed discussions and raise their technical skills and drive behavioural change to support our transformation.
- ***Developing You programme:*** this 10-week programme was tailored to manage the new pressures associated with COVID-19. It provided access to a range of development supports to meet individual needs in three key areas:
  1. Developing All Colleagues;
  2. Developing People Managers; and
  3. Developing Leaders.
- ***Bank of Ireland graduate programme:*** continues to have a strong reputation in the market, ranked top Banking, Investment and Financial Services' Employer in 2020 by GradIreland. We recruited 39 Graduates (M 51%, F 49%) to the 2020 programme in September, with significant excess demand at the application stage.

Related pages

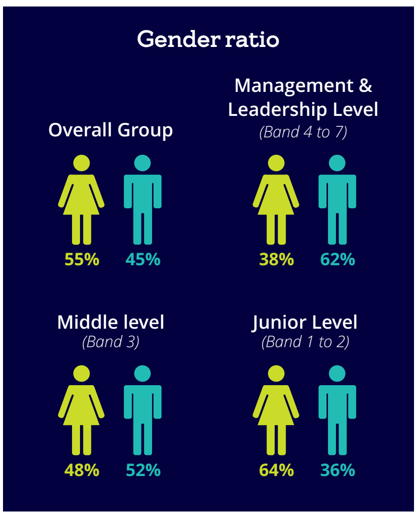
CEO review (page 8)
Our strategy (page 13)

Inclusive Development

Our Inclusive Development approach commits to allowing every colleague to grow and develop as a person, as we build an inclusive workplace that is reflective of society and our customer base. Our Inclusion and Diversity strategy as well as our Colleague Wellbeing programme are the key elements of this approach.

Inclusion and Diversity
We aim to foster an inclusive and welcoming working environment for all – where everyone is able to reach their full potential – and to attract, promote and retain diverse talent at all levels. In 2020, an Inclusion and Diversity (I&D) dashboard was developed and all leaders had a mandatory I&D goal. In December 2020, we launched a confidential Self ID campaign to better understand and measure the diversity of our colleagues. We will use this data to inform the further development of our approach in this area. We currently focus on six key areas of I&D and each are supported by an employee network: accessibility, gender balance, intergenerational, multicultural, parents & carers and 'With Pride' (LGBT+).

We are committed to providing dedicated learning opportunities and pathways that will act as a catalyst for the careers of targeted colleague groups; progressing female talent or colleagues from ethnically diverse backgrounds. These are supported by elements in our core people development programmes to create the environment in which all colleagues will thrive.



Supporting colleague wellbeing during COVID-19

With up to 70% of colleagues working remotely for most of 2020, colleague wellbeing took on even more importance. The Colleague Wellbeing programme and app played a central role in supporting our colleagues' wellbeing through the challenges of the pandemic. 'Staying Healthy Together' was a way to support staff through the upheaval of their working year. Fronted by Karl Henry, it included activities to support Mental, Physical & Financial Wellbeing. In November, over 2,500 colleagues joined Karl, participating in a virtual Couch to 5k, and subsidised fitness classes were also available. We provided a Mental Health Awareness learning programme, including the rollout of Mental Health First Aid as well as subsidised and digitised GP services, live Zoom sessions and webinars. We also promoted the Employee Assistance Programme (EAP) which gives free access to confidential support by phone, web, live chat, or on the EAP app at any time. For those who wanted light relief, there was social entertainment; with live gigs, and virtual Bingo and Christmas fun for families.

- ***RISE Female Development Programme:*** delivered to 45 participants, supported by 17 qualified internal coaches offering 1:1 coaching to female colleagues.
- ***RISE Ethnic Minority Talent Programme:*** developed in partnership with Involve, this launched in late 2020 and is currently being delivered to 14 colleagues across the Group.
- ***External Programmes:*** in addition to our internal talent-development programmes, in 2020, our colleagues participated in external programmes from the Black Business Association (UK) and INvolve's 'Emerging Leaders' programme (Global).

Our primary target in this area is our 50:50 gender balance target for management and leadership appointments by end of 2021 including new entrants and promotions. In 2020, females represented 41% of Management and Leadership appointments (in H2, this was 47%).

Other initiatives / achievements in 2020:
- We partnered with Dublin City University to develop a Race Equality Guide for recruitment. This is the first in a series of resources we are helping to develop, so that workplaces in Ireland become equitable for all. We are also benchmarking our plans externally with 'Business in the Community's UK **Race-at-Work** Charter.
- We launched the **Reasonable Accommodations' Guide, Passport** and **Webinar** to assist colleagues and people managers understand when and why reasonable accommodations might be required. It is designed to remove or reduce barriers for colleagues who require workplace adjustments with their disability-related needs.
- We announced the first recipients of Bank of Ireland's Gold Sovereign Award for leaders in society who are actively promoting Inclusion and Diversity.
- Bank of Ireland won the Northern Ireland Equality & Diversity Award for 'Best Large Employer for Equality and Diversity in NI', Best LGBT+ Employee Resource Group at the Irish Gay and Lesbian Awards (GALAs), and was joint winner of the Champion Diversity & Inclusion Strategy at the Irish HR Champion Awards.

Colleague Wellbeing
In 2020, we focused on the evolution of the new Colleague Wellbeing programme (launched in late 2019), and this became increasingly important in the face of COVID-19. The programme focuses on three aspects of wellbeing: mental, physical and financial, with an added element of 'social wellbeing' introduced to respond to the challenges of pandemic restrictions.

In February 2020, we launched a bespoke Bank of Ireland Wellbeing App and Portal for colleagues, now with over 6,000 colleague registrations. This was supported by an Instagram page for community and networking which saw more than 2,000 members. The impact of the Colleague Wellbeing programme is measured through our regular 'Open View' surveys with 68% of colleagues feeling the organisation is sufficiently supporting their health and wellbeing in the current environment (November 2020).

Enhancing financial wellbeing

Bank of Ireland launched its Financial Wellbeing programme in 2019 to support consumer financial capability and confidence. It is now one of the three pillars of our RSB Strategy, with an increased focus on Financial Inclusion.

Capability
Inclusion
Confidence

Through our Financial Wellbeing programme, we aim to empower people to thrive financially by enabling them to make better financial decisions for themselves and the people that matter most in their lives - their family, their business and in their community. We aim to build customers' capability and confidence when managing their finances and we use behaviourally-informed insights to drive positive outcomes for them.

We will be inclusive in our approach recognising the diverse financial challenges that many in society face. We will be the leading voice for financial wellbeing in Ireland.

As part of our Financial Wellbeing Strategy we have set out three priority areas:

- **Financial capability -** Enabling people to know and do more.
- **Financial inclusion -** Protecting our most vulnerable customers and those experiencing difficult circumstances.
- **Financial confidence -** Enabling people to make better financial decisions.

Financial capability

Financial Wellbeing Index

We regularly check the financial pulse in Ireland through our Financial Wellbeing Index. This is based on a national survey that asks questions across four key topics that relate to people's finances - saving, spending, borrowing and planning. The answers are combined into a score on a scale of 0-100 which indicates whether a respondent is 'struggling', 'stretched', 'managing' or 'thriving' when it comes to managing their finances.

Results of the most recent survey (October 2020) show that Ireland has a national average Financial Wellbeing score of 66 (+2 compared to February 2020 and +5 since the initial measurement in February 2019).

The research suggests that the COVID-19 pandemic continues to affect everyone financially, and crucially, it is likely to be widening the gap between those who have high financial wellbeing scores and those who don't. We have used the research insights to develop our Financial Wellbeing strategy further, and direct our focus to the areas most needed.

Financial literacy

Improving financial literacy is a central aspect of building financial capability and Bank of Ireland offers useful tools and education in this area:

- Online Financial Wellbeing Centre – provides advice, guidance and articles as well as a free online financial healthcheck for consumers and businesses so they can assess their own financial wellbeing. Users receive a financial wellbeing score and targeted financial wellbeing tips. In 2020, c.60,000 people completed the financial healthcheck.
- Financial Wellbeing Needs' Review – redesigned in 2020 with a more user-friendly and holistic approach to customers' personal and business finances; including their current financial needs and future goals. In 2020, almost 32,000 people and over 13,000 businesses' completed a Financial Needs Review with Bank of Ireland.
- Financial Wellbeing Coaches – provide expert advice through community groups and workplaces on the key financial wellbeing topics of saving, spending, borrowing and planning. Due to the pandemic these talks are now delivered through online webinars with over 350 delivered by our Coaches in 2020.

Youth Financial Wellbeing

We developed a Youth Financial Wellbeing programme that is available in-classroom for primary and secondary schools, and also for parents to introduce the concept of 'financial wellbeing' to their children at home. In this, we offer a range of supports for schools and parents to help them teach children and students about the importance of financial wellbeing.

Primary, secondary and third–level supports

In primary schools, we have developed and launched a financial literacy initiative, 'Talking Cents'. This programme supports both parents and teachers to help children to understand the concept of money, its uses, and to learn about planning, spending and saving. The programme takes a child-centric approach and is split into six easy-to-follow money lessons. This programme is available for free to all 3,000 primary schools in Ireland.

Related pages
CEO review (page 8)
Our strategy (page 13)

The VCU showed sensitive and caring support from the onset of the pandemic

We quickly mobilised the VCU to take swift action by prioritising support offered to the Bank's elderly and vulnerable customers. One human story is that of an elderly couple in a West of Ireland nursing home, whose only contact with the outside world was their niece visiting weekly after collecting their pension in cash at the Post Office. With no bank account, she paid bills and ran errands for them. Sadly, this could not continue when the nursing home went into lockdown and their niece had to cocoon due to a pre-existing condition. She had the foresight to call our Freephone number after hearing Bank of Ireland was offering COVID-19 supports; and we were pleased to set up a bank account for the elderly couple within days – allowing pensions to be diverted and the nursing home standing order to be paid. The elderly couple passed away within a short time of each other some months' after. We were again contacted by their niece and stepped in again, sorting all funeral bills and expenses in days. The VCU was humbled to get a letter of thanks for showing sensitivity and caring in their efforts to help at a difficult and traumatic time.

In secondary schools, some of the initiatives included:

- *Virtual financial literacy* – four online presentations delivered by Bank of Ireland's Youth Coordinators which focused on the six pillars of financial wellbeing: Spending and Saving; Earning and Income; Credit and Debt; Investing; Risk and Protection; and Financial Decision Making.
- *School Bank* – a bank run by students for students.
- *Practical Workshops* – two workshops focusing on CV and interview skills, and starting a new business.
- *Money Smarts Programme* – a free financial education programme comprising financial literacy content, workshops and events designed to provide students with financial skills. Since the pandemic began, this programme was delivered virtually by our Youth Coordinators, with 10,000 students taking part in the programme in 2020.
- Third Level – catering for changes in third-level students' learning habits, we launched a number of financial-wellbeing videos on YouTube, featuring key influencers.

Financial inclusion

Protecting our most vulnerable customers, including those experiencing difficult circumstances, is a key part of our financial wellbeing commitment. 2020 provided a challenge to everyone in society, but vulnerable customers faced even steeper challenges than others.

In 2019, we launched the Vulnerable Customer Unit (VCU) to protect and support the financial wellbeing of customers in vulnerable circumstances.

The VCU played a central part in our response to the pandemic, during which new dedicated supports were launched for vulnerable customers. Bank of Ireland announced a new service designed to help customers self-isolating during the COVID-19 pandemic – including older customers and those in difficult situations – access cash for groceries and other day-to-day expenses. This cocooning support included priority hours and a dedicated phone line for over 65s and carers.

Other initiatives introduced to support Financial Inclusion in 2020 included:

- **JAM (Just A Minute) Card:** the JAM Card© allows people to ask for a moment of patience in any situation they might need it; including in banks, shops, restaurants or on public transport. So far over 2,000 staff have been trained on the JAM Card which includes online Disability Awareness Training, and over 3,000 JAM Cards have been distributed across our network, with most people preferring to use the JAM Card App.
- **Carers' Debit Card:** the Carers' Debit Card provides a safe and secure way for trusted relatives and friends (or other designated carers) to manage the day-to-day living expenses of those who are in their care. So far over 620 customers have applied for the carers' card.
- **Vulnerable Customer Resource Centre:** provides a one-stop-shop for colleagues' dealing with a vulnerable customer, with useful information and advice, on key topics.
- **Begin Together Fund:** funding was awarded to eight Financial Wellbeing-specific projects, to groups such as: vulnerable women, migrants, disadvantaged young people and people with learning difficulties. These projects were hands-on and practically helped people to better understand and manage their personal finances. For more information on our Begin Together Fund (see page 40).

Financial confidence

Financial confidence is about enabling people to understand their financial position and make better financial decisions.

Fraud awareness campaign

Bank of Ireland's fraud awareness campaign highlighted tactics deployed by criminals when tricking customers into giving their banking details. The campaign included emails and letters to customers - reinforced through a social media campaign and extensive fraud advice on www.bankofireland.com/security-zone.

Later in the year, a broadcast and print campaign was also developed.

The volume of smishing has increased significantly over some years, i.e. where fraudsters gain access to confidential information so as to move quickly to extract customers' funds. The Bank works very closely with national and international authorities to combat fraud, and to recover all or part of the stolen funds, allowing customers to be reimbursed.

COVID-19 supports

In response to the COVID-19 Pandemic, we introduced a comprehensive range of supports for customers which included:

- mortgage and personal loan payment breaks for customers whose income was impacted by the pandemic. With over 100,000 payment breaks granted to personal and business customers across Ireland and the UK; and
- quicker access to savings for accounts that required seven-day notice period for withdrawal.

Supporting the green transition

Combating climate change is one of our greatest challenges as a global society.

In 2015, the Paris Agreement set out the global ambition of keeping warming well below 2 degrees Celsius, with the support from nations across the globe. Now, we are looking forward to the 26th UN Convention of the Parties (COP26), with many countries, including Ireland and the UK, having set Net Zero by 2050 ambitions. Regulators and investors are increasingly engaging on this, challenging businesses to make similarly ambitious commitments.

At Bank of Ireland, we understand the important role we can play in tackling climate change. We are committed to working with our customers, colleagues and communities to support their transition to a resilient, Net Zero economy by 2050.

To put this commitment into action, over the coming years, the Group will implement a 5-point plan which lays out a clear framework under which we will build on our progress to date and will continue to play our role in supporting the transition to a low-carbon economy.

The Group has committed to supporting customers and businesses in their move to environmentally sustainable solutions, to setting science-based targets across its portfolios by 2022 and to build the Group's own resilience by further embedding climate-related impacts in decision making processes for the Group's operations, in lending and investment decisions and the advice provided to customers.

Our five point plan:

1 **Set science-based targets**
Set our portfolios and lending practices on a pathway aligned with the Paris Agreement and commit to setting science-based targets across our portfolios and operations by the end of 2022.

2 **Provide sustainable financing**
Support our customers through our core financing and advisory capabilities to enable them to transition to Net Zero and develop and deploy low carbon technologies.

3 **Decarbonise our own operations**
Make our own operations Net Zero by 2030.

4 **Manage climate related risks**
Build our own resilience by embedding climate-related impacts in our decision making processes for our own operations, in lending and investment decisions and the advice we give our customers.

5 **Transparently report our progress**
Commit to transparently report on the progress we are making towards our ambitions, and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

Related pages

CEO review (page 8)
Our strategy (page 13)
Risk management report (page 138)

Key 2020 achievements

1. Set science based targets

In 2020, we took steps to further understand our carbon emissions across our material portfolios by calculating a high-level emissions baseline across our lending book. Our assessment found that our emissions footprint varies across the portfolio with relatively low contribution from energy-related industries and higher contributions from property, transport and agriculture. Understanding our baseline emissions will enable us to set meaningful Science Based Targets before the end of 2022. In 2021, we will complete our emissions baselining in line with the SBTi's methodology.

2. Provide sustainable financing

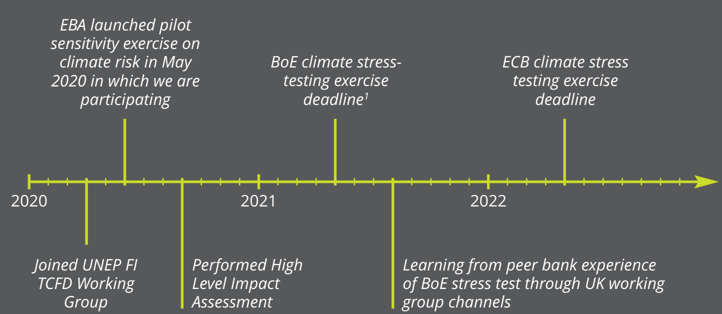
In June 2020, we added €1 billion to the Sustainable Finance Fund which we launched in 2019 and in September 2020 we released our Green Bond Framework, fully aligned to the ICMA Green Bond Principles.

3. Decarbonise our own operations

In 2020 we achieved our commitment to switch to 100% renewable electricity in Ireland and the UK. We are also proud to have also achieved a 77% reduction in carbon emissions intensity (on a 2011 baseline) across our Scope 1 and 2 emissions.

4. Manage climate related risks

We have begun progressively embedding climate risk into the Group's key risk processes throughout 2020. We continued to develop our own internal climate scenario analysis and stress testing capability in line with emerging industry methodologies and platforms through our membership of the UNEP FI TCFD Working Group. The timeline below shows where we are on this journey as we work towards the European Central Bank (ECB) Climate Stress Testing exercise set to take place in 2022.



5. Transparently report our progress

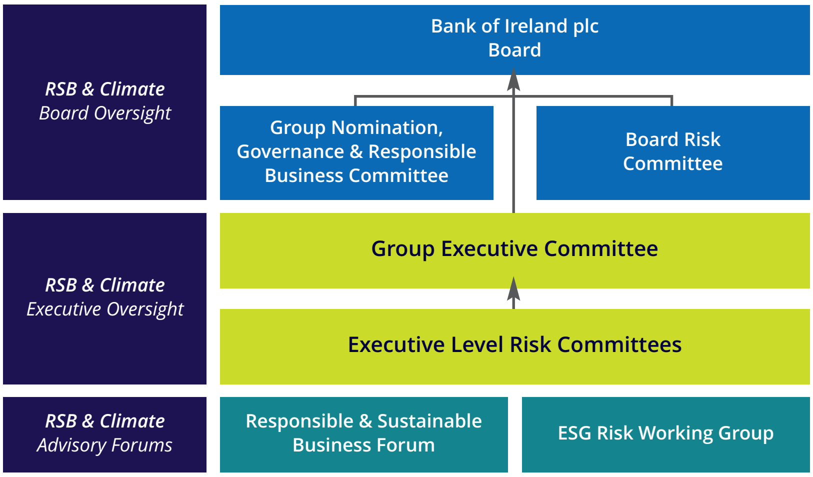
In 2020, we became a supporter of the TCFD, following on from becoming a signatory to the United Nations Environment Programme Finance Initiative's (UNEP FI) Principles of Responsible Banking (PRB) in 2019. This report sets out our action on climate to date, and our plans for future years.

Our TCFD report is presented in the following pages.

[1] *Bank of Ireland not in scope of BoE Stress Test.*

TCFD report

Governance



Incorporating climate change into Board-level decision making.

Ultimate oversight of climate-related risks and opportunities is at Board-level. In 2020, this oversight has been provided in two ways:

- review and approval of our climate strategy, one of three pillars of our overall RSB strategy; and
- consideration of climate risk implications across our portfolios.

In December 2020, the Board approved our climate strategy, which sets out our climate ambition and five point plan for action on climate. The NGRB committee, of which our Group Chairman is Chair, has overall responsibility for climate as part of its remit in overseeing the Group's RSB Strategy. It also monitors the Group's progress towards implementing the UN Principles for Responsible Banking.

The Board Risk Committee has oversight of climate risk as a transverse risk driver, through the Group Risk Framework. The Group recognises that climate change can drive increased risk across key financial, non-financial and strategic risk types. Each key risk owner is therefore required to consider the effect climate change will drive for their risk and to integrate climate risk management within their individual risk frameworks. In September 2020, the Board Risk Committee was updated on the progressive integration of climate into risk management processes and considered an initial assessment of the impact and implications of climate risk across our credit portfolios, highlighting key areas of focus and sensitivity.

In order to adequately assess climate risks and opportunities, the Board draws on expertise both internally and externally. The CSO regularly updates the NGRB on climate-related matters. The Board will also be taking part in climate-change training in 2021. The Group Audit Committee reviews climate-related financial disclosures as part of its wider role in reviewing our Annual Report and Accounts.

The role of management committees

The Group Executive Committee (GEC) has overarching responsibility for delivery of the Group's RSB framework and strategy, of which climate change is one of three pillars. Members of the GEC include the Chief Financial Officer (CFO) and Divisional Chief Executive Officers (CEOs) who have been actively involved in shaping the Group's Climate Strategy. Specific GEC responsibility for RSB (including climate) has been delegated to the CSO. The CRO has overseen the development of an overarching ESG Risk Framework (incorporating climate risk) which was approved by the executive level Group Risk Policy Committee.

The Responsible and Sustainable Business Forum (RSBF) is an advisory body to the CSO. It consists of senior business and functional executives from across the Group and enables the Group to have a coordinated approach to both delivery and reporting of the Group's RSB framework and strategy to the GEC. The RSB team is responsible for developing the Group's RSB framework and strategy and supporting its implementation and delivery in all divisions across the Group. The team sits within the Group Strategy function and reports to the CSO.

Climate risk responsibilities extend across the organisation, based on a 'three lines of defence' approach, in line with the Group Risk Framework.

As climate risk impacts through existing risk channels, it requires a matrix approach and integration across multiple risk frameworks. With co-ordination from Enterprise Risk Management, Risk Owners are integrating climate into existing risk control frameworks, policies and strategies. Within Group Risk, an ESG Risk Working Group has been established to bring together second-line risk management from across key risk types (with the RSB team) to support an integrated approach to ESG management and climate-related risks within the Group.

Incorporating climate change into performance

To encourage behaviour consistent with the Group's RSB Strategy and risk approach, performance indicators are linked to successfully achieving the Group's RSB-related objectives; including those associated with climate change. These will be considered in 2021, as part of our balanced scorecard performance assessments.

Our vision for future oversight

Going forward:

- the NGRB Committee will oversee the implementation of our climate change action plan, which includes our progress on setting and monitoring SBTs (and any other associated targets).
- Group Risk will report on climate-related risks; including KPIs and progress against targets, to the Board Risk Committee and Board through the following channels:
  - the risk identification process;
  - the internal capital adequacy assessment process (ICAAP); and
  - ESG and climate risk monitoring and impact assessments.

TCFD report (continued)

Strategy

As a signatory to the UN's Principles for Responsible Banking, we have committed to aligning our strategy and practice with the Paris Climate Agreement. In 2020, we defined our climate strategy, incorporating our five point plan.

Identifying key risks and opportunities to our business

We recognise that climate change presents both risks and opportunities to our business model and strategy. We see these emerging through three key channels:

1. **Business opportunities** arising as economies and customers transition to a low-carbon economy;
2. **Transition risks** arising from potential disruptions and shifts associated with the transition to a low-carbon economy; and
3. **Physical risks** relating to potential financial implications from physical impacts of climate change which could disrupt the business, operations, or supply chains of the Bank and its customers.

The Group recognises that both climate risks and opportunities will impact on its business model over short, medium and long-term horizons and that the materiality of these impacts should be considered in the Group-wide Climate Strategy. The chronology of this process and how it aligns with our five point plan is set out on top of the next page.

The Group has already begun to provide sustainable products and we are seeing an increase in demand from our customers.

The Group has committed to supporting customers and businesses in their move to environmentally sustainable solutions, by setting science-based targets across its portfolios and to build the Group's own resilience by embedding climate-related impacts in decision making processes for the Group's operations, in lending and investment decisions and the advice provided to customers.

Further detail on transition and physical risks and the processes we are developing to manage these can be found in the Risk Management section on page 34.

Setting our portfolios and lending practices on a pathway aligned with the Paris Agreement

In developing the strategy, a core element has been determining the best approach to ensuring our portfolios and lending practices are on a pathway aligned with the Paris Agreement. We have carefully considered emerging frameworks and evolving market practices to ensure that the approach we adopt is fit for purpose and credible. For these reasons, the Group has elected to commit to setting Science-based Targets and using the methodology that has been developed for financial institutions as a framework to guide our actions. We believe this approach (to align our lending with the Paris Agreement) will inform both the development of new sustainable finance products as well as our approach to managing climate risks.

Evolving our products in line with risks and opportunities

To support our customers' transition to a low-carbon economy, the Group launched the Sustainable Finance Fund (the 'Fund') in July 2019 and in doing so became the first bank in Ireland to introduce a green mortgage. An additional €1 billion was added in June 2020 bringing the total amount of the Fund to €2 billion. The Fund supports our customers on their low carbon journey by encouraging and rewarding energy efficient homes; and SME and agri investment in energy efficiency.

Initiatives associated with the Fund include the Green Mortgage Fixed Interest Rate, which is a rate discount for borrowers who may be buying or building energy-efficient homes, and a green home-improvement loan for energy-efficiency improvements. We have also introduced lower interest rates for investment in energy saving improvements for businesses. There has been significant uptake with over €950 million drawdowns from the Fund to date.

In September 2020, we released our Green Bond Framework which enables the Group to issue Green Bonds, the proceeds of which are used to finance and / or refinance projects across renewable energy; green buildings; and clean transportation. This framework is fully aligned to the ICMA Green Bond Principles.

Using scenario analysis to understand the resilience of our business

The Group is already on its way to assessing resilience to climate-related risks. During 2020 we commenced the development of our internal climate scenario analysis and stress testing capability, in line with emerging industry methodologies and platforms. Through our involvement in the UNEP FI TCFD Working Group and other industry fora, we have been deeply engaged with these methodologies and their development.

As these methodologies continue to develop, we will be progressively drawing on our scenario analysis to inform strategic planning; providing insight to our corporate strategy, business model and financial plans.

We have used outputs from initial methodology developments in 2020 to develop an initial impact assessment to inform considerations in formulating our climate strategy. This analysis identified that as a predominantly retail bank we are not heavily exposed to certain carbon-intensive industries. The table on the next page shows risks and opportunities we have identified to date across our material portfolios and the impact they have on the business. As part of our commitment to setting SBTs we are now exploring strategic levers linked to opportunities.

Further detail on how we have assessed climate-related risks using scenario analysis can be found on page 36.

Related pages

CEO review (page 8)
Our strategy (page 13)
Risk management report (page 138)

Risk identification and materiality assessment

Our first step has been to identify and quantify material risks to the business. In identifying these we have also begun to map these to opportunities. The table below shows the key risks and opportunities identified across our portfolios with the most material lending exposure, and the associated impacts to our business.

Further detail on this risk identification process can be found on page 34.

KPI and target setting on material portfolios

In line with Action 1 of our 5 point plan:

In 2021, we will begin to integrate climate KPIs into our RSB strategic planning framework with a view to making achievement of the strategy measurable. These KPIs will be in line with the approach taken by peers.

In line with the SBT Initiative, for key portfolios, respective targets, and time horizons will be set and progress tracked and monitored against interim targets.

Identification of strategic levers and risk mitigation activities

In line with Action 4 of our 5 point plan:

We have begun to engage teams across our business to identify strategic levers and risk mitigation activities.

We will develop and disclose on these levers leveraging the KPI and target setting exercise ensuring that we have the tools and controls necessary across the business to evolve as the economic landscape transforms.

Seizing strategic opportunities

In line with Action 2 of our 5 point plan:

We have already launched a number of Green Products linked to climate change (as outlined on page 32).

As we identify further strategic levers, our suite of products will evolve in line with market trends, ensuring that we are offering leading Green products to our customers.

Lending portfolio[1]	Transition risks & business impacts in the medium to longer term	Physical risks and business impacts in the longer term	Opportunities in the short to mid-term
Mortgages and property and construction finance Mortgages loan exposure: **€45.0 billion** Property and construction loan exposure: **€8.6 billion**	Potential reduction in certain property values due to increasing move towards higher energy efficiency in properties	Potential reduction in certain property values due to increasing risks of floods and other destructive weather events	Green Mortgages; Lending for Property Energy Efficiency Retrofits; Green Bonds
Consumer car finance Loan exposure: **€2.7 billion**	Potential reduction in residual values on petrol / diesel cars due to market shift to EV cars	Increased potential for damage to assets due to extreme weather events	Lending for transition to EV Cars; Affordable EV leasing; Funding charging infrastructure; Green Bonds
Non-property SME & corporate lending Loan exposure: **€19.9 billion**	Increased carbon costs and ability of business models to transition to green economy	Risk to business and agriculture from increased weather disruptions, flood propensity and coastal erosion	Funding for Infrastructure Projects; Green Business Loans for Energy Efficiency; Green Bonds

Taking action in our own operations

During 2020, we took a number of actions in order to reduce Bank energy consumption and climate-related impact within our operations. Key actions taken were:

- 100% Renewable Electricity for Ireland and the UK operations. We remain focused on reducing our kWh consumption of green energy to ensure we manage this finite resource responsibly.
- Upgrades to our Data Centre facilities to improve energy efficiency.
- LED lighting upgrades across our branches and IT Centres.
- Improved ability to track unplanned and unpredictable energy consumption.

We will seek to further embed climate selection criteria to reduce Scope 3 emissions across our supply chain.

Priorities for disclosure in 2021

- Progress against our five-point climate action plan.
- Associate our identified risks and opportunities with specific time horizons.
- Link our risks and opportunities to Key Performance Indicators.
- Develop our scenario analysis capabilities to further inform our risk management, opportunity identification and results' disclosures.

[1] *Excluded from the lending portfolio is consumer lending not related to car finance of €2.6 billion.*

TCFD report *(continued)*

Risk management

We are committed to supporting our customers' green transition while building Group resilience. We do this by embedding climate-related impacts in key decision-making processes.

Climate change is a risk driver that intensifies impact within existing risk types. As such it is not a new risk and we are managing climate change already in a variety of ways as it emerges. However, recognising the increasing importance and impact that climate change will have on our business and on our customers, we have designated climate risk (as part of ESG) as a transverse risk driver and recognised it in our Group Risk Framework. This allows us to apply a climate risk lens across the management of all our key risk types.

As a systemic and persisting risk to the Group's business model, we have detailed how it will be managed across our key risk types in a dedicated ESG Risk Framework. This framework will develop and evolve over a medium-term timeframe, and guide deepening integration of ESG and climate risk management into existing key risk management processes over annual planning cycles.

Regulatory developments

During 2020, there has been growing regulatory focus and momentum on climate risk management. In the EU, the European Central Bank (ECB) released guidance on how banks should manage climate-related and environmental risks in November 2020 and confirmed that it will conduct a supervisory review of banks' practices and a climate stress test exercise in 2022. In the UK, the Prudential Regulation Authority (PRA) issued guidance on how banks should manage climate-related risk in 2019, with the expectation that this will be embedded by the end of 2021.

Integration of climate risks at a Group level

We define ESG risk as the risk to value arising from an Environmental (including climate change), Social or Governance event or condition that, if it occurs, could cause an actual or potential material negative impact on:

- the Group's earnings, franchise value or reputation;
- the long-term sustainability of our customer's operations and financial wellbeing; and
- the communities and environment in which we and our customers operate.

Furthermore, in line with the ECB's guidelines on climate-related and environmental risks and the recommendations of the TCFD, we define two key sub-categories of climate related risks and environmental risks that impact our business. These are the risks associated with the transition to a low-carbon economy and from climate-related physical events.

Transition risks are risks arising from potential disruptions and shifts associated with the transition to a low-carbon economy which include:

1. **Policy and legal risks** (e.g. imposition of a carbon tax, climate-related litigation).
2. **Technology risks** (e.g. old technology replaced by cleaner technology).
3. **Market demand / supply risks** (e.g. changing consumer behaviour).
4. **Reputational risks** (e.g. reduced client satisfaction of companies with a reputation of harming the climate).

Related pages

CEO review (page 8)
Our strategy (page 13)
Divisional review (page 58)
Risk management report (page 138)

Physical risks are risks related to potential financial implications from physical phenomena and associated climate trends which disrupt operations, supply value chains or damage property. These include:

1. **Chronic risks** (e.g. long term trends – extreme weather events, chronic weather patterns, sea level rises, temperature changes, etc).
2. **Acute risks** (e.g events such as floods, storms, water stress, resource scarcity, biodiversity loss, pollution, fires, heatwaves or droughts).

Both transition and physical risks can affect the creditworthiness of our customers and the stability of our lending portfolios, as well as the value of assets in the medium to long term.

These climate risk drivers can intensify risks to the Group, impacting across existing key risk categories including, but not limited to:
- **Credit risk:** increased costs associated with physical and transition risks may impact financial soundness of households and businesses reducing their ability to service debt and impairing asset values, resulting in financial loss to the firm through higher probability of default and higher losses given default.
- **Operational risk:** physical risks could impact continuity of the Group's operations or operations of its material suppliers resulting in sustained disruption of the supply chain and ultimately our ability to service customers.
- **Reputation risk:** customer, community and regulatory expectations of the Group's contribution to support transition to lower-carbon economy resulting in loss of business.

Climate risk responsibilities extend throughout the organisation based on a 'three lines of defence' approach in line with the Group Risk Framework.

The Chief Strategy Officer, advised by the Responsible & Sustainable Business Forum, acts as sponsor to ensure that climate risk is integrated into the Group's risk management processes in the 'first line of defence'.

With central support from Enterprise Risk Management, second-line Risk Owners are progressively integrating climate risk considerations into key risk management policies and control frameworks.

Identification and assessment of climate-related risks

Guided by the Group's ESG Risk Framework we have begun progressively embedding climate risk into the Group's key risk processes.

Risk identification: On an ongoing basis through its risk management frameworks and processes, the Group identifies and assesses risks to which the Group is exposed, including climate risks. Climate risk is being integrated into this process as a driver of existing risk types and due to the longer timeframes associated with climate impacts, a short, medium and long-term horizon as laid out below is being applied to the consideration of impacts.

Our timeframe for climate-related risks

Short term: less than 3 years
Medium term: 3-5 years
Long term: more than 5 years

The Internal Capital Adequacy Assessment Process: Consideration of climate risk will be embedded in key processes where investment decisions are made and the level of climate risk being taken is material. The Internal Capital Adequacy Assessment Process (ICAAP) is a key planning process for the Group and facilitates the Board and senior management in identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. For further information on ICAAP refer to page 185. Work is ongoing to integrate climate considerations into ICAAP, particularly through scenario planning and stress tests (see page 36).

Risk measurement and monitoring: Methodologies are in development to allow climate risk to be actively analysed, measured and monitored by the Group in a similar manner to other key risk types.

These methodologies are being developed collaboratively with peer institutions by engagement in industry initiatives (such as the UNEP FI TCFD Working Group, climate-focused European Banking Federation Working Groups and the EBA Climate Sensitivity Pilot) with a view to working towards the 2022 ECB climate stress testing exercise.

Examples of potential climate KPIs (Key Performance Indicators) and KRIs (Key Risk Indicators) under consideration for monitoring purposes include:
- exposure to industry sectors and/or geographies considered highly sensitive to climate-related risks;
- the carbon emission footprint of lending portfolios;
- levels of sustainable financing; and
- scenario analysis outputs.

Further detail on how we are defining metrics and targets can be found in the Metrics and Targets section on page 38.

Risk appetite: Aligned with our strategy to align our portfolios and lending practices on a pathway to the Paris Agreement, Risk Appetite metrics will be set in due course consistent with the achievement of our science-based targets across our portfolios and operations.

Assessing climate risks across our portfolios

During 2020, we carried out an initial scoping assessment to understand potential climate risk impacts across our lending portfolios and to determine a baseline position, by leveraging emerging methodologies available at the time:

1. We assessed transition risks across our corporate and SME lending books, with a heatmap based on Transition Check, a modelling framework developed by Oliver Wyman. The transition heatmap was co-created with input from 39 banks (including BoI) through the UNEP FI TCFD program and we used it to classify our lending books at a granular sub-sector level. This exercise generated insights into how climate-sensitive sectors may be impacted during transition to a low carbon economy.
2. We analysed the main physical and transition risks specific to our UK Mortgage portfolio with the EnviroTech company Landmark (see case study below).
3. Informed by this and other supporting analysis, we assessed physical and transition risks to portfolios identified as material: property & construction, residential mortgages and car finance lending portfolios.
4. We assessed the baseline carbon emissions of our lending portfolios to understand our emissions impact and exposure.

This assessment of the Group's lending portfolios identified emerging key focus areas such as residential and commercial property lending and car finance. It also highlighted that the Group's direct exposure to fossil fuels and to commercial lending segments with high emissions is relatively low (with the exception of the agricultural sector, which due to its specific challenges will require broader support and in which we will play an active role). On a case-by-case basis, exposure to climate risk will vary across sectors for commercial customers and transactions. To mitigate this risk, enhanced ESG procedures have been incorporated into the Corporate Banking credit policy and credit framework in February 2021, and are being rolled out in H1 2021.

Landmark mortgage assessment: a deep-dive on our initial climate risk analysis of the UK Mortgage Lending portfolio

In 2020, in our initial climate risk scoping exercise we undertook analysis on the UK residential mortgage portfolio which makes up 28% of group lending. Working with Landmark, an EnviroTech innovator with access to detailed property information, we identified and analysed the main physical and transition risks specific to our UK mortgage portfolio.

The assessment focused on identifying and analysing the key physical risks and transition risks at a property level. Key physical risks identified and analysed were the risk that certain properties could reduce in value due to frequent flooding, coastal erosion, or subsidence, with the geographic data accurate to a five metre radius around an individual property.

The key transition risk identified was the potential loss in value of certain properties due to lagging energy efficiency or owners required to retrofit, incurring large costs. Portfolio impacts from physical risks and energy efficiency deficiencies were identified as two potential key risk measurement metrics.

An indicative aggregate portfolio impact of this transition risk was estimated, using an assumed cost to upgrade all properties to a future level of acceptable energy-efficiency. This was translated from a property specific impact on Loan to Value (LTV). Portfolio impacts from the physical risk drivers was also assessed under four scenarios and the likelihood of individual properties being uninhabitable or uninsurable.

See table below for a summary of the scenarios used to examine this physical risk.

As this capability is established and further developed, the assessment will be run on an ongoing basis to inform scenario planning and monitoring of the portfolio composition to ensure no undue concentrations.

During 2021, we plan to further develop our property capabilities to undertake similar risk assessments for Commercial Real Estate and our RoI Mortgage portfolio as data availability in these lending sectors develops.

#	RCP[1]	Emissions scenario illustration	Increase in temp by 2100
1	RCP2.6	Significant global reduction	1.4 - 3.2°C
2	RCP4.0	All countries implement Paris Accord	2.1 - 4.2°C
3	RCP6.0	All signatories implement Paris Accord	2.5 - 4.7°C
4	RCP8.5	Business as usual	3.4 - 6.2°C

Priorities for disclosure in 2021

Provide ongoing updates on the:
- integration of climate risk into key risk management processes;
- development of our climate risk mitigation activities and disclose these alongside our identified risks; and
- development of our scenario analysis capabilities to further inform our risk management, strategic planning and opportunity identification.

[1] *Representative Concentration Pathways (RCP) for greenhouse gas concentration trajectories adopted by the IPCC (Intergovernmental Panel on Climate Change). The pathways describe different climate futures, all of which are considered possible depending on the volume of greenhouse gases (GHG) emitted in the years to come.*

TCFD report *(continued)*

Metrics and targets

Climate-related metrics and targets across our portfolios

The Group has committed to aligning our lending portfolios on a pathway to the Paris Agreement and reducing the carbon emissions that we finance.

This portfolio alignment will additionally build resilience against climate-related risks as we progressively embed climate-related considerations into our lending strategies.

In 2020, we established indicative baseline emissions for our total loan portfolio based on the Partnership for Carbon Accounting Financials (PCAF) methodology, and in 2021 we will refine these baseline figures to more accurately assess our wider impact across our sub-portfolios.

Informed by our initial impact assessments in 2020 based on developing UNEP FI methodologies, the Group identified activities and assets exposed to climate-related risks and has begun to develop measures of potential financial risk impacts. Informed by these analyses, the Group loan book breakdown table on page 39 shows the current composition of our loan portfolio and the percentage of lending to sectors the Group considers most sensitive to climate change. In terms of portfolio mix, the Group has minimal direct exposure to fossil fuels in energy and extraction, and as a predominantly retail lending bank, c.70% of our customer lending is in residential and commercial property and car finance. This sees the key risk mitigation strategy relating to supporting our customers' transition to the green economy with sustainable financing to improve the energy efficiency of their properties, vehicles and business operations and adapting to climate change through, for example, flood protection measures at a property or community level.

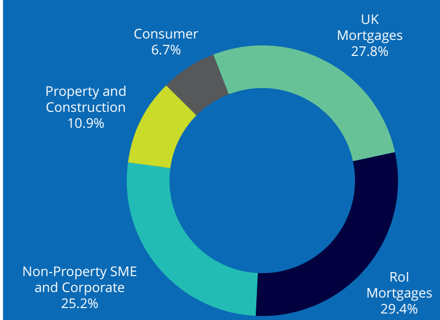
A key element of the Group's RSB commitments is the publication and achievement of targets. In 2021, we will begin to integrate climate KPIs into our RSB strategic planning framework with a view to making achievement of the strategy measurable. In line with the Science Based Targets Initiative, for key portfolios, respective targets, and time horizons will be set and progress tracked and monitored against interim targets. These activities form the foundation of future risk analysis and target setting activities, leading to mitigating activities to help reduce risks to the Group in the future, as well as to improve the Group's impact on the external environment. An initial set of metrics for climate-related risks is in development to support the setting of relevant targets and controls to track progress against our strategy and to allow for related disclosure. All metrics and targets will be developed in line with the Science Based Targets methodology to ensure consistency, accountability and achievability, and will be cascaded down to the Business Units.

Related pages

CEO review *(page 8)*
Our strategy *(page 13)*

With c.70% of customer lending to mortgages, property lending and car finance, the Group has negligible direct lending exposure to fossil fuels and limited exposure to high carbon-intensive industries.

Group loan book % breakdown



% of total loan book exposures to lending sectors most sensitive to climate change

57.2% Residential mortgages

3.4% Motor Lending

10.9% Property & Construction

4.9% Manufacturing

1.3% Transport & Storage

2.1% Agriculture, Forestry & Fishing

0.1% Mining & Quarrying

0.4% Electricity, Gas, Steam & Air Conditioning Supply

Climate-related metrics and targets in our operations

In May 2018, we signed up to Business in the Community Ireland's (BITCI) Low Carbon Pledge and committed to reducing our carbon emissions intensity (Scope 1 and 2) by 50% by 2030. We have now met this target having achieved a 77% reduction in carbon emissions intensity (on a 2011 baseline), using m2 as intensity metric (in absolute terms we have achieved an 82% carbon emissions reduction) as illustrated in the graph below. As part of our new action plan, we have now committed to making our own operations Net Zero by 2030.

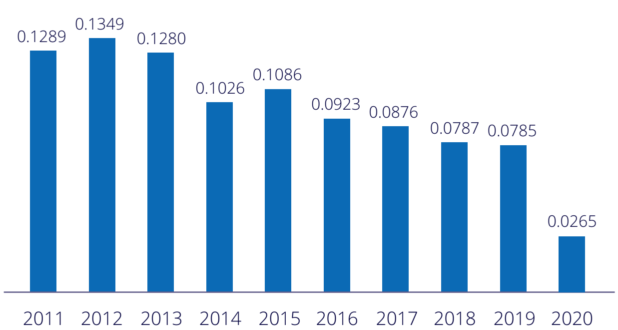
We recognise that the climate impact of our operations goes beyond carbon emissions from fuel consumption and electricity purchased. Therefore, we have measured our Scope 3 emissions from our own operations in 2020, which is laid out in the table below.

Priorities for disclosure in 2021

- Develop a suite of metrics and KPIs to further inform our climate strategy.
- Accurately capture our baseline emissions across our portfolios.
- Update on our progress towards setting SBTs, which we plan to set by no later than the end of 2022.
- Begin to assess our performance against the targets that we set.

TCO_2/M^2 Reduction 77%

Bank of Ireland 2011 - 2020



Metric	Unit	2020	2019
Scope 1 Fuel consumption	tCO2e	5,579	6,100
Scope 2 Purchased electricity (market based)	tCO2e	659	12,429
Scope 3 *(material for own operations as set out below)*	tCO2e	2,203	5,056
- Business Travel	tCO2e	1,954	4,818
- Waste	tCO2e	32	52
- Purchased Goods & Services	tCO2e	217	186
% of electricity renewably sourced	%	93	-

Foundations to our Responsible and Sustainable Business framework

Our priority areas are underpinned by our commitment to our foundational topics. These are the issues that we must manage, monitor and disclose in order to operate as a Responsible and Sustainable Business.

Culture

The Group has a multi-year Culture Transformation Plan in place which has at its heart our purpose and values. Progress against this plan is measured on an ongoing basis through our Culture Embedding Index and Engagement Index in our Open View colleague surveys. In addition, a specific set of other metrics associated with each of our values are tracked in a Culture Transformation Dashboard reported up to Board level (see page 14 for more detail).

Business ethics

The Code of Conduct sets out the high standard that we set ourselves when we deal with others, both within and outside the Bank of Ireland Group, and in our personal financial dealings. It also includes details of what actions should be taken if people have concerns about behaviours and practices that are in conflict with our culture and values. The code is supported by other policies such as our Speak Up Policy and our Anti-bribery and corruption policy. All colleagues complete annual mandatory training and assessment on all of these aspects.

Financial crime

Protecting the financial system from financial crime risks including money laundering, terrorist financing, and bribery and corruption is of intrinsic importance to the Group. The Group Anti-Money Laundering Policy, Group Sanctions and CFT policy and the Group Anti-bribery and corruption policy among others all support this objective. All colleagues complete annual mandatory training and assessment in relation to key areas.

Sourcing responsibly

Bank of Ireland has a Code of Supplier Responsibility that applies to all of our suppliers and builds on our internal values of accountability, customer focus, agility and teamwork, and sets out the key social, ethical and environmental standards that we want our suppliers to achieve. This Code is supported by our Group Procurement Policy and ongoing supplier due diligence activity which assesses supplier behaviours and capabilities across a wide range of sustainable business measures.

Community investment

We aligned many of the Group's philanthropic activities under one umbrella - Begin Together, a three-year, €4 million investment programme designed to provide investment for Community-focused initiatives across the island of Ireland, and for causes that matter to our colleagues across the Group. February saw the launch of the flagship Community Fund, working with the Community Foundation for Ireland, and in August we awarded grants to 116 inspiring projects helping financial, mental and physical wellbeing. Our colleagues nominated support charities and community groups where they live and work, and over 600 groups received donations from the Fund for Colleagues. The Begin Together Awards recognised Ireland's most enterprising towns, with a virtual celebration for those who worked so hard to protect their communities from the impact of COVID-19. The Begin Together Arts Fund launched in September, and 36 arts projects from all genres were funded, enabling artists to create in ways that help their communities deal with the effects of COVID-19.

Health and safety

The Group's Health and Safety Policy guides our approach in this area ensuring the safety of our colleagues and customers by carefully planning our operations, identifying potential hazards and managing the associated risks at every stage. Group-wide risk assessments, auditing, as well as mandatory training supported this. The Group maintains an existing OHSAS 18001 accreditation covering elements of the business and is working towards extending this scope and migrating to the new ISO 45001 Standard.

Human rights

A number of policies and initiatives guide our approach in this area including our Code of Supplier Responsibility, our Modern Slavery Statement and our VCU (see page 27 for more details). We are also active in identifying possible activity linked to human trafficking through our Financial Crime Compliance unit. We have put in place Human Trafficking Risk Awareness training and are members of the Traffik Analysis Hub, a global data hub for intelligence on human trafficking across all industries and sectors.

Cyber security

The Group invests in and implements a range of organisational and technological safeguards to enable a strong and resilient organisation focused on protecting our customers. The Group Information Security function is led by the Chief Information Security Officer and a three-year Board-approved cyber strategy is in place to deliver an industry leading approach. External audits of cyber security infrastructure are also carried out. The strategy is supported by Group-wide Information Security Policies (aligned to the National Institute of Standards and Technology) and security awareness training is mandatory for all colleagues.

The 'Security Zone' page on our website supports customer security awareness including fraud alerts and information on how to report suspicious online activity, emails or phone calls. In 2020, this was supported by a specific fraud awareness campaign as part our Financial Wellbeing strategy (page 26).

Data Protection

We are fully committed to keeping customer and colleague information private. Our Data Privacy Notices explains how we hold and use personal information and explains people's rights in relation to the collection of personal information and how they can exercise those rights.

Non-financial information statement

Related pages
CEO review (page 8)
Our strategy (page 13)
Risk management (page 34)

We comply with the European Union (disclosure of non-financial and diversity information by certain large undertakings and groups) Regulations 2017.

The purpose of this table is to assist stakeholders in understanding our policies and management of key non-financial matters.

Environmental matters

Policies
- Group environment policy (ISO 14001)[1]
- Group energy policy (ISO 50001)[1]

Risks & management
- Environment and Energy *(page 28)*

Non-financial key performance indicators

- Key highlights *(page 3)*

Business model

Risks & management
- Divisional review *(page 58)*

Diversity report

Policies
- Board diversity policy[1]

Risks & management
- Corporate Governance statement *(page 72)*

Bribery and corruption

Policies
- Group code of conduct[1]
- Speak up policy
- Group anti-money laundering policy
- Group anti-bribery and corruption policy

Risks & management
- Code of conduct *(page 40)*
- Anti-bribery and corruption *(page 40)*
- Group anti-money laundering *(page 40)*
- Conduct risk *(page 178)*

Policies followed, due diligence and outcome

Risks & management
- Risk management framework

Description of principal risks and impact of business activity

Risks & management
- Key risk types *(page 46)*
- Principal risks and uncertainties *(page 135)*

Social and employee matters

Policies
- Inclusion and diversity policy
- Group code of conduct[1]
- Equal opportunities policy
- Group health and safety policy
- Employee data privacy
- Group vulnerable Customers policy
- Group learning policy

Risks & management
- Vulnerable customers *(page 27)*
- Inclusion and diversity *(page 25)*
- Learning *(page 24)*
- Wellbeing *(page 25)*
- Communities *(page 40)*
- People risk *(page 136)*

Respect for human rights

Policies
- Modern slavery and human trafficking statement[1]
- Group procurement policy
- Group data protection and privacy policy

Risks & management
- Information security *(page 40)*
- Operational risk *(page 46)*
- Human trafficking *(page 40)*

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

Governance in action
Leadership and company purpose

Through a year of significant challenge in the face of a global pandemic, the role of corporate governance in ensuring effective decision-making has been of paramount importance.

The Board and the Group Executive Committee (GEC) responded to the pandemic with a clear focus on the Group's purpose, to enable our customers, colleagues and communities to thrive and it remained at the forefront of all of our actions. In the Report's Governance Section on page 72 our Chairman reports on the key areas of Board focus during 2020 in response to the pandemic.

The Group's Purpose and its values are the cornerstone of its culture, providing the Board and GEC with a clear foundation upon which key decisions are taken. The importance of listening to and understanding the perspectives of our stakeholders is greater now than ever and, during 2020, the Board has enhanced the ways in which it has engaged with the Group's stakeholders in order to further inform its decisions. Information on some of the ways in which the Group approaches stakeholder engagement can be found on page 88.

The Board is collectively responsible for the long-term sustainable success of the Group and ensuring there is a strong corporate structure in place. It provides leadership of the Group, setting strategic aims, within the boundaries of the risk appetite and a framework of prudent and effective controls. The CEO is supported by GEC which is composed of the Executive Directors and other senior executives who assist the CEO in leading the Group's day to day operations and in the execution of the Board-approved Group Strategy in line with the Group's Purpose. Details of the GEC can be found on page 75.

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group. The Group's corporate governance standards are implemented by way of a comprehensive and coherent suite of frameworks, policies, procedures and standards covering corporate governance as well as business and financial reporting, and risk management activities. These are supported by a strong tone from the top on expected culture and values.

The Board is supported by a number of committees:

Nomination, Governance and Responsible Business Committee

Patrick Kennedy *(Chair)*

Responsible for leading the process for Board, Executive and key subsidiary Board appointments, renewals and succession planning. It is also responsible for corporate governance policies and practice, providing oversight of the Group's RSB Strategy and monitoring the Group's implementation of the UN Principles for Responsible Banking.

Group Remuneration Committee

Steve Pateman *(Chair)*

Responsible for setting policy on the remuneration of the Chairman and senior management (including Executive Directors) and approving specific remuneration packages for the Chairman, each of the Executive Directors, the Group Secretary, and those Senior Executives who report directly to the Group CEO.

Group Audit Committee

Evelyn Bourke *(Chair)*

Responsible for monitoring the quality and integrity of accounting policies, the effectiveness of the Group's internal control framework and financial reporting systems, and the independence and performance of the internal and external auditors.

Board Risk Committee

Richard Goulding *(Chair)*

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

Group Transformation Oversight Committee

Ian Buchanan *(Chair)*

Responsible for overseeing, supporting, and challenging the actions being taken by Management in relation to the execution of the Group's strategic transformation, focused on technology related change.

The Board is committed to upholding high standards and seeking continual enhancements and its corporate governance standards are overseen by the Nomination, Governance and Responsible Business Committee (NGRB), which reports regularly to the Board. The varied corporate governance requirements that apply to the Group are detailed on page 72.

As a company listed on both the London and Euronext Dublin stock exchanges, the Group is required to report to shareholders on how it applies the main principles of the UK Corporate Governance Code (UK Code). The table below outlines where you can find the relevant disclosures throughout this Report.

Board Leadership and Company Purpose

UK Code Principles	Section
A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	• Board composition and succession *(page 82)* • Strategic Report *(page 3)*
The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	• Chairman's introduction *(page 72)* • Strategic Report – Chairman's review *(page 4)* • Governance in action *(page 42)* • Assessing the effectiveness of the Board *(page 84)*
The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	• Board's oversight of risk management and internal control systems *(page 90)* • Report of the Group Audit Committee *(page 103)* • Report of the Board Risk Committee *(page 110)*
In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	• Stakeholder engagement *(page 88)* • Strategic Report (enabling customers, colleagues and communities to thrive) *(page 20)*
The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	• Stakeholder engagement – colleagues *(page 89)* • Strategic Report (business ethics, enabling customers, colleagues to thrive) *(page 40)* • Report of the Nomination, Governance and Responsible Business Committee *(page 95)*

Division of Responsibilities

UK Code Principles	Section
The Chairman leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors (NEDs), and ensures that directors receive accurate, timely and clear information.	• Roles and responsibilities *(page 87)* • Chairman's tenure *(page 81)* • Board committees *(pages 82)* • Chairman *(page 85)* • Individual Directors *(page 85)*
The Board should include an appropriate combination of Executive and Non-Executive (and, in particular, Independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.	• Board composition and succession *(page 82)* • Roles and responsibilities *(page 87)*
NEDs should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	• Assessing the effectiveness of the Board *(page 84)* • Roles and responsibilities *(page 87)* • Time commitment *(page 91)*
The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	• Roles and Responsibilities *(page 87)* • Role of the Board *(page 87)* • Report of the Nomination, Governance and Responsible Business Committee *(page 95)*

Composition, Succession and Evaluation

UK Code Principles	Section
Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	• Board changes in 2020 *(page 73)* • External support *(page 83)* • Diversity *(page 83)* • Board composition and succession *(page 82)* • Report of the Nomination, Governance and Responsible Business Committee *(page 95)*
The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	• Your Board (Directors' Bios) *(page 77)* • Chairman's introduction *(page 72)* • Chairman's tenure *(page 81)* • Board composition and succession *(page 82)* • Report of the Nomination, Governance and Responsible Business Committee *(page 95)* • Diversity *(page 83)*
Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	• Assessing the effectiveness of the Board *(page 84)*

Audit, Risk & Internal Control

UK Code Principles	Section
The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	• Board oversight of risk management and internal control systems *(page 90)* • Report of the Group Audit Committee *(page 103)*
The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	• Chairman's review, Strategic Report *(page 3)* • Role of the Board *(page 87)* • Board oversight of risk management and internal control systems *(page 90)*
The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	• Board oversight of risk management and internal control systems *(page 90)* • Report of the Board Risk Committee *(page 110)*

Remuneration[1]

UK Code Principles	Section
Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	• Report of the Group Remuneration Committee *(page 100)* • Remuneration Report *(page 121)*
A formal and transparent procedure for developing policy on Executive remuneration and determining director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.	• Report of the Group Remuneration Committee *(page 100)* • Remuneration Report *(page 121)*
Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	• Report of the Group Remuneration Committee *(page 100)* • Remuneration Report *(page 121)*

[1] *Some of the Remuneration provisions of the Code (including provisions 36 and 37) are not currently applicable to the Group, as the Group does not operate variable incentive arrangements, other than a small number of limited commission schemes.*

Risk review

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

The environment within which the Group operates continues to be subject to considerable change, most notably as a result of COVID-19. The Group continues to monitor impacts on the risk profile.

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

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

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

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

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

Group risk management framework - key components

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

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

Principal risks and uncertainties

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

Further information in relation to these risks is found in the Risk management report, on pages 134 to 189.

Key risks									
Business and strategic	Conduct	Credit	Funding and liquidity	Life insurance	Market	Operational	Pension	Regulatory	Reputation

Risk Management Process

Risk strategy and appetite

Risk identification and materiality assessment

Risk analysis and measurement

Risk monitoring and reporting

Risk governance | Risk culture

Key risk types

Business and strategic risk
This risk includes all risks that might impact our current business model and sustainability of our future strategy. It includes; the threat from fintechs, digital / technological changes, Brexit, macroeconomic and regional geopolitical uncertainty, transformation, climate and people risks.

Conduct risk
The risk that we behave in a negligent or inappropriate manner that leads to adverse outcomes for customers, for example selling a customer a product that does not meet their needs, or failing to respond to a customer complaint promptly or effectively.

Credit risk
The risk of loss resulting from a counterparty failing to meet their contractual obligations to us arising in respect of loans or other financial transactions. The risk arises from loans and advances to customers, in addition to our transactions with other financial institutions, sovereigns, and state institutions.

Funding and liquidity risk
The risk that we have insufficient financial resources to meet commitments when they fall due.

Life insurance risk
The risk of unexpected variations in the amount and timing of insurance claims due to, for example, changing customer mortality, life expectancy, health, and behaviour characteristics.

Market risk
The risk of loss arising from movements in interest rates, foreign exchange (FX) rates or other market prices.

Operational risk
The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which can lead to disruption of services to customers, financial loss, and damage to our reputation. Included are risks associated with business continuity, data quality and reliability, fraud, information security and cyber risk, insurable, legal & contractual, model, payments, sourcing, unauthorised trading and business processes.

Pension risk
The risk that assets in principal defined benefit pension schemes are inadequate or fail to generate returns sufficient to meet the schemes' liabilities.

Regulatory risk
The risk that we fail to meet new / existing regulatory / legislative requirements and deadlines or if we fail to embed regulatory requirements into our processes.

Reputation risk
The risk to earnings or the value of our franchise value arising from adverse perception of our image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners.

Capital adequacy
Capital adequacy is having a sufficient level or composition of capital to support normal business activities and to meet regulatory capital requirements both under normal operating environments or stressed conditions. Capital adequacy is not a risk type in itself but owing to the nature of capital as a critical risk mitigant is a key determinant of the overall Group risk appetite.

Further information in relation to our risk management process is found in the Risk management report, on pages 134 to 189.

Financial Review

2020 financial results

The Group made an underlying loss before tax of €374 million in 2020 (2019: €758 million underlying profit before tax). Underlying losses are driven primarily by lower operating income of €2,620 million and higher net credit losses of €1,133 million.

Summary consolidated income statement on an underlying basis

These financial results are presented on an Underlying basis. Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business (page 52).

	Table	2020 €m	Restated[1] 2019 €m
Net interest income	1	2,115	2,167
Net other income	2	505	669
Operating income (net of insurance claims)		**2,620**	**2,836**
Operating expenses (before levies and regulatory charges and impairment of intangible assets and goodwill)	3	(1,720)	(1,785)
Levies and regulatory charges	3	(125)	(117)
Impairment of intangible assets and goodwill	3	(12)	-
Operating profit before net impairment losses on financial instruments		**763**	**934**
Net impairment losses on financial instruments	4	(1,133)	(215)
Share of results of associates and joint ventures (after tax)		(4)	39
Underlying (loss) / profit before tax		**(374)**	**758**
Non-core items	5	(386)	(113)
(Loss) / profit before tax		**(760)**	**645**
Tax credit / (charge)		53	(197)
(Loss) / profit for the year		**(707)**	**448**

Loss before tax of €760 million was reported by the Group for 2020 (2019: €645 million profit before tax).

Operating profit before net impairment losses on financial instruments for 2020 of €763 million is €171 million lower than 2019 reflecting a reduction in operating income of €216 million, partially offset by a reduction in operating expenses (before levies and regulatory charges and impairment of intangible assets and goodwill) of €65 million.

Net impairment losses on financial instruments for 2020 of €1,133 million are €918 million higher than 2019. Lower operating income and the increased net impairment losses are the key drivers of the underlying loss before tax for the year of €374 million compared to an underlying profit before tax of €758 million in 2019.

Operating income (net of insurance claims) has decreased by €216 million compared to 2019 primarily due to:

- net interest income of €2,115 million for 2020 is €52 million lower than 2019, primarily reflecting the lower interest rate environment, reduced yields on liquid assets and structural hedges partially offset by the benefit of reduced liability costs.
- a reduction in net other income of €164 million due to lower business income resulting from reduced economic activity as well as the negative impact of volatile equity markets and interest rates on other valuation items.

Operating expenses before levies and regulatory charges and impairment of intangible assets and goodwill of €1,720 are €65 million or 4% lower than 2019 as the Group continued to focus on reducing its operational costs while maintaining its investment in regulatory compliance, technology and business growth.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for interest income and expense (see note 64 for further information) which on an underlying basis has resulted in an increase of €17 million in net interest income and a reduction of €17 million in net other income for 2019. There is no change to 2019 underlying operating income (net of insurance claims) or the 2019 underlying profit before tax arising from the restatement. In addition, the restatement has not resulted in any change to the 2019 net interest margin but has resulted in a two basis point increase to the gross yield on liquid assets and on a one basis point increase to the 2019 average cost of funds.*

The Group has incurred incremental expenditure of €25 million in managing its response to the COVID-19 pandemic.

A further €410 million (2019: €263 million) was invested in the Group's transformation investment programme in 2020, of which €117 million is capitalised on the balance sheet (2019: €100 million), €56 million (2019: €108 million) charged to operating expenses on the income statement and €237 million (2019: €55 million) recognised as non-core costs on the income statement.

Net impairment losses on financial instruments of €1,133 million for 2020 is €918 million higher than 2019. Consistent with the recognition of expected credit loss under IFRS 9, c.60% of the impairment loss was recognised on performing assets (i.e. not credit-impaired).

The credit loss in the year reflects impairments recognised arising from: impairment model updates, including the change in the macroeconomic outlook due to the COVID-19 pandemic (€0.5 billion); loss emergence primarily from a number of commercial exposures in Corporate and Treasury and Retail UK (€0.4 billion), including losses on legacy property exposures (€0.3 billion); and the application of Group management adjustments which primarily reflect the potential risk that longer-term credit supports may be required for customers affected by COVID-19 (€0.2 billion).

Income from associates and joint ventures includes income from First Rate Exchange Services Limited (FRES), the Group's FX joint venture with the Post Office. The reduction of €43 million in income for 2020 is primarily due to the impact of economic uncertainty and extensive travel restrictions on the UK travel and FX markets.

Non-core charges increased by €273 million to €386 million in 2020. The year on year increase is primarily driven by cost of restructuring charge of €245 million (includes €189 million for the Group-wide voluntary redundancy scheme) and the impairment of internally generated computer software of €136 million.

The **taxation credit** was €53 million with an effective statutory taxation rate of 7% (2019: taxation charge of €197 million and taxation rate of 31%). The effective tax rate is influenced by changes in the jurisdictional mix of profits and losses and the reassessment of the tax value of the tax losses carried forward.

On an underlying basis and excluding the impact of the re-assessment of the tax value of the tax losses carried forward the effective taxation rate in 2020 was 8% (2019: 17%). For further details on the Group's re-assessment of tax losses carried forward see note 2 on pages 229 and 230.

Net interest income

Table: 1 Net interest income / net interest margin	2020 €m	*Restated*[1] 2019 €m	Change %
Net interest income	**2,115**	**2,167**	**(2%)**
Average interest earning assets (€bn)[2]			
Loans and advances to customers	78	78	-
Other interest earning assets	28	23	22%
Total average interest earning assets	**106**	**101**	**5%**
Net interest margin	**2.00%**	**2.14%**	
Gross yield - customer lending[3]	3.13%	3.25%	
Gross yield - liquid assets[3]	0.04%	0.29%	
Average cost of funds - interest bearing liabilities and current accounts[3]	(0.32%)	(0.48%)	

Net interest income of €2,115 million for 2020 is €52 million lower than 2019, primarily reflecting the lower interest rate environment, reduced yields on liquid assets and structural hedges partially offset by the benefit of reduced liability costs.

The gross customer yield has decreased by 12 basis points in 2020, reflecting a lower interest rate environment and lower RoI volumes partially offset by the benefit of higher corporate lending volumes.

The Group's average NIM has decreased to 2.00% from 2.14% in 2019, reflecting the growth of liquid asset volumes and the lower structural hedge income partially offset by a positive impact from new lending margins and strong commercial pricing.

Deposit volumes with negative rates applied to them have increased by c.€5.8 billion from €2.7 billion in December 2019 to €8.5 billion in December 2020.

Average interest earning assets for 2020 have increased by €5 billion compared to 2019, primarily due to increased liquid assets arising from higher customer deposits. For further information on loans and advances to customers see note 27.

[1] *As noted in note 64, the comparative net interest income figure for 2019 has been restated and increased by €17 million to reflect the Group's voluntary change in accounting policy for interest income and expense. In prior periods, net interest income and net other income were affected by certain 'IFRS classifications'. These IFRS classifications arose in prior periods as the total fair value movement on assets and liabilities held at fair value through profit or loss, including interest income or expense, was recognised in net other income (except for interest income or expense on derivatives in a hedge accounting relationship where the interest is recognised in 'net interest income'). To enable a better understanding of underlying business trends the impact of these IFRS classifications was included in net interest income to report net interest income after IFRS classifications. With the change in accounting policy IFRS classifications no longer arise; 2019 net interest margin has not been affected. There was a two basis point increase to the 2019 gross yield on liquid assets and a one basis point increase to the 2019 average cost of funds.*

[2] *Average interest earning assets includes €325 million (2019: €411 million) of interest bearing assets carried at fair value through profit or loss.*

[3] *Average cost of funds and gross yield represent the interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. See pages 373 and 374 respectively for further information.*

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

Net other income

Table: 2 Net other income	2020 €m	*Restated*[1] 2019 €m	Change %
Net other income	505	669	(25%)
Analysed as:			
Business income			
Retail Ireland	209	254	(18%)
Wealth and Insurance	214	277	(23%)
Retail UK	6	(18)	n/m
Corporate and Treasury	139	154	(10%)
Group Centre and other	(7)	(1)	n/m
Total business income	**561**	**666**	**(16%)**
Other gains			
Transfers from debt instruments at fair value through other comprehensive income reserve	7	-	n/m
Net gain on disposal and revaluation of investments	(3)	4	n/m
Gain on disposal and revaluation of investment properties	1	1	-
Total other gains	**5**	**5**	**-**
Other valuation items			
Wealth and Insurance	(36)	35	n/m
- Interest rate movements	*(22)*	*5*	*n/m*
- Unit-linked investment variance	*(14)*	*30*	*n/m*
Financial instrument valuation adjustments (CVA, DVA, FVA)[2] and other	(25)	(37)	32%
Total other valuation items	**(61)**	**(2)**	**n/m**
Net other income	**505**	**669**	**(25%)**

Net other income for 2020 is €505 million, a decrease of €164 million or 25% lower compared to 2019.

Business income of €561 million for 2020 has decreased by €105 million or 16% compared to 2019. The impact of COVID-19 has seen reduced business activity resulting in lower current account, card fee and FX income in Retail Ireland and lower new business performance and reduced benefit of assumption changes in Wealth and Insurance. Corporate and Treasury has also experienced lower equity and commitment / current account fee income year on year. This is partially offset by higher income in Retail UK attributed to lower UK Post Office commissions.

Other gains of €5 million are in line with 2019.

Other valuation items are a loss of €61 million for 2020, an increased loss of €59 million compared to €2 million loss in 2019, which largely reflects the lower investment returns as a result of the COVID-19 pandemic. These market movements have resulted in adverse fund and investment assets performance in Wealth and Insurance.

[1] *As outlined in note 64, the comparative figures net other income figure for 2019 has been restated and reduced by €17 million to reflect the impact of the voluntary change in the Group's accounting policy for interest income and expense.*
[2] *Credit Valuation Adjustment; Debit Valuation Adjustment; Funding Valuation Adjustment.*

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

Operating expenses

Table: 3 Operating expenses	2020 €m	2019 €m	Change %
Staff costs (excluding pension costs)	725	710	2%
Pension costs	101	134	(25%)
- Retirement benefit costs (defined benefit plans)	*66*	*103*	*(36%)*
- Retirement benefit costs (defined contribution plans)	*35*	*31*	*13%*
Depreciation and amortisation	253	289	(12%)
Other costs	585	544	8%
Operating expenses (before transformation investment, levies and regulatory charges and impairment of intangible assets and goodwill)	**1,664**	**1,677**	**(1%)**
Transformation Investment charge	56	108	(48%)
Operating expenses (before levies and regulatory charge and impairment of intangible assets and goodwill)	**1,720**	**1,785**	**(4%)**
Levies and regulatory charges	125	117	7%
Impairment of intangible assets and goodwill	12	-	n/m
Operating expenses	**1,857**	**1,902**	**(2%)**

			Change
Staff numbers at year end	9,782	10,440	(6%)
Average staff numbers during the year	10,303	10,424	(1%)

Operating expenses (before levies and regulatory charges and impairment of intangible assets and goodwill) are €65 million or 4% lower than 2019 as the Group continued to focus on reducing its operational costs while maintaining its investment in regulatory compliance, technology and business growth.

COVID-19
The Group has incurred incremental expenditure of €25 million in managing its response to the pandemic. Excluding these costs the Group's operating expenses (before levies and regulatory charges and impairment of intangible assets and goodwill) would be €90 million or 5% lower than 2019 reflecting the Group's continuing progress in generating cost savings through strategic sourcing and efficiencies across its businesses whilst investing in strategic initiatives, technology and regulatory compliance.

Staff costs (excluding pension costs) of €725 million are €15 million higher compared to 2019 primarily reflecting salary increases averaging 2.6%, which were effective from 1 January 2020.

Average staff numbers employed by the Group in 2020 of 10,303 were 1% lower compared to 10,424 in 2019.

At 31 December 2020, the number of staff (full time equivalents) was 9,782 (2019: 10,440) which reflects employees who exited the Group under the voluntary redundancy scheme up to and including 31 December 2020. This scheme has led to a reduction in staff numbers of 438 or 4% since September 2020.

Pension costs of €101 million for 2020 were €33 million or 25% lower than 2019. The decrease in defined benefit (DB) costs of €37 million is due to a gain of €26 million in respect of a change in allowance for future pension increases in the NIAC pension scheme. New joiners are added to the Group's defined contribution plans. The cost of defined contribution plans increased by €4 million.

Depreciation and amortisation of €253 million for 2020 is €36 million or 12% lower than 2019. The decrease is a result of legacy technology investments reaching the end of their useful lives.

Other costs including technology, property, outsourced services and other non-staff costs are €41 million higher than 2019. This reflects €18 million net incremental non-staff costs related to the COVID-19 response, together with application and infrastructure costs of €14 million associated with the roll out of our new mobile app to customers in May 2020 (included as part of transformation investment charge in prior years).

Transformation Investment charge
Our transformation programme continues to make progress with the completion of phase one of the enhanced mobile app and digital wallets, providing additional functionality, greater security and faster operating speeds. The new mobile app was launched to customers by Retail Ireland in Q2 followed by the launch of the Google Pay and Apple Pay digital wallet in Q3.

A further €410 million (2019: €263 million) was invested in this programme in 2020, of which €117 million is capitalised on the balance sheet (2019: €100 million), €56 million (2019: €108 million) charged to

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

Operating expenses *(continued)*

operating expenses on the income statement, being €52 million lower than 2019 due to lower levels of investment spend and €237 million (2019: €55 million) recognised as non-core costs on the income statement, of which €189 million relate to the voluntary redundancy scheme.

Levies and regulatory charges
The Group has incurred levies and regulatory charges of €125 million in 2020 (2019: €117 million). The higher charge is driven by increases in certain levies including the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) levies.

Impairment of intangible assets and goodwill
Impairment of goodwill relates to a write down of €9 million against the Group's commercial leasing and fleet management company Marshall Leasing Limited (MLL) in the UK and a €3 million write down on intangible assets.

Net impairment losses on financial instruments

Table: 4 Net impairment losses on financial instruments	2020 €m	2019 €m	Change %
Net impairment losses on loans and advances to customers at amortised cost			
Residential mortgages	(53)	(52)	2%
- Retail Ireland	*(23)*	*(60)*	*(62%)*
- Retail UK	*(30)*	*8*	*n/m*
Non-property SME and corporate	(512)	(76)	n/m
- Republic of Ireland SME	*(217)*	*(18)*	*n/m*
- UK SME	*(29)*	*9*	*n/m*
- Corporate	*(266)*	*(67)*	*n/m*
Property and construction	(388)	(24)	n/m
- Investment	*(372)*	*(30)*	*n/m*
- Development[1]	*(16)*	*6*	*n/m*
Consumer	(108)	(58)	86%
Total net impairment losses on loans and advances to customers at amortised cost	**(1,061)**	**(210)**	**n/m**
Net impairment losses on other financial instruments (excluding loans and advances to customers at amortised cost)[2]	**(72)**	**(5)**	**n/m**
Total net impairment losses on financial instruments	**(1,133)**	**(215)**	**n/m**
Net impairment losses on loans and advances to customers (bps)	(134)	(26)	n/m

The Group recognised a net impairment loss of €1,133 million, of which €1,061 million is on loans and advances to customers at amortised cost, of which c.60% of the impairment loss was recognised on performing assets (i.e. not credit-impaired), consistent with the recognition of expected credit loss under IFRS 9. The net impairment loss is €918 million higher than the net loss of €215 million in 2019.

The credit loss in 2020 reflects impairments arising from: impairment model updates incorporating the change in the macroeconomic outlook due to the COVID-19 pandemic (€0.5 billion); loss emergence primarily from a number of commercial exposures in Corporate and Treasury and Retail UK (€0.4 billion), including losses on legacy property exposures (€0.3 billion); and the application of Group management adjustments which primarily reflect the potential risk that longer-term credit supports may be required for customers affected by COVID-19 (€0.2 billion).

A net impairment loss on the Retail Ireland mortgage portfolio of €23 million during 2020, including a net impairment gain of €10 million on Stage 3 (i.e. credit-impaired) assets, is €37 million lower than the loss of €60 million in 2019. A net impairment loss on the Retail UK mortgage portfolio of €30 million during 2020, including a net impairment loss of €6 million loss on Stage 3 assets, is €38 million adverse to the gain of €8 million in 2019.

The loss in the Residential mortgages portfolio in 2020 reflects the change in the macroeconomic outlook and the potential risk that longer term credit supports, beyond payment breaks, may be required

[1] *Formerly land and development.*
[2] *At 31 December 2020, net impairment (losses) / gains on other financial instruments (excluding loans and advances to customers at amortised cost) included €65 million (2019: €5 million) on loan commitments, €4 million (2019: €nil) on guarantees and irrevocable letters of credit, and €2 million (2019: €nil) on debt securities at amortised cost and €1 million (€2019: nil) on cash and balances at central banks.*

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

Net impairment losses on financial instruments *(continued)*

for customers impacted by COVID-19 partially offset by resilience in the credit quality of customers not directly impacted by COVID-19, and other impairment model parameter updates (including refreshed cure rates, sales ratio, etc.). Model parameter updates in 2020 included the application of enhanced data in the sales ratio factor within the RoI mortgages impairment model, resulting in a decrease in impairment loss allowance of c.€59 million on implementation.

A net impairment loss of €512 million on the non-property SME and corporate loan portfolio for 2020, including a net impairment loss of €119 million on Stage 3 assets, is €436 million higher than the €76 million loss in 2019. The loss in the year reflects impairments recognised for the change in the macroeconomic outlook, case specific loss emergence primarily on a number of defaulted cases in the Corporate portfolio, and the potential risk that longer term credit supports may be required for SME customers in sectors most directly impacted by COVID-19 and/ or Brexit.

A net impairment loss of €388 million on the Property and construction loan portfolio for 2020, including net impairment loss of €277 million on Stage 3 assets, is €364 million higher than the loss of €24 million in 2019. The loss primarily reflects case specific loss emergence on a small number of defaulted cases in the Corporate and Retail UK investment portfolios and impairments recognised arising from the change in the macroeconomic outlook, and case specific loss emergence on a small number of defaulted cases in the Corporate and Retail UK Investment portfolios. These defaulted cases relate to large legacy exposures, which have risk characteristics not reflective of the wider portfolio, with loss emergence in 2020 due to ongoing weakness in the retail property sector, compounded, in two Corporate Banking cases, by tenant dependency on a UK retail group that entered administration.

A net impairment loss of €108 million on the Consumer loans portfolio for 2020, including a net impairment loss on Stage 3 assets of €32 million, is €50 million higher than the loss of €58 million in 2019. The net impairment loss on Consumer loans included a €13 million loss on the Retail Ireland consumer portfolio and a €95 million loss on the Retail UK consumer portfolio. The total loss on Consumer loans in the year reflects the change in the macroeconomic outlook, the potential risk that longer term credit supports, beyond payment breaks, may be required for customers impacted by COVID-19, and impairment model parameter updates.

Non-core items

Table: 5

Non-core items	**2020 €m**	**2019 €m**	**Change %**
Cost of restructuring programme	(245)	(59)	n/m
- Transformation Investment costs	*(237)*	*(55)*	*n/m*
- Other restructuring charges	*(8)*	*(4)*	*100%*
Impairment of internally generated computer software	(136)	-	n/m
Customer redress charges	(39)	(74)	(47%)
Gain / (loss) on disposal / liquidation of business activities	13	(25)	n/m
Investment return on treasury shares held for policyholders	9	(2)	n/m
Gross-up for policyholder tax in the Wealth and Insurance business	7	35	(80%)
Portfolio divestments	5	12	(58%)
- Operating income	*35*	*51*	*(31%)*
- Operating expenses[1]	*(30)*	*(40)*	*(25%)*
- Impairment gains on other financial instruments	*-*	*1*	*(100%)*
Total non-core items	**(386)**	**(113)**	**n/m**

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

Cost of restructuring programme
During 2020, the Group recognised a restructuring charge of €245 million (2019: €59 million) of which €237 million (2019: €55 million) related to the Group's Transformation Investment programme and €8 million (2019: €4 million) for other restructuring costs.

The 2020 transformation investment costs of €237 million predominantly relate to the Group-wide voluntary redundancy scheme (the 'Scheme') which was open to employees between August and September 2020. The €189 million voluntary redundancy costs reflects costs for employees that had exited the Group by 31 December 2020 and employees for which the Group has exit plans in place and made appropriate communications as at 31 December 2020.

[1] *Includes staff costs of €10 million (2019: €11 million).*

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

Non-core items *(continued)*

The Group is taking a phased approach to employee departures, which began in 2020 and will progress into 2022 to ensure that Group operations continue smoothly. The Scheme will result in c.1,700 staff exits by the time it concludes in 2022.

In addition, Transformation Investment costs included programme management costs of €22 million (2019: €17 million), costs of €16 million related to the planning and scoping of the strategic review of the Group's Northern Ireland and UK operations, costs related to the implementation of the Group's property strategy of €6 million (2019: €4 million) and additional costs associated with reduction in staff numbers of €4 million (2019: €34 million), which preceeded the voluntary redundancy scheme.

Other restructuring costs of €8 million (2019: €4 million) includes €3 million related to the impairment of property, plant and equipment and other related costs of €5 million.

Impairment of internally generated computer software

During 2020, the Group reviewed its intangible software assets for indicators of impairment, including internal indicators such as obsolescence and external indicators such as the evolution of emerging technologies. The Group concluded that certain aspects of the transformation investment asset product set capability had not matured sufficiently, and that technology and approaches to systems transformation have evolved.

The Group formed the judgement that certain software assets were impaired, as they were no longer expected to provide future economic benefits. Accordingly, an impairment charge of €136 million has been recognised in the year, of which €127 million was charged to the transformation investment asset and €9 million was charged to other internally generated computer software. There was no similar charge for 2019.

Customer redress charges

The Group has set aside a further €14 million (2019: €67 million) provision to cover the additional redress and compensation costs for a small number of additional customers, operational costs associated with the length and nature of the review and estimated costs of closing out the Tracker Mortgage Examination review.

In 2011, the Group's Irish Business Banking business introduced a new Bank Cost of Funds interest rate to certain business customers. The implementation was limited to larger business customers and personal consumers were excluded. In 2013, the Group's Irish Private Banking business introduced a similar Private Banking cost of funds interest rate.

During 2020 a review of the implementation of these interest rates was carried out by the Group. The review identified that a cohort of customers incorrectly had these interest rates applied to their accounts. The Group made a total remediation provision of €25 million in order to cover the identified remediation and related costs.

Gain / loss on disposal / liquidation of business activities

In 2019, the Group incurred a net loss of €21 million on disposal of its consumer credit card portfolio which included a provision relating to the cost of migration and other costs associated with the disposal. In October 2020, the migration concluded and consequently management have adjusted the provision to reflect the actual costs and timing of the migration. This has resulted in a release of €8 million from the provision during 2020 which is reflected as an adjustment to the loss on disposal during the year.

In addition, a gain of €5 million (2019: €4 million loss) was recognised relating to the recycling of cumulative unrealised FX gains and losses through the income statement following the liquidation of foreign denominated subsidiaries. These losses were previously held in the FX reserve.

Investment return on treasury shares held for policyholders

Under International Financial Reporting Standards (IFRS), the Group income statement excludes the impact of the change in value of Bank of Ireland Group plc ('BOIG plc') shares held by Wealth and Insurance for policyholders. In 2020, there was a gain of €9 million (2019: €2 million loss).

The year on year movement reflects a change in valuation during the year. At 31 December 2020, there were 5.1 million shares (31 December 2019: 5.0 million shares) held for the benefit of policyholders.

Gross-up for policyholder tax in the Wealth and Insurance business

IFRS requires 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.

During 2020, the Group recognised a credit of €7 million (2019: €35 million). The year on year movement is mainly due to lower investment returns in 2020 compared to 2019.

Portfolio divestments

Where the Group has made a strategic decision to exit an area of a business, the related income and expenses are treated as non-core.

During 2020, the Group made the decision to exit its Irish non-branch ATM business. As a result, operating income of €1 million and costs of €5 million associated with this business have been recognised as non-core in the current year.

During 2019, the Group disposed of the UK credit card portfolio and entered into a servicing contract with the purchaser to service the portfolio during the migration period. The fee income earned for servicing the portfolio and the associated migration and servicing costs are included as non-core. The migration was completed in October 2020.

Following a strategic review carried out in 2018, the Group commenced the exit of its UK Post Office ATM business in 2019. An agreement for the sale of the business concluded during 2020 and the disposal of devices will commence in 2021 and is expected to be completed by early 2022. As a result, the associated income and costs have been treated as non-core in 2019 and 2020.

As a result of the disposal of the UK credit card portfolio and the exit from the UK Post Office ATM business, €34 million of operating income and €25 million of operating costs arising from these business have been recognised as non-core (2019: €51 million of operating income, €40 million of operating costs and €1 million of impairment gains).

Summary consolidated balance sheet

Summary consolidated balance sheet	Table	2020 €bn	2019 €bn
Assets *(after impairment loss allowances)*			
Loans and advances to customers[1]	6	77	79
Liquid assets	7	31	27
Wealth and Insurance assets		20	20
Other assets	8	6	6
Total assets		**134**	**132**
Liabilities			
Customer deposits	9	89	84
Wholesale funding	10	9	11
Wealth and Insurance liabilities		20	20
Other liabilities	8	5	4
Subordinated liabilities		1	2
Total liabilities		**124**	**121**
Shareholders' equity		9	10
Other equity instruments - Additional tier 1		1	-
Non-controlling interests - Other equity instruments		-	1
Total liabilities and shareholders' equity		**134**	**132**
Liquidity Coverage Ratio[2]		153%	138%
Net Stable Funding Ratio[3]		138%	131%
Loan to Deposit Ratio		86%	95%
Gross new lending volumes (€bn)		14.1	16.5
Average interest earning assets		106	101
Return on Tangible Equity[4] (%)		(4.9%)	6.6%
Return on Tangible Equity[4] (adjusted) (%)		(4.4%)	6.8%
Common equity tier 1 ratio - fully loaded		13.4%	13.8%
Common equity tier 1 ratio - regulatory		14.9%	15.0%
Total capital ratio - regulatory		19.2%	18.6%

The Group's **loans and advances to customers (after impairment loss allowances)** reduced to €76.6 billion from €79.5 billion at 31 December 2019. This is primarily due to adverse FX movements of €2.0 billion and increased net impairment of €1.1 billion. The COVID-19 pandemic, combined with ongoing Brexit uncertainty has generated muted demand for credit.

The Group's **asset quality** has been negatively impacted by the uncertain market environment and a number of case specific events arising from Corporate and investment property portfolios. **Non-performing exposures (NPEs)** increased by €1.0 billion to €4.5 billion during 2020, and represented 5.7% of gross loans at 31 December 2020. Implementation of a revised definition of default during 2020 resulted in an increase in NPEs of c.€0.6 billion.

At December 2020, overall Group **customer deposit** volumes of €88.6 billion are €4.6 billion higher than 31 December 2019. Deposit growth in Retail Ireland of €7.1 billion was primarily driven by higher household and SME savings rates, whilst deposit volumes in Corporate and Treasury marginally decreased by €0.3 billion. Deposit volumes in Retail UK decreased by £0.8 billion to £18.3 billion. However due to sterling weakening against the euro, Retail UK balances decreased on a headline basis by €1.9 billion from €22.4 billion to €20.5 billion. The Loan to Deposit Ratio (LDR) at 31 December 2020 is 86% (2019: 95%).

Wholesale funding balances of €8.8 billion are €2.2 billion lower than 31 December 2019 primarily due to term funding maturities (asset covered securities of €1.3 billion, the calling of the Brunel Residential Mortgage Securitisation No. 1 plc of €0.5 billion, senior securities of €0.3 billion and Credit Linked Note maturity of €0.2 billion), partially offset by a net increase in Bank of England Monetary Authority Funding of €0.2 billion. Total Monetary Authority borrowings at 31 December 2020 are €1.9 billion compared to €1.7 billion at 31 December 2019.

The net pension position is a deficit of €0.1 billion at 31 December 2020 (31 December 2019: €0.1 billion). The primary drivers of the movement in the pension deficit were positive asset returns, experience gains and employer contributions offset by the negative impact of assumption changes in 2020.

The Group's fully loaded Common Equity Tier 1 (CET1) ratio decreased by c.40 basis points during 2020 to 13.4% and the regulatory CET1 ratio decreased by c.10 basis points during 2020 to 14.9%. The fully loaded ratio decrease of c.40 basis points is primarily due to pre-impairment **organic capital generation** (c.125 basis points), the benefit from implementation of SME support factor and software asset rules (c.75 basis points) and the withdrawal of the 2019 dividend (c.40 basis points), offset by the impact of credit quality deterioration (c.- 110 basis points), RWA growth (c.-20 basis points), the impact of regulatory change (c.-65 basis points), investment in the Group's transformation programmes (c.-75 basis points) and other net movements, including movements in the Group's defined benefit pension schemes (c.-10 basis points).

For further information on capital see Capital Management on pages 185 to 189 of the Risk Management Report.

Further information on measures referred to in the 2020 financial results, including gross new lending, NPEs, wholesale funding and organic capital is found in Alternative performance measures on page 373.

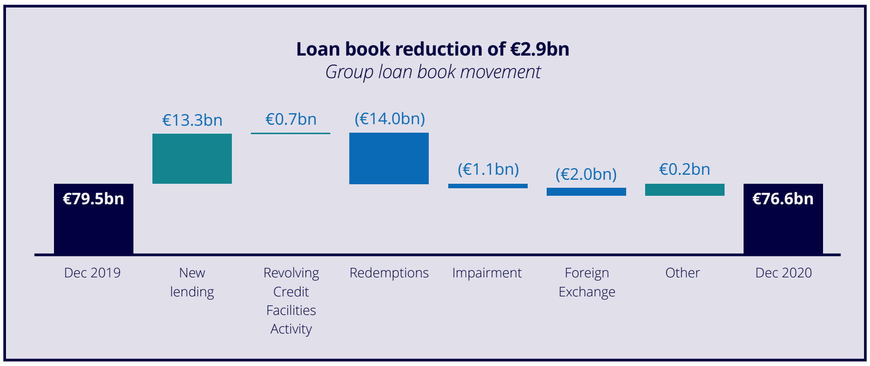
[1] *Includes €0.4 billion of loans and advances to customers at 31 December 2020 (2019: €0.3 billion) that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.*
[2] *The Group's Liquidity Coverage Ratio is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*
[3] *The Group's Net Stable Funding Ratio is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.*
[4] *For basis of calculation of Return on Tangible Equity, see page 377.*

Summary consolidated balance sheet *(continued)*

Loans and advances to customers

Table: 6	**2020**		**2019**	
Loans and advances to customers - Composition[1]	**€m**	**%**	**€m**	**%**
Residential mortgages	44,742	57%	46,271	58%
- Retail Ireland	*22,942*	*29%*	*23,035*	*29%*
- Retail UK	*21,800*	*28%*	*23,236*	*29%*
Non-property SME and corporate	19,858	25%	20,433	25%
- Republic of Ireland SME	*7,073*	*9%*	*7,305*	*9%*
- UK SME	*1,790*	*2%*	*1,687*	*2%*
- Corporate	*10,995*	*14%*	*11,441*	*14%*
Property and construction	8,591	11%	8,112	10%
- Investment	*7,633*	*10%*	*7,253*	*9%*
- Development	*958*	*1%*	*859*	*1%*
Consumer	5,271	7%	5,727	7%
Total loans and advances to customers at amortised cost	**78,462**	**100%**	**80,543**	**100%**
Less impairment loss allowance on loans and advances to customers at amortised cost	(2,242)		(1,308)	
Net loans and advances to customers at amortised cost	**76,220**		**79,235**	
Loans and advances to customers at FVTPL	361		252	
Total loans and advances to customers	**76,581**		**79,487**	
Credit-impaired loans	4,465		3,127	
NPEs	4,503		3,519	
NPE ratio		5.7%		4.4%

The Group's **loans and advances to customers (after impairment loss allowances)** of €76.6 billion are €2.9 billion lower than 31 December 2019. This is primarily due to adverse FX movements of €2.0 billion and increased net impairment of €1.1 billion.



The COVID-19 pandemic, combined with ongoing Brexit uncertainty has generated muted demand for credit. New lending performance (excluding revolving credit facilities) of €13.3 billion, is a 19% decrease compared to 2019 and is reflected across all businesses. In RoI, mortgages and BIF new lending has been impacted in particular by disruption to the property and new car markets in 2020. While the decrease in the UK is reflecting not only the impact of the pandemic on our customers, but also our focus on delivering improved returns by focusing on certain segments where our product propositions are already well developed. Redemptions and repayments of €14.0 billion are €0.5 billion or 3% lower than 2019, the primary driver of the reduction is the Corporate Property portfolio where there was a number of high value redemptions in 2019 not repeated in 2020.

In addition, 2020 redemptions have also been lower than normal across a number of business banking / corporate books due to reduced liquidity in the market as a result of the pandemic.

As detailed in note 2 Critical accounting estimates and judgements on page 225, the emergence of the COVID-19 pandemic (and associated social restrictions) during 2020 means that the macroeconomic outlook for the Group's core RoI and UK markets is more negative than the outlook as at 31 December 2019.

COVID-19 has also impacted the Group's IFRS 9 stage profile, whereby the application of updated forward looking information (FLI), and a Group management adjustment for certain business banking assets, as well as individually assessed risk ratings has resulted in a material migration of loans from Stage 1 to Stage 2 (i.e. identified as having experienced a significant increase in credit risk).

As a result, during 2020, the stock of impairment loss allowances on loans and

[1] *Includes €0.4 billion of loans and advances to customers at 31 December 2020 (2019: €0.3 billion) that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.*

Summary consolidated balance sheet *(continued)*

Loans and advances to customers

advances to customers increased by €0.9 billion to €2.2 billion primarily due to the impairment charge of €1.1 billion, partly offset by impairment loss allowance utilisation of €0.2 billion.

Group **NPEs** increased by €1.0 billion or 28% to €4.5 billion at 31 December 2020 and represent 5.7% of gross loans to customers. Implementation of a revised definition of default during 2020 resulted in an increase in NPEs of c.€0.6 billion. Further detail on NPEs and impairment loss allowances are provided in the Asset Quality section 157 to 161).

Liquid assets (after impairment loss allowance)

Table: 7 **Liquid assets (after impairment loss allowance)**	**2020** **€bn**	**2019** **€bn**
Cash at banks	2	3
Cash and balances at central banks	11	8
- Bank of England	*3*	*3*
- Central Bank of Ireland	*8*	*5*
Government bonds	12	11
- Financial assets at FVOCI	*6*	*6*
- Debt securities at amortised cost	*6*	*5*
Covered bonds	4	3
Senior bank bonds and other	2	2
	31	**27**

The Group's portfolio of liquid assets at 31 December 2020 of €30.7 billion has increased by €3.6 billion since 31 December 2019 primarily due to an increase in cash and balances at central banks and sovereign bonds predominantly arising from lower lending and higher Group deposits, partially offset by lower wholesale funding. The Group continues to optimise cash balances with central banks to take advantage of the ECB deposit rate tiering structure.

Other assets and other liabilities

Table: 8 **Other assets and other liabilities**	**2020** **€bn**	**2019** **€bn**
Other assets	5.8	5.6
- Derivative financial instruments	*2.2*	*2.0*
- Deferred tax asset	*1.2*	*1.1*
- Other assets	*2.4*	*2.5*
Other liabilities	5.2	4.5
- Derivative financial instruments	*2.3*	*2.5*
- Notes in circulation	*1.1*	*1.3*
- Lease liabilities	*0.5*	*0.6*
- Pension deficit (net)	*0.1*	*0.1*
- Other liabilities	*1.2*	*-*

The movement in the value of derivative assets and derivative liabilities is due to changes in fair values caused by the impact of the movements in equity markets, interest rates and FX rates during the year ended 31 December 2020, as well as the maturity of transactions during the year.

The net pension position is a deficit of €0.1 billion at 31 December 2020 (31 December 2019: €0.1 billion). The primary drivers of the movement in the pension deficit were positive asset returns, experience gains and employer contributions offset by the negative impact of assumption changes in 2020.

Summary consolidated balance sheet *(continued)*

Other assets and other liabilities *(continued)*

Total asset values at 31 December 2020 have increased from 31 December 2019 mainly due to the increase in Liability Driven Investments assets, hedging interest rate and inflation rate movements, and have largely offset an increase in liabilities, driven by the decrease in the interest rate elements of the discount rates and inflation movements.

The Group's deferred tax asset has increased by €0.1 billion from €1.1 billion in 2019. Further consideration with respect to the Group's net deferred tax asset can be found in note 2 critical accounting estimates and judgements on page 229.

Customer deposits

Table: 9 **Customer deposits**	**2020** **€bn**	**2019** **€bn**
Retail Ireland	59	52
- Deposits	*23*	*22*
- Current account credit balances	*36*	*30*
Retail UK	21	22
Retail UK (Stg£bn equivalent)	18	19
- UK Post Office	*12*	*13*
- Other Retail UK	*6*	*6*
Corporate and Treasury	9	10
Total customer deposits	**89**	**84**

At 31 December 2020, Group customer deposits (including current accounts with credit balances) have increased by €4.6 billion to €88.6 billion since 31 December 2019. Deposit growth in Retail Ireland of €7.1 billion was primarily driven by higher household and SME savings rates, whilst deposit volumes in Corporate and Treasury marginally decreased by €0.3 billion. Deposit volumes in Retail UK decreased by £0.8 billion to £18.3 billion. However due to sterling weakening against the Euro, Retail UK balances decreased on a headline basis by €1.9 billion from €22.4 billion to €20.5 billion. For further information on customer deposits see page 171 of the Risk Management Report.

Wholesale funding

Table: 10	**2020**		**2019**	
Wholesale funding	**€bn**	**%**	**€bn**	**%**
Secured funding	6	67%	8	73%
- Monetary Authority	*2*	*22%*	*2*	*18%*
- Covered bonds	*3*	*34%*	*4*	*37%*
- Securitisations	*1*	*11%*	*2*	*18%*
Unsecured funding				
- Senior debt	*3*	*33%*	3	27%
Total wholesale funding	**9**	**100%**	**11**	**100%**
Wholesale market funding < 1 year to maturity	2	29%	3	29%
Wholesale market funding > 1 year to maturity	5	71%	7	71%
Monetary Authority funding < 1 year to maturity	-	-	1	50%
Monetary Authority funding > 1 year to maturity	2	100%	1	50%

Wholesale funding decreased by €2.2 billion to €8.8 billion, primarily due to term funding maturities (asset covered securities of €1.3 billion, the calling of the Brunel Residential Mortgage Securitisation No. 1 plc of €0.5 billion, senior securities of €0.3 billion and Credit Linked Note maturity of €0.2 billion), partially offset by a net increase in Bank of England Monetary Authority Funding of €0.2 billion. Total Monetary Authority borrowings at 31 December 2020 are €1.9 billion compared to €1.7 billion at 31 December 2019.

For further information on wholesale funding sources see page 171 of the Risk Management Report.

Divisional review

Our business model

Bank of Ireland Group is one of the largest financial services groups in Ireland and provides a broad range of banking and other financial services. The Group is organised into four trading segments and one support division to effectively serve our customers.

Retail Ireland

Operating as one of Ireland's largest lenders with gross lending of €5.3 billion lent to the Irish economy in 2020, including targeted supports for businesses impacted by the difficult trading conditions. Serving 2 million consumer and business customers across a broad range of segments and sectors, while offering them the choice to engage through digital, branch and phone banking channels. Promoting their financial wellbeing by delivering a full range of financial products, services and propositions tailored to meet their needs, manage their current finances and to plan for the future.

Wealth and Insurance

A leading provider of life, pensions, general insurance, investment and savings products in the Irish market. The Group is the only bancassurer in Ireland operating through New Ireland, and encompasses Wealth Distribution and Bank of Ireland Insurance Services. The Group, through New Ireland sells a broad range of protection, investment and pension products to individual and corporate customers in the Republic of Ireland. Its liabilities are predominantly unit linked and it has a multi-channel distribution strategy, selling products through the Bank's branch network, the independent broker market and a tied agent channel (financial advisors).

Retail UK

Distributes consumer products via own brand and partnerships with trusted brands (Post Office and the Automobile Association (AA) and operates a full service retail bank in Northern Ireland (NI) as well as strong niche businesses in attractive segments, which include asset finance under the Northridge Finance and Marshall Leasing Limited (MLL) brands and FX via FRES.

Corporate and Treasury

Ireland's number one Corporate Bank[1] and customer treasury service provider incorporating the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business across Ireland, UK and internationally with offices in the US, Germany, France and Spain. Holds market leading positions in chosen sectors, including corporate banking, commercial real estate, foreign direct investment and treasury solutions.

Group Centre

Group Centre comprises the Group's central control functions, which establish governance and oversee policies, and which provide and manage processes and delivery platforms for the trading divisions.

[1] *Based on corporate lending information sourced from publicly available annual reports for 2018 and 2019 for all Irish banks, Bank of Ireland's analysis of its banking relationships with the top 500 companies from the 2020 Irish Times Top 1,000 companies list and Bank of Ireland's analysis of its banking relationships with companies on the published listing of international companies setting up operations in the Republic of Ireland 2020.*

Divisional review *(continued)*

Retail Ireland

Retail Ireland serves consumer and business customers across a broad range of segments and sectors with financial products, services and propositions tailored to meet their needs.

€116m
Underlying contribution

€5.3bn
Gross new lending

(€514m)
Net new lending

€36m
Reduction in operating expenses

Transform the Bank

- The new mobile app was rolled out to over 800,000 customers in 2020, with a 50% increase in mobile functionality enhancing the c.6 million digital customer engagements per month on the new app.
- Google and Apple digital wallets were enabled for all users, with digital card usage peaking at 1.8 million transactions per day in the month of December.
- Over 70% of our day-to-day banking products application journeys are now fully digital, including current accounts, deposits, credit cards and personal loans.
- Small business and agri lending applications are also now fully digital, as part of our commitment to supporting our business customers.
- Our agile operating model allowed us to quickly respond and adapt to the challenges of COVID-19, the evolving customer needs and areas of highest demand such as mortgage and small business payment break applications.
- Fully digital third-level proposition launched to c.230,000 students, including Ireland's first bio debit card made from 82% corn.

Serve customers brilliantly

- We mobilised a comprehensive response to COVID-19, to support and protect the financial wellbeing of customers, including:
  - payment breaks for personal and business customers;
  - dedicated banking services for health care workers; and
  - special support services for over 65's, carers and those cocooning.
- Further Financial Wellbeing initiatives were delivered, including financial literacy programmes for first and second level students, unique over 75's financial advisory model, customer communication platform, 'The Chat' and virtual financial wellbeing webinars to employees at our Bank at Work sites.
- Our Customer Effort Score (CES), which measures the customer service experience combined across branch, phone, mobile app and website channels increased by 10% from +49 to +54 in 2020.
- An additional €1 billion in funding was added to the Bank of Ireland Sustainable Finance Fund in 2020, which funds Green mortgages, Green home improvement loans and Green business loans.
- Donated €3 million in much needed funding through our Begin Together Fund for charities, the arts, colleague nominated causes and the Begin Together Awards, with Kinsale, Co. Cork winning the award of the most enterprising town in Ireland for 2020.
- Advice and support for businesses across a number of sectors with our dedicated team of Sector Specialists.
- c.€300 million in lending was provided through the Strategic Banking Corporation of Ireland funding support schemes.

Grow sustainable profits

- Underlying contribution of €116 million is €352 million lower than 2019 primarily due to a reduction in operating contribution before net impairment losses of €80 million and a €264 million increase in impairments compared to 2019.
- Both net interest income of €937 million and net other income of €205 million are behind 2019 by 7% and 19% respectively, mainly due to lower levels of activity arising from the impact of COVID-19.
- Operating expenses of €709 million are down 5% compared to 2019 due to continued emphasis on cost control.
- Net impairment losses of €314 million have increased by €264 million compared to 2019, primarily due to the challenging economic environment arising from the pandemic.
- Loans and advances to customers (after impairment loss allowances) of €33.0 billion were €0.8 billion lower than at 31 December 2019.
- Customer deposits of €59.0 billion were €7.1 billion higher than 31 December 2019, reflecting lower customer sentiment and increased propensity to save.

Further information in relation to our divisional results can be found on page 65.

Further information on measures referred to in our business segments is found in Alternative performance measures on page 373.

Divisional review *(continued)*

Wealth and Insurance

Wealth and Insurance is a market leading life, pensions, investments and general insurance provider in Ireland. The Group is the only Irish owned bancassurer in the Irish market.

€56m
Underlying contribution

€313m
New business APE

19%
Market share

Transform the Bank

- Developed and launched our broker portal, it provides a secure access point for external and internal advisors and customers to access self-service options and policy information, including digital connection to brokers and their customer relationship management systems.
- Launched a new Group Pension platform 'mypension365' providing customers with a modern, digital and customer-friendly experience and a significantly faster onboarding process.

Serve customers brilliantly

- Proactive response to COVID-19, to protect the Financial Wellbeing of customers, including decreasing minimum premiums on savings and pensions products and six months mortgage protection premium waiver for customers who have been granted a mortgage payment break by their lender.
- Phased roll-out of Wealth and insurance digital advice platform and general insurance wallet, delivering end-to-end digital fulfilment capability and enhanced digital experience to customers.

Grow sustainable profits

- Underlying contribution was €56 million in 2020 (2019: €169 million). The decrease year on year reflects the impact of lower benefit of assumption changes allied with lower investment returns.
- Operating income of €207 million in 2020 was €62 million lower than 2019 mainly reflecting lower new business and impact of assumption changes compared to 2019.
- Annual Premium Equivalent (APE) new business sales were €313 million in 2020, a decrease of €49 million or 14% lower than 2019, driven by general market conditions.
- Operating expenses of €115 million in 2020 were €20 million lower than 2019 mainly due to a pension credit.
- Operating contribution of €92 million for the year ended 31 December 2020 was €42 million or 31% lower than 2019.
- Unit-linked fund price growth was lower than expected during 2020, as fund returns were impacted by market volatility. The adverse variance relative to assumed growth led to a negative investment return of €14 million (2019: positive investment variance of €30 million).
- The impact of lower investment returns on non linked and shareholder funds resulted in a €22 million loss for 2020 (2019: €5 million gain).

Further information in relation to our divisional results can be found on page 66.

Further information on measures referred to in our business segments is found in Alternative performance measures on page 373.

Divisional review *(continued)*

Retail UK

Retail UK provides consumer banking in the UK and incorporates Northridge Finance, Marshall Leasing, the financial services partnerships with the UK Post Office, The AA and First Rate Exchange Services[1] (FRES).

(£15m)
Underlying contribution

£4.8bn
Gross new lending

(£347m)
Net new lending

£25m
Reduction in operating expenses[2]

Transform the Bank

- Completed a review of Retail UK and embarked on a multi-year restructuring program to implement a refreshed UK strategy.
- Reviewed our service proposition in Northern Ireland, with the number of our NI branches to be reduced during 2021, and increased levels of digital investment.
- Continued to grow our 'bespoke' mortgages proposition in 2020, repositioning towards higher margin business. Distribution expanded from London and the South East of England region in 2019 to nearly 200 firms across the UK in 2020.
- Extended our partnership with the AA to at least 2028.
- Agreed the sale of c.1,400 ATMs to the Post Office, with migration of devices due to complete by 2022.
- Completed the migration of the UK credit card portfolio to JaJa Finance following the portfolio's sale in 2019.
- Bank of Ireland UK recognised as Best Large Employer for Equality and Diversity in NI, at the NI Equality and Diversity Awards.

Serve customers brilliantly

- In supporting our customers during COVID-19 we approved over 70,000 payment breaks across our lending portfolio, primarily via online applications. In addition, through the UK Government-backed Coronavirus Business Interruption Loan and Bounce Back Loan Schemes the Group provided business customers with £295 million of support.
- Online processes for customers were further enhanced across all product lines in 2020. Mortgage applications are now fully digital and we also enabled families to inform us of a bereavement through online channels.
- We created a range of online forms and 'how to' videos which assist customers in servicing their own accounts swiftly.
- We received the Fairer Finance Gold Ribbon Award for our AA Personal Loans customer experience.
- In the last quarter of 2020 Bank of Ireland UK won the Best Large Loan Lender award at the virtual Mortgage Strategy Awards.

Grow sustainable profits

- Negative underlying contribution of £15 million in 2020 (2019: £152 million positive) primarily due to a higher impairment charge in the year and lower earnings from FRES.
- Net impairment losses of £238 million have increased by £167 million compared to 2019 reflecting the challenging economic environment and outlook due to the effects of COVID-19.
- Net interest income of £497 million has increased by £3 million, primarily due to changes in lending mix coupled with improved margins on new business against the backdrop of the ongoing low interest rate environment.
- Operating expenses[2] of £263 million are 9% or £25 million lower as a result of the continued focus on cost management while investing in transformation.
- Impairment of £8 million arose on the Marshall Leasing goodwill asset.
- Income from associates and joint ventures includes income from FRES. The loss of £1 million in 2020 reflects the impact of economic uncertainty and extensive travel restrictions on the UK travel and foreign exchange market.
- Loans and advances to customers (after impairment loss allowances) at 31 December 2020 of £24.5 billion were £0.3 billion lower than 31 December 2019. This reflects a focus on value rather than volume, with a reduction in net volumes across mortgages, Northridge and commercial lending, partially offset by an increase in personal lending volumes.
- Customer deposits of £18.3 billion at 31 December 2020 were £0.8 billion lower than 31 December 2019, while other funding sources increased by £0.8 billion reflecting further optimisation of the balance sheet and funding positions during the year.

Further information in relation to our divisional results can be found on page 67.

Further information on measures referred to in our business segments is found in Alternative performance measures on page 373.

[1] *FRES is a joint venture between Bank of Ireland UK and the UK Post Office.*
[2] *Operating expenses before impairment of goodwill*

Divisional review *(continued)*

Corporate and Treasury

Provides a range of lending and operating products to the Group's corporate customers. Management of the Group's balance sheet, capital and liquidity, provision of treasury services to customers.

€29m
Underlying contribution

€2.8bn
Gross new lending

(€0.8bn)
Net new lending

€16.4bn
Loans & advances to customers

Transform the Bank

- Leveraging investment in colleagues, systems and agile ways of working, enabling the smooth and safe operation of the Corporate and Treasury division during the pandemic.
- Ongoing focus on the digitalisation of our customer relationship services, our FX product line, provision of treasury solutions and supporting customers in a remote working environment.
- Supporting the strong capital position of the Group by successfully completing two AT1 transactions, totalling €975 million.
- Establishment of a Green Bond Framework, which allows the Group to issue capital, senior and covered bonds to fund sustainable projects.

Serve customers brilliantly

- Retained our position as Ireland's number one corporate bank[1] and continued to bank two out of every three new foreign direct investments in Ireland[2].
- Continuing to support our customers in a challenging environment (COVID-19 and Brexit) with customers valuing our support and approach as evidenced by strong customer effort and customer survey scores.
- In 2020, Corporate Banking's relationship net promoter score rose to +54 (+11 on previous score from 2018) and corporate customer satisfaction with treasury products and services provided by Bank of Ireland rose to 98% (+13 percentage points on previous score from 2018).
- Supporting the Group to be the National Champion bank in house building. Corporate and Treasury has approvals totalling €814 million in RoI residential development funding which, over the coming years, we expect to deliver c.6,300 units comprising c.3,320 new homes for sale, c.2,200 private rented sector units and c.760 social housing units across c.50 sites in RoI together with c.2,300 student beds.

Grow sustainable profits

- Underlying contribution of €29 million in 2020 (2019: €455 million), a decrease of €426 million compared to 2019, driven by higher net impairment losses on financial instruments.
- Net interest income and business income of €770 million is €12 million higher than 2019, predominately driven by increased lending activity.
- Financial instruments valuation adjustments are a charge of €16 million (2019: charge of €27 million).
- Net impairment losses on financial instruments of €549 million are €467 million higher than 2019 due to the uncertain market environment and a number of case specific losses arising from impacted sectors / companies.
- Loans and advances to customers at 31 December 2020 of €16.4 billion are in line with 2019, with net new lending in the year offset by currency translation and higher impairment loss allowances.
- Customer deposits decreased by €0.3 billion to €9.3 billion at 31 December 2020.
- The Euro Liquid Asset Bond Portfolio has increased by €1.4 billion to €15.4 billion at 31 December 2020, due to an increase in Group customer deposit volumes.

Further information in relation to our divisional results can be found on page 68.

Further information on measures referred to in our business segments is found in Alternative performance measures on page 373.

[1] *Based on corporate lending information sourced from publicly available annual reports for 2018 and 2019 for all Irish banks, Bank of Ireland's analysis of its banking relationships with the top 500 companies from the 2020 Irish Times Top 1,000 companies list and Bank of Ireland's analysis of its banking relationships with companies on the published listing of international companies setting up operations in the Republic of Ireland 2020.*

[2] *Based on Bank of Ireland's analysis of its banking relationships with international companies who set up operations in the Republic of Ireland in 2020, (international company data sourced from the IDA Ireland year end annual statement 2020).*

Divisional review *(continued)*

Group Centre

Group Centre incorporates the Group's central control functions[1], which establish and oversee policies, and which provide and manage processes and delivery platforms for the trading divisions.

(€557m)
Underlying contribution

€368m
Operating expenses[2]

€173m
Transformation Investment

€119m
Levies and regulatory charges

Serve customers brilliantly

- Group Centre business units formed an integral part of the Group's response to the COVID-19 pandemic, protecting and supporting Customers, Colleagues and Communities. The measures included:
  - enhanced customer digital services and vulnerable customer supports;
  - modifying branches and administration buildings and procedures to provide appropriate protection in accordance with Government guidelines across all jurisdictions;
  - a €1 million COVID-19 specific Community Fund working with The Community Foundation for Ireland;
  - extensive Group-wide working from home supports;
  - remote contact centre enablement;
  - comprehensive wellbeing supports across mind, body and financial on an individual and Group basis; and
  - accelerated payment terms for SME partners.
- The Begin Together programme was launched, which is a three year, €4 million investment programme supporting community initiatives across the island of Ireland.
- Under the umbrella of Financial Awareness, a multi-platform Fraud Awareness campaign was delivered in H2.

Transform the Bank

- Our transformation programme continues to make progress with the launch to customers by Retail Ireland of the new mobile app in Q2, followed by the launch of Google Pay and Apple Pay digital wallets in Q3. The upgrades provide customers with additional functionality, greater security and faster operating speeds.
- Further progress has been made on our culture transformation journey with the launch of the Group's RSB strategy and continuing investment in dedicated programmes such as 'RISE', which builds gender-balanced talent and accelerates new female leaders of the future.
- A voluntary redundancy scheme was launched in Q3 and will bring projected staff numbers below 9,000 in the medium term.
- A further €173 million (2019: €208 million) was invested in our transformation programme during 2020, of which €117 million is capitalised on the balance sheet (2019: €100 million) and €56 million (2019: €108 million) is charged to operating expenses on the income statement.

Grow sustainable profits

- Group Centre's income and costs comprise income from capital and other management activities, unallocated Group support costs and the costs associated with the Irish Bank levy along with contributions to the Single Resolution Fund (SRF), the Deposit Guarantee Scheme (DGS) and other levies.
- Negative net operating income has increased by €7 million to €12 million in 2020, primarily due to valuation and fair value adjustments.
- Operating expenses (before transformation investment and levies and regulatory charges) of €368 million in 2020 were €87 million higher than 2019. The increase is reflective of increased investment costs in strategic initiatives, along with costs associated with compliance and meeting regulatory expectations, partially offset by reduced pension costs and reorganisation and rationalisation of business activities.
- Group Centre levies and regulatory charges were €119 million in 2020 compared with €111 million in 2019, an increase of €8 million.

Further information in relation to our divisional results can be found on page 68.

Further information on measures referred to in our business segments is found in Alternative performance measures on page 373.

[1] *Group Centre comprises Group Technology and Customer Solutions, Group Finance, Group Risk, Group Marketing, People Services, Group Strategy & Development and Group Internal Audit.*
[2] *Operating expenses before transformation charge and levies and regulatory charges.*

Divisional financial results

The tables below and on the following pages, provide further information on the financial performance of the Group's divisions during 2020 as well as some key performance metrics. Information on the financial performance of the Group as a whole can be found on page 3 of the Strategic report.

Basis of presentation

Underlying divisional contribution reflects the underlying financial contribution of each division towards the consolidated Group underlying profit or loss, before tax, excluding non-core items which obscure the underlying performance of the business.

The Group has decided to apply the term 'underlying divisional contribution' to divisional results to more clearly reflect the fact that certain unallocated costs are presented in Group Centre, and are not reflected in the results of the other divisions. Comparative amounts for 2019 have not been restated, as the measurement of divisional results is unchanged, with 'underlying divisional contribution' measured on the same basis as the previously presented 'underlying profit or loss by division'.

Percentages presented throughout the Financial Review 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.

Principal rates of exchange used in the preparation of the Financial Statements are set out on page 207.

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

	2020 €m	2019 €m
Underlying[1] divisional contribution		
Retail Ireland	116	468
Wealth and Insurance	56	169
Retail UK	(17)	171
Corporate and Treasury	29	455
Group Centre	(557)	(506)
Other reconciling items[2]	(1)	1
Group underlying (loss) / profit before tax	**(374)**	**758**
Non-core items	(386)	(113)
Group (loss) / profit before tax	**(760)**	**645**
Per ordinary share		
Basic earnings per share[3] (€ cent)	(72.4)	35.9
Underlying earnings per share[3] (€ cent)	(38.6)	52.4
Tangible Net Asset Value per share[4] (€ cent)	732	821
Statutory cost income ratio[5] (%)	86%	71%
Underlying cost income ratio[5] (%)	64%	63%
Return on assets[6] (bps)	(53)	34

Further information in relation to our divisional results can be found on pages 65 to 70.

Further information on measures referred to in our business segments is found in Alternative performance measures on page 373.

[1] *These financial results are presented on an underlying basis. Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 52 for further information.*
[2] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*
[3] *For basis of calculation of basic earnings per share see note 20. Underlying earnings per share excludes non-core items, for further information see page 379.*
[4] *The basis of calculation of the tangible net asset value per share is set out on page 378.*
[5] *The basis of calculation of the statutory cost income ratio is set out on page 378. Underlying cost income ratio is calculated on an underlying basis, for further information see page 379.*
[6] *The basis of calculation of the return on assets is set out on page 377.*

Divisional financial results *(continued)*

Retail Ireland

Retail Ireland Income statement	2020 €m	*Restated*[1] 2019 €m	Change %
Net interest income	937	1,005	(7%)
Net other income	205	253	(19%)
Operating income	**1,142**	**1,258**	**(9%)**
Operating expenses	(709)	(745)	(5%)
Operating contribution before net impairment losses on financial instruments	**433**	**513**	**(16%)**
Net impairment losses on financial instruments	(314)	(50)	n/m
Share of results of associates and joint ventures (after tax)	(3)	5	n/m
Underlying contribution	**116**	**468**	**(75%)**
Net impairment losses on financial instruments			
Loans and advances to customers at amortised cost	(300)	(50)	n/m
- Residential mortgages	*(23)*	*(60)*	*(62%)*
- Non-property SME and corporate	*(217)*	*(18)*	*n/m*
- Property and construction	*(47)*	*30*	*n/m*
- Consumer	*(13)*	*(2)*	*n/m*
Other financial instruments (excluding loans and advances to customers at amortised cost)[2]	(14)	-	n/m
Net impairment losses on financial instruments	**(314)**	**(50)**	**n/m**
Loans and advances to customers (net) (€bn)			
At 31 December	33.0	33.8	(2%)
Average in year	33.2	34.1	(3%)
Customer deposits (€bn)			
At 31 December	59.0	51.9	14%
Average in year	54.5	48.3	13%

Further information in relation to the financial performance of Retail Ireland can be found on page 59.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for interest income and expense (see note 64 for further information) which on an underlying basis has resulted in an increase of €15 million in net interest income and a reduction of €15 million in net other income for 2019. There is no change to 2019 underlying operating income or the 2019 underlying profit before tax arising from the restatement.*

[2] *Net impairment losses on other financial instruments (excluding loans and advances to customers at amortised cost) were €14 million for 2020 (31 December 2019: €nil) on loan commitments.*

Divisional financial results *(continued)*

Wealth and Insurance

Wealth and Insurance Income statement	2020 €m	2019 €m	Change %
Net interest expense	(7)	(8)	(13%)
Net other income	214	277	(23%)
Operating income	**207**	**269**	**(23%)**
Operating expenses	(115)	(135)	(15%)
Operating contribution	**92**	**134**	**(31%)**
Interest rate movement	(22)	5	n/m
Unit-linked investment variance	(14)	30	n/m
Underlying contribution	**56**	**169**	**(67%)**

Wealth and Insurance Income statement (Market Consistent Embedded Value performance)	2020 €m	2019 €m	Change %
New business profits	4	16	(75%)
Existing business profits	88	130	(32%)
- Expected return	*79*	*62*	*27%*
- Experience variance	*19*	*15*	*27%*
- Assumption changes	*(10)*	*53*	*n/m*
Interest payments	(6)	(7)	(14%)
Operating profit	**86**	**139**	**(38%)**
Unit-linked investment variance	(26)	52	n/m
Interest rate movements	(27)	(1)	n/m
Embedded value profit before tax	**33**	**190**	**(83%)**

Embedded value

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

Operating profit of €86 million for 2020 was €53 million or 38% lower than 2019, primarily due to lower new business volumes and a lower benefit of assumption changes when compared to 2019.

Embedded value profit before tax of €33 million (2019: €190 million) was €157 lower than 2019 due to the impact of investment market movements on unit-linked fund performance (€26 million loss) and the impact of lower investment returns on non-linked and shareholder funds (€27 million loss).

The table below summarises the overall balance sheet of Wealth and Insurance on an MCEV basis at 31 December 2020 compared to the value at 31 December 2019. The Value of in Force (ViF) asset represents the after tax value of future income from the existing book.

Wealth and Insurance Summary balance sheet (MCEV)	2020 €m	2019 €m
Net assets	500	481
ViF	679	710
Less Tier 2 subordinated capital / debt	(162)	(162)
Less pension scheme deficit	(115)	(126)
Total embedded value	**902**	**903**

Further information in relation to the financial performance of Wealth and Insurance can be found on page 60.

Divisional financial results *(continued)*

Retail UK

Retail UK **Income statement**	2020 £m	2019 £m	Change %
Net interest income	497	494	1%
Net other income	(2)	(13)	(85%)
Operating income	**495**	**481**	**3%**
Operating expenses (before impairment of goodwill)	(263)	(288)	(9%)
Impairment of goodwill	(8)	-	n/m
Operating contribution before impairment losses on financial instruments	**224**	**193**	**16%**
Net impairment losses on financial instruments	(238)	(71)	n/m
Share of results of associates and joint ventures (after tax)	(1)	30	n/m
Underlying contribution	**(15)**	**152**	**n/m**
Underlying contribution (€m equivalent)	**(17)**	**171**	**n/m**
Net impairment losses on financial instruments			
Loans and advances to customers at amortised cost	(236)	(71)	n/m
- Residential mortgages	*(26)*	*6*	*n/m*
- Non-property SME and corporate	*(26)*	*7*	*n/m*
- Property and construction	*(101)*	*(37)*	*n/m*
- Consumer	*(83)*	*(47)*	*n/m*
Other financial instruments (excluding loans and advances to customers at amortised cost)[1]	(2)	-	n/m
Net impairment losses on financial instruments	**(238)**	**(71)**	**n/m**
Loans and advances to customers (net) (£bn)			
At 31 December	24.5	24.8	(1%)
Average in year	25.1	23.9	5%
Customer deposits (£bn)			
At 31 December	18.3	19.1	(4%)
Average in year	19.3	18.8	3%

Further information in relation to the financial performance of Retail UK can be found on page 61.

[1] *Net impairment losses on other financial instruments (excluding loans and advances to customers at amortised cost) were £2 million for 2020 (31 December 2019: £nil) on loan commitments.*

Divisional financial results *(continued)*

Corporate and Treasury

Corporate and Treasury Income statement	2020 €m	*Restated*[1] 2019 €m	Change %
Net interest income	630	603	4%
Net other income	131	129	2%
Operating income	**761**	**732**	**4%**
- Net interest income and business income	*770*	*758*	*2%*
- Financial Instruments valuation adjustments	*(16)*	*(27)*	*(41%)*
- Other debt instruments at FVOCI gains	*7*	*1*	*n/m*
Operating expenses	(183)	(195)	(6%)
Operating contribution before impairment losses on financial instruments	**578**	**537**	**8%**
Net impairment losses on financial instruments	(549)	(82)	n/m
Underlying contribution	**29**	**455**	**(94%)**
Net impairment losses on financial instruments			
Loans and advances to customers at amortised cost	(494)	(77)	n/m
- Non-property SME and corporate	*(265)*	*(67)*	*n/m*
- Property and construction	*(229)*	*(10)*	*n/m*
Other financial instruments (excluding loans and advances to customers at amortised cost)	(55)	(5)	n/m
Net impairment losses on financial instruments	**(549)**	**(82)**	**n/m**
Loans and advances to customers (net) (€bn)			
At 31 December	16.4	16.4	-
Average in year	16.6	16.1	3%
Customer deposits (€bn)			
At 31 December	9.3	9.6	(3%)
Average in year	9.4	10.6	(11%)
Euro liquid asset bond portfolio (€bn)			
At 31 December	15.4	14.0	10%
Average in year	14.9	14.7	1%

Further information in relation to the financial performance of Corporate and Treasury can be found on page 62.

Group Centre

Group Centre Income statement	2020 €m	2019 €m	Change %
Net operating expense	(12)	(5)	n/m
Operating expenses (before transformation investment and levies and regulatory charges)	(368)	(281)	31%
Transformation Investment charge	(56)	(108)	(48%)
Levies and regulatory charges	(119)	(111)	7%
Net impairment losses on financial instruments	(2)	(1)	100%
Underlying contribution	**(557)**	**(506)**	**10%**

Further information in relation to the financial performance of Group Centre can be found on page 63.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for interest income and expense (see note 64 for further information) which on an underlying basis has resulted in a decrease of €6 million in net interest income and an increase of €6 million in net other income for 2019. There is no change to 2019 underlying operating income or the 2019 underlying profit before tax arising from the restatement.*

Divisional financial results *(continued)*

Income statement - operating segments

2020	Net interest income / (expense) €m	Net insurance premium income €m	Other income / (expense) €m	Total operating income / (expense) €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating (loss) / profit before net impairment losses on financial instruments €m	Net impairment 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	(Loss) / profit before taxation €m
Divisional underlying contribution[1]												
Retail Ireland[2]	937	-	205	1,142	-	1,142	(709)	433	(314)	(3)	-	116
Wealth and Insurance	(7)	1,631	238	1,862	(1,691)	171	(115)	56	-	-	-	56
Retail UK	559	-	(2)	557	-	557	(305)	252	(268)	(1)	-	(17)
Corporate and Treasury	630	-	131	761	-	761	(183)	578	(549)	-	-	29
Group Centre	(2)	(4)	(7)	(13)	1	(12)	(543)	(555)	(2)	-	-	(557)
Other reconciling items	(2)	-	3	1	-	1	(2)	(1)	-	-	-	(1)
Group - underlying[1]	**2,115**	**1,627**	**568**	**4,310**	**(1,690)**	**2,620**	**(1,857)**	**763**	**(1,133)**	**(4)**	**-**	**(374)**
Total non-core items												
Cost of restructuring programme	-	-	-	-	-	-	(245)	(245)	-	-	-	(245)
Impairment of internally generated computer software	-	-	-	-	-	-	(136)	(136)	-	-	-	(136)
Customer redress charges	(26)	-	-	(26)	-	(26)	(13)	(39)	-	-	-	(39)
Gain on liquidation of business activities	-	-	-	-	-	-	-	-	-	-	13	13
Investment return on treasury stock held for policyholders	-	-	9	9	-	9	-	9	-	-	-	9
Gross-up for policyholder tax in the Wealth and Insurance business	-	-	7	7	-	7	-	7	-	-	-	7
Portfolio divestments	-	-	35	35	-	35	(30)	5	-	-	-	5
Group total	**2,089**	**1,627**	**619**	**4,335**	**(1,690)**	**2,645**	**(2,281)**	**364**	**(1,133)**	**(4)**	**13**	**(760)**

[1] *Underlying performance excludes the impact of non-core items (page 52).*

[2] *Included in underlying profit before tax of Retail Ireland in 2019 is an underlying loss before tax of €1.2 million, comprising operating income of €2.5 million, and operating expenses of €3.7 million relating to its Irish non-branch ATM business from which the Group has made a strategic decision to exit. For 2020, income and expense from the Irish non-branch ATM business has been excluded from underlying profit before tax of Retail Ireland and presented within non-core items on the table above as 'Portfolio divestments'.*

Divisional financial results *(continued)*

Income statement - operating segments

Restated[1] 2019	Net interest income / (expense) €m	Net insurance premium income €m	Other income / (expense) €m	Total operating income / (expense) €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 losses on financial instruments €m	Net impairment losses on financial instruments €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities and property €m	Profit / (loss) before taxation €m
Divisional underlying contribution[2]												
Retail Ireland	1,005	-	253	1,258	-	1,258	(745)	513	(50)	5	-	468
Wealth and Insurance	(8)	1,521	1,433	2,946	(2,642)	304	(135)	169	-	-	-	169
Retail UK	563	-	(15)	548	-	548	(329)	219	(82)	34	-	171
Corporate and Treasury	603	-	129	732	-	732	(195)	537	(82)	-	-	455
Group Centre	(2)	(3)	(5)	-	(5)	(5)	(500)	(505)	(1)	-	-	(506)
Other reconciling items	6	-	(7)	(1)	-	(1)	2	1	-	-	-	1
Group - underlying[2]	**2,167**	**1,518**	**1,798**	**5,483**	**(2,647)**	**2,836**	**(1,902)**	**934**	**(215)**	**39**	**-**	**758**
Total non-core items												
Cost of restructuring programme	-	-	-	-	-	-	(59)	(59)	-	-	-	(59)
Impairment of internally generated computer software	-	-	-	-	-	-	-	-	-	-	-	-
Customer redress charges	(10)	-	-	(10)	-	(10)	(64)	(74)	-	-	-	(74)
Loss on liquidation of business activities	-	-	-	-	-	-	-	-	-	-	(25)	(25)
Investment return on treasury stock held for policyholders	-	-	(2)	(2)	-	(2)	-	(2)	-	-	-	(2)
Gross-up for policyholder tax in the Wealth and Insurance business	-	-	35	35	-	35	-	35	-	-	-	35
Portfolio divestments	15	-	36	51	-	51	(40)	11	1	-	-	12
Group total	**2,172**	**1,518**	**1,867**	**5,557**	**(2,647)**	**2,910**	**(2,065)**	**845**	**(214)**	**39**	**(25)**	**645**

[1] *As outlined in note 64, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for interest income and expense.*
[2] *Underlying performance excludes the impact of non-core items (page 52).*

Governance

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Corporate Governance Statement
Chairman's Introduction

Patrick Kennedy
Chairman

Dear Shareholders,

I am pleased to present our Corporate Governance Report for 2020. The Report explains how corporate governance standards are applied across the Group and how they are overseen by the Board, how the Board operates, and how the Board evaluated its effectiveness during 2020. It includes reports from the four mandatory Board committees which further illustrate how the principles of good governance are embedded.

The Board is cognisant of its role in creating sustainable, long term value for our shareholders and in contributing to wider society. The Group's role in wider society and our Purpose of enabling our customers, colleagues and communities to thrive was at the top of all of our minds as we faced the many challenges brought about by the Coronavirus pandemic. The Group's ability to respond at pace was supported strongly by the Group's robust corporate governance framework which the Board continually seeks to enhance through regular reviews and challenge.

The Board is committed to achieving 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.

The Board is accountable to shareholders for the overall direction and control of the Group. The established governance framework provides for systems of checks and controls required to drive accountability and effective decision making across the Group, with appropriate policies and practices in place to ensure that the Board and its Committees operate effectively.

A key objective of the Group's governance framework is to ensure compliance with applicable corporate governance requirements. During 2020, the Group complied fully with the following corporate governance requirements:

- Central Bank of Ireland Corporate Governance Requirements for Credit Institutions 2015 ('Irish Code').
- Irish Corporate Government Annex.
- S.I. No. 158/2014 & No. 159/2014 - EU (Capital Requirements) Regulations 2014.
- European Banking Authority (EBA) Guidelines on internal governance under Directive 2013/36/EU.
- Joint European Securities and Markets Authority (ESMA) and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU[1].

The Group is also subject to the 2018 UK Corporate Governance Code published by the Financial Reporting Council in the UK ('UK Code') and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange, t/a Euronext Dublin. During 2020, the Group applied the main principles and complied with all provisions of the Code other than in instances related to Section 5: Remuneration, in particular principle R and provisions 32, 36 and 37. The rationale and explanation for noncompliance with these principles are set out below:

- due to certain agreements in place with the Irish State, the Group Remuneration Committee and the Board are restricted in their ability to fully comply with Principle R and associated provisions;
- under such agreements, the implementation of variable remuneration structures is not permitted, the Board's discretion is limited and, as such, the Board cannot be in compliance with the recommendation to exercise independent judgement;
- should variable remuneration be introduced, the Group notes and will fully adhere to these principles and provisions in the design, implementation and operation of any future variable remuneration structures; and
- the current status of pension arrangements is considered to be fair in light of the remuneration restrictions. The pension contribution rates for executive directors, where provided, are aligned with those available to the workforce.

Coronavirus pandemic (COVID-19)

As COVID-19 became a reality in early March 2020, the Board focused on ensuring the health and safety of our colleagues and customers, the continuity of the Group's operations and the availability and reliability of service to our customers. The provision of financial services was determined by the Government to be an essential service during the pandemic. Our technology colleagues enabled a significant increase in the number of colleagues working remotely, while others ensured the safety of those physically required at the Bank's locations where continuity of service and support to, and the safety of, customers visiting our premises was a priority.

The Board met 31 times during 2020, working with the GEC to ensure the continued health and safety of colleagues and customers and the availability of reliable services. Alongside these important matters, the Board focused on:

- supports required by customers facing financial distress and uncertainty in the wake of COVID-19. Risk management and customer outcomes were key lenses through which important decisions were taken across the Group;

[1] *All Codes, Regulations, Directives, Statutory Instruments and Acts are publicly available on the respective organisations' websites.*

Chairman's Introduction *(continued)*

- the potential financial and capital impact of the pandemic on the Group's performance during 2020 and beyond, with transparent market disclosures ensured;
- the role of the Group and the banking industry generally in supporting the Irish economy; and
- advancing the Group's Strategy, maintaining strong momentum on key priorities and accelerating certain initiatives in response to changing customer behaviours, needs and expectations.

The Board and the GEC have been strongly supported throughout the pandemic by effective risk management and business continuity management practices and processes, which are key aspects of the Group's governance framework.

The Board has operated remotely since early March 2020 and a review of the Board's operations was conducted in August 2020 to ensure its continued effectiveness in a remote environment. I led the review, which was conducted in addition to the formal annual evaluation of the effectiveness of the full Board, its Committees and individual Directors. Following meetings with individual Directors, I provided a summary of the Directors' observations to the Board. The review found that the Board continued to operate effectively and that the agenda and areas of focus remained appropriate. Following Director feedback, dedicated Board sessions to provide the opportunity to observe more directly customer experiences in the contact centres were put in place to compensate for the absence of site visits.

The appointment of Eileen Fitzpatrick as our Workforce Engagement Director during 2020 proved a positive additional point of connection with the workforce. Later in the Report we share some of the activities undertaken by Eileen during 2020. Eileen's activities coupled with the Board's direct engagement with senior colleagues during 'visibility sessions' (held in the absence of the CEO, CFO and wider Executive team) complemented the pre-existing mechanisms through which the Board gains valuable insights into how colleagues were experiencing the pandemic and, importantly, the leadership and culture of the Group.

People and culture

Our people remain at the very core of what we do, and I continue to be impressed by the commitment shown by all of our colleagues during this global pandemic. The Board appreciates that the pandemic has led to personal and professional challenges for all of us and the way in which the Group's workforce has worked to support one another and our customers has been notable.

The Board has worked with the Executive team to ensure a continued focus on the Group's culture during 2020. The Board is satisfied that the Group's Purpose is fully aligned with the Group's culture, values and strategic priorities.

I am pleased to report further improvement during 2020 in our engagement and cultural embedding scores, assessed through staff surveys with very high participation rates. The scores achieved were above the reported global average for financial services. The improvement experienced during what was a challenging year is reflective of the pride colleagues feel in the demonstration of our commitment to the Group's Purpose, in the support they themselves have provided to our customers and in the huge effort made across the Group to support colleague mental health and wellbeing during the pandemic.

An important aspect of our culture is embedding diversity and inclusion throughout the organisation. Gender diversity has been an area of focus for the Group at both workforce and Board level. Currently, the representation of females on our Board is at 45%.

The Group signed up to the UK Race Charter during 2020 and has committed to meeting, and in certain cases exceeding, the standards set out in that Charter, which is composed of five principal calls to action for leaders and organisations to ensure their workplaces are tackling barriers that ethnic minorities face in recruitment and progression. Supporting equality in the workplace is the responsibility of all leaders and the Board has pledged its commitment to zero tolerance for any form of racial harassment, bullying or inappropriate behaviours from any source, be it management, colleagues, customers or contractors.

The Board's Diversity Policy sets out the approach to diversity on the Board and is available on the Group website at https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/#tabpanel_2

Board changes in 2020

The NGRB is responsible for reviewing the composition of the Board and its Committees and assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable them to operate effectively. The composition of the Board remains under continuous review and the NGRB maintains a constant focus on succession planning, to ensure the continuation of a strong and diverse Board and the orderly succession of Board members, which is appropriate to the Group's Purpose and the industry within which it operates.

Giles Andrews joined the Board in November 2020, bringing extensive experience in financial technology, investment and lending as well as strong management experience to the Board. Giles is a highly respected FinTech pioneer and the Board will benefit in particular from his technology transformation background and innovative mindset. On appointment, Giles joined the Board's Risk Committee, Remuneration Committee and the Group Transformation Oversight Committee.

Patrick Haren and Patrick Mulvihill retired from the Board on 31 December 2020 having each served nine years. Individually they made a significant contribution to the Group and we remain grateful for the considerable experience and sound judgement they brought to the Board's deliberations during their respective tenures. In preparation for their retirements, the following Board changes took place:

- Richard Goulding succeeded Patrick Haren as the Senior Independent Director (SID) and Deputy Chairman on 1 January 2021. Richard stood down from the Remuneration Committee, joined the NGRB and became a Trustee of the Bank of Ireland Staff Pension Fund (BSPF). Richard remains a member of the Group Transformation Oversight and Audit Committees, and continues in his role as the Chair of the Risk Committee.

Chairman's Introduction *(continued)*

- Evelyn Bourke succeeded Patrick Mulvihill as the Chair of the Board Audit Committee on 1 January 2021. Evelyn also joined the Board Risk Committee (BRC) and stood down from the NGRB.

Other Committee changes

- Eileen Fitzpatrick joined the NGRB and also became a Trustee of the BSPF. Both positions are considered to be aligned with her position as the Group's Workforce Engagement Director.
- Fiona Muldoon joined the Group Audit Committee and Group Remuneration Committee (GRC) during 2020. Fiona stood down from the Risk Committee on 1 January 2021 having served as a member for five years.

Board and individual effectiveness evaluation

During 2020, the Board conducted the annual evaluation of its effectiveness. Having successfully concluded a comprehensive external evaluation in 2019, the 2020 process was internal and consisted of the completion of questionnaires by each Director and individual one to one meetings between myself, as Chairman, and the individual Directors.

In addition, Committee Chairs met with Committee Members to consider the effectiveness of their respective Board Committees and, led by the SID, the Directors completed questionnaires and held meetings to discuss my performance as Chairman.

In summary, the evaluation reaffirmed the conclusions of the 2019 external evaluation regarding the continued effectiveness of the Board. The evaluation of individual Directors concluded that individual Directors continue to demonstrate commitment to their roles, with such commitment evidenced further during 2020 given the heightened activity levels arising from the pandemic. All Directors are considered to be experienced and provide an objective perspective. The Board considers the effective contribution of each of the individual Directors and the Board as a whole to be important to the long-term sustainable success of the Group.

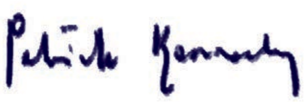
On pages 81 and 84 respectively, you will find detail on the outcome of the evaluation of the Chairman's effectiveness as well as that of the wider Board. As part of the process we identified some areas for enhancement, details of which can be found later in the Report, Such enhancements are always welcomed and I look forward to reporting on progress on those areas in the next report.

Updates on the areas for enhancement identified in the 2019 external evaluation are reported on page 85.

Looking ahead

The Board will continue to work effectively with the Executive team in 2021 to ensure continued challenge to and delivery of the Group's strategy in order to create sustainable long-term value for our shareholders. The Group's governance framework will be subject to continuous review to ensure it remains robust and facilitates effective decision making and appropriate Board oversight.

The health and safety of our colleagues and customers and the Bank's wider role in the community will remain a top priority as we work together to combat the COVID-19 pandemic.



Patrick Kennedy
Chairman

26 February 2021

Your Board

Board

Group Audit Committee
Evelyn Bourke *(Chair)*
Eileen Fitzpatrick
Richard Goulding
Fiona Muldoon
Steve Pateman

Group Risk Committee
Richard Goulding *(Chair)*
Giles Andrews
Evelyn Bourke
Ian Buchanan
Michele Greene
Steve Pateman

Group Remuneration Committee
Steve Pateman *(Chair)*
Giles Andrews
Eileen Fitzpatrick
Fiona Muldoon

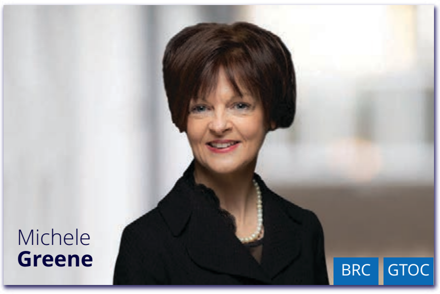
Nomination, Governance and Responsible Business Committee
Patrick Kennedy *(Chair)*
Eileen Fitzpatrick
Richard Goulding
Fiona Muldoon

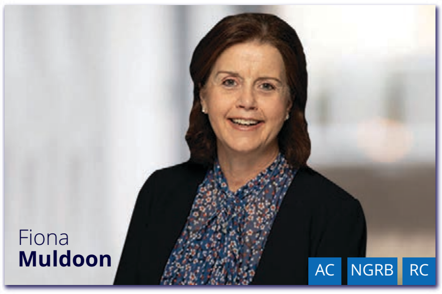
Group Transformation Oversight Committee
Ian Buchanan *(Chair)*
Giles Andrews
Richard Goulding
Michele Greene
Patrick Kennedy

Group Executive Committee

Francesca McDonagh *Group Chief Executive Officer*
Myles O'Grady *Group Chief Financial Officer*
Henry Dummer *Chief Marketing Officer*
Matt Elliott *Chief People Officer*
Tom Hayes *Chief Executive, Corporate Banking*
Gavin Kelly *Chief Executive, Retail Ireland*
Ian McLaughlin *Chief Executive, Retail UK*
Sarah McLaughlin *Group Secretary and Head of Corporate Governance*
Vincent Mulvey *Group Chief Risk Officer*
Jackie Noakes *Chief Operating Officer*
Mark Spain *Chief Strategy Officer*
Oliver Wall *Chief of Staff & Head of Corporate Affairs*

Your Board *(continued)*





Abbreviations

AC	Audit Committee
BRC	Board Risk Committee
GTOC	Group Transformation Oversight Committee
NGRB	Nomination, Governance and Responsible Business Committee
RC	Remuneration Committee

Note:
Patrick Haren and Patrick Mulvihill retired on 31 December 2020.

Your Board *(continued)*

Patrick **Kennedy**

Independent (on appointment)

Role

Non-Executive Director (July 2010). Chairman (August 2018, Deputy Chairman April 2015). Chair, Nomination, Governance and Responsible Business 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 Group 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 of Cartrawler. Honorary Treasurer of the Irish Rugby Football Union.

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 CFO 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 & Company. in London, Dublin and Amsterdam, and as a non-executive director of Elan Corporation plc.

Qualifications

Fellow of Chartered Accountants Ireland.

Richard **Goulding**

Independent

Role

Non-Executive Director (July 2017). Deputy Chairman and SID (January 2021). Chair, Risk Committee (Aug 2018, Member, July 2017). Member, Remuneration Committee (December 2020). Member, Audit Committee (August 2018). Member, Nomination, Governance and Responsible Business Committee (January 2021). 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 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 (2006 to 2015) and director (2013 to 2015) at Standard Chartered Bank, 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. Richard is a former director of Citigroup Global Markets Limited where he served as chair of its risk committee and a member of its audit, remuneration and nomination committees.

Qualifications

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

Francesca **McDonagh**

Non-Independent

Role

Group CEO and Executive Director (October 2017).

Particular Skills

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

External Appointments

Director of IBEC Company Limited by Guarantee. Member of the Prudential Regulation Authority (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, 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 Order of the British Empire in 2017 for services to banking. Fellow of the Institute of Banking (Ireland).

Your Board *(continued)*

Giles **Andrews**

Independent

Role
Non-Executive Director (November 2020). Member, Risk Committee, Remuneration Committee and Group Transformation Oversight Committee (November 2020).

Particular Skills
Extensive experience in financial technology, investment and lending as well as strong management experience.

External Appointments
Non-executive Director of Zopa Group Limited. Chairman of Bethnal Green Ventures. Non-executive Chairman of Market Finance Limited. Non-executive Chairman of Carwow Limited. Advisory role to Northzone Ventures.

Experience
In 2004, Giles co-founded Zopa, initially the first ever online peer-to-peer lending marketplace. In 2020, Zopa also launched as a Digital Bank. He was CEO of Zopa from 2007 to 2015, Chairman from 2015 until 2019 and remains a member of the Zopa Group Board. Giles is Chairman of Bethnal Green Ventures, a leading early-stage venture capital firm which focuses on using technology to tackle large-scale social and environmental problems, and is on the boards of Carwow Limited, a platform for buying new cars from franchised dealers, and Market Finance Limited, a FinTech platform that provides working capital finance to small businesses in the UK.

Qualifications
Master's degree in Experimental Psychology from Christ Church at Oxford University. MBA from INSEAD. Awarded an OBE in 2015 for services to financial services. Named FinTech leader of the year in the 2016 FinTech innovation awards.

Ian **Buchanan**

Independent

Role
Non-Executive Director (May 2018). Member, Risk Committee (May 2018). Director, Bank of Ireland (UK) plc (September 2018) and a member of its Risk Committee (October 2019). 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
None.

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 and technology officer of Nomura International (1994 to 2005). Ian's earlier career was spent at Credit Suisse, Guinness, and BP. Ian is a former non-executive director of Openwork Holding Limited.

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

Evelyn **Bourke**

Independent

Role
Non-Executive Director (May 2018). Chair, Audit Committee (January 2021, Member May 2018). Member, Risk Committee (January 2021). Member of the Nomination, Governance and Responsible Business Committee from May 2018 to December 2020.

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
Non-executive director of Marks & Spencer Group plc and member of its Audit and Nomination Committees.

Experience
Evelyn retired from Bupa, the international health insurance and health care group, as at 31st December 2020, having served as Group CEO since April 2016, initially on an acting basis from April to July 2016. She joined Bupa as CFO in September 2012 from Friends Life Group, where she had been the CEO of the Heritage Division. Evelyn joined Friends Provident plc (renamed Friends Life Group) in May 2009 as CFO. Evelyn's earlier career was spent, in the UK, at Standard Life plc, Chase de Vere Financial Solutions, St James's Place plc, Nascent Group and Tillinghast Towers Perrin. Prior that she worked with Lifetime Assurance and New Ireland Assurance in Dublin.

She was a non-executive director with IFG plc, Dublin, from 2011 to 2016, where she chaired the Risk Committee.

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

Your Board *(continued)*

Eileen **Fitzpatrick**

Independent

Role
Non-Executive Director (May 2019), Member, Audit and Remuneration Committees (May 2019). Workforce Engagement Director (January 2020).

Particular Skills
Eileen has extensive capital markets and public sector experience, and has held a number of senior roles in both the asset management and stockbroking industries.

External Appointments
Chairman of the Outside Appointments Board, Department of Public Expenditure and Reform. Non-Executive Director of a number of KKR investment management firms in Ireland. Non-Executive Director of Urbeo Residential Limited and Respond Housing Association.

Experience
Eileen joined the National Treasury Management Agency (NTMA) in 2006 as a director, where she oversaw the Alternative Assets Investment Programme, for the National Pensions Reserve Fund. Eileen was subsequently appointed as head of NewERA at the NTMA, a position she held from November 2011 to January 2019. Prior to her appointment at the NTMA Eileen was chief executive officer at AIB Investment Managers from 2000 to 2006. From 1987 to 2000 Eileen held a number of senior investment and stockbroking positions, including with AIB Investment Managers, Goodbody Stockbrokers, National City Brokers and Montgomery Govett.

Eileen has served in a number of non-executive positions including as chairman of the Irish Association of Investment Managers, as a board member of the Chartered Accountants Regulatory Board, as a member of the Government's Top Level Appointments Committee, and as a member of the Governing Body of University College Dublin.

Qualifications
PhD in Science from University College Dublin.

Michele **Greene**

Non-Independent

Role
Non-Executive Director (December 2019). Member, Risk Committee and Group Transformation Oversight Committee (December 2019).

Particular Skills
Extensive experience of financial services and retail banking, particularly in the areas of payments, transformational and digital innovation.

External Appointments
Director of Mololo Limited an advisory firm specialising in the use of advanced technologies for performance management.

Experience
Michele held the role of managing director of Virgin Money's Digital Bank until July 2018, prior to which she was director of strategic development, responsible for the bank's future development. Michele joined Virgin Money initially as director of banking, with responsibility for building the bank's new credit card business. Before joining Virgin Money, she was CFO of MBNA Europe where she held executive positions on the boards of MBNA Europe Ltd and Premium Credit Finance Limited.

Michele's earlier career was spent at Goldman Sachs, Credit Lyonnais and KPMG.

Qualifications
Master's Degree from Trinity College Dublin and Fellow of Chartered Accountants Ireland.

Fiona **Muldoon**

Independent

Role
Non-Executive Director (June 2015). Member, Risk Committee (November 2015 to December 2020). Member, Nomination, Governance and Responsible Business Committee (January 2019). Audit Committee (May 2020) and Remuneration Committee (October 2020).

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
None.

Experience
From 2015 to 2020, Fiona was group chief executive of FBD Holdings plc and FBD Insurance plc, one of Ireland's largest general insurers. She served from 2011 to 2014 with the Central Bank of Ireland (CBI) including as director, Credit Institutions and Insurance Supervision. Fiona spent 17 years of her career with XL Group in Dublin, London and Bermuda, where she worked in various management positions including general insurance responsibilities, corporate treasury and strategic activities including capital management, rating agency engagement and corporate development.

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

Your Board *(continued)*

Myles **O'Grady**
Non-Independent

Role
Group CFO, Executive Director (January 2020).

Particular Skills
Significant expertise working with international and domestic regulators, government and state authorities, investors, market analysts and international investment banks. Experienced across strategy development, business restructuring and recovery, Finance function transformation, investor relations and Initial Public Offerings (IPOs).

External Appointments
None.

Experience
Myles has 30 years' experience as a finance professional with over 25 years in financial services. Prior to joining the Group he was CFO at D|Res Properties, an Irish homebuilding and property development company. Previously, he was group director of finance and investor relations at AIB, an Irish financial services group operating predominantly in Ireland and the UK.

Myles' earlier career was spent at Citibank and Dresdner Kleinwort Benson.

Qualifications
Fellow of the Chartered Association of Certified Accounts, an INSEAD certified board director and member of the Institute of Directors Ireland.

Steve **Pateman**
Independent

Role
Non-Executive Director (September 2018). Chair, Remuneration Committee (January 2020, Member September 2018). Member, Audit and Risk Committees (September 2018).

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

External Appointments
Consultant to the Arora Group.

Experience
Steve acts as an Advisor to the Arora Group, where he was the CEO from April 2020 to August 2020. Prior to this, Steve held roles as the CEO of Hodge Group from January 2019 to March 2020 and 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. Steve was appointed vice president of the Chartered Bankers Institute in June 2017. He was a director of The Mortgage Lender Limited from May 2018 to January 2019.

Qualifications
Steve became a Senior Vice President of the Chartered Banker Institute in June 2020. He was awarded an Honorary Doctorate from the University of Kent for services to banking.

Your Board *(continued)*

Chairman's tenure

Patrick Kennedy was appointed Chairman in August 2018. He was independent under the UK Code at the time of his appointment. As an existing NED, he registered service of nine years on the Board in July 2019.

In the 2019 Annual Report, the Board's consideration of Patrick's continued strength of leadership was outlined against the backdrop of the UK Code recommendations. The UK Code and the supporting Guidance on Board Effectiveness identify service on the Board for more than nine years from the date of first appointment as a specific consideration in the evaluation of the independence of NEDs. The Chairman is not subject to the UK Code's independence test other than on appointment. However, the UK Code recommends that the Chairman is subject to similar length of service considerations and should not remain in post longer than nine years. The UK Code provides for extension of the Chairman's tenure to facilitate succession planning and the development of a diverse Board, particularly in those cases where the Chairman was an existing NED on appointment.

The principles and provisions of the UK Code in this area are not rigid rules but instead offer flexibility through the application of its 'comply or explain' provisions and the supporting Guidance; they are considered to support maintenance of the right combination of skills, experience and knowledge on the board, supported by formal processes of appointment and annual evaluation of performance.

The 2019 Annual Report outlined the Board's rationale for Patrick's continuation as Chairman for a further period and the Board's recommendation of his re-election at the 2020 Annual General Meeting (AGM), which was subsequently approved by the Company's shareholders with greater than 99% of votes cast in favour of his re-election. The Company committed to consulting with shareholders on the matter of tenure during the second half of 2020.

Patrick Haren, as the departing SID, and Richard Goulding, as his successor, led the shareholder consultation between September and December 2020, during which they consulted with shareholders representing c.50% of the Company's issued share capital and the Department of Finance which represents a further 14%. The consultation was positive, with shareholders confirming their understanding of and support for the Board's considerations.

An overview of the Board's assessment of the key considerations on the Chairman's tenure, which was shared during the consultation, is outlined below.

The Board's assessment of the key considerations on the continuation of the Chairman's tenure

Patrick Kennedy's appointment as Chairman in August 2018 was governed by a rigorous process led by the SID with external benchmarking by Egon Zehnder which rated him as an exceptional candidate for the role. His performance in the role in the two years since his appointment - from his refocussing of the Board agenda, the innovation he has brought to the Board's engagement with customers and staff, his structured approach to engagement with institutional shareholders and regulators, through to his leadership during the COVID-19 pandemic - has confirmed his exceptional qualities as Chairman.

Patrick's positioning as an internal candidate for the Chairman arose out of a planned process of succession. As part of that succession planning, he had the opportunity to serve on each major Board Committee, including Chair of the Risk Committee and Deputy Chairman until July and August 2018 respectively. His years of experience of Bank of Ireland prior to his appointment as Chairman, which are calculated in the assessment of tenure, are precisely what provided him with the detailed understanding of the business which, in the view of the Board, underpins his current success in the role.

With seven out of eleven Board directors at January 2021 having been appointed within the last three years, the factors which were regarded as relevant to Patrick's original selection as Chairman continue to be key Board considerations. These include: the significant level of change in Board membership which underlines a need for continuity on strategic issues and integration of new Board members into a coherent and effective team; and Patrick's deep rooted knowledge and experience of the Irish environment, embracing all stakeholders including Customers, Regulators and the Government, which complements the previously UK based CEO.

The background of a political landscape which underwent significant change in the 2020 Irish general election, a relatively newly formed Government responding to a global pandemic and preparing for a post-COVID-19 recovery, the ill-defined parameters of the post-COVID-19 world, and Brexit and its impact on the Irish economy and its trading relationships with Britain and Northern Ireland, are all factors which accentuate the continuing value in the medium-term of a Chairman who is rooted in the Irish business community.

Patrick is young at 51 and has served just two years as Chairman. He has deliberately restricted his other commitments to ensure that the Group remains his primary focus and brings very strong leadership to the Board. As the business embraces continuing significant internal change, including the ongoing transformation of its culture and a multi-year programme of investment in systems, and against a background of substantial change at Board level and within the executive team, his very detailed understanding of the business provides continuity of institutional knowledge and his continuing tenure provides desirable stability in the direction of the business.

In relation to the senior management team, having regard to the relatively recent appointment of the two Executive Directors (a formerly UK-based CEO in October 2017 and the Group CFO in January 2020), the Board is satisfied that there is no issue of significant concurrent service arising as a governance concern.

Patrick is considered to combine a detailed understanding of the Group with exceptional commercial acumen gained from a highly successful career in national and international business. He continues to demonstrate clear independence of mind and objective judgement. He has focused on strong succession at Board level with appointments of directors with experience of banking, technology, transformation and government policy. He has promoted diversity and constructive challenge amongst Board members and has reinforced relationships with the Group's stakeholders. An independent review of his role conducted by Praesta during 2019 assessed him as a first-class Chairman, rated very highly by all Board members; this view was

Your Board *(continued)*

reinforced in the more recent 2020 internal effectiveness evaluation. Patrick's strength of leadership of the Board and his adaptability has been further demonstrated through the COVID-19 pandemic.

Recommendation to shareholders

At the time of his appointment in 2018, the Board's expectation was that Patrick would serve two three-year terms, in line with the tenure of previous Chairmen and the Board's views on succession planning and the need for retention of corporate memory as other long-standing directors depart the Board. The Board has considered carefully the implications of the UK Code and is of the view that Patrick's tenure should be extended for up to a further three years to 2024 to allow his services to be retained in the best interests of the company and its shareholders, and subject always to annual performance assessments and the annual re-election by shareholders at the Company's AGM.

The Board has considered carefully its succession plan over the short to medium term and has given due consideration to the process through which an appropriate successor to Patrick would be identified and the timeframe thereof. It is intended that the process to select an external third-party firm to work with the SID and the wider NGRB on the search would commence in the second half of 2022. The Board will keep shareholders informed on the matter of the Chairman's performance and his tenure in future Annual Reports.

The Board believes Patrick provides valuable knowledge and experience of the customer, regulatory and political environment and necessary continuity during a period of significant change and challenge in the wake of COVID-19. As such, the Board considers it appropriate for Patrick to remain in role for a further period and will be recommending his re-election at the 2021 AGM. The Company will continue to consult shareholders on the matter of tenure as appropriate.

Board committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. Each Committee operates under terms of reference approved by the Board. Appropriate cross-membership of key Board Committees, including between the Audit and Risk Committees and Remuneration and Risk Committees, is ensured. The NGRB formally reviews the composition and purpose of the Board Committees annually on behalf of the Board.

The minutes of all meetings of Board Committees are circulated to all Directors for information and are formally noted by the Board. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. Such circulation of minutes and papers are restricted should there be a conflict of interest or issues of personal confidentiality.

The terms of reference of the Group Audit Committees (GAC), the BRC, the NGRB and the Group Remuneration Committee (GRC) are available on the Group's website at www.bankofireland.com/about-bank-of-ireland/corporate-governance. In addition to the aforementioned Committees, the Board has in place a Committee, the Group Transformation Oversight Committee (GTOC), which has a mandate to support the Board in overseeing, supporting, and challenging the actions being taken by Management in relation to the execution of the Group's strategic transformation, focused on technology related change. As the Group pivots towards a more customer-focused, digital banking model, with greater levels of customer digital engagement and automation of servicing and processes, the Committee oversees the step change required in the Group's business and technology practices alongside changes required to optimise digital skills, organisational models and ways of working in order to deliver the right customer experience, systems, and processes to deliver the desired outcomes.

In carrying out their duties, Board Committees are entitled to take independent professional advice, at the Group's expense, where deemed necessary or desirable by the Committee Members.

Reports from the GAC, the BRC, the NGRB and the GRC are presented on pages 95 to 113.

Board composition and succession

The Board comprises eleven Directors: two Executive Directors, the Chairman, who was independent on appointment, seven independent NEDs and a Director nominated by the Minister for Finance, who is deemed to be a non-independent NED. The biographical details of each of the Directors, along with each of their individual dates of appointment, are set out on pages 77 to 80.

The Board considers that a board size of ten to twelve Directors allows for a good balance between having the full range of skills necessary on the Board and to populate its committees and retaining a sense of accountability by each Director for Board decisions. The Board acknowledges that this number may go below ten or beyond twelve for a short term as may be required to accommodate succession planning activities and to ensure the timely induction and development of new Directors.

The NGRB ensures a formal, rigorous and transparent procedure when considering candidates for appointment to the Board and maintains continuous oversight of the Board's composition to ensure it remains appropriate and has regard for its purpose, culture, major business lines, geographies, risk profile and governance requirements.

Both on an individual and a collective basis, the Directors are considered to have the range of skills, understanding, experience and expertise necessary to ensure the effective leadership of the Group and that high corporate governance standards are maintained. The NGRB leads the process for appointments to the Board and ensures plans are in place for orderly succession to both the Board and Executive positions.

The process has regard for the impact of expected retirements of Directors and the Group's desired culture and its strategic direction. As part of the process, the NGRB approves a detailed role profile, based on its analysis of the skills and experiences needed and selects, where appropriate, an external search firm to facilitate the process. The NGRB ensures that a comprehensive due diligence process is undertaken, which

Your Board *(continued)*

includes the candidate's self-certification of probity and financial soundness, external references and external checks. The due diligence process facilitates the NGRB in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role before making a formal recommendation to the Board. Regulatory assessment and formal approval is required and received for all Board appointments.

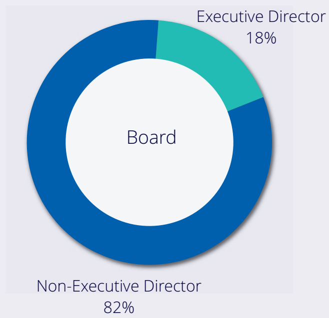
A Board-approved Policy for the Assessment of Directors, which outlines the Board appointment process, is in place, and is in accordance with applicable joint guidelines issued by ESMA and the EBA.

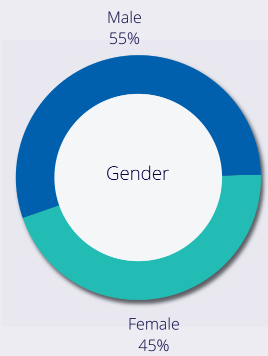
External support

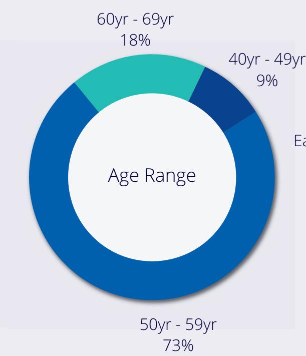
The Chairman's introduction set out the key Board changes that took place in 2020. The search process leading to the appointment of Giles Andrews was facilitated externally by MWM Consulting, an external executive and non-executive search and board advisory firm. MWM Consulting was used for Board searches but has no other connection with the Group or individual Directors.

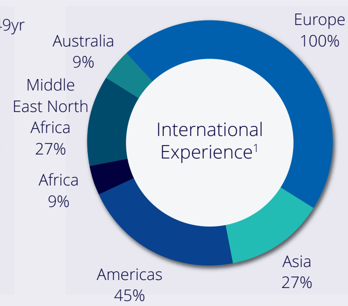
Diversity

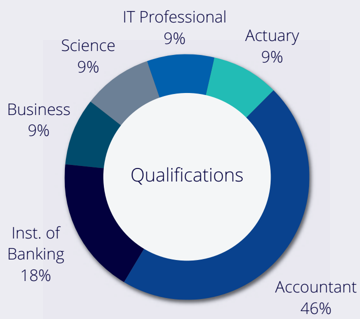
The Board is fully committed to diversity in all forms and truly believes that diversity is an essential ingredient of sound decision-making. As of 1 January 2021, the Board comprises 45% female representation. The Board's approach to diversity in all its forms is set out in the Board Diversity Policy, which has retained the specific gender target of maintaining a minimum of 33% female representation on the Board, with a medium term aspiration of achieving broadly equal gender representation on the Board. The following provides an overview of the current Board profile.











Tailored Induction Programmes delivered in 2020
Michele Greene: Following her appointment in December 2019, Michele undertook the comprehensive and wide-ranging NED induction plan over a six month period, with specific focus on the Group's transformation programme and risk framework, in support of her roles on the Board Committees with oversight of those two key areas. **Myles O'Grady:** Having joined the Group in June 2019 and taken on the role of interim Group CFO in October 2019, Myles' induction plan focused on matters pertinent to the role of the Group CFO and Executive Director. **Giles Andrews:** Giles has undertaken the comprehensive and wide-ranging NED induction plan, with specific focus on matters pertinent to his Board Committee roles and with additional deep dives on areas related to the Irish market and the Irish consumer protection framework.

[1] *International experience shows Directors with experience in more than one geographical location.*

Your Board *(continued)*

Education and Development Sessions delivered in 2020	
The following development and education sessions were facilitated remotely during the year: • Culture. • Cyber Security. • Anti-Money Laundering. • Risk appetite: Definitions of non-financial risks and articulation of appetite. • Internal Capital Adequacy Assessment Process (ICAAP). • IFRS 9 and accounting policy. • Customer listening sessions.	Prior to COVID-19, the Board visited the Bank's Galway operations during which the Board received a management presentation on the local market and participated in customer call observation and engagement sessions.

In addition to collective education and development programmes in 2020, individual Directors actively engaged in one to one focus sessions with Management on topics such as the End to End Customer Journey, cyber defences and strategy, the Life Assurance business, internal audit processes and procedures, regulatory requirements for a listed entity, Corporate Banking and Leveraged Acquisition Finance, the Irish mortgage market, technology transformation, governance and the Irish economy.

The Board's Professional Development and Continuous Education Programme

- Formal Induction Programme: A suite of induction documentation is furnished to all incoming Directors to facilitate their understanding of how the Group operates and the key issues that it faces. A series of meetings with senior management are arranged on matters such as Group and Divisional strategy, the Group's Risk Appetite and Group Risk Framework, the regulatory environment, people strategies, technology and operations, capital and liquidity management and the Group's financial position. The induction programme is supplemented with an additional bespoke programme, developed in conjunction with the incoming Director to address any specific requirements.
- Continuous Education Programme: The continuous development requirements of the Board and individual Directors is informed by the outcome of annual effectiveness reviews, the annual review of the collective skillset of the Board, emerging external developments and areas the Board has identified for further focus. The Continuous Education Programme is delivered through varying means and facilitated by internal and external experts where appropriate. The approach to Directors' induction and continuous development is set out in a Board-approved Director Induction, Training and Development Policy which is reviewed annually by the NGRB.
- Site visits across the Group including meetings with colleagues and customers.

Assessing the effectiveness of the Board

The Board seeks to continually enhance its operations and, each year, conducts a formal effectiveness evaluation of the Board, Board Committees and individual Directors. In addition to reviewing the Board's operations, composition and overall effectiveness, the evaluation reviews past performance with the aim of identifying possible opportunities for improvement, determines whether the Board and its Committees are as a whole effective in discharging their responsibilities and, in the case of individual Directors, determines whether each Director continues to contribute effectively and to demonstrate commitment to their role. The Board is required to have an external evaluation conducted once every three years. The Group had an external evaluation conducted by Praesta Ireland, in 2019 which concluded positively regarding the effectiveness of the Board, the Committees and individual Directors. A report on progress against opportunities identified for improvement in 2019 is set out on page 85. In 2020, an internal evaluation was conducted, details of which are set out below.

Your Board *(continued)*

The internal evaluation comprised:
- an online survey of Directors which sought their views on a range of topics across the Board and Board Committees:
- one to one meetings between the individual Directors and the Chairman;
- one to one meetings between Committee Members and the Committee Chairs;
- an online survey of Directors which sought their views on the performance of the Chairman;
- a meeting of the Board in the absence of the Chairman to discuss the Directors' views on the performance of the Chairman;
- a meeting of the Non-Executive Directors only to discuss their views on the performance of the CEO; and
- consideration of the final Review Reports at the Board and Board Committees and agreement on actions to ensure continued enhancement.

The scope of the internal evaluation included:
- consideration of the Board Composition and Competence;
- assessment of the Board Strategy and the Board's approach to risk taking during 2020;
- evaluation of the Board's Culture and Behaviour;
- appraisal of Board engagement and its discharge of its responsibilities;
- consideration of the Board's response to COVID-19.
- an overall assessment of the Board's effectiveness during 2020;
- a summary of the Board's expected priorities for the coming year; and
- an appraisal of how each Board Committee discharged its responsibilities under various, Committee-specific headings during 2020.

Chairman

Each Director completed an online survey which sought their views on the performance of the Chairman. Led by the SID, the Board then met to discuss the outcome of the survey in the absence of the Chairman. The SID subsequently provided an update on the positive outcome of the review to the Chairman. Patrick Kennedy is considered to be a highly effective Chairman and provides very strong leadership to the Board. The Board confirmed its continued support for Patrick Kennedy and his continuation in office, including his proposal for re-election at the 2021 Annual General Meeting (AGM). Further details on the Chairman's tenure can be found on page 81.

Individual Directors

The Chairman met with Directors on a one to one basis to discuss their individual performance, taking account of their feedback submitted in advance of the meetings on a number of topics including ,their individual contributions and performance at the Board. The Chairman assessed each Director as being fully effective, with all Directors demonstrating strong commitment to their role, noting that in 2020 they were each required to go above and beyond their normal required time commitment to the role, and their contributions continuing to be important to the company's long-term sustainable success.

2020 Conclusion

The findings of the Board and Board Committee evaluations were reviewed by the Group Secretary. The summary findings were then shared and discussed with the Chairman and feedback on each of the Committees was shared with the individual Committee chairs. Feedback on individual Directors was shared directly by the Chairman. The results culminated in a consolidated report on the findings of the full evaluation process being presented to the Board in January 2021.

The outcome of the evaluation was positive, and built further on the ad hoc evaluation conducted by the Chairman during the summer in the context of remote working during COVID-19. Overall the effectiveness of the Board and its Committees continued to be enhanced year on year. The key themes identified through the Board evaluation as having contributed to the Board's effectiveness in 2020 included the Board's flexibility, dedication, skills and experience accompanied by a strong senior management and good information flows complemented by a strong Chairman. The Board evaluation also identified areas for enhancement: greater focus on the Group's RSB agenda and its integration in the Group's wider strategy and further improvements to the quality and consistency of the Board papers.

Progress against the 2019 external Board Effectiveness Evaluation

A summary of the Board's progress against the actions arising from the 2019 external effectiveness review are set out below:
- Board Papers – Brevity and Clarity: While observations on the volume of papers did appear again during the 2020 effectiveness review, improvements in the quality and consistency of papers were acknowledged. These improvements were driven by enhancements led by the CEO and wider executive team. An ongoing drive to enhance the succinctness of Board papers has seen positive results albeit continuous improvement is still required;
- Board Schedule of Topics: The Board plan for 2021 was developed to ensure appropriate focus was placed on strategic and other priority matters whilst maintaining agility to respond to issues that may arise and require priority attention;
- Board Training and Development: The Director Induction, Training and Development Policy was reviewed to ensure greater alignment with the assessment of the collective suitability of the Board to ensure all areas requiring collective or individual focus were identified and appropriately addressed; and
- Focus on non-financial risk management: Non-financial risk management was a regular area of focus for the GRC during 2020, with the related programme further strengthened by the appointment of an experienced individual to the newly established senior role of Head of Non-Financial Risk.

Your Board *(continued)*

Board Focus in 2020

The Board held thirty one meetings during the year ended 31 December 2020. Further details on the number of Board and Committee meetings and attendance by individual Directors are set out on page 114.

While not intended to be exhaustive, below is a high level overview of a number of matters considered by the Board and Board Committees during 2020:

Regular updates

- Chairman's activities.
- CEO activities and key areas of focus.
- Business and financial performance.
- Organisational Balanced Scorecard: Performance relative to strategic, financial and non-financial key performance indicators (KPIs)
- Cost and Efficiency.
- Risk Management.
- Board Committee activities.

Financial

- 2019 full year results.
- 2020 half-year results and interim management statement.
- Impairments.
- Funding and Liquidity Policy.
- Internal Capital Adequacy Assessment.
- Internal Liquidity Adequacy Assessment.

Environment

- Investor relations.
- Economic environment.
- Stakeholder engagements.

Risk management

- Risk reports in the context of COVID-19
- Group Risk Appetite Statement.
- Risk Policies and Frameworks.
- Group's Remuneration Policy.
- Group Recovery Plan.
- Regulatory interactions.
- General material risks, including those related to Brexit and the wider macro economy.
- Non-financial risk.
- AML and combating of financing of terrorism updates.

Strategy

- Digital Relationship Bank.
- Transformation programme.
- BoI in a post COVID-19 Environment.
- Progress implementing the Group's 2018–2021 strategy.
- The approach to a strategy refresh 2021-2024.
- Future environment and business model in the UK.
- Irish Retail Mortgage Market.

Governance

- Key Board governance policies and documents.
- Corporate governance frameworks.
- Board, Committee and Individual Directors Effectiveness Evaluation.
- Endorsement of Material Risk Takers (MRTs) and Key Function Holders.
- Subsidiary oversight.
- Tracking of agreed actions.

Culture and values

- Group Culture Programme.
- Colleague engagement and culture survey outcomes, including a Pulse Survey conducted with specific focus on COVID-19.
- Talent updates.
- Policy for supporting COVID-19 payment break customers.
- Customer call listening.

Your Board *(continued)*

Roles and Responsibilities

Role of the Board

The Group is led by an effective and committed Board of Directors, who are collectively responsible for the long-term success of the Group. The Board's role is to provide leadership of the Group within the boundaries of risk appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled.

The Board sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. The Board ensures that the Group's purpose, values, strategy and culture are all aligned and reviews management performance in that regard.

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

The respective roles of the Chairman and the Group CEO, which are separate, are set out in writing and have been agreed by the Board. The Board has a schedule of matters specifically reserved for its decision which is reviewed and updated regularly.

The Board approves the Group Risk Framework on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types. Further information on risk management and the Board's role in the risk governance of the Group is set out in the Risk Management Report on pages 146 to 148.

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

Role of the Chairman

The Chairman oversees the operation and effectiveness of the Board, including ensuring that agendas cover the key strategic items confronting the Group and encouraging all Directors to participate fully in the discussions and activities of the Board. He also ensures that there is effective communication with shareholders and promotes compliance with corporate governance standards. The Chairman commits a substantial amount of time to the Group and his role has priority over any other business commitment.

Role of the Deputy Chairman and Senior Independent Director

The Deputy Chairman adopts the role of SID and deputises for the Chairman as required and is a Trustee of the Bank Staff Pensions Scheme. The SID provides a sounding board for the Chairman and serves as an intermediary for the other directors and shareholders if they have concerns that contact through the normal channels of Chairman, Group CEO or other Executive Directors has failed to resolve or for which such contact is inappropriate. As appropriate and when required, the SID meets a range of major shareholders in order to develop a balanced understanding of their views. The SID leads the evaluation of the Chairman in conjunction with the other Directors and would normally take responsibility for an orderly succession process for the Chairman, working closely with the NGRB.

Role of the Independent Non-Executive Director

The NEDs (including the Chairman and the Deputy Chairman) bring independent challenge and judgement to the deliberations of the Board through their character, objectivity and integrity. As reported, Michele Greene has been designated as non-independent by virtue of her nomination by the Minister for Finance; however, the Board believes, based on her performance to date, that she too brings independent challenge and judgement to the deliberations of the Board. During the year, the Chairman and NEDs met without the Executive Directors present, to discuss a range of business matters.

Executive Directors

Executive Directors have executive functions in the Group in addition to their Board duties. The role of Executive Directors, led by the Group CEO, is to propose strategies to the Board and, following challenging Board scrutiny, to execute the agreed strategies to the highest possible standards.

Role of the Group CEO

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

Matters Reserved for the Board

While arrangements have been made by the Directors for the delegation of the management, organisation and administration of the Group's affairs, certain matters are reserved specifically for decision by the Board. The schedule of matters reserved for the Board is reviewed at least annually to ensure that it remains relevant and to reflect any enhancements required under evolving corporate governance requirements and industry best practice.

The Directors have access to the advice and services of the Group Secretary, who advises the Board on matters relating to governance, ensuring good information flows and comprehensive practical support for Directors.

She maintains the Group's Corporate Governance Framework and communicates with shareholders as appropriate, ensuring due regard is paid to their interests.

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.

Both the appointment and removal of the Group Secretary is a matter for the Board as a whole.

The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required.

Committees of the Board have similar access and are provided with sufficient resources to undertake their duties.

The Group has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors.

Your Board *(continued)*

Stakeholder Engagement

Board understanding of views of major shareholders

To facilitate the Board's understanding of the views of major shareholders, Directors receive an investor relations update from management at all scheduled Board meetings. The content of this update is varied, based on recent investor activities, but typically includes market updates, details of recent equity and debt investor interactions, share price and valuation analysis, analyst updates, and share register analysis. All Directors are facilitated to ensure that they are informed of the views of investors and analysts. The Chairman met with a number of major shareholders to discuss governance matters and delivery of strategic priorities and progress in delivering transformation. During 2020, the SID consulted with a significant number of major shareholders on the matter of the Chairman's tenure, details of which are reported on page 81. The Board was updated on the outcome of the Chairman's discussions and the SID shareholder consultation. The Chairman and / or the SID are available to all shareholders if they have concerns that cannot be resolved through the normal channels.

Institutional equity investors and analysts

Communication with shareholders is given high priority. One of the responsibilities of the Chairman is to ensure effective communication with shareholders and to ensure that Directors develop an understanding of the views of major investors. Group Investor Relations has primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors and analysts. The Group has an active and well-developed Investor Relations programme, which involves regular meetings by Executive Directors, selected Senior Executives and the Director of Group Investor Relations and other authorised officers with the Group's principal institutional shareholders, other investors, financial analysts and brokers. During 2020, c.400 such meetings and presentations were held. All meetings with shareholders are conducted in such a way as to ensure that price sensitive information is not divulged. A dedicated Debt Investor section of the Group website provides access to relevant information, including presentations, publications and bond tables.

Retail shareholders

The Group Secretary's team, supported by the Group's Registrar, Computershare Investor Services (Ireland) Limited ('Computershare'), maintains the Group's share register, engages with retail shareholders and delivers the Group's AGM and EGMs as required. With the assistance of Computershare, the Group addresses shareholder queries and, through its online facilities, enables shareholders to view their portfolio and amend their information securely.

Annual and Extraordinary General Meeting

The AGM provides an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction. The general aim of the Board is to make constructive use of the AGM and shareholders are encouraged to participate in the proceedings.

The 2020 AGM was held on 19 May 2020 in Baggot Plaza, 27 - 33 Upper Baggot Street, Dublin 4.

Due to the Government restrictions in place to combat COVID-19 at the time, and in order to ensure the health and safety of the Group's colleagues, shareholders and service providers, the 2020 AGM was held remotely. In order to facilitate shareholder engagement, questions were invited from shareholders in advance of the AGM, which were each responded to directly. An overview of shareholder questions received and the responses provided was shared at the AGM for the benefit of all shareholders.

The Company's Extraordinary General Meeting (EGM) was held on 19 January 2021 to facilitate the migration of the Company's Participating Securities (as defined in the Migration of Participating Securities Act 2019) from the CREST system to the settlement system operated by Euroclear Bank SA/NV in order to ensure, post-Brexit, that the Company's Shares can continue to be settled electronically when they are traded on Euronext Dublin and the London Stock Exchange, and remain eligible for continued admission to trading and listing on those exchanges.

The EGM was held in similar circumstances to the 2020 AGM as the COVID-9 pandemic and related Government restrictions were heightened across Ireland and the UK.

At the 2020 AGM and the 2021 EGM, separate resolutions were proposed on each substantially separate issue and voting was conducted by way of poll. The results of every general meeting, including details of votes cast for, against and withheld on each resolution, are posted on the Group's website and released to the Irish and London Stock Exchanges. As soon as the results of the 2020 AGM and 2021 EGM were calculated and verified, they were released to applicable exchanges, as set out above, and were made available on the Group's website. At both the 2020 AGM and 2021 EGM all resolutions passed, with no resolution receiving less than 94% approval.

In line with the Group's policy to issue notice of the AGM 20 working days before the meeting, notice of the 2020 AGM was circulated to shareholders on 15 April 2020. The EGM Notice was circulated to shareholders 20 working days in advance, on 17 December 2020. It is usual for all Directors at the time of the AGM and any EGM to attend. All members of the Board attended the 2020 AGM and 2021 EGM remotely, albeit the opportunity for them to respond directly to shareholder questions was unavailable at that time, due to the COVID-19 restrictions.

The 2021 AGM is scheduled to be held on 25 May 2021. The means through which the AGM will be held will be solely dependent on the COVID-19 situation in Ireland and the related Government guidelines.

Your Board *(continued)*

Stakeholder Engagement *(continued)*

Customers

The Group's aim is to serve customers brilliantly by being the number one bank for service and having the best brand in our target markets including supporting our partnerships in the UK. The Board consistently reviews the strategy, receives updates on implementation and reviews progress as part of the governance process.

The Group's approach to customer engagement and progress against customer metrics through which the experience of customers when dealing with the Bank is assessed, is a key focus for the GEC. Customer outcomes is a key focus area required of all formal governance across the Group. The Board receives regular updates on progress against customer metrics and reports from the Group CEO, the Chief Marketing Officer and the respective business CEOs. In addition, its understanding of customers' perspectives is informed by deep dives on customer themes and customer complaints, and in the absence of visits by Directors to customer call centres due to COVID-19, other tools to enable the Board to hear customer voices at first hand.

In January 2020, prior to the emergence of COVID-19, Directors met with customers directly reflecting the importance of 'serving customers brilliantly' in our strategy. A key focus area for the Board during 2020 was in reviewing, challenging and receiving regular updates on the operational plan in place to support Customers who were experiencing difficulties in the face of COVID-19, through payment breaks and other means.

Colleagues

The Board receives regular updates on the progress of the Group Culture Programme and reviews the outputs from the Group's Open View staff surveys and receives updates on progress in implementing actions in response to staff feedback. The Board pays particular attention to the Group Code of Conduct and Speak Up Policy, and the NGRB reviews their effectiveness annually. The Board strives to create an environment in which staff are encouraged to speak up where they have any concerns. Fiona Muldoon, on behalf of the Board, actively sponsors the Group Code of Conduct and Speak Up Policy.

During 2020, the Board met virtually with senior managers from across the Group in 'Visibility Sessions', which form part of the annual Board programme of work which is considered and approved each year.

Due to the global pandemic, Directors were unable to conduct site visits and engage directly with colleagues on the ground other than a visit to a branch location in Galway in January 2020. The 2021 Board programme of work is designed to further enhance engagement with colleagues and plans for opportunities both on a virtual basis or physically via site visits which will be implemented dependant on the COVID-19 situation.

We reported in the 2019 Report on the positive step taken when the Board designated Eileen Fitzpatrick as the Workforce Engagement NED, the objective of which is to enhance the Group's existing engagement mechanisms between the Board and the workforce and to strengthen the 'employee voice' at the Board table and when making decisions. A formal terms of reference for this designated role was agreed during 2020. The role supplements what the Board is already hearing about culture and behaviour across the Group through various other mechanisms and regular reports to the Board.

During 2020, Eileen undertook a number of valuable activities which provided great insights for the Board and facilitated further consideration of the workforce in Board decisions. These activities included, but are not limited to:

- consultation with the GEC;
- consultation with a Group of 30 of the Group's most senior leaders below the GEC;
- a listening session on 'Speak Up' themes and insights, deep dives on the Open View and Ways of Working colleague survey results;
- a deep dive on industrial relations; and
- 'Open Door' sessions with a number of colleagues across Retail Ireland, New Ireland Assurance and Group Finance, and separate focused sessions with graduates and the colleague Multicultural Network.

Regulators and Government

The Chairman and members of the Board regularly meet with representatives from the regulators and government bodies, including the Joint Supervisory Team (JST), the CBI, BoE, Financial Conduct Authority (FCA), PRA, ECB and the Department of Finance. Core themes discussed at these meetings include regulation and supervision, risk governance and oversight, challenges facing the banking industry, strategic challenges and rebuilding trust and culture. The Chairman and Group CEO update the Board on their meetings with regulators and government representatives at each Board meeting. Management provide regular briefings to the Board on regulatory engagement and correspondence which ensures that the Board remains aware of regulatory expectations and areas of focus.

Communities

The Group's communities are those where it has a physical presence, where colleagues live and work, as well as other local and global groups and partners.

The Group supports the wider community through its community investment programme, Begin Together, its support of local enterprise and through its financial wellbeing programmes as well as playing an active role in society.

Begin Together was launched in February 2020. The Fund provides valuable investment for community initiatives making a difference in towns and villages across the island of Ireland. In 2020 the Fund, working with the Community Foundation for Ireland, granted between €3,000 and €5,000 to 116 projects encompassing financial, mental and physical wellbeing – projects included financial skills for young people, suicide prevention and physical exercise for the elderly. In March 2020 as Covid restrictions were announced, the Group donated €1 million in emergency funding to the CFI COVID-19 Emergency Fund, aimed at the immediate needs of vulnerable members of the community severely impacted by the pandemic, with 14 organisations receiving immediate funding focused on the elderly, people with respiratory illnesses or cancer, those at risk of domestic

Your Board *(continued)*

Stakeholder Engagement *(continued)*

abuse, isolated vulnerable people and families, particularly those living in rural areas, children and support for mental health. In July the Begin Together Awards supported towns and villages looking to recover and rebound. In September working with Business to Arts the Group announced a €1 million Begin Together Arts Fund to support the Arts Community with grants for arts projects responding to or adapting from Covid-19. Throughout the year colleagues were supported in making donations to the causes they care about, in their communities where they live and work, with €350,000 of donations made by the Group.

The financial support of the Group is very much aimed at helping local community groups and non-profit organisations continue to serve their communities through the COVID-19 pandemic.
The Group is conscious of and acknowledges the importance of its role in wider society.

Board's oversight of risk management and internal control systems

Accountability and audit

The Report of the Directors, including a going concern statement and a viability statement, is set out on pages 107 to 108. This Corporate Governance Statement forms part of the Report of the Directors.

Board Responsibility

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

In establishing and reviewing the risk management and internal control systems, the Directors carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk event occurring and the costs of control. The process for identification, evaluation and management of the principal risks faced by the Group is integrated into the Group's overall framework for risk governance. The Group is forward-looking in its risk identification processes to ensure emerging risks are identified. The risk identification, evaluation and management process also identifies whether the controls in place result in an acceptable level of risk. At Group level, a consolidated risk report and risk appetite dashboard is reviewed and regularly debated by the BRC and the Board to ensure satisfaction 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 149 to 153. The Board concluded that the Group's risk management arrangements are adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

Control systems

The Group's overall control systems include:

- a clearly defined organisation structure with defined authority limits and reporting mechanisms;
- three lines of defence approach to the management of risk across the Group: line management in individual businesses and relevant Group functions, central risk management functions, and Group Internal Audit (GIA);
- Board and Management Committees with responsibility for core policy areas;
- a set of policies and processes relating to key risks;
- reconciliation of data consolidated into the Group's financial statements to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the financial position and results of the Group are appropriately reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions;
- Codes 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;
- an independent internal audit function with responsibility for providing independent, reasonable assurance to key internal (Board, Group and Subsidiary Audit and Risk committees and Senior Management) and external (Regulators and external auditor) stakeholders on the effectiveness of the Group's risk management and internal control framework;

Your Board *(continued)*

- 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 GAC covering all significant judgemental and technical accounting issues, together with any significant presentation and disclosure matters; and
- user access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

Reviews by the Board

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board, the GAC and the BRC, which also receive reports of reviews undertaken by Group Risk and GIA. The GAC receives reports from the Group's external auditor (which include details of significant internal control matters that they have identified), and has separate discussions with the external and internal auditors at least once a year without Executives present, to ensure that there are no unresolved issues of concern.

The Group's risk management and internal control systems are regularly reviewed by the Board and are consistent with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with the requirements of Capital Requirements Directive (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 2020 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 GAC, in conjunction with the BRC, 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 made a positive recommendation to the board in that regard.

Board Governance

Conflicts of interest

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

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

Time commitment

The Group ensures that individual Board Directors have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships which may be held by any individual Director. The Company and the Bank have each been classified as 'significant institutions' under CRD IV. During the year ended 31 December 2020, all Directors were within the directorship limits set out for significant institutions under CRD IV.

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 NEDs can be inspected during normal business hours by contacting the Group Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, NEDs are normally required to sit on at least one Board Committee, which involves the commitment of additional time. Certain NEDs, such as the Deputy Chairman, SID and Committee Chairs, are required to allocate additional time in fulfilling those roles.

Before being appointed, Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chairman and the Group Secretary, or, depending on the nature of the proposed commitment, the full Board, must be sought. In certain cases, advanced CBI approval must also be sought.

Proposed new external commitments are assessed against conflicts of interest, over boarding and time commitment considerations. Any new external commitments proposed by the Chairman require SID and Group Secretary approval in the first instance and depending on the nature of the proposed commitment, the Board and CBI approval in advance.

During 2020, all Directors complied with the Board-approved process and sought approval in advance where required. The Group has an obligation to report the reasons for permitting significant appointments. Ms. Evelyn Bourke sought approval in advance for a non-executive directorship role on the Board of Marks & Spencer Group plc which as a listed entity would be

Your Board *(continued)*

considered significant in terms of an additional external appointment. In considering whether to approve this external role, the NGRB and the Board gave due and careful consideration to actual, potential or perceived conflicts of interest, the risk of 'over boarding', whether the additional role would impact Ms Bourke's ability to commit the requisite time to her Group duties, and CRD directorship limitations. The Board was satisfied that there was no issue of concern that should impede Ms Bourke from proceeding and that it could be managed in accordance with the Board-approved policy. All Directors are reminded of their obligations under the Board's Conflicts of Interest Policy when approved for any external roles and such roles remain under regular review. In accordance with the Group's listing obligations, an RNS was issued to the market to advise of Ms Bourke's appointment to Marks & Spencer Group plc.

Balance and Independence

The Board determined that ten of the eleven Non-Executive Directors in office at 31 December 2020 were independent in character and judgement and free from any business or other relationships with the Group which could affect their judgement. Michele Greene has been deemed non-independent by virtue of her nomination by the Minister for Finance. However, having regard for the nature of the individual and her contribution to the Board during 2020, the Board is satisfied that in carrying out of her duties as a Director, Michele is able to exercise independent and objective judgement without external influence.

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. Any continuation in term beyond two three-year terms is considered on an annual basis and will have regard for a number of factors including performance, independence, the Board's succession planning needs over the medium to long term, and the best interests of the shareholders.

A NED's term of office will generally not extend beyond nine years in total unless the Board, on the recommendation of the NGRB, concludes that such extension is necessary due to exceptional circumstances. In such a situation the Board will document its rationale for any continuance and so advise the CBI in writing as required under the Irish Code.

In respect of Executive Directors, no service contract exists between the Company and any Director which provides for a notice period from the Group of greater than one year. None of the NEDs have a contract of service with the Group.

It is Group practice that, following evaluation, all Board Directors are subject to annual re-election by shareholders. All Directors retired at the AGM held on 19 May 2020. The following Directors, being eligible, offered themselves for election and were elected at the AGM in 2020:

- Ian Buchanan.
- Evelyn Bourke.
- Eileen Fitzpatrick.
- Richard Goulding.
- Michele Greene.
- Patrick Haren.
- Patrick Kennedy.
- Francesca McDonagh.
- Fiona Muldoon.
- Patrick Mulvihill.
- Myles O'Grady.
- Steve Pateman.

The names of Directors submitted for election or re-election are accompanied by sufficient biographical details and any other relevant information in the AGM documentation to enable shareholders to take an informed decision on their election. Giles Andrews was appointed in November 2020. Patrick Haren and Patrick Mulvihill retired on 31 December 2020. The 2021 AGM is scheduled for 25 May 2021 and, in line with previous AGMs, all directors will retire from office at the date of the AGM and may choose to offer themselves for election.

Organisational structure

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

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

Group Executive Committee

During 2020, the Group undertook a review and challenge process to streamline the existing executive governance structure. The objective of the review was to ensure the structure was not only fit for its current purpose but positioned the Group for the future and was sufficiently clear and robust in preparation for the Senior Executive Accountability Regime (SEAR) that will soon apply in Ireland. A refreshed structure was introduced with effect from 1 January 2021 and will be reported on in greater detail in the 2021 Report. The structure underwent a rigorous process of review and challenge, informed by internal and external experts and governance best practices. The maintenance of a strong control environment - with risk management and customer outcomes at the forefront of all decisions - has been and remains a key governance consideration.

The most senior executive committee in the Group, the GEC, acts in an advisory capacity to the CEO and assists the CEO in the management and leadership of the Group on a day-to-day basis, making decisions on matters affecting the operations and

Your Board *(continued)*

performance of the Group's business and the delivery of the Board approved strategy. It is supported by a number of senior executive committees, encompassing:

(i) Group Risk Policy Committee, which supports the GEC and Board in inter alia overseeing the material risks of the Group, taking a holistic approach to overseeing the effective management of risk (financial & non- financial) and monitoring the overall risk profile of the Group, as well as compliance with risk appetite and other approved policy limits;

(ii) Group Asset and Liability Committee, which oversees the strategic direction of the Group's assets and liabilities and the profit and loss implications of balance sheet management actions and considers the appropriate allocation of capital, funding and liquidity and market risk resources;

(iii) Group Transformation Oversight Committee, which monitors progress on the Group's strategic transformation agenda, encompassing culture, systems and business model initiatives, ensuring they are fully aligned with the Group's Strategy, Purpose and Values and that all strategic transformation initiatives have clearly defined business and customer outcomes, along with appropriate mechanisms to track and report progress;

(iv) Group Data Management Board, which oversees the development of standards, metrics and tolerances for data quality with the application of an adequate data control environment to support effective management within the Group's risk appetite; and

(v) Announcements Committee, which, oversees compliance with the Group's Market Abuse Regulation obligations.

Summary biographical details on each of the GEC members are set out below.

Group Executive Committee

The Committee's purpose is to assist the CEO in leading the Group's day to day operations and developing and leading the execution of the Group's Strategy in line with the Group's Purpose to enable its customers, colleagues and communities to thrive. The CEO and CFO, both executive directors of the Board, are members of the GEC.

In addition to the two Executive Directors, Francesca McDonagh, CEO, and Myles O'Grady, CFO, whose bios can be found on pages 77 and 80, the GEC is currently composed of the following Members:

Henry Dummer
Chief Marketing Officer
Henry was appointed to the role of Chief Marketing Officer for the Group in June 2018. Prior to this Henry held the position of Group Marketing Director for Consumer and Business at eir, delivering an impactful rebrand for the company.

He previously held the roles of Marketing Director at Tesco Ireland, and Customer Marketing Director at Diageo Ireland.

Matt Elliott
Chief People Officer
Matt Elliott was appointed to the role of Chief People Officer for the Group in February 2019. He is responsible for transforming the culture of the Bank and developing a company where colleagues thrive.

Prior to that he was Group People Director with Virgin Money. Under Matt's leadership, Virgin Money successfully acquired and integrated Northern Rock. Matt was part of the executive team who successfully listed the company on the London Stock Exchange, and created a company widely acknowledged to be a cultural leader in the UK.

A passionate advocate for inclusion and diversity, Matt appeared as a leading ally in the 2018 Financial Times lists for gender, ethnicity and LGBT+, the only leader to appear in all three lists.

Tom Hayes
Chief Executive Officer, Corporate Banking
Tom joined the Bank of Ireland Group in 1979 and held various roles in Retail Banking before joining Corporate Banking in 1989. Tom was appointed Head of Leveraged Acquisition Finance in 2000 and Chief Executive, Corporate Banking, in January 2006. Under his leadership, Corporate Banking has consolidated its leading position as the No. 1 corporate bank in Ireland.

Gavin Kelly
Chief Executive Officer, Retail Ireland
Gavin was appointed Retail Ireland CEO in March 2018. He oversees the provision of banking products and related financial services to personal, business and wealth management customers and the New Ireland Assurance Company.

Gavin joined Bank of Ireland in 2007 and has held a number of senior management positions. He was President of the Banking and Payments Federation, Ireland (BPFI) from January 2019 to December 2020.

Ian McLaughlin
Chief Executive Officer, Bank of Ireland (UK)
Ian was appointed CEO of Bank of Ireland (UK) plc and Retail UK Division in December 2019. Ian has over 25 years' financial services experience, joining Bank of Ireland from Royal Bank of Scotland. Prior to this, he held a number of senior management roles at Lloyds Banking Group and Zurich Financial Services.

Sarah McLaughlin
Group Secretary & Head of Corporate Governance
Sarah joined Bank of Ireland as Group Secretary & Head of Corporate Governance in September 2019. Sarah is responsible for assisting the Chairman in establishing the policies and processes the board needs in order to function properly, in ensuring that these are complied with and advising the board on all governance matters. Sarah previously held the role of Group Secretary & Head of Corporate Governance at AIB Group plc, having held a variety of roles across corporate governance, finance and private banking.

Vincent Mulvey
Group Chief Risk Officer
Appointed to the Group Executive in 2009 and as Chief Risk Officer in 2017, Vincent leads Group Risk in overseeing risk strategy and management. He previously worked in Retail Ireland and Corporate Banking. Vincent is a Director of the Irish Banking Culture Board, an FCCA, Fellow of the Institute of Banking and a serving member of the RMA Journal editorial board.

Your Board *(continued)*

Jackie Noakes
Group Chief Operating Officer
Jackie was appointed as Chief Operating Officer in August 2018. In her role as Chief Operating Officer she oversees a range of services across technology, infrastructure and operations. Jackie is also a Group NED of Bank of Ireland (UK) plc.

Jackie has held a number of senior positions in the financial services sector, most recently at Legal & General (UK) as CEO of Mature Savings.

Mark Spain
Chief Strategy Officer
Mark was appointed Chief Strategy Officer in April 2019 and to the Group Executive Committee in July 2019. He previously held a number of senior management positions in the Group including Director of Group Investor Relations, Director of Group Finance and most recently UK Commercial Director. Mark is also a Group NED of Bank of Ireland (UK) plc. Mark has more than 30 years' experience in financial and accounting roles.

Oliver Wall
Group Chief of Staff & Head of Corporate Affairs
Oliver joined Bank of Ireland as Group Chief of Staff in 2017, taking on additional responsibility as Head of Corporate Affairs in 2019. He joined the Bank from HSBC, where he was Head of External Affairs UK and Europe. Oliver previously held a range of roles in both the public and private sectors, including working in the Department of The Taoiseach.

Subsidiary governance

The interaction between the Group Board and the boards of our strategically significant subsidiaries is closely monitored. The Chairman meets regularly with the Chairmen of these subsidiaries in order to ensure good communication and alignment and attends a number of subsidiary board meetings during the year. The Group Board receives reports conducted on the effectiveness of these significant subsidiaries. Ian Buchanan is also a NED of Bank of Ireland (UK) plc and a member of its Risk Committee.

The Chairs of Group Board Committees attend the equivalent committees of the strategically significant subsidiaries once a year. Similarly, the respective subsidiary Board Committee Chairs attend and present at the Group Board Committees annually to provide an account of the subsidiary Board Committees activities.

In 2020, the Board reviewed the Group Subsidiary Governance Policy including the New Subsidiary / Entity process document, which sets out the required procedure should any party in the Group wish to set up a new Group subsidiary or entity in which the Group will have a controlling interest. This is reviewed annually.

The Group's corporate simplification programme, designed to remove a number of subsidiaries from the Group, made considerable progress in 2020 with the dissolution of 11 companies. The purpose of this programme is to simplify the corporate structure of the Group with a view to generating efficiencies and cost savings and reducing risk.

Report of the Nomination, Governance and Responsible Business Committee

Patrick Kennedy
Chairman

Dear Shareholders,

Membership and meetings

At close of business on 31 December 2020, the Group Nomination, Governance and Responsible Business Committee (the 'Committee' or the 'NGRB') comprised Patrick Kennedy, Patrick Haren, Evelyn Bourke and Fiona Muldoon. Having served nine years with the Group, Patrick Haren retired and was succeeded in his role as SID and Deputy Chairman and on the Committee by Richard Goulding, with effect from 1 January 2021. Evelyn Bourke also stood down from the NGRB on her appointment to the role of Audit Committee Chair and Eileen Fitzpatrick joined the NGRB in her place. Eileen's membership of the NGRB is considered to be positively aligned with her role as the Group's Workforce Engagement Director. I would like to thank Patrick and Evelyn for their contributions to the Committee during their respective tenures on the Committee.

Biographical details, including each member's background and experience, are set out on pages 77 to 80.

The Committee met eight times during 2020, five of which were scheduled meetings. The Chair and Members of the Committee, together with their attendance at meetings, are set out below. The Group CEO, Chief People Officer and other members of management are invited to attend meetings where the agenda item is relevant to them and their attendance is requested by the Committee. 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 Board and Board Committees as appropriate, and making recommendations in this regard to the Board, for its approval;
- considering and making recommendations to the Board in respect of the appointment of Key Function Holders;
- ensuring plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession;
- keeping Board governance arrangements under review and making appropriate recommendations to the Board to ensure the Bank's corporate governance practices are consistent with Irish and international best practice corporate governance standards;
- overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries; and
- providing oversight of the Group's RSB Strategy and monitoring the Group's implementation of the UN Principles for Responsible Banking.

Matters considered by the Committee

The principal matters considered, and actions taken by the Committee during the year are described on pages 97 to 99.

Committee meetings	Eligible to attend	Attended
Patrick Kennedy	8	8
Patrick Haren	8	8
Evelyn Bourke	8	8
Fiona Muldoon	8	8

Board composition, succession and diversity

The Committee continued to keep the structure, size and composition of the Board and its Committees under review in 2020.

Having identified the need, in 2019, to appoint a NED with technology transformation experience and engaged MWM Consulting to support the search, the NGRB led a robust search which resulted in the successful appointment of Giles Andrews to the Board in November 2020. Other than in connection with the Board searches, MWM Consulting has no connection with the Group.

We reported last year on the selection of Eileen Fitzpatrick as the Group's Workforce Engagement Director in January 2020 and on page 89 we share detail of the activities undertaken by Eileen during the year, which were reported on regularly to the Board.

During 2020, the Committee again devoted considerable time to succession planning and recruitment, having regard to the tenure of a number of Board Directors to ensure readiness and appropriate and timely succession activities.

During the early stages of the COVID-19 pandemic, the NGRB agreed contingency arrangements for key Board roles, including the Executive Directors, the Chairman, the SID and Deputy Chairman, and the Chairs of each of the Committees in the event that of any of these role-holders were directly impacted by COVID-19.

Detailed wider succession considerations, having regard to the tenure of current Directors, the diversity profile of the Board and the Group's strategy, among other factors, also took place during 2020. The purpose of this exercise was to ensure the orderly succession of the Board over the short to medium term as Directors retire and to ensure the Board's composition and profile remains appropriate to the needs of the Group and the

Report of the Nomination, Governance and Responsible Business Committee *(continued)*

industry within which it operates. These plans are reviewed and challenged regularly by the NGRB.

Key near term outcomes from 2020 succession planning considerations led to the following actions:
- Evelyn Bourke appointed as the Audit Committee Chair to succeed Patrick Mulvihill, who also retried on 31 December 2020 after nine years with the Group;
- Richard Goulding appointed as the SID and Deputy Chairman to succeed Patrick Haren, as previously reported, and related Committee membership changes.

Further details on key Committee changes recommended for approval by the Board are set out on page 97.

As part of the process of succession planning and determining the appropriate range and mix of skills required to maintain an effective Board, each member of the Board is requested to self-assess against the requisite skills set out in Joint ESMA and EBA Guidelines. This assessment provided the Committee with valuable analysis of the skills and experience of Board members relative to required and desirable Board competencies, and facilitates us in ensuring that the Board continues to have an appropriate range and depth of skills and experience.

While potential candidates for appointment to the Board are assessed against developed candidate specifications for particular identified roles and skill sets, potential candidates are also required to be of sufficient calibre and suitable for appointment to the Board and to enhance the Board's overall effectiveness, facilitating the Board by acting with integrity, leading by example and promoting the desired customer-focused culture.

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

Report of the Nomination, Governance and Responsible Business Committee *(continued)*

Matters considered and action taken by the Committee in 2020

Key issue	Committee considerations	Committee conclusion
Board Composition, renewal, succession and effectiveness	• Board skills assessment, composition, diversity, size, tenure, succession planning. • Committee composition and succession planning. • Contingency planning in the context of COVID-19. • NED recruitment and appointments, including Fitness and Probity assessments. • Effectiveness Reviews of the Board, Board Committees, the Chairman and individual Directors.	Board and Committee changes during the year were made to ensure the continued enhancement and refreshment of the composition and skills profile of the Board and Committees. Having regard to the requisite skillsets of each Board Committee and members' tenures, the NGRB recommended the appointment of: • Evelyn Bourke as Chair of the GAC and as a member of the BRC to replace Patrick Mulvihill who retired on 31 December 2020; • Eileen Fitzpatrick as the Group's Workforce Engagement Director, member of the NGRB and as a trustee on the BSPF (both roles were considered to be aligned with the position of Workforce Engagement Director); • Richard Goulding as the Deputy Chairman and SID replacing Patrick Haren and, consequently as a member of the NGRB and Trustee of the BSPF. • Giles Andrews to the Board and as a member of the BRC, GRC and GTOC. • Fiona Muldoon to the GAC and GRC. Fiona stood down from the BRC, having served on that Committee for 5 years. The Committee engaged extensively on the Chairman's tenure and supported the shareholder consultation led by the SID in H2 2020. A medium term succession plan was agreed by the Committee in 2020 and will remain under regular review and challenge. The 2019 external and 2020 internal effectiveness reviews of the Board and its Committees were each positive in relation to effectiveness and the appropriateness of their respective compositions.
Executive	• GEC and Senior Management appointments, including Fitness and Probity assessments, and succession planning. • Assessment of Suitability of Key Function Holders and Material Risk Takers. • Gender diversity of leaders and senior managers. • Ethnic diversity data and related considerations across the wider Group.	The Committee supported a number of appointments at executive and senior management level in the Group during 2020 including the appointment of the Chief Internal Auditor. The Committee considered the process to determine the appropriateness of individuals being appointed to or holding Material Risk Taker (MRT) and Key Function roles across the Group, and made recommendations to the Board in that regard. The Committee noted reports on progress in relation to data collation and analysis of gender and ethnicity diversity data across the Group to better understand the Group and to ensure progress towards improving diversity within the Group.

Report of the Nomination, Governance and Responsible Business Committee *(continued)*

Matters considered and action taken by the Committee in 2020 *(continued)*

Key issue	Committee considerations	Committee conclusion
Governance and corporate responsibility	• Annual Corporate Governance Statement. • Corporate Governance Compliance Updates and annual statements of compliance. • Updates on Corporate Governance Developments. • Governance Disclosures. • Code of Conduct and reports on effectiveness. • Group Speak Up Policy and reports on effectiveness. • Group Conflicts of Interest Policy and reports on effectiveness. • Modern Slavery Statement. • Race at Work Charter. • Group Fitness and Probity and Suitability Assessment Policy.	The Committee approved changes to internal policies to ensure continued compliance with all applicable corporate governance requirements and best practice. The Group's Modern Slavery Statement, Conflicts of Interest Policy, Code of Conduct and Speak Up Policy were each considered and changes agreed to ensure they remained appropriate. The external communication of the Group's corporate governance standards through disclosures and the annual report was approved. The approach for improving ethnic and cultural diversity in the Group was reviewed alongside the proposed actions which are required to improve ethnic minority representation. The Committee supported the Group as a signatory to the UK Race at Work Charter which included updates to the Board Diversity Policy to reflect the Group's commitment to zero tolerance of harassment and bullying.
Responsible and Sustainable Business	• Group's RSB strategy. • UN Principles for Responsible Banking.	The Committee received updates to ensure the Group is well positioned to meet its commitments regarding RSB, particularly those designed to align with the UN Principles for Responsible Banking. The Group's RSB strategy was reviewed and challenged by the NGRB. Enhanced Committee focus is planned on RSB matters in 2021.
Board Policies and Frameworks	• Matters Reserved for the Board. • Board Terms of Reference. • Board Conflicts of Interest Policy. • Director Assessment Policy. • Board Diversity Policy. • Board Training Development and Induction Policy.	The Committee approved proposed amendments to the policies to ensure that the key board policies remained 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 evaluations conducted by substantial subsidiary Boards. • Pension Scheme trustee appointments.	The Committee ensured that the boards of subsidiaries were properly composed with suitable directors and have sound governance structures, and that Group oversight of subsidiaries remained appropriate. The Committee supported the process to identify a successor to the role of Bank of Ireland UK plc Board Chairman and reviewed and recommended proposed appointments to other Board roles across the Group's substantial subsidiaries.

Report of the Nomination, Governance and Responsible Business Committee *(continued)*

Matters considered and action taken by the Committee in 2020 *(continued)*

Key issue	Committee considerations	Committee conclusion
Committee Governance	• Committee Effectiveness Evaluation Report. • Committee Terms of Reference. • Committee Schedule of Topics for 2021. • Report on the effective discharge by the Committee of its duties during 2020.	The Committee recommended minor amendments to its terms of reference to ensure continued compliance with evolving corporate governance requirements and to greater reflect the work of the Committee. The Committee considered the outcome of evaluations of its effectiveness. A positive outcome with regard to the Committee's continued effectiveness was reported in both the 2019 and 2020 evaluations.

During 2020 the Committee reviewed the Board Diversity Policy (the latest version of which is available on the Group's website) and the measurable gender-specific objectives set out thereunder. As at 1 January 2021 there was 45% female representation on the Board. The Board Diversity Policy maintains the target of ensuring a minimum of 33% female representation on the Board, with a medium-term aspiration to have broadly equal gender representation.

In 2020, the Group made further progress in addressing diversity in the Group's workforce through its Inclusion & Diversity programme and signing up to the UK Race at Work Charter. The Group has a target of 50:50 gender balance for management and leadership appointments in 2021.

For further details please see page 25 of the Strategic Report.

While considering Senior Executive succession planning, the Committee and the Board ensures that diversity in its widest sense is at the forefront of related considerations.

Responsible and Sustainable Business matters

Having been delegated responsibility for oversight of the Group's RSB policy in early 2020, the Committee received updates on the approach to the Group's RSB strategy and recommended approval of the proposed strategy to the Board. Details of the strategy can be found on pages 20 to 22.

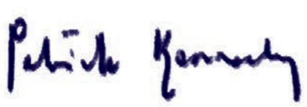
Governance matters

The Committee keeps under regular review, updates to corporate governance regulations and requirements and briefs the Board on their effective implementation. Updates on evolution in corporate governance requirements are presented by the Group Secretary to ensure the Group's practices continue to be appropriate and robust.

Effectiveness reviews

The Committee oversaw the 2019 external review by Praesta Ireland of the effectiveness of the Board, its Committees and individual Directors, which concluded in January 2020, and the 2020 internal effectiveness evaluation which concluded in January 2021. For further details, see page 84.

The Chair reports to the Board after each meeting to ensure all members are fully informed of its committee's activities and decisions.



Patrick Kennedy
Chair of the Nomination, Governance and Responsible Business Committee

26 February 2021

Report of the Group Remuneration Committee

Steve Pateman
Chair

Dear Shareholders,

Membership and meetings

At close of business on 31 December 2020, the Group Remuneration Committee (the 'Committee' or the 'GRC') comprised five 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 2018 UK Code.

I was appointed Chair of the Committee in January 2020, having served as a member since September 2018, succeeding Patrick Haren who had served as Chair since May 2015. I would like to take this opportunity to thank Patrick, who retired as a NED on 31 December 2020, for his service to the Committee over the period of his tenure. Richard Goulding stepped down from the Committee on 31 December 2020 on being appointed Deputy Chairman and Senior Independent Director. I would also like to thank Richard for his contribution to the Committee over the period of his tenure. Fiona Muldoon joined the Committee in October 2020 and Giles Andrews joined the Committee upon his appointment as a NED in November 2020.

In order to ensure that remuneration policies and procedures are consistent with effective risk management, there is common membership between the GRC and the BRC. Richard Goulding and I were members of both Committees in 2020, as were Fiona Muldoon and Giles Andrews during their tenures on these committees in 2020. Ms. Muldoon ceased to be a member of the Risk Committee on 31 December 2020, in line with Group requirements regarding tenure of committee memberships, having served as a member for 5 years. Biographical details, including each member's background and experience, are set out on pages 77 to 80.

The GRC met ten times in 2020. The Members of the GRC, together with their attendance at meetings, are shown below. The Chairman, the Group CEO, Chief People Officer, Group Chief Risk Officer (CRO), and the Head of Reward are invited to attend meetings as appropriate.

Role and responsibilities

The GRC holds delegated responsibility from the Board of Directors for the oversight of Group-wide remuneration policy with specific reference to the Chairman, Directors and senior management, heads of and senior officers in independent control functions, and those employees whose activities have a material impact on the Group's risk profile.

The GRC is responsible for overseeing the annual review of the Group Remuneration Policy with input from the BRC and relevant risk management functions.

The remuneration of NEDs is determined by a Board Committee of the Chairman and the Executive Directors, within the boundaries of the Company's constitution. No Director is involved in decisions regarding their own remuneration. The remuneration of the Chairman is a matter for the Committee.

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 123 of the Remuneration Report.

During 2020, independent advice was received by the Group from external advisers, Willis Towers Watson, Deloitte LLP, and Price Waterhouse Coopers (PwC) on a range of issues relating to remuneration including:
- remuneration benchmarking for the GEC and senior management;
- variable pay structures, including annual and long-term incentive schemes;
- evolving pay regulations and market pay practices; and
- other remuneration structures.

The Committee is of the view that these advisers provided independent remuneration advice to the Committee and they do not have any connections with the Group that may impair their independence. During the year, the Group Remuneration Committee appointed PwC as independent advisors to the Committee.

Matters considered by the Group Remuneration Committee

The matters considered and action taken by the GRC during the year are set out on the following page. The Committee reviews and challenges information provided by management and takes advice from external advisors, as appropriate. The Committee ensures at all times to exercise independent judgment and makes informed decisions.

The Chair of the GRC reported to the Board after each meeting to ensure all Directors were fully informed of the GRC's activities.

Committee meetings[1]	Eligible to attend	Attended
Steve Pateman *(Chair)*	10	10
Eileen Fitzpatrick	10	10
Richard Goulding	10	10
Fiona Muldoon	2	2
Giles Andrews	2	2

[1] *Fiona Muldoon joined the Group Remuneration Committee on 22 October 2020. Giles Andrews joined the Group Remuneration Committee on 17 November 2020.*

Report of the Group Remuneration Committee *(continued)*

Matters considered and action taken by the Committee in 2020

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. • Exploratory discussions on variable pay structures. • Review of remuneration approach for staff in the context of COVID 19.	• 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. • The GRC's desired remuneration policy continues to be the implementation of a competitive, market-aligned, performance-related remuneration model, fully compliant with regulatory requirements, which will allow the Group to clearly link Group culture and values, risk culture, customer outcomes and Group performance to remuneration and enable the achievement of the Group's strategic objectives, however due to the Remuneration Restrictions, this has yet to be achieved.
Remuneration Disclosure	• Pillar 3 disclosures and the Remuneration Report (review and approval). • Design of Remuneration Report and disclosures if an incentive scheme is introduced.	• 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 to inform the setting of remuneration, including for heads of independent control functions. • Review of approach to remuneration of Senior Officers in independent control functions. • Benchmarking and approval of changes to remuneration of Senior Executives. • Review of Executive Director Remuneration Policy and practice, with a view to clarity, simplicity, risk predictability, proportionality, and alignment to culture.	• There is an appropriate process in place to assess the performance of Senior Executives. • Changes to Senior Executive remuneration are properly assessed and approved. • The GRC considers itself to be compliant with the UK Code in relation to Remuneration to the extent possible due to the Remuneration Restrictions in place. It should be noted that some of the provisions of the Code (including provisions 36 and 37) are not currently applicable to the Group, as the Group does not operate variable incentive arrangements, other than a small number of limited commission schemes.
Governance and review of remuneration practice.	• Approval of the Group Remuneration Policy • Approval of Group Material Risk Taker Policy. • Approval of Group Material Risk Taker list. • Approval of remuneration of Heads of and Senior Officers in Independent Control Functions. • Review of workforce remuneration, top earners, staff with specific Minister for Finance approvals and compliance with remuneration restrictions. • Review of regulatory developments. • Review of internal audits relevant to remuneration policy or practice.	• There is good governance around remuneration, particularly of Executive Directors, Senior Management and those who could materially impact the Group's risk profile. • The GRC considers itself to be compliant with the UK Code in relation to Remuneration to the extent possible due to the Remuneration Restrictions in place. It should be noted that some of the provisions of the Code (including provisions 36 and 37) are not currently applicable to the Group, as the Group does not operate variable incentive arrangements, other than a small number of limited commission schemes.

Report of the Group Remuneration Committee *(continued)*

Matters considered and action taken by the Committee in 2020

Key issue	Committee considerations	Committee conclusion
NED fees	• Review and benchmarking of fees paid to the Group Chairman and NEDs of subsidiary boards.	• Group Chairman fees are subject to the remuneration restrictions and remain unchanged. • Subsidiary NED fees are appropriate.
Committee Governance	• Review of Committee Terms of Reference and effectiveness.	• The Committee considered the outcome of the external review of the Board's effectiveness as it related specifically to the Committee. A positive outcome with regard to the Committee's continued effectiveness was reported.

Steve Pateman
Chair of the Group Remuneration Committee

26 February 2021

Report of the Group Audit Committee

Evelyn Bourke
Chair

Dear Shareholders,

On behalf of the Group Audit Committee (the 'Committee' or 'GAC'), I am pleased to introduce the report on the Committee's activities for the year ended 31 December 2020, my first as Chair of the Committee. I would like to begin by acknowledging the excellent work undertaken by my predecessor, Patrick Mulvihill who steered the GAC expertly and effectively since May 2018.

Committee responsibilities

At a high level, the Committee operates in conjunction with the Board Risk Committee (BRC) to ensure the Board operates a strong internal control environment, with the Committee specifically focused on protecting the interests of the shareholders in relation to internal controls as they relate to financial reporting.

The Committee also evaluates the independence and performance of Group Internal Audit (GIA) and the external auditor, KPMG, and considers and recommends the interim and annual financial statements to the Board for approval.

During 2020, a review of the GAC and BRC terms of reference was undertaken, focused on the assessment of the internal control environment across both committees; this resulted in a change in responsibilities, with matters relating to oversight on the overall approach to ongoing and future compliance responsibilities and reports from Group Compliance and Regulatory Risk transitioning to the BRC. This provided opportunity for enhanced alignment of the BRC's oversight across the second line of defence activities.

The COVID-19 pandemic and its unprecedented impact on the global economy, led to additional and dedicated focus by the Board and its Committees on a number of key areas – with the GAC and BRC focusing on, inter alia, the approach to and implementation of a management overlay for the Expected Credit Loss (ECL) model to account for the expected impairment arising from COVID-19 impacts, prior to the publication of the interim and year end financial statements.

Committee Membership and Cross-Membership changes and relevant management changes

Fiona Muldoon joined the Committee in May 2020, bringing the total number of members to 6 during 2020, common membership between the Committee and the BRC was maintained through Patrick Mulvihill, Fiona Muldoon, Richard Goulding and Steve Pateman's membership of both committees; this facilitates appropriate co-ordination and effective governance across key areas of internal control. Ms. Muldoon ceased to be a member the BRC on 31 December 2020 in line with Group requirements regarding tenure of committee memberships, having served as a member for 5 years. Mr. Mulvihill retired as a Director of the Company and GAC Chair on 31 December 2020 and I joined the BRC in my capacity as Chair of the GAC with effect from the same date. This ensures the continuation of common membership and the effective coordination between committees during 2021.

During 2020, the Committee welcomed Steve Sanders as Group Chief Internal Auditor, having held the position on an interim basis from October 2019.

Further details on Committee Members, Committee meetings and attendance at meetings during 2020 are outlined on page 114.

Committee Activities in 2020

While not intending to be an exhaustive list of the Committee's considerations and activities in 2020, a number of areas that were subject to Committee focus during the year are outlined below.

Group Internal Audit

In monitoring the activities and effectiveness of GIA, the Committee approved the Internal Audit Charter, the annual audit plan and budget, including resources, and reviewed progress against the plan throughout the year.

The Committee received regular reports from GIA on internal audit activities across the Group which outline details of the audit approach; Management engagement; and areas identified during audits for further strengthening across the Group's risk management and internal control framework. These reports also cover matters of relevance to the Committee including assessing the effectiveness of the internal controls over the financial reporting processes. Reports are rated based on the strength of the control environment in operation; Management's awareness of the risks facing their business areas; and the controls in place to mitigate those risks. In conjunction with the GIA reports, the Committee considers Management's responses to, and the timeliness of the remediation of, identified issues.

In compliance with the Institute of Internal Auditors Standards, during 2020, the Committee reviewed the External Quality Assurance Report on the GIA function's effectiveness which was undertaken by Deloitte. GIA's responses to the areas highlighted for improvement were monitored by the Committee throughout 2020 and this will continue into 2021.

Having regard for GIA activities and the Committee's review of the extent of the work undertaken by the Finance and Risk teams across the Group, the Committee is satisfied that internal controls over financial reporting were appropriately designed and operating effectively. Full details of the internal control and risk management systems in relation to the financial reporting process are detailed within the risk management section on pages 149 to 153.

Report of the Group Audit Committee *(continued)*

External audit

The Committee oversees the relationship with KPMG and Niamh Marshall, KPMG's lead audit partner, attends all Committee meetings.

During the year, the Committee considered KPMG's terms of engagement (including remuneration), its independence, audit quality / performance, objectivity and considered the plans for the interim review and year-end audit. The Committee also assessed KPMG's findings, conclusions and recommendations arising from the interim review and year-end audit.

Appropriate safeguards are in place to protect the independence and objectivity of KPMG. The Committee operates a policy to regulate the use of KPMG for non-audit services, to ensure compliance with the revised Ethical Standards for Auditors (Ireland) 2017 from the Irish Auditing Accounting Supervisory Authority (IAASA) and the Financial Reporting Council's revised Ethical Standards 2019.

In order to ensure the objectivity and independence of the external auditor, the policy formalises certain restrictions on the provision of non-audit services and requires that all non-audit services provided by KPMG must be approved in advance by the Committee, or, in exceptional circumstances by the Committee Chair, prior to engagement with KPMG. Additional provision is made for the approval by certain members of senior management of non-material services which are below the threshold. Annually, details of expected non-audit services for the coming year are presented to the Committee for pre-approval. Any proposed additional services exceeding these levels require additional specific pre-approval.

The fees paid to KPMG for the year ended 31 December 2020 amounted to €4.6 million (2019: €4.6 million), of which €1.1 million (2019: €1.1 million) was payable in respect of assurance services. Assurance services represented 24% of the statutory audit fee (2019: 24%). Further information on fees paid in respect of audit and assurance services, along with details of assurance services provided during the year are set out in note 15 to the consolidated financial statements 'auditor's remuneration'.

In considering the independence and effectiveness of the external audit process, the Committee reviewed the robustness and quality of performance across key categories of process, delivery, reporting, people and service. The Committee concluded that it was satisfied with the independence, quality and performance of KPMG in respect of the year ended 31 December 2020 and recommended that the Board propose KPMG for appointment for approval at the 2021 AGM. KPMG's term as statutory auditor ends in 2028; KPMG's performance and independence shall be continuously reviewed and they shall remain subject to reappointment each year pending the selection of a new audit firm in advance of their departure in 2028.

Financial reporting

A key activity for the Committee is the consideration of significant matters relating to the annual financial report, with key accounting judgements and disclosures subject to in depth discussion with Management and KPMG. The Committee provides robust challenge to key judgements in advance of making a recommendation to the Board that all financial reports are considered to be a fair, balanced and understandable assessment of the Group's financial position.

In light of the COVID-19 pandemic and the subsequent economic impact of lockdown measures applied in the Group's key markets, in conjunction with the BRC, the Committee considered and made recommendations to the Board regarding the approach and quantum of the proposed net impairment loss applied to the Group's financial statements.

The Committee also considers, provides robust challenge to and ultimately recommends, the annual and semi-annual Pillar III Disclosures to the Board for approval. It also considers and approves the Country-by-Country report required under the Fourth Capital Requirements Directive (CRD IV).

Further information on some of these significant items is set out in note 2 Critical Accounting Estimates and Judgements. Overall the Committee was satisfied that the 2020 annual report, including the financial statements, is fair, balanced and understandable.

Report of the Group Audit Committee *(continued)*

Matters considered and action taken by the Committee in 2020

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: • correct classification and measurement of financial instruments; • model parameter updates incorporating FLI; • Group management adjustments to reflect Management judgement in impairment model parameters, COVID-19 Group management adjustment and late breaking events; • the ECL model framework updates in the period to reflect the revised definition of default and model factor updates to reflect recent observed information; • net impairment loss for the year; 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 Board on the recommendation of the Committee, following recommendation by the Group Credit Risk 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 and of management overlays in response to COVID-19 made during the reporting period.	The Committee was satisfied that the classification and measurement of financial assets, stage allocations, model parameter updates (including FLI), impairment loss allowances, and the net impairment loss for the reporting year, had been appropriately determined in accordance with the Group's methodologies and IFRS 9 accounting standard. The Committee was also satisfied that the associated disclosures were appropriate based on the relevant accounting standards including International Accounting Standard (IAS) 1 and IFRS 7. As a result of the COVID-19 pandemic and the subsequent economic impact of lockdown measures applied in the Group's key markets, in conjunction with the BRC, the Committee considered and made recommendations to the Board regarding the approach and value of the proposed net impairment loss applied to the Group's financial statements.
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 defined benefit pension schemes under IAS 19 'Employee Benefits'. Management considered advice from independent actuaries, Willis Towers Watson, for the determination of significant actuarial assumptions. The key assumptions proposed by management and considered by the Committee were the discount rates and inflation rates applied in valuing liabilities in both Ireland and the UK.	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 defined benefit pension schemes and related disclosures was in accordance with IAS 19.

Report of the Group Audit Committee *(continued)*

Matters considered and action taken by the Committee in 2020 *(continued)*

Key issue	Committee considerations	Committee conclusion
Deferred taxation	The Committee considered the extent of deferred tax assets (DTA) 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 Board. Management's assessment of the projections determined that it was probable that there would be sufficient taxable profits in the future to recover the DTA recognised arising from unused tax losses. In relation to DTAs arising from Irish tax losses carried forward by The Governor and Company of the Bank of Ireland (the 'Bank') management considered the following: • IAS 12 provides that a DTA can only be recognised when it is probable that taxable profits will be available against which the losses and deductible temporary differences can be utilised. • European Securities & Markets Authority (ESMA) guidance issued in 2019 discusses considerations regarding the reliability of forecasting and its impact on probability in the context of the DTA. • Whilst management and the Committee believe that the Bank will continue to be profitable for the foreseeable future, there was an acknowledgement of the external challenges facing the banking industry. In particular, the continued low interest rate environment along with the uncertainty around the impact of the COVID-19 pandemic and the ongoing impact of Brexit. • Therefore, notwithstanding the absence of any expiry date for trading losses in Ireland, but acknowledging that profit forecasts become increasingly uncertain as the forecast period extends into the future, management considered that, at 31 December 2020, the recognition of DTAs in respect of tax losses of the Bank should be limited by reference to the amount of losses that are expected to be utilised within a 20 year period of projected profits. • This 20 year timescale is supported by forecast taxable profits and takes into account the Group's long-term financial and strategic plans and reflects the period over which management believes it can conclude that it is probable that future taxable profits will be available in the Bank. The most recent financial projections indicate a recovery period of 19 years for the Bank and thus the carrying value of DTA relating to trading losses carried forward is not required to be reduced for the year ended 31 December 2020.	The Committee discussed with management its assessment of the recoverability of the DTA and the related disclosures. The Committee agreed that the Irish DTA should be restricted to the quantum of profits expected to be recovered within the next 20 years, and that the related disclosures were as required under IAS 12 'Income Taxes'.

Report of the Group Audit Committee *(continued)*

Matters considered and action taken by the Committee in 2020 *(continued)*

Key issue	Committee considerations	Committee conclusion
Intangible assets - capitalisation and impairment assessment of the transformation investment asset	The Committee considered the appropriateness of Management's internal controls and governance surrounding the capitalisation of costs related to internally generated intangible assets associated with the transformation investment asset. The Committee also considered management's assessment of the existence of impairment indicators in respect of the asset, and the impact on the carrying value of the associated intangible assets.	The Committee concurred with management's view that certain aspects of the transformation investment asset product set capability had not matured sufficiently, and that technology and approaches to systems transformation had evolved. As a result certain software assets were considered to be impaired, as they were no longer expected to provide future economic benefits. The Committee considered that management's view that an impairment charge of €136 million should be recognised in the first half of 2020, of which €127 million related to the transformation investment Asset and €9 million. to other internally generated computer software, 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 of in Force (ViF) 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 rates, 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 and insurance contract liabilities is appropriate.
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 2020 on a going concern basis. In making this assessment, matters considered included the performance of the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios, including consideration of the impact of COVID-19. The considerations assessed by the GAC are set out on page 207 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 207) was subsequently approved by the Board.

Report of the Group Audit Committee *(continued)*

Matters considered and action taken by the Committee in 2020 *(continued)*

Key issue	Committee considerations	Committee conclusion
Viability statement	In accordance with the requirements of the UK Code, the GAC considered whether it had 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 and made a recommendation to the Board in that regard. This required a robust assessment of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency and liquidity.	GAC concluded a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and concluded that there was a reasonable expectation that the Group would be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. The Group adopted a three-year period, having regard to existing relevant process and frameworks which are performed over time periods ranging from six months to three years.
IT risk	The Committee considered and discussed management's assessment of IT risks and the ongoing risk management programme to identify, rate, mitigate and report on IT risks, including GIA and the external auditor's findings of the internal control environment and arising from KPMG's findings.	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 processes.

Other matters

The Committee also:

- received reports from the Group's Money Laundering Reporting Officer on the operation and effectiveness of the systems and controls established by the Group to manage Financial Crime Compliance (FCC) risk. FCC incorporates money laundering, terrorist financing, sanctions and bribery and corruption and is a key area of Committee focus;
- alongside the BRC, received reports from Group Compliance on matters relating to Regulatory Risk and Conduct Risk profiles;
- dedicated time to review and oversee the BCBS Principles for Effective Risk Data Aggregation and Risk Reporting, in parallel with the BRC;
- alongside the BRC, received reports from the Group Investment Committee;
- considered the minutes of the Audit Committees for each of the Group's material subsidiaries; and
- reviewed talent development in and succession planning for the finance function.

A full list of responsibilities are detailed in the Committee's terms of reference, which can be found at www.bankofireland.com

Committee Membership and Meetings

The Committee acts independently of the Executive. All members of the Committee are independent NEDs with relevant competence in the financial sector, and their biographies can be found on pages 77 to 80. The members of the Committee have extensive knowledge of financial markets, treasury, risk management and International Accounting standards (IAS), and the Committee's composition is considered to meet all of the applicable requirements, including the need for recent and relevant financial experience and competence in accounting or auditing.

The members of the Committee maintain their knowledge base on relevant Committee matters, through Board deep dives and training. During 2020, the Committee, in conjunction with the BRC, received refreshed training on the operation of IFRS 9 in preparation for the discussion regarding impairment charges to be applied in response to COVID-19.

Report of the Group Audit Committee *(continued)*

Committee meetings	Eligible to attend	Attended
Evelyn Bourke	10	9
Patrick Mulvihill	10	10
Eileen Fitzpatrick	10	10
Richard Goulding	10	9
Steve Pateman	10	9
Fiona Muldoon[1]	7	7

The Committee met, in conjunction with the BRC, twice during 2020 to consider the impairment charges being applied to the interim financial statements. The Committee also met in conjunction with the Group Remuneration Committee to consider the appointment of the Group Chief Internal Auditor.

The Group CFO, Group Financial Controller, the Group Chief Internal Auditor, the Group CEO, and the Group CRO each attend meetings of the Committee, when appropriate.

The Committee also holds individual private sessions with the Group Senior Management, with each of the Internal and External Audit teams (without other members of the Executive management being present) and with the Group's CFO during the year.

An internal effectiveness evaluation of the Board and its Committees was conducted during 2020, and, as part of that process, a positive outcome was reported regarding the Committee's continued effectiveness.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board on key matters.

Evelyn Bourke

Evelyn Bourke
Chair of the Group Audit Committee

26 February 2021

[1] *Fiona Muldoon joined the Committee in May 2020.*

Report of the Board Risk Committee

Richard Goulding
Chair

Dear Shareholders,

On behalf of the Board Risk Committee (the 'Committee' or the 'BRC'), I am pleased to introduce the report on the Committee's activities for the year ended 31 December 2020.

Committee purpose and responsibilities

The Committee was established to advise and support the Board in monitoring risk governance and ensuring that the Group's risks are properly identified, reported, and assessed; that risks are properly controlled; and that strategy is informed by and aligned with the Group's risk appetite. It makes recommendations to the Board, or approves under delegation, certain risk matters and maintains oversight of the Group's risk profile, including adherence to Group risk principles, policies and standards. The Committee oversees the Group's Risk Framework and the risk management function, which is managed on a day to day basis by the Group CRO.

Membership, meetings and relevant management changes

The Committee currently comprises six NEDs, including five independent NEDs and one NED who is deemed non-independent by virtue of her nomination by the Minister for Finance who has a 14% holding in the Group, on behalf of the Irish State. Mr Mulvihill retired from the Group on 31 December 2020 and so stood down from the Committee on that date, and Mr Giles Andrews joined the Committee on appointment to the Board in November 2020.

The Committee's composition ensures appropriate coverage of core banking skills and competence in the financial sector, with experience and expertise in risk that is considered appropriate to the scale and complexity of the Group. Committee Members have extensive knowledge of financial markets, consumer banking and risk management, with technology, digital and operational experience together with a keen awareness of the importance of taking all reasonable steps to ensure good customer outcomes. Members' biographies can be found on pages 77 to 80.

Board consideration of risk-related issues is considered to be enhanced by Members serving on more than one Board sub-committee. The BRC is required under regulation to have one shared member with each of the GAC and Group Remuneration Committee (GRC). Given its focus on transformation activities and related risk considerations, the Group has determined that shared membership with the GTOC is also effective. Shared-membership between the BRC and each of the GAC, GRC and the GTOC is currently maintained as follows:

Committee	Shared Members with the BRC
GAC	Richard Goulding, Steve Pateman and Evelyn Bourke
GRC	Richard Goulding, Steve Pateman and Giles Andrews
GTOC	Richard Goulding, Giles Andrews, Ian Buchanan, and Michele Greene

The Committee met 18 times during 2020, nine of which were out of course in response to heightened activities, and details of Members' attendance during the year are set out in the table below.

Committee meetings	Eligible to attend	Attended
Ian Buchanan	18	17
Richard Goulding	18	18
Michele Greene	18	18
Fiona Muldoon	18	17
Patrick Mulvihill	18	18
Steve Pateman	18	17
Giles Andrews[1]	4	3

The Group CRO has full access to the Committee and normally attends all meetings. The Group Chief Internal Auditor and members of the wider Executive also attend meetings as appropriate and at my invitation as Committee Chair.

The Group's CRO, Vincent Mulvey, retires from the Group on 31 March 2021. Vincent has had a long and successful career with the Bank and has played a crucial role in embedding a strong risk culture during his tenure. Vincent was appointed as the Head of Group Credit in 2005 and Chief Credit & Market Risk Officer (and member of the GEC) in 2009; Vincent held these important roles during a period of significance in the organisation's history and contributed strongly to the Bank's relative strength during the financial crisis. He was appointed to the role of Group Chief Risk Officer in 2017. The Committee and the Board remain grateful to Vincent for his significant contribution to the Group and wish him well in his future endeavours. The process to identify a successor to Vincent is progressing, along with robust interim arrangements pending the appointment.

Committee activities in 2020

While not intending to be an exhaustive list of the Committee's activities in 2020, a number of areas that were subject to particular focus during the year are outlined below.

[1] *Giles Andrews joined November 2020.*

Report of the Board Risk Committee *(continued)*

COVID-19

Risk management and customer outcomes were key areas of focus for the Committee and the Board during what was an unprecedented year. As the Chairman reports, the Board met with increasing frequency during 2020 and the CRO provided weekly risk reports throughout the initial period of COVID-19, focusing on the overall risk profile of the Group and the outlook thereof; COVID-19 related risk considerations across each risk type; and management actions and risk mitigants in place. Operational resilience, the continuity of service to our customers, colleague and customer wellbeing and available supports, credit risk, information security and cyber risks were key considerations during this time.

In addition to the enhanced risk focus at the full Board, the Committee received regular reports from the business and the CRO.

Prior to the publication of the interim and year-end financial statements, the BRC worked closely with the GAC on the approach to and implementation of a management overlay for the Expected Credit Loss (ECL) model to account for the expected impairment arising from COVID-19 impacts. The Committee continues to receive an update at each meeting on the supports available to customers availing of payment breaks, and challenges management to ensure the requisite operational arrangements are in place to provide appropriate support to customers during this difficult time.

The Committee also received and challenged the ICAAP and ILAAP submission to the Regulator during 2020, ensuring due consideration had been applied to risks associated with COVID-19, including in respect of adequate risk identification and quantification.

Transformation

Transformation was another key area of focus for both the BRC and GTOC during 2020. While GTOC focuses on the Group's capability and capacity to execute the Group's major strategic systems transformation and programmes with high dependency on technology change, the BRC focuses on initial risk assessment and ongoing risk monitoring of specific strategic and transformation programmes.

Alongside consideration of the impact of COVID-19 on key project milestones and regulatory deliverables and numerous other topics during the year, the Strategic Review of the UK business and the Group's voluntary parting programme ("VP") were subject to extensive assessment by and oversight from the BRC.

The Committee's consideration of VP included challenge of first line divisional risk assessments, along with consideration of second and third line assessments of the approach to and initiatives underpinning VP decisions across each division and their view of risks arising for departing colleagues, colleagues who would remain with the Group and for the Group overall.

Planning rigour, governance, execution capability, risk assessment discipline, and changes to the UK and Group risk profiles were amongst the key areas of Committee focus when assessing the approach to the UK strategic review and subsequent outcomes.

As the Group progresses its transformation strategy and seeks to respond to accelerated customer needs and behavioural changes in response to COVID-19, transformation and related risk considerations will remain at the top of the BRC and GTOC agendas.

The establishment during 2020 of a new Enterprise Transformation Office was a further positive development as it provides for holistic oversight and challenge of all change programmes and will increasingly afford Management and the Board the ability to proactively identify any areas of challenge arising from, for example, competing priorities.

Non-Financial Risks (NFR)

Our 2019 report shared details on our intention of ensuring a greater level of focus on NFR. During 2020, the Committee was involved in the appointment of an experienced senior leader to the role of Head of NFR and the establishment of a NFR improvement programme to further enhance the Group's operational, conduct and regulatory frameworks and capabilities. The Committee is satisfied that progress is being made and the NFR improvement programme will remain subject to detailed oversight during 2021 and beyond.

Executive Governance & Risk Management Framework

During 2020, a robust review of the Group's executive governance structure was commissioned by the CEO. As BRC Chair, I received updates on and challenged the review as it progressed and BRC considered the proposed refreshed structure prior to implementation. A refreshed governance structure was approved to commence operations on 1 January 2021. The refreshed structure is considered to be appropriately lean and transparent and is a positive step in the Group's preparation for the implementation of an executive accountability regime in Ireland. Further information on the executive governance review can be found on page 147.

In a similar vein, while recognising that the Group's Risk Management Framework was subject to regular review to ensure its continued effectiveness, the BRC commissioned a detailed review and challenge of the Framework including the Group's risk taxonomy. The review commenced in Q4 2020 and will lead to a refreshed Framework for BRC consideration and challenge later this year. Any changes arising from the review will be reported in next year's annual report.

Together the BRC and the GAC ensure the Group operates a strong internal control environment. During 2020, a review of the GAC and BRC terms of reference was undertaken, with matters relating to oversight on the overall approach to compliance responsibilities and reports from Group Compliance and Regulatory Risk transitioning to the BRC. This ensures BRC's full oversight across the second line of defence activities.

Based on the oversight activities of the GAC and the BRC, the Committee is satisfied that the Group operates a strong risk framework and internal control environment. More details on the Group's wider approach to risk management can be found in the risk management report on page 135. 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/.

Further information on the Committee's other activities is set out below.

Report of the Board Risk Committee *(continued)*

Matters considered and action taken by the Committee in 2020

Key issue	Committee considerations	Committee conclusion
Credit Risk	Credit Risk has increased in 2020, due primarily to the economic impact of COVID-19 and associated restrictions. During 2020, BRC considered overall credit quality and regular updates on the Group's Strategic and Operating Plan for customers impacted by COVID-19.	While the Group's NPEs had reduced significantly in previous years, the deterioration in economic conditions during 2020 due to COVID-19, together with implementation of a revised definition of default, has resulted in a higher level of NPEs at 31 December 2020.
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 BRC considered the impacts of future capital requirement and capital availability and reviewed in detail the ICAAP, including under stress scenarios.	The Group holds sufficient capital to meet its regulatory and business requirements over 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 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, Value at Risk (VaR) and scenario-based stress testing. The BRC 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 defined benefit 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 on asset and liability management activities.
Operational Risk	Managing operational risk continues to be a key focus, due to the complexity and volume of change, the IT infrastructure, cyber risk and reliance on third party suppliers. BRC focuses 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. BRC receives regular reports on all aspects of the operational risk framework.	The Group has made progress in its management of operational risk, with a renewed focus on all aspects of NFR, including operational, regulatory and conduct risks. This will strengthen the linkages and alignment of the risk management approach across these closely related risk disciplines and ensure a co-ordinated uplift in capabilities. The Group will continue to focus on enhancing the maturity of the framework and internal capability during 2021.
Regulatory Risk	Managing regulatory risk continues to be a key focus for the Group due to the complexity, pace and volume of regulatory change to be managed. The BRC continued to experience a busy regulatory and compliance agenda in 2020, as a result of ongoing regulatory interactions, coupled with a significant uplift in engagement as a result of COVID-19. BRC also focused on ensuring adherence across the Group to policies and risk appetite and that effective controls are in place to ensure oversight of Regulatory Risk.	The Group has placed significant focus on overseeing and ensuring compliance with regulatory requirements and has made positive progress across a range of matters from a regulatory perspective. The ongoing enhancement of regulatory risk frameworks and a strong compliance culture will remain an area of focus in 2021, along with a focus on the pipeline of regulatory engagement and developments.

Report of the Board Risk Committee *(continued)*

Matters considered and action taken by the Committee in 2020 *(continued)*

Key issue	Committee considerations	Committee conclusion
Conduct Risk	The effective management of conduct risk is essential to serving our customers and creating the right culture and, in 2020, the BRC considered frequent reports on the resolution of customer conduct issues, with a particular focus on tracker mortgages and consumer errors. The pace and quality of remediation remained a focus, including root cause analysis to help prevent similar issues in the future. BRC continues to consider developments in the Group's conduct culture and receive reports on rectification programmes, complaints, and conduct risk appetite performance.	While progress has been made in 2020, a focus on improvement of the management of consumer errors is required to support continued improvement in the risk profile; embedding of conduct initiatives will remain a priority for the Group in 2021.
Business and Strategic Risk	BRC recognises the risks in delivering the approved strategy, the associated transformation agenda, and meeting evolving customer and regulatory expectations. The risk is further exacerbated by uncertainties arising in the macro environment, such as Brexit.	The Group is engaged in a significant programme to deliver its strategy under 3 pillars: transforming the bank; serving customers brilliantly; and growing sustainable profits. The Group acknowledges the challenge in executing such a strategy effectively and progress against key milestones receives significant oversight. A strategy refresh is underway, which is also subject to ongoing risk assessment.
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. Alongside GTOC, the BRC considered a wide range of issues, including cyber and IT controls, technology resilience and cybersecurity programme updates; the BRC continues to ensure appropriate prioritisation of this risk area.	Whilst there has been significant improvement in cyber capability, IT resilience and transformation risk will remain areas of key focus during 2021 as the Group continues to invest in its systems transformation.
Brexit	Following the UK exit from the EU, ongoing uncertainty relating to the nature of the future trading relationship between the UK and EU could impact the markets in which the Group operates.	With an agreement reached between the EU and UK on the future trading relationship, any residual Brexit risks impacting the Group are captured via the Committee's ongoing oversight of credit risk, business and strategic risk, and operating model risk.
People	With a substantial transformation programme and cost agenda underway, a global pandemic and remuneration restrictions in place, the BRC regularly reviewed the arrangements to manage people risk.	In 2020 the risks were mitigated and managed through collaborative work between the first, second and third lines of defence, particularly evident through the risk approach to the enhanced voluntary redundancy scheme from August to December 2020. People risk will be a key area of focus during 2021, including safe management of voluntary redundancy departures.

Richard Goulding
Chair of the Board Risk Committee

26 February 2021

Attendance table

The table below reports Directors' attendance at scheduled and out of course Board and Committee meetings in 2020.

	Board		Audit Committee		Nomination Governance & Responsible Business Committee		Remuneration Committee		Risk Committee		Group Transformation Oversight Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Giles Andrews *(appointed 17 November 2020)*	1	1	-	-	-	-	2	2	4	3	1	1
Evelyn Bourke	31	31	10	9	8	8	-	-	-	-	-	-
Ian Buchanan	31	30	-	-	-	-	-	-	18	17	7	7
Eileen Fitzpatrick	31	31	10	10	-	-	10	10	-	-	-	-
Richard Goulding	31	31	10	9	-	-	10	10	18	18	7	7
Myles O'Grady *(appointed 15 January 2020)*	31	31	-	-	-	-	-	-	-	-	-	-
Michele Greene	31	31	-	-	-	-	-	-	18	18	7	7
Patrick Haren *(retired 31 December 2020)*	31	31	-	-	8	8	-	-	-	-	-	-
Patrick Kennedy	31	31	-	-	8	8	-	-	-	-	7	7
Francesca McDonagh	31	31	-	-	-	-	-	-	-	-	-	-
Fiona Muldoon	31	30	7	7	8	8	2	2	18	17	-	-
Patrick Mulvihill *(retired 31 December 2020)*	31	31	10	10	-	-	-	-	18	17	7	7
Steve Pateman	31	31	10	9	-	-	10	10	18	17	-	-

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

Report of the Directors

Results
In 2020, the Group made a loss before tax of €760 million (2019: profit before tax €645 million) and an after tax loss of €707 million (2019: after tax profit €448 million). €742 million (2019: profit €386 million) of loss after tax is attributable to ordinary shareholders and €35 million of profit after tax (2019: profit €62 million) is attributable to non-controlling interests (NCI).

Dividends
The Group proposed the payment of a dividend of €189 million, equivalent to 17.5 cents per share in respect of the 2019 financial year. In light of the evolving COVID-19 pandemic, and following the recommendation of the ECB on 27 March 2020 on dividend distributions for all significant institutions during the COVID-19 pandemic, the Group announced on 30 March 2020 that it withdrew its proposed dividend for the year ended 31 December 2019, and that it would assess dividends at a future date, based on performance and capital position, the earliest of which, in line with the latest ECB recommendation on 15 December 2020, would be 30 September 2021. Consistent with the ECB recommendation, the Group is not currently making a foreseeable dividend deduction.

The Group expects that distributions will increase on a prudent and progressive basis over time. The distribution level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

Group activities
The Group provides a range of banking and other financial services. The Strategic Report on pages 3 to 46 and Financial Review on pages 47 to 70 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 6.1.77(10) of the Euronext Dublin Listing Rules existed at any time during the year ended 31 December 2020.

Principal Risks and Uncertainties
Information concerning the Principal Risks and Uncertainties facing the Group is set out on pages 135 to 145 in the Risk Management Report.

Financial risk management objectives and policies
Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is set out in the Risk Management Report on pages 134 to 189.

Share capital
As at 31 December 2020, the Group had 1,078,822,872 ordinary shares of €1.00 each in issue, of which 5,076,259 were treasury shares. Further detail on the structure of the Group's capital is set out in note 49.

Takeover Bids Regulations
The disclosures required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on page 118.

Directors
The names of the members of the Board of Directors of the Company as at 31 December 2020, together with a short biographical note on each Director appear on pages 77 to 80.

At the AGM held on 19 May 2020, Eileen Fitzpatrick, Michele Greene and Myles O'Grady were elected following their appointments to the Board. Ms. Fitzpatrick was appointed to the Board on 15 May 2019, Ms. Greene on 5 December 2019 and Mr. O'Grady on 15 January 2020. Evelyn Bourke, Ian Buchanan, Richard Goulding, Patrick Haren, Patrick Kennedy, Francesca McDonagh, Fiona Muldoon, Patrick Mulvihill and Steve Pateman were re-elected.

Giles Andrews was appointed as Independent Non-Executive Director on 17 November 2020. Patrick Haren and Patrick Mulvihill retired from the Board on 31 December 2020.

Remuneration
See Remuneration Report on pages 121 to 133.

Directors' and Secretary's interests
The interests of the Directors and Secretary in office as at 31 December 2020 in the shares issued by the Company as disclosed to the Company are shown in the Remuneration Report on page 133.

Listing rules disclosures
Information required under UK Listing Rule LR 9.8.4C can be found on page 131 for Directors' Emoluments and above under 'Group activities' for Contracts of Significance.

Substantial shareholdings
There were 94,600 registered holders of ordinary shares of the Company at 31 December 2020. An analysis of these holdings is shown on page 371. In accordance with LR 6.1.82 (2) of the Euronext Dublin Listing Rules, details of notifications received by the Company in respect of substantial interests in its ordinary shares are provided in Table 1 below as at 31 December 2020 and 26 February 2021. Other than the Directors' interests set out on page 133 there were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2020 to 26 February 2021.

For information on acquisition or disposal of own shares, refer to note 49.

Table: 1	31 December 2020 %	26 February 2021 %
Ireland Strategic Investment Fund (ISIF) / Minister for Finance	13.95	13.95
Blackrock, Inc.	8.45	7.93
Norges Bank	4.98	4.98
M&G Plc	4.88	3.98
Massachusetts Financial Services Company	4.07	4.07
Marathon Asset Management LLP	-	3.28

Report of the Directors *(continued)*

Authority to purchase own ordinary shares

At the AGM held on 19 May 2020, the members gave the Company, and any of its subsidiaries, the authority to make market purchases up to c.10% of its own ordinary shares. This authority will expire on close of business on the date of the AGM of the Company in 2021 or on 19 August 2021, whichever is earlier.

The Directors do not have any current intention to exercise the power to purchase the Company's own ordinary shares. This authority was sought at the Company's AGM to allow for greater flexibility in the management of the Company's capital resources. Any ordinary shares so purchased would be cancelled.

Any such purchases would be made only at a price level that the Directors considered to be in the best interest of shareholders generally, after taking into account the Company's overall financial position and regulatory capital obligations and requirements. In addition, the authority provides that the minimum price which may be paid for such Shares shall not be less than the nominal value of the Shares and the maximum price shall be the higher of 105% of the average market price of such ordinary shares and the amount stipulated by Article 3(2) of Commission Delegated Regulation (EU) 2016/1052.

Corporate governance

The Company is subject to the 2018 UK Corporate Governance Code published by the Financial Reporting Council in the UK (the 'UK Code') and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange, t/a Euronext Dublin.

The Corporate Governance Statement forms part of the Report of the Directors. Statements by the Directors in relation to the Bank's compliance with the CBI's Corporate Governance Requirements for Credit Institutions 2015, (the 'Irish Code') and additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively, are set out on pages 72 to 117.

Directors' Compliance Statement

As required by Section 225 of the Companies Act 2014, as amended, of Ireland, the Directors acknowledge that they are responsible for securing the Company's compliance with its 'relevant obligations' (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

Political donations

Political donations are required to be disclosed under the Electoral Acts 1992 to 2014. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2020.

Branches outside the State

The Company has no branches established outside the State. The Bank has branches in the UK, France, Germany the US and Spain.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for 2020 on page 207, which forms part of the Report of the Directors and on page 107, 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 impacts of COVID-19 and Brexit, the monitoring of key risks identified under the Group's risk identification process by the GRPC, the BRC and the Board (see page 151 of the Risk Management Report), and the assessment of Principal Risks and Uncertainties (pages 135 to 145) together with the Group's strategic direction as set out in the Strategic report (pages 45 and 46). Within the Principal Risks and Uncertainties, the Directors consider Credit risk, Funding and Liquidity risk and Capital adequacy to be the most relevant to the viability assessment.

The ICAAP process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. ICAAP is subject to review by the Group's prudential regulator, the ECB Single Supervisory Mechanism (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, (Risk Management Report sections 2.5, 3.2 and 4). As a result of COVID-19, the Group redeveloped the base case and stress case projections using the updated macroeconomic forecasts which include the impact of COVID-19. 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 potential economic and market impacts of COVID-19 have been considered in a number of areas of the Group's ILAAP, which demonstrates that the volume and capacity of liquidity

Report of the Directors *(continued)*

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 Ratio (LCR) and Net Stable Funding Ratio (NSFR).

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 2023.

Accounting records

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

Auditor

KPMG, Chartered Accountants, were appointed statutory auditor on 19 April 2018. They have been re-appointed annually since that date and will continue in office in accordance with section 383(2) of the Companies Act 2014.

Relevant audit information

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

Non-financial information

Information required in accordance with the EU (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 can be found in in the Strategic Report on page 41. The strategic report also includes information on topics such as the Environment and Employee matters.

Post balance sheet events

These are described in note 65 to the financial statements.

Patrick Kennedy
Chairman

Richard Goulding
Deputy Chairman

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

26 February 2021

Schedule to the Report of the Directors

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

As required by these Regulations, the information contained below represents the position as at 31 December 2019.

1. Structure of the Company's capital

The capital of the Company is divided into ordinary shares and preference shares.

As at 31 December 2020, there were 1,078,822,872 ordinary shares in issue. As at 31 December 2020, there were no preference shares in issue.

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

(i) Rights and Obligations attaching to the classes of shares

Ordinary shares

Dividend rights
Under Irish law, dividends are payable on the ordinary shares of the Company only out of profits available for distribution. Subject to the provisions of the Companies Act 2014 (the 'Companies Act'), holders of the ordinary shares of the Company are entitled to receive such dividends as may be declared by the Company by ordinary resolution, provided that the dividend cannot exceed the amount recommended by the Directors. The Company may pay shareholders interim dividends if it appears to the Directors that they are justified by the profits of the Company available for distribution. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Company.

Voting rights
Voting at any general meeting is by a show of hands or by poll. On a show of hands, every shareholder who is present in person or by proxy has one vote regardless of the number of ordinary shares held by him or her. On a poll, every shareholder who is present in person or by proxy has one vote for every ordinary share of €1.00 each.

A poll may be demanded by:
(i) the Chair of the meeting;
(ii) at least three members of the Company present in person or by proxy having the right to vote at the meeting;
(iii) any member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
(iv) a member or members present in person or by proxy holding shares in the Company conferring the right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The necessary quorum for a general meeting is ten persons present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Meeting (EGM) as is all business transacted at an AGM other than the declaration of a dividend, the consideration of the Company's statutory financial statements and reports of the Directors and Auditors on those statements, the review by the members of the Company's affairs, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors (subject to Sections 380 and 382 to 385 of the Companies Act), the fixing of the remuneration of the Auditors and the consideration of a special resolution for the purpose of Section 1102(2)(b) of the Companies Act. Any business that is required to be dealt with by way of special resolution must be passed by not less than 75 per cent of the votes cast by such members as, being entitled so to do, vote in person or by proxy at a general meeting at which not less than twenty one clear days' notice specifying the text or substance of the proposed resolution has been duly given.

Any business that is required to be dealt with by way of ordinary resolution must be passed by a simple majority of the votes cast by the members as, being entitled to do so, vote in person or by proxy at a general meeting. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is not entitled to a second or casting vote.

An EGM (other than an EGM called for the passing of a special resolution) may be called on at least 14 days' notice where:
(i) the Company offers the facility for members to vote by electronic means accessible to all members who hold shares that carry rights to vote at general meetings; and
(ii) a special resolution reducing the period of notice to fourteen days has been passed at the immediately preceding AGM or at an EGM held since the immediately preceding AGM.

Liquidation rights
In the event of any surplus arising on the occasion of the liquidation of the Company, the ordinary shareholders would be entitled to a share in that surplus in proportion to the capital at the commencement of the liquidation paid up or credited as paid up on the ordinary shares held by them respectively.

Preference shares
As at 31 December 2020, there were no preference shares in issue. Where authorised to issue authorised but unissued shares in the capital of the Company (including where relevant, by shareholder approval under Section 1021 of the Companies Act), and subject to the scope of any such authority, in accordance with the Company's articles of association (the 'Articles'), the Directors are authorised to issue all or any of the authorised but unissued preference shares from time to time in one or more classes or series, and to fix for each such class or series such voting power, full or limited or no voting power, and such designations, preferences or special rights and qualifications, limitations or restrictions thereof in any resolution adopted by the Directors providing for the issuance of such class or series of preference shares.

(ii) Variation of class rights

Whenever the share capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of three-fourths in nominal value of the issued shares of that

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

class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class, either while the Company is a going concern or during or in contemplation of a winding-up.

(iii) Percentage of the Company's capital represented by class of share
The ordinary shares represent 99.9% of the authorised share capital and 100% of the issued share capital. The preference shares represent 0.1% of the authorised share capital and 0% of the issued share capital.

2. Restrictions on the transfer of shares in the Company

There are no restrictions imposed by the Company on the transfer of shares, nor are there any requirements to obtain the approval of the Company or other shareholders for a transfer of shares, save in certain limited circumstances set out in the Articles. A copy of the Articles may be found on www.bankofireland.com or may be obtained on request from the Group Secretary.

3. Persons with a significant direct or indirect holding of stock in the Company.

Details of significant shareholdings may be found on page 371.

4. Special rights with regard to the control of the Company

There are no special rights with regard to control of the Company.

5. Shares relating to an employee share scheme that carry rights with regards to the control of the Company that are not exercisable directly by employees.

The Bank of Ireland Inland Revenue Approved UK Stock Incentive Plan (SIP) provides that in respect of resolutions proposed at general meetings of the Company, voting rights in respect of shares held in trust for employees who are participants in the SIP are to be exercised in accordance with the employees' written instructions to the trustees of the SIP. In the case of 'any other business' at an AGM of the Company, the SIP trustees are entitled to vote (or refrain from voting) as they think fit.

6. Restrictions on voting rights

There are no unusual restrictions on voting rights.

7. Agreements between shareholders that are known to the Company and may result in restrictions on the transfer of securities or voting rights.

There are no arrangements between shareholders, known to the Company, which may result in restrictions on the transfer of securities or voting rights.

8. Rules of the Company concerning the:

(a) appointment and replacement of Directors
With the exception of any Director(s) nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act 2008, all Directors nominated between AGMs are submitted to shareholders for election at the first AGM following their co-option. In accordance with the UK Code, all Directors other than any nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Any Director(s) nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a Director of the Company for a period longer than nine years after the date of their appointment. In proposing the election or re-election of any individual Director to the AGM, the reasons why the Board believes that the individual should be elected or re-elected are provided in the Chairman's Letter to shareholders.

(b) amendment of the Company's Constitution
The Company's Constitution may be amended by special resolution passed at an AGM or EGM. An AGM and a Meeting called for the passing of a special resolution shall be called by at least twenty one clear days' notice. Special resolutions must be approved by not less than 75 per cent of the votes cast by such members as, being entitled so to do, vote in person or by proxy. No business may be transacted at any General Meeting unless a quorum of members is present at the time when the Meeting proceeds to business. Ten persons present in person or by proxy and entitled to vote shall constitute a quorum.

9. Powers of the Company's Directors, including powers in relation to issuing or buying back by the Company of its shares

Under its Articles, the business of the Company is managed by the Directors, who exercise all powers of the Company as are not, by the Articles, required to be exercised by the Company in General Meeting. The Directors may exercise all the borrowing powers of the Company and may give security in connection therewith. These borrowing powers may be amended or restricted only by the shareholders in General Meeting. The members of the Company in General Meeting may at any time and from time to time by resolution increase the share capital of the Company by such amount as they think proper. Whenever the share capital of the Company is so increased, the Directors may, subject to various provisions of the Articles, issue shares to such amount not exceeding the amount of such enlargement as they think proper. All ordinary shares so issued shall rank in equal priority with existing ordinary shares.

Subject to provisions of the Companies Act, to any rights conferred on any class of shares in the Company and to the Articles, the Company may purchase any of its shares of any class and may cancel any shares so purchased or hold such shares as treasury shares (the 'treasury shares') with liberty to re-issue any such treasury shares in accordance with Section 109 of the Companies Act 2014. The Company shall not make market purchases of its own shares unless such purchases shall have been authorised by a special resolution of the Company and by a special resolution passed at a separate general meeting of the holders of each class of shares.

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

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

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a bid, however, certain Group agreements may be altered or terminated upon a change of control of the Bank or Bank of Ireland (UK) plc following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between Bank of Ireland (UK) plc and Post Office Limited in the UK (in respect of FX and Post Office branded retail financial service products) and the agreement between Bank of Ireland (UK) plc, AA plc and AA Financial Services Limited in the UK (in respect of AA branded financial services products).

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

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

The service contracts for NEDs do not make provision for benefits on termination in the event of a bid.

Remuneration Report

Remuneration Restrictions

The Group is currently operating under significant Remuneration Restrictions which cover all Directors, senior management, employees and certain service providers across the Group. The Remuneration Restrictions place the Group at a competitive disadvantage in seeking to retain and attract key staff.

The Remuneration Restrictions were contained within the Covered Institutions Financial Support Scheme 2008 and the 'Minister's Letter' (July 2011), under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister's Letter was a further condition of the Transaction and Underwriting Agreement entered into with the Irish Government (July 2011) during the 2011 Recapitalisation of the Group. The Group maintains a dialogue with the Department of Finance in relation to Executive Director remuneration and other remuneration related topics, and will respond appropriately to any revisions to the Remuneration Restrictions.

As a result of the Remuneration Restrictions, the Group is currently unable to provide a fixed/variable remuneration mix throughout the Group, which constrains the ability of the Group to clearly link Group culture and values, risk culture, customer outcomes and Group performance to remuneration. This results in risks relating to colleague attraction and retention, a lack of remuneration alignment with strategy and business goals, as well as some restrictions on the application of discretion, and cost base inflexibility. If the Group fails to recruit and retain skilled and qualified people, its businesses may be negatively impacted. The Group considers itself to be in compliance with these Remuneration Restrictions.

In addition, in the absence of the Remuneration Restrictions, the Excess Bank Remuneration Charge on RoI tax residents in Covered Institutions[1], where variable pay equals or exceeds €20,000, would impact the application of the Group Remuneration Policy.

The Remuneration Restrictions are currently applicable and are assumed as such for purposes of this Remuneration Report.

Remuneration Governance Structures

The Bank of Ireland Group's objective of attracting, retaining and motivating high calibre people is deemed fundamental to the successful delivery of the Group's business strategy. The Group wants to ensure the right people are in the right roles and recognises the importance that the Group's shareholders place on the operation and management of the Group's remuneration strategy, frameworks, policies and practices. To reflect this, the Group operates strong governance across the organisation on the management of remuneration frameworks, policies and practices that support the Group's strategy.

Governance structures

The Group Remuneration Committee (GRC) has responsibility to consider agree and approve a remuneration strategy that supports the Group's objectives of long-term sustainability and success, sound and effective risk management and good corporate governance.

With delegated authority from the Board, the GRC annually reviews and approves the Group Remuneration Policy and the Director's Remuneration Policy (DRP). The GRC also reviews and approves the remuneration of the Chairman of the Board, the Executive Directors, the Group Secretary, members of the GEC and Senior Officers in Independent Control Functions, as well as overseeing the remuneration of all staff whose professional activities have a material impact on the Group's risk profile.

During 2020, independent advice was received by the Group from external advisers, Willis Towers Watson, Deloitte LLP, and PricewaterhouseCoopers (PwC) on a range of issues relating to remuneration including:

- remuneration benchmarking for the GEC and senior management;
- variable pay structures, including annual and long term incentive schemes;
- evolving pay regulations and market pay practices; and
- other remuneration structures.

During the year, the GRC appointed PWC as independent advisors to the Committee. Engagement with Deloitte and Willis Towers Watson also continues.

Shareholders, in a non-binding vote, approved the Group Remuneration Committee Report for the year ended 31 December 2019 and the 2019 Directors' Remuneration Policy at the AGM held on 19 May 2020.

The GRC held 10 meetings in 2020. Details of membership and attendance can be found in the 'Report of the Group Remuneration Committee' section of the Annual Report.

To avoid potential conflicts of interest, Directors are not involved in decisions regarding their own remuneration and advisors to the remuneration committee are appointed by the Committee rather than by management.

The terms of reference of the Committee are reviewed annually and available on https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/court-committees/

A summary of the principal activities undertaken by the GRC in 2020 is available in the 'Report of the Group Remuneration Committee' section of the Annual Report.

Statement on Shareholder Voting

The table below sets out the voting by shareholders on the advisory resolution to approve the 2019 Group Remuneration Committee Report at the 2020 AGM:

Group Remuneration Committee Report 2019

Vote	No of shares	Percentage
For	760,480,635	99.80
Against	1,521,025	0.20
Withheld	59,599	n/a

[1] *Covered Institutions are defined as institutions that have executed a guarantee acceptance deed and have been designated in an order by the Minister for Finance under the Credit Institutions (Financial Support) Scheme 2008. The Group's Covered Institutions are The Governor and Company of the Bank of Ireland and Bank of Ireland Mortgage Bank.*

Remuneration Report *(continued)*

European Banking Authority Remuneration Guidelines (the 'EBA Guidelines')

The objective of these guidelines is to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. They apply to the Group.

Whereas the Group seeks to ensure it operates remuneration policies which are compliant with regulatory guidelines, the Group is currently operating under significant governmental and legal constraints in relation to remuneration. The Group's Remuneration Policy, therefore, can only be implemented to the extent possible given these Remuneration Restrictions.

Material Risk Takers

The EBA has issued criteria for identifying Material Risk Takers (MRT) roles, those staff whose professional activities have a material impact on the Group's risk profile. The criteria are both qualitative (based on the nature of the role) and quantitative (based on remuneration). The Group maintains a list of these material risk takers.

The qualitative criteria can be summarised as: the management body; senior management; other staff with key functional, managerial or risk responsibilities; and staff who individually, or as part of a committee, have authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels.

The quantitative criteria are:

- individuals earning €500,000 or more in the previous year;
- individuals in the top 0.3% of earners in the previous year; and
- individuals who earned more than the lowest paid MRTs per certain qualitative criteria.

In addition to the qualitative and quantitative criteria, the Group has applied its own minimum standards to identify roles that are considered to have a material influence over its risk profile.

Following the publication of revised technical standards on identified staff in June 2020 amending both qualitative and quantitative criteria, the Group took the opportunity to review and enhance its MRT Policy and processes. The revised policy and processes including revised criteria will be implemented from 1 January 2021.

Disclosures

During 2020, the Group continued to comply with its annual requirements to provide disclosures relating to:

- Remuneration at Bank of Ireland;
- Decision-making processes related to the remuneration policy;
- MRT assessment and reporting;
- Remuneration Restrictions;
- Link between pay and performance;
- Group Remuneration Strategy;
- Remuneration Expenditure; and
- All Staff Reporting.

These disclosures were made as part of the Group's 2019 Pillar 3 disclosure in February 2021. The Group's 2020 Pillar 3 disclosures were made in March 2021 and are available on the Group's website.

As a significant institution in an Irish banking context, the Group is required to submit additional disclosures under EBA Remuneration data collection exercises. The Group continued to comply with its annual reporting requirements in 2020, submitting the following reports via the CBI to the SSM:

- 2019 European Benchmarking exercise; and
- 2019 High Earners report.

Alignment of performance and reward with risk

The Group's Risk Appetite Statement as set out on page 150 forms an integral element of remuneration structures, practices and frameworks. The Group's Risk Appetite Statement has been cascaded, as appropriate, throughout the Group.

Involvement of the risk function

The Chair of the Board Risk Committee and the Court Risk Committee and the Group CRO attended the GRC meeting in October 2020. At this meeting, the Group CRO reported on the Group's risk profile and its relationship to remuneration.

Directors' Remuneration Policy

The DRP supports the Group's objective of achieving, maintaining and safeguarding a sound capital base, and is aligned with the Group's Remuneration Policy and principles for all staff. The DRP reflects the approach to Director's pay in 2020, and the intention to implement variable pay and associated shareholding guidelines upon removal of the Remuneration Restrictions.

The DRP was approved by shareholders in a non-binding advisory vote at the 2020 AGM. The DRP applies for three years until the 2023 AGM, unless material changes are required which mandate a revised DRP to be submitted to shareholders for approval.

2019 Directors' Remuneration Policy

Vote	No of shares	Percentage
For	745,181,436	97.79
Against	16,803,213	2.21
Withheld	76,610	n/a

Remuneration approach

Where local laws or regulations set more rigorous requirements for any aspect of remuneration governance, the higher standards are applied. In the event that any aspect of the DRP contravenes local laws or regulations, the local laws or regulations prevail.

To avoid potential conflicts of interest, Directors are not involved in decisions regarding their own remuneration.

Whilst the Group recognises the requirement to propose the reintroduction of variable pay for Executive Directors, this is not possible due to the ongoing impact of Remuneration Restrictions. If the Remuneration Restrictions were to be amended or lifted, the Group would seek Shareholder approval to re-introduce variable pay for Executive Directors.

Remuneration Report *(continued)*

No provision is made in this DRP for a temporary derogation from approved policy.

Key elements of Remuneration for Executive Directors

When determining Executive Director Remuneration policy and practices, the GRC addressed the following, through its work on the design of potential variable pay structures for Executive Directors:

- **Clarity** - remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.
- **Simplicity** - remuneration structures should avoid complexity and their rationale and operation should be easy to understand.
- **Risk** - remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.
- **Predictability** - the range of possible values of reward to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.
- **Proportionality** - the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.
- **Alignment to culture** - incentive schemes should drive behaviours consistent with Group's Purpose, Values and Strategy.

Due to the Remuneration Restrictions, the structure of Executive Directors' remuneration is materially different to market practice. The Group maintains a dialogue with the Department of Finance in this regard, and will respond to any amended restrictions. In such circumstances, shareholder engagement would be carried out as appropriate.

Fixed pay elements for Executive Directors

Given Remuneration Restrictions, Executive Director changes to base salary and fixed pay elements require engagement with the Department of Finance. In the event of the fixed pay element of the Remuneration Restrictions being lifted, or amended, fixed pay for Executive Directors will be reviewed in 2021, with shareholder engagement as appropriate.

Elements of Remuneration and purpose	Operation	Maximum potential value
Base Salary - purpose is to provide a competitive level of fixed cash remuneration reflecting the skills and experience required supporting recruitment and retention in the market environment.	Paid monthly as cash and reviewed annually: • CEO - €950,000 • CFO - €471,500	Base salaries are reviewed annually with any increase taking effect from 1 January. In determining any base salary increases for Executive Directors, the GRC takes into consideration any increases paid to the wider Group population. The GRC, when considering what may represent an appropriate base salary increase makes an objective assessment of: • the individual's responsibilities and the size and scope of their role; and • pay for comparable roles in comparable publicly listed companies of a similar size (benchmarking). The GRC recognises that a greater base salary increase may be appropriate in certain circumstances, for example, if the Remuneration Restrictions are lifted, an Executive Director's remuneration is uncompetitive, or where there has been a material increase in responsibilities.
Non-salary benefits - purpose is to provide a range of market competitive benefits which are valued and assist the individuals to carry out their duties.	These are agreed on a case by case basis, within a framework, and may include, but are not limited to: • life insurance; • permanent health insurance; • mobile phone; • cash allowance - health; • cash allowance - car; and • relocation costs.	The level of benefit provision can vary depending on cost and individual circumstances. The value of the total benefits will continue to be reported annually in the Remuneration Report.

Remuneration Report *(continued)*

Elements of Remuneration and purpose	Operation	Maximum potential value
Pension - to encourage planning for retirement and long-term savings. The Group's objective for pensions is aligned with the long-term interests of the Group, with pensions schemes designed to assist the Group in attracting and retaining high calibre employees.	The Group CEO does not currently participate in a Bank of Ireland Employee Pension Scheme. The Group CFO is a member of the Bank of Ireland Defined Contribution (DC) Scheme (RetireWell), participating on the same basis as all members of this scheme, in line with the scheme rules. New internally appointed Directors will retain their current pension arrangements, noting that the terms provided will be on the same terms as those provided to other employees who are members of the same pension scheme. New externally appointed Directors may be offered participation in a Defined Contribution scheme (currently RetireWell) in line with the Rules of the scheme and on the same terms as those available to other employees.	This level of benefit provision can vary depending on cost and individual circumstances. The value of the total benefits will continue to be reported annually in the Directors' Pension Benefits section of the annual remuneration report on page 131.

Variable pay elements for Executive Directors (currently not allowed under the Remuneration Restrictions)
Variable pay is intended to incentivise the delivery of sustainable long-term performance, with rewards aligned to shareholders' interests, and adjusted for risk.

At this time the Group is not able to offer variable pay due to Remuneration Restrictions, creating challenges in relation to the attraction and retention of key people, and the alignment of remuneration to shareholder objectives.

Remuneration Report *(continued)*

Other Policy elements for Executive Directors

Elements of Remuneration and purpose	Operation	Maximum potential value
Shareholding requirements (subject to the removal of the Remuneration Restrictions).	Upon the reintroduction of variable pay, all Executive Directors of the Bank of Ireland Group would be required to retain 50% of the after tax value of any Bank of Ireland Group shares which have vested and have been released to the Executive Director from a variable pay plan such as deferred shares from an Annual Incentive Plan or vested shares from a Long Term Incentive Plan.	Executive Directors will be required to build a shareholding of up to 100% of base salary. In addition, Executive Directors will be required to hold shares post-employment with the Group, equal to at least the lower of a) shares held by the Executive Director at date of leaving or b) 100% of base salary in shares for a period of 1 year post their employment with the Group. Shareholdings in this regard relate to Bank of Ireland Group shares which have vested and have been released to the Executive Director from a variable pay plan such as deferred shares from an Annual Incentive Plan or vested shares from a Long Term Incentive Plan. Personal shareholdings, for example, shares purchased by the Executive Director, are not included under this shareholding guideline.
All employee share plans - to promote share ownership by all employees.	In the event that the Group operates all employee share plans, Executive Directors will also be entitled to participate on the same basis as other employees.	Such schemes will comply with Revenue limits.

Remuneration Report *(continued)*

Other Policy elements for Executive Directors *(continued)*

Elements of Remuneration and purpose	Operation	Maximum potential value
Executive Director recruitment	The policy on recruitment of Executive Directors aims to be market competitive and to structure remuneration in line with the elements outlined in this Policy, subject to the remuneration restrictions. The GRC may agree remuneration proposals on hiring a new Executive Director which are outside the standard policy to facilitate the hiring of someone of the calibre required to deliver the Group's strategy. When determining appropriate remuneration arrangements the GRC will take into account all relevant factors including (among other things) the level and type of remuneration being forfeited and the jurisdiction the candidate was recruited from. Remuneration packages in excess of €500,000 currently require approval from the Minister for Finance.	A buy-out may be offered to a new Director if the individual holds any outstanding unvested awards or payments that are forfeited on resignation from a previous employer in line with regulatory requirements. The GRC will seek to minimise buy-outs and ensure they are no more generous than, and on substantially similar terms to, the original awards or payments they are replacing, as far as possible.
Notice and Termination provisions	Standard termination provisions, which apply to all senior roles of the Group, apply to Executive Director Roles. When determining leaving arrangements for an Executive Director, the GRC takes into account applicable provisions of Irish law, any contractual arrangements and the performance and conduct of the individual. **Notice Period** • CEO - 12 Months' notice provided by the Group, 6 Months' notice provided by the CEO[1]. • CFO - 6 Months' notice provided by the Group, 6 Months' notice provided by the CFO.	Upon their reintroduction, variable pay plans and all employee share scheme awards for Executive Directors who leave the Group will be treated in accordance with the remuneration policy, the share plan rules as approved by the shareholders, and the relevant employment policy operated by the Group.
Legacy arrangements	There are no current legacy entitlements in place.	Under the DRP, the Group will continue to honour commitments or arrangements entered into prior to their appointment as an Executive Director.

[1] *The Group CEO's contract of employment requires the provision of 6 months' notice to the Group. Contractually, this provision reduces to 3 months' notice from 2 October 2021.*

Remuneration Report *(continued)*

Remuneration for the Chairman and Non-Executive Directors

The remuneration of Non-Executive Directors is determined by a Board Committee of the Chairman and the Executive Directors, within the boundaries of the Company's Constitution with no Director being involved in decisions regarding their own remuneration.

The remuneration of the Chairman is a matter for the GRC.

There are currently no proposed changes to Non-Executive Directors' remuneration. In the event of the amendment or removal of the Remuneration Restrictions, the remuneration paid to Non-Executive Directors may be reviewed.

Remuneration for Non-Executive Directors does not include any performance-related elements or share options.

Elements of Remuneration and purpose	Operation	Maximum potential value
Fees To reflect individual responsibilities and membership of Board Committees.	Fees are paid monthly in cash. Additional fees are paid for (SID) responsibilities, Committee Chairmen and for Committee membership.	No variable pay is provided so that the Chairman and NEDs can maintain appropriate independence which supports their capacity to provide the constructive challenge required of their role. The Board reviews the amount of each component of fees periodically to assess whether individually and in aggregate they are appropriate in light of changes in roles, responsibilities and/or the time commitment of the NEDs and ensure that individuals of the appropriate calibre are able to be retained or appointed. In the case of the Chairman, this review is undertaken by the Group Remuneration Committee.
Expenses	Reimbursement of reasonable out-of-pocket expenses incurred in connection with the performance of duties. The full amount of expenses incurred is reimbursed, with a gross-up where tax is due on such expenses, to ensure no loss to the individual.	n/a

Discretion

The GRC retains the discretion to make reasonable and proportionate changes to the Directors' Remuneration Policy in order to respond to changing legal or regulatory requirements or guidelines (including but not limited to any ECB, CBI, PRA or FCA revisions to their remuneration rules and the EBA remuneration guidelines). There is no discretion to make changes that are advantageous to the Directors. Where proposed changes are considered to be material, the GRC will bring the Policy for shareholder approval.

Other remuneration disclosures

Group Remuneration Policy

The Group's Remuneration Policy, which aims to support the Group's objectives of long term sustainability and success, sound and effective risk management, good corporate governance and responsible business conduct, was reviewed in 2020 and was virtually unchanged from the prior year's policy which had been updated to reflect the implementation of the Shareholder Rights Directive II. This Policy applies to all employees and Directors of the Group.

The Policy sets out how the remuneration components used by the Group operate and the approach to remuneration policies and practices to ensure colleagues are paid in alignment with business strategy, risk strategy, culture and values, and long-term interests, whilst not encouraging excessive risk taking. The Group Remuneration Policy supports the Group's objective of achieving, maintaining and safeguarding a sound capital base.

Subject to the Remuneration Restrictions, the Group Remuneration Policy is designed to reflect the provisions of EU and national regulations, notably the Capital Requirements Directive (CRD V), the PRA Rulebook, the FCA SYSC19D, and EBA guidelines on sound remuneration policies. The Group undertakes an annual review of the Group Remuneration Policy, including the process for the identification of MRTs, to ensure that remuneration policies and practices are operating as intended, are aligned to the Group's strategy, purpose and values, and are compliant with regulatory obligations. The annual review is informed by appropriate input from the Group's risk management, compliance and internal audit functions.

Remuneration Report *(continued)*

The Group recognises the importance the Group shareholders place on the effective governance of the Group's remuneration policies and practices to ensure colleagues are paid in alignment with business strategy, risk strategy, culture and values, and long-term interests, whilst not encouraging excessive risk taking. The Group Remuneration Policy supports the Group's objective of achieving, maintaining and safeguarding a sound capital base.

The application of the Group Remuneration Policy is consistent with the Group's Risk Appetite Statement and regulations that govern remuneration in the jurisdictions where the Group operates. A policy summary is accessible to all staff through the company intranet.

The Group Remuneration Policy, supported by management policies and operational procedures, collectively known as the 'remuneration structures' (e.g. Reward Framework, Performance Achievement process, Material Risk Taker Policy and Governance of Career & Reward Framework), is designed to ensure that the Group's approach to remuneration meets the principles below. The Group's ability to meet these principles is impacted in their entirety by the Remuneration Restrictions.

Alignment with Group objectives

- The remuneration structures are aligned with, and contribute to the long-term strategy, sustainability, value creation and success of the Group.
- Remuneration is determined on the basis of firm wide, business unit and individual performance against business and risk objectives.
- Divisional and individual performance measures and targets are aligned with business and risk objectives at either a Group or local business level, through a performance achievement process based on a balanced scorecard, ensuring alignment with business strategy, risk strategy, culture and values and long-term interests.
- The remuneration structures support the Group's purpose and values.

Fair treatment of customers

The Group's remuneration structures are designed to:

- place customers at the heart of the Group's businesses by delivering products and services that meet customers' evolving financial requirements and are sold based on the suitability to each individual customer's needs;
- support and encourage the fair treatment of customers;
- support and encourage responsible business conduct;
- mitigate the potential for conflict between commercial, customer and public interests; and
- avoid any conflict with an employee's duty to act in the best interests of customers or clients.

Employee-focused

- The Group's remuneration structures are designed to attract, retain and engage high calibre employees, enabling the Group to provide a competitive remuneration package across all businesses and jurisdictions, in a cost effective manner.
- Remuneration policies and practices are simple, transparent, easy to understand and implement.

Aligned with risk appetite

- The Group's remuneration structures are designed to ensure alignment of remuneration and risk performance of the Group and its staff, promoting good risk management and positive risk behaviours. Employee performance is assessed against a balanced scorecard of financial and non-financial metrics, including risk outcomes and behaviours.
- Remuneration structures are applied in consideration of and in alignment with the Group's Risk Appetite Statement and overall risk governance structures.
- Risk adjusted financial performance is an important measure when evaluating performance.
- Remuneration policies are subject to appropriate governance.
- The Group is compliant with all applicable remuneration regulations as they relate to the Group.

The Group will continue to seek to ensure that its remuneration policy enables it to be competitive and comprehensively adheres to regulatory principles and guidelines set out by relevant regulatory authorities, including the EBA. These design features support all remuneration frameworks, policies and processes across the Group, being applied proportionately depending on the nature, scale and complexity of the particular business area.

During 2020, Executive Directors and the GEC members engaged with employees on employee related topics in workplace and 'Zoom' 'Town Hall' sessions, as well as through Open View and Pulse Surveys. Engagement with the workforce on 'New Ways of Working', transformation and culture took place throughout the year. The Chief People Officer, through the Employee Relations team, engaged with unions and partners' council on remuneration and many other workplace-related matters, including an enhanced voluntary redundancy scheme.

Attraction, motivation and retention

The Group's success depends in part on the availability of high calibre people and the continued services of members of its management team, both at its head office and at each of its business units.

Restrictions, including the Remuneration Restrictions, imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Group's control in relation to the retention and recruitment of employees may adversely impact on the Group's ability to attract and retain key staff.

Workforce remuneration

The following table summarises the main remuneration structures in place in the Group, under the Group's Remuneration Policy.

Remuneration Report *(continued)*

Element	Objective	Operation
Base salary	To provide a competitive level of fixed cash remuneration reflecting the skills and experience required whilst supporting recruitment and retention.	Base salaries are reviewed on an annual basis versus the external market and internal relativities, taking into account the Group's strategic objectives and individual performance and potential.
Benefits	To provide a range of market competitive benefits which are valued and assist the individuals carry out their duties.	Access to benefits and benefit levels can vary based on seniority. Benefit provision is kept under regular review to ensure the benefits provided are cost effective, valued by employees and competitive versus the market.
Pension	To support the financial wellbeing of employees	Since September 2014, the Group has operated a defined contribution scheme (RetireWell) for all new hires. Employees hired prior to September 2014 are members of the Group's legacy defined benefit and hybrid pension schemes. UK based role holders, who are affected by the Annual and Lifetime Allowances for pension saving, can elect to receive a pension cash allowance in lieu of pension scheme membership.
Incentive Schemes - Limited number of small incentive schemes in place which have received approval under the Remuneration Restrictions.	To support, drive and reward performance for the delivery of annual financial, non-financial and personal objectives which are consistent with: • the Group's purpose, values and culture; • the business and customer strategy; and • the long-term interests of the bank, to create sustainable shareholder value.	The Group currently operates an approved small incentive scheme for Marshall Leasing Ltd and two approved commission schemes in N.I.I.B. Group Limited and NIAC. These arrangements are not subject to the Remuneration Restrictions.

Discretion

The GRC has certain discretionary powers under the Company's existing all employee share plan rules. This discretion relates to the operation of the plans, for example, eligibility, quantum, timing and application of good leaver status and would be used only to ensure that reward outcomes reflect the underlying performance of the Company. The GRC will only exercise this discretion if it believes it is in the best interests of the Company to do so and where it is not possible, practicable or proportionate to seek or await shareholder approval in General Meeting. The exercise of the GRC's discretion will be disclosed in accordance with regulatory requirements.

Subsidiary remuneration policies

While both New Ireland Assurance Company plc (NIAC) and Bank of Ireland (UK) plc have their own remuneration policies, these policies are aligned with the Group policy with no material deviations.

Performance achievement

The Group is committed to a simple and transparent reward structure which drives performance, encourages employees to live the purpose and values, and supports the Group's ongoing growth and sustainability. The Group's performance achievement process plays a critical role in aligning individual objectives with the Group's overall customer ambition, strategy, purpose and values, and financial and non-financial goals.

A robust performance achievement process, incorporating performance planning and review, remains critical and is a key pillar of the Group's compliance with remuneration guidelines.

The performance achievement process enables the Group to align individual, business unit and divisional performance to the Group's strategic objectives through an ongoing dialogue between managers and their direct team members ensuring a strong alignment to risk.

The Group's Purpose and Values shape everything colleagues do. The Group's values are the behavioural compass to how the Group does business and are a key part of the Performance Achievement process. Through this process, individual performance is evaluated on what is achieved and how it is achieved. The Performance Achievement process is linked to the Group Competency Model, which outlines the core competencies for staff, people managers and leaders. The Performance Achievement process enables employees to:

- know what is expected of them and what it takes to achieve success;
- understand how they personally contribute to their team and the bank's strategy; and
- own their own performance and personal growth to achieve their individual career ambitions.

Remuneration Report *(continued)*

Managers have mandatory risk goals which reflect the nature of their role and their seniority within the Group and have an appropriate weighting attached to them.

Key result areas

Goals and objectives are set and evaluated under each of the Group's strategic objectives of:
- Transform the Bank.
- Serve Customers Brilliantly.
- Grow Sustainable Profits.

This approach is consistent with the EBA Guidelines and ensures that:
- organisational performance is continually enhanced by measuring staff against the Group's strategic objectives;
- all key deliverables and accountabilities of a role are taken into account when performance is assessed. For example, financial results, risk management, impact on customers, leadership and development of people, regulatory and compliance requirements; and
- a comprehensive view of an individual's performance is taken, rather than focusing on one or two key areas to the detriment of others.

Each of the strategic objectives, which apply to all employees in the Group, has a minimum weighting of 10%. In addition, there is a minimum requirement of 20% of the overall weighting for risk- related goals set across all three Strategic Priorities.

Goals set under these strategic objectives are linked to overall Divisional and Group Strategy, support the achievement of business unit objectives and are aligned to the Group's Risk Appetite Statement.

Key deliverables are agreed for each employee with their line manager at the beginning of the performance cycle. Regular informal reviews take place at times during the performance cycle. A formal end of year review occurs at the end of the performance cycle.

The Remuneration Restrictions impact the effectiveness of the Group's performance achievement system as it prevents a strong link between performance and reward. In addition, the lack of variable remuneration also impacts the Group's ability to incentivise and re-enforce cultural change and the Group's values.

Directors' remuneration *(continued)*

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 207.

Directors' remuneration for the years ended 31 December 2020 and 31 December 2019.

Table: 2	Reported year	Gross salary[1,2] €'000	Fees[3] €'000	Performance bonus[4] €'000	Other remuneration[5] €'000	Pension funding contributions[6] €'000	Total[7] €'000
Chairman							
P Kennedy	2020	394	-	-	-	-	394
	2019	394	-	-	-	-	394
Deputy Chairman							
P Haren	2020	126	-	-	-	-	126
(stood down 31 December 2020)	2019	126	-	-	-	-	126
Executive Directors							
F McDonagh	2020	950	-	-	11	-	961
	2019	950	-	-	8	-	958
A Keating	2020	-	-	-	-	-	-
(resigned 18 October 2019)	2019	468	-	-	30	61	559
M O'Grady	2020	454	-	-	27	50	531
(appointed 15 January 2020)	2019	-	-	-	-	-	-
Non-executive Directors							
G Andrews	2020	-	11	-	-	-	11
(appointed 17 November 2020)	2019	-	-	-	-	-	-
K Atkinson	2020	-	-	-	-	-	-
(stood down 14 May 2019)	2019	-	32	-	-	-	32
I Buchanan	2020	-	152	-	-	-	152
	2019	-	134	-	-	-	134
E Bourke	2020	-	79	-	-	-	79
	2019	-	79	-	-	-	79
E Fitzpatrick	2020	-	86	-	-	-	86
(appointed 15 May 2019)	2019	-	50	-	-	-	50
R Goulding	2020	-	108	-	-	-	108
	2019	-	98	-	-	-	98
M Greene	2020	-	79	-	-	-	79
(appointed 5 December 2019)	2019	-	5	-	-	-	5
F Muldoon	2020	-	85	-	-	-	85
	2019	-	78	-	-	-	78
P Mulvihill	2020	-	118	-	-	-	118
(stood down 31 December 2020)	2019	-	110	-	-	-	110
S Pateman	2020	-	97	-	-	-	97
	2019	-	87	-	-	-	87
Totals	**2020**	**1,924**	**815**	**-**	**38**	**50**	**2,827**
	2019	**1,938**	**673**	**-**	**38**	**61**	**2,710**

Due to the Remuneration Restrictions currently in place, the fixed / variable ratio is Fixed Remuneration 100%, variable remuneration 0%.

Ex-gratia payments paid to former Directors / dependents of The Governor and Company of the Bank of Ireland for 2020 is €112,000 (2019: €141,000).

1 *The Chairman and Deputy Chairman, as Non-executive Officers of the Company, are remunerated by way of non-pensionable salary. P Kennedy receives a non-pensionable salary of €394,000 (2019: €394,000) for his role as Chairman.*

2 *M O'Grady was appointed an Executive Director effective 15 January 2020. He receives an annual salary of €471,500 for his role as Group CFO. In addition he receives a car allowance of €27,500 per annum. He was paid a pro rata equivalent amount from the date of his appointment as Director to 31 December 2020 and these amounts are shown in the table above. The amount shown for M O Grady's pension benefit is in line with his contractual entitlement during 2020. The amount shown covers the period from date of appointment as Executive Director (15 January 2020).*

3 *Fees are paid to NEDs and a basic fee of €63,000 per annum applies for both years. Additional fees are paid for separate SID responsibilities, Committee Chairmen and for Committee membership. In addition to the above, I Buchanan received separate fees for NED and committee membership roles in Bank of Ireland (UK) plc. In these roles he received Stg£55,000, equivalent €61,891 in 2020 and Stg£55,000, equivalent €62,721 in 2019.*

4 *No bonuses were awarded in respect of 2020 or 2019.*

5 *The figures include car allowances and, where applicable, benefits in kind.*

6 *All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the GRC.*

7 *In addition to the amounts shown, the Group bears the total costs of Directors' travel and subsistence to and from Board and Committee meetings or while on the business of the Group.*

Remuneration Report *(continued)*

In line with the requirements of the Shareholders' Rights Directive II (SRD II)[1], the table below shows the year on year change and percentage change in Directors' remuneration and the year on year change and percentage change in the average remuneration of employees during the year ended 31 December 2020 compared to the year ended 31 December 2019.

Unaudited:

Year on year change in remuneration of Directors compared to employee average	Change in remuneration 2020 v 2019 €'000	% change in remuneration 2020 v 2019 %
Executive Directors		
F McDonagh	2	-
M O'Grady[2]	n/a	n/a
Non-executive Directors[3]		
G Andrews[2]	n/a	n/a
P Kennedy	-	-
P Haren	-	-
E Bourke	-	-
I Buchanan	19	14%
E Fitzpatrick	8	10%
R Goulding	20	21%
M Greene	8	11%
F Muldoon	16	20%
P Mulvihill	8	7%
S Pateman	11	13%
Change in average employee remuneration 2020 compared to 2019[4]	2	3%
Group loss after tax (€m)	707	
Percentage change in Group result after tax (%)	(258%)	

Executive share options held by Directors and Secretary

No share options were granted or exercised during 2020 and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Secretary as at 31 December 2020.

Payments within the reporting year to past Directors

Following his resignation as an Executive Director and Group CFO on 18 October 2019, A Keating remained an employee of the Group until 3 January 2020. During 2020, the total amount of remuneration received by him was €35,417 in respect of salary, car allowance, pension contributions and outstanding annual leave associated with his time as a Director.

External appointments held by Executive Directors

During 2020, no Executive Director held an external appointment in a FTSE 100 company.

[1] *This table is required under the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive or SRD).*

[2] *Myles O Grady and Giles Andrews are reported as n/a as they were not directors during 2019 and thus do not have a comparative figure.*

[3] *NED fees are annualised. Changes to NED fees reflect additional responsibilities associated with membership of additional committees or appointment as chairman of committees or as Workforce Director.*

[4] *Average employee remuneration is calculated as the sum of wages and salaries, retirement benefit costs (defined benefit plans ordinary employer contribution and defined contribution plans) and, other staff expense but excluding those costs related to Directors. Social security costs and voluntary redundancy payments are not included. Divided by the average number of staff for the Group on a full time equivalent basis excluding Directors.*

Directors' pension benefits

No Director is part of a defined benefit scheme. M O'Grady, Executive director, is a member of the staff defined contribution scheme, RetireWell. The Company contribution to this scheme for M O'Grady was €49,774.

Directors' and Secretary's interests in shares

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 207.

The beneficial interests of the Directors and Secretary in shares issued by the Group as disclosed to the Group are detailed below in accordance with Irish Listing Rule LR 6.1.82(1).

Table: 3	Number of €1.00 ordinary shares in BOIG plc at 31 December 2020	Number of €1.00 ordinary shares in BOIG plc at 1 January 2020 or at date of appointment
Directors		
G Andrews *(appointed 17 November 2020)*	20,000	n/a
E Bourke	18,339	18,339
I Buchanan	34	34
E Fitzpatrick	1,000	1,000
R Goulding	15,000	15,000
M Greene	1,000	1,000
P Haren *(retired 31 December 2020)*	6,334	6,334
P Kennedy	180,156	105,156
F McDonagh	4,000	2,000
F Muldoon	2,866	2,866
P Mulvihill *(retired 31 December 2020)*	167	167
M O'Grady *(appointed 15 January 2020)*	5,000	-
S Pateman	1,250	1,250
Secretary		
S McLaughlin *(appointed 18 September 2019)*	-	-

Apart from the interests set out above, the Directors and Secretary had no other interests in the shares / securities of the Company or its Group undertakings at 31 December 2020. There has been no change in the interests of each Director disclosed to the Company under the provisions of article 19 of the Market Abuse Regulation occurring between the end of the period under review and 26 February 2021.

Risk Management Report

Contents

The information below in sections or paragraphs denoted as audited in sections 3.1, 3.2, 3.3, 3.4 and 4 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of preparation on page 207.

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

1 Principal Risks and Uncertainties

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

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

The COVID-19 pandemic continues to have a significant impact on the global economy with an uncertain path to recovery. The short and medium term economic impacts of the pandemic are partially offset through significant levels of government intervention. Business and consumer behaviours have changed and evolved, creating new challenges and opportunities for the Group. These include the acceleration towards digital channels and a change in remote working practices. The longer term impact for some sectors and on the Group remains uncertain.

Business and strategic risk *(page 182)*

Principal risks and uncertainties

Business and strategic risk arises from changes in the external environment including economic trends and competitive environment; failure to develop and / or execute an appropriate business model or strategy; and ability to 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.

Key mitigating considerations

- 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 Group organisational balanced scorecard.
- The Board receives comprehensive reports setting out business and financial performance relative to plan, financial projections, capital and liquidity plans, along with reports on the Group's key risks, risk appetite and risks outlook. The Board's business, financial and risk considerations are further informed by regular economic updates, together with updates on developments relevant to the Group's franchises, operations, customers, colleagues, 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.

Transformation risk

Principal risks and uncertainties

The Group is undergoing significant Transformation across culture, business model and systems, which presents challenges and risks, and significant customer considerations. Failure to transform successfully could prevent the Group from realising its strategic priorities.

Key mitigating considerations

- 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. A strategic refresh is also underway in 2021 which is subjected to ongoing risk assessment.
- The Group has mobilised a number of significant change programmes under each of the key Transformational change areas to deliver against this strategy. A new Enterprise Transformation Office function was introduced in 2020 to co-ordinate and support the safe delivery of this scale of change.
- The GTOC oversees the business and strategy aspects of the programme for its duration including review of transformation risk updates.

1 Principal Risks and Uncertainties *(continued)*

Business and strategic risk *(continued) (page 182)*

Brexit

Principal risks and uncertainties

Following the UK exit from the EU, ongoing uncertainty relating to the nature of the future trading relationship between the UK and EU could impact the markets in which the Group operates and affect factors including pricing, partner appetite, supply chains, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations, and consequently impact 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 defined benefit pension deficit, and FX rate volatility, which can impact the translation of the Group's non-euro denominated net assets and profits.

Key mitigating considerations

- The Group established a comprehensive Brexit programme to identify, monitor and mitigate risks associated with various outcomes of Brexit. The Group continues to monitor the trading relationship between the EU and UK.
- The Group's ongoing operations in the UK are managed within a ring-fenced, PRA and FCA regulated subsidiary, Bank of Ireland (UK) plc. and primarily conducted through key partnerships, which reduces the Group's investment in infrastructure and other items of a fixed cost nature.
- Bank of Ireland (UK) plc is primarily funded from deposits gathered through partnerships with two iconic UK-focused brands, the Post Office and the AA, and predominately from deposits below the £85,000 Financial Services Compensation Scheme (FSCS) limit.
- 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.

People risk

Principal risks and uncertainties

People Risk in the short term is heavily influenced by COVID-19, including colleague absence, COVID-19 restriction impacts on colleague work capacity as well as ongoing pandemic impacts on colleague physical and emotional wellbeing. In addition, the Group is progressing with its resizing and reshaping of the Bank's workforce facilitated by an enhanced Voluntary Redundancy programme.

Notwithstanding the impact of COVID-19 on the macro economic environment and the labour market, there remains increased competition for talent in Ireland for certain capabilities, skills and experience, where the continuing impact of remuneration restrictions on the Group is a factor.

Key mitigating considerations

- In order to support colleagues through challenging periods while continuing to deliver for customers, the Group is assessing resource capacity against workload demands in provision of essential services on an ongoing basis.
- The Group continues to evolve and hone its colleague Wellbeing programme including physical, mental and financial, with the latest iteration being a 'Power Down' focus comprising a 12 week launch programme supporting wellbeing in general while also responding to COVID-19 impacts. Pay certainty and reinforcing assurances on flexible working options during this time are also aspects of the organisation's support to colleagues in mitigating COVID-19 related risks.
- Risks associated with the Voluntary Redundancy programme implementation continue to be monitored via Group and Divisional Key Risk Indicators with regular updates provided to Senior Management Risk Committee and BRC.
- The Group has a Board approved people strategy providing it with a range of programmes and initiatives 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.

1 Principal Risks and Uncertainties *(continued)*

Business and strategic risk *(continued) (page 182)*

Digital

Principal risks and uncertainties

Banking models are rapidly evolving, for both consumers and businesses in Ireland and globally. Rapidly shifting consumer behaviours and available technologies are changing how customers consume products and services, and COVID-19 has accelerated some existing trends.

These developments affect the manner in which customers manage their day to day financial affairs. 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. How the Group adapts to these developments could impact the realisation of market strategies and financial plans, dilute customer propositions and cause reputational damage.

Key mitigating considerations

- 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 the Group rigorously manages these demands within risk, capacity and financial constraints.
- The Group's policies, standards, governance and control models undergo ongoing review to ensure continued alignment with the Group's strategy to accelerate its pivot to digital and the resulting solutions.
- To support the Group's strategy to accelerate its pivot to digital, as necessary, the Group engages with appropriate external experts.
- The GTOC provides oversight on the Group's digital strategy.

Macroeconomic conditions and geopolitical uncertainty

Principal risks and uncertainties

The Group's businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in Ireland and the UK. COVID-19 and post-Brexit trade disruption, unfavourable exchange rate movements and changes in interest rates, with the potential for global protectionism and changes in the international tax environment pose 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 businesses may be affected by political, economic, financial and regulatory uncertainty from time to time in its key markets.

Key mitigating considerations

- 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 is diversified in terms of asset class, industry and funding source.

1 Principal Risks and Uncertainties *(continued)*

Business and strategic risk *(continued) (page 182)*

Key benchmark interest rate reform

Principal risks and uncertainties

Following the financial crisis, the reform and replacement of benchmark interest rates to alternative or nearly risk-free rates has become a priority for global regulators. The Group's exposures to benchmark interest rates will be replaced or reformed as part of this market-wide initiative. Transition efforts in connection with these reforms are complex, with significant risks and challenges.

Key mitigating considerations

- A formal Group-wide Benchmark Reform Programme is progressing to plan so as to manage the orderly transition to new regulatory compliant benchmarks.
- The Group Asset and Liability Committee (ALCO) provides oversight to the programme, and updates are provided to the Regulatory bodies (JST and PRA).
- The Group continues to transition to new Risk Free Rates where market liquidity allows and alternative rates are available for all relevant products.
- The Group will adhere to the International Swaps and Derivative Association (ISDA) 2020 Interbank offered rate (IBOR) fallback protocol to support the smooth transition of derivative products.

Climate risk

Principal risks and uncertainties

Climate related considerations are a developing and growing agenda item for financial institutions globally and an increasing focus for key stakeholders including investors and customers. The Group's businesses, operations and assets could be affected by climate change and climate-related risks. Two key risks identified are physical risks from climate change, i.e. extreme weather events such as flooding; and transition risks which are risks associated with transitioning to a low carbon economy, where the Group and its customer base could be impacted by a range of impacts such as changes to consumer behaviour and environmental legislation, e.g. changes in how cars are powered. Accelerating climate change could lead to sooner than anticipated physical risk impacts to the Group and the wider economy and there is uncertainty in the scale and timing of technology, commercial and regulatory changes associated with the transition to a low carbon economy.

Key mitigating considerations

- Conducting the Group's business in a responsible and sustainable way is fundamental to achieving its purpose of enabling its customers, colleagues and communities to thrive. The Group continues to develop its RSB agenda which considers climate related impacts across its own footprint and that of its key stakeholders.
- As a signatory to the UN Principles of Responsible Banking and a supporter of the Task-force on Climate-related Financial Disclosures (TCFD), the Group is committed to working together with its customers, colleagues and communities to support their transition to a resilient, Net Zero economy by 2050, in line with the Irish and UK governments' ambitions and actions. The Group has also set a target to make its own operations Net Zero by 2030. This is underpinned by the development of the Group's RSB Strategy and its associated 5-point climate action plan. See page 28 for more information on our climate action plan.
- The RSB Strategy sees the Group setting its portfolios and lending practices on a pathway aligned with the Paris Agreement. The Group has committed to setting science based targets across its portfolios by 2022 and to build the Group's own resilience by embedding climate-related impacts in decision making processes for the Group's operations, in lending and investment decisions and the advice provided to customers.
- As a systemic and persisting risk to the Group's business model, the Group has implemented an Environmental, Social and Corporate Governance (ESG) Risk Framework in 2020 to guide this deepening integration of climate risk management into our enterprise risk frameworks and business processes in line with regulatory guidance.
- For further details on climate risk management, please refer to page 34.

1 Principal Risks and Uncertainties *(continued)*

Credit risk *(page 154)*

Principal risks and uncertainties

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.

Key mitigating considerations

- Board approved Group Credit Policy and risk appetite limits, including credit category limits, together with a framework for cascade 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.
- Enhanced management of credit risk associated with customers affected by the economic impacts of the COVID-19 pandemic (as detailed in page 166 of the Risk Management Report).
- Dedicated structures focused on the management of customers in financial difficulty, including those who require short and long-term support measures due to COVID-19.

Funding and liquidity risk *(page 168)*

Principal risks and uncertainties

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. The liquidity risk of the Group may also be impacted by the extent, duration and intensity of the COVID-19 pandemic due to unexpected lengthening of maturities, non-repayment of assets, a sudden withdrawal of deposits or the potential changes in customer behaviour.

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 funds an element of its sterling balance sheet in part from euro (via cross currency derivatives), which creates an exposure to the cost of this hedging.

Key mitigating considerations

- Board approved risk appetite limits.
- Group funding and liquidity policies, systems and controls.
- Comprehensive liquidity monitoring framework.
- Annual Board approved forward looking ILAAP.
- Strategic plan articulating and quantifying deposit projections, wholesale funding and lending projections for all divisions.
- Contingency Funding Plan and Recovery Plan in place with annual update.
- Maintenance of liquid assets and contingent liquidity available for use with market counterparties and / or in liquidity operations offered by Monetary Authorities.
- The maturity profile of the Group's cross currency hedging is broadly spread over 24 months.

1 Principal Risks and Uncertainties *(continued)*

Market risk *(page 173)*

Principal risks and uncertainties

Market risk is the risk of loss arising from movements in interest rates, FX rates, credit spreads or other market prices.

Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking. Additionally, market risk arises through the conduct of customer business, particularly in respect to fixed- rate lending and the execution of derivatives and FX business. The market risk profile of the Group may, in addition to the above risks which arise in the usual course of a business cycle, be impacted by the market volatility during the COVID-19 pandemic. Earnings for New Ireland Assurance Company plc (NIAC) are also indirectly exposed to changes in equity and property markets through fee income generated on unit-linked customer investments.

The Group policy permits discretionary risk taking activity to generate income from Market Risk. Risk appetite for discretionary market risk is controlled to remain within Value-at-Risk (VaR) trading limits. Discretionary risk can arise through leaving some customer or intra-Group risk unhedged or through assuming risk proactively in the market.

Structural market risk arises from the presence of non-interest bearing liabilities (equity and some current accounts), the multi-currency nature of the Group's balance sheet and changes in the volume of impaired assets and the floating interest rates to which the Group's assets and liabilities are linked.

Key mitigating considerations

- 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.
- VaR and extensive stress testing of market risks.

Life insurance risk *(page 177)*

Principal risks and uncertainties

Life insurance risk is the risk 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. There has been no material adverse impact from COVID-19 on the life insurance risk profile to date. The impact of COVID-19 will continue to be monitored and there is no material adverse impact expected for 2021.

Life insurance risk arises from the Group's life insurance subsidiary (NIAC) selling life insurance products in the Irish market.

Key mitigating considerations

- 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. High levels of reinsurance act as a significant mitigant if there were adverse mortality developments, together with the diversification effect of mortality and longevity risk.
- 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.
- A range of sensitivities and scenario tests are performed as part of the annual Own Risk and Solvency Assessment (ORSA) process.
- 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.

1 Principal Risks and Uncertainties *(continued)*

Conduct risk *(page 178)*

Principal risks and uncertainties

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. It includes the risk the Group's wholesale market activities do not meet the necessary standards of integrity and the level of professionalism required or expected.

Examples of conduct risk include:
- risk of not delivering fair outcomes to customers;
- risk of the design and development of products and services that do not continue to be suitable over the lifetime of the product or respond to changing customer needs; and
- risk of staff not meeting set standards of behaviour with a consequential material negative outcome for customers, colleagues and communities.

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.

Key mitigating considerations

- 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.
- The Group have developed a strategy to develop culture based on the outcomes we wish to deliver guided by the Group's values.
- The Group has increased oversight of processes developed to help customers who availed of interim supports during the economic dislocation caused by the COVID-19 pandemic.

Regulatory risk *(page 179)*

Principal risks and uncertainties

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.

The regulatory landscape continues to evolve and the banking sector is subject to increasing scrutiny. This requires the Group to adapt to, and operate within, a dynamic and challenging environment, resulting in enhanced regulatory oversight arising from the COVID-19 pandemic, particularly in the area of financial crime.

Key mitigating considerations

- Board approved risk appetite limits.
- Policies, statements, policy standards in place for compliance risk, conduct risk, prudential 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 BRC and the 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.

1 Principal Risks and Uncertainties *(continued)*

Operational risk *(page 180)*

Principal risks and uncertainties

Operational risk is loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes Business Continuity Risk, Data Quality & Reliability, Fraud, Information Security and Cyber Risk, Information Technology, Insurable, Legal & Contractual, Model, Payments, Sourcing, Unauthorised Trading and Business 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 transformation agenda.

It also arises from the risk of cybersecurity attacks which target financial institutions and corporates as well as governments and other institutions. The risk of these attacks remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world.

The worldwide pandemic caused by COVID-19 is an example of external events, not caused by the actions of the Group, to which the Group must respond and manage. The risk of such external events, which includes natural disasters, civil unrest, etc., present potential significant disruption and are therefore considered material. The pandemic has caused significant changes for our customers and corresponding operational changes for the Group, including the deployment of interventions to mitigate model risk. The potential for increased operational risk arising from COVID-19 and the legacy of changes, that may ensue, to ways of working for our customers and colleagues, will be kept under continuous review by the Group.

Key mitigating considerations

- Board approved risk appetite limits.
- 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 Operational Risk Management 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 and changes required due to COVID-19, the Group has initiated a 'Pivot to Digital'. This initiative includes the migration of retail customers to new digital channels which nears completion and will also be underpinned by an Enterprise Transformation Plan to ensure the digital demands are managed within risk, capacity and financial constraints while addressing regulatory requirements.
- Clear contracts and accountability in place for third party partners for the Transformation Programme.
- Regular internal audits and testing carried out to ensure adequacy of controls.
- Business Continuity Management combined with Incident Management, and the Crisis Management Framework of the Group enable resilience, swift response, and recovery from external events.
- Since the onset of COVID-19, there has been proactive management intervention applied to the credit models in particular. This includes a triangulation of the model outputs with external reference points and engaging subject matter experts to reduce the reliance on model outputs and thereby mitigating model risk.

Litigation and regulatory proceedings

Principal risks and uncertainties

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.

Key mitigating considerations

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.

1 Principal Risks and Uncertainties *(continued)*

Pension risk *(page 183)*

Principal risks and uncertainties

The Group sponsored defined benefit pension schemes are currently in deficit under the IAS 19 accounting definition, requiring the Group to set aside capital to mitigate these risks.

The defined benefit pension schemes are subject to market fluctuations and these movements impact on the Group's capital position, particularly the Group's CET1 capital ratio, which amongst other things, could impact on the Group's dividend capacity. See note 47 Retirement benefit obligations.

Key mitigating considerations

- Board approved risk appetite limits.
- To help manage pension risk, defined benefit schemes were closed to new entrants in 2007 and a new hybrid scheme (which included elements of defined benefit and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in 2014 and a new defined contribution scheme was introduced for new entrants to the Group from that date.
- In addition, the Group implemented two Pension Review programmes in 2010 and 2013 resulting in significant restructuring of defined benefit 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.

Reputation risk *(page 184)*

Principal risks and uncertainties

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

Reputation risk arises as a direct or indirect consequence of the Group's operations and business activities. Reputation is not a standalone risk but overlaps with other risk areas and may often arise as a consequence of external events or operational risk related issues.

Key mitigating considerations

- Group ambition, purpose, values and strategic priorities communicated to all stakeholders.
- Potential impact on reputation is considered in the decision making process.
- Media, government, political, regulatory and administrative stakeholder engagement is actively managed.
- Print, broadcast, online and social media reportage and commentary is monitored.
- Process of 'Early Warning Reports' - to alert senior management on emerging issues that have the potential to expose the Group to reputational risk - is embedded across the Group.
- Group Sponsorship and Group RSB programmes in place.
- Proactive external communications with key stakeholders on Group response to COVID-19.
- Strong focus on internal communications to ensure that colleagues are kept informed on all important Group announcements, issues and developments.
- Colleagues are required to comply with all Group policies and procedures including the Group Code of Conduct.

1 Principal Risks and Uncertainties *(continued)*

Capital adequacy *(page 185)*

Principal risks and uncertainties

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 SSM.

Key mitigating considerations

- 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 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 and potential options to remediate same.

Risk in relation to Irish Government shareholding

Principal risks and uncertainties

The risk that the Irish Government, which has a c.14% discretionary shareholding in the Group via the Ireland Strategic Investment Fund (ISIF), uses its voting rights in a way that might not be in the best interests of the Group's private sector shareholders.

Key mitigating considerations

- 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 / International Monetary Fund (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.

Resolution risk

Principal risks and uncertainties

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.

Key mitigating considerations

- Following notification that the SRB's preferred resolution strategy consisted of a single point of entry bail-in strategy, the Group implemented a holding company, BOIG plc, during 2017.
- The Group continues to engage constructively with its resolution authorities, including the SRB, in order to meet regulatory expectations in respect of resolvability.
- The Group has a Board approved Recovery Plan which includes an escalation process to identify an emerging stress along with recovery options that it can utilise to mitigate a severe stress scenario.

1 Principal Risks and Uncertainties *(continued)*

Tax rates, legislation and practice

Principal risks and uncertainties

The Group's financial position and outlook are exposed to the risks associated with a change in tax laws, tax rates, regulations or practice and the risks associated with non-compliance with existing requirements. The Group is also exposed to the risk that tax authorities may take a different view to the Group on the treatment of certain items. Furthermore, failure to demonstrate that it is probable that future taxable profits will be available, or changes in government policy or tax legislation may reduce the recoverable amount of the DTAs currently recognised in the financial statements.

Key mitigating considerations

- 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.

2 Risk Management Framework

Risk statement

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

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

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

2.1 Risk governance

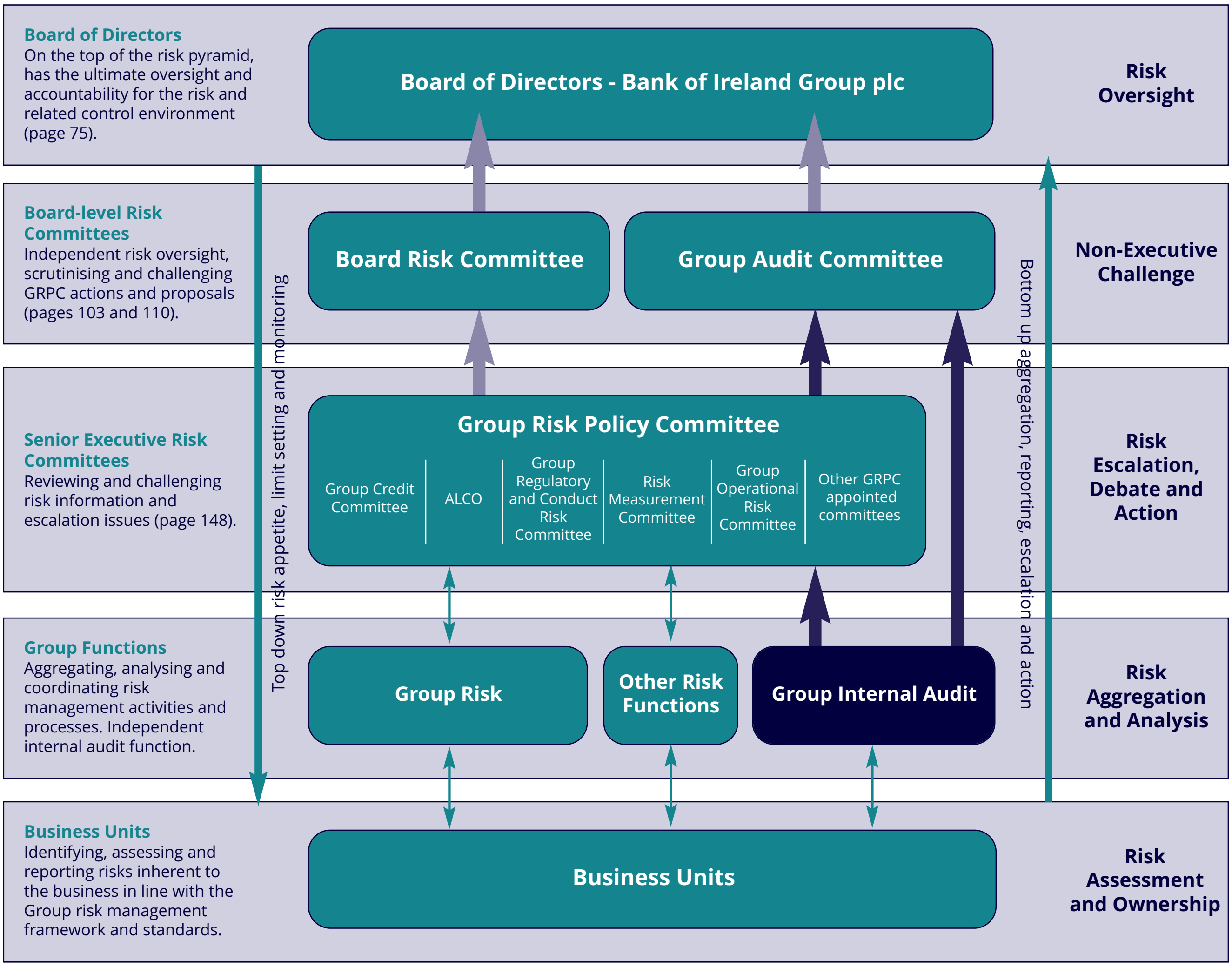
The Board has ultimate responsibility for the governance of risk at the Group. Oversight of risk activities is achieved through a risk governance structure designed to facilitate the identification, assessment, and escalation of risk through the organisation and ultimate reporting on risk activities and material considerations to the Board.

The Board is assisted in its risk governance responsibilities by the delegated sub-committees of the Board, primarily the Board Risk and Group Audit Committees (BRC and GAC respectively), and at executive level by the Group Risk Policy Committee (GRPC) and its supporting executive committees, namely the Group Regulatory and Conduct Risk Committee (GRCRC), Group Credit Committee (GCC), ALCO and Group Operational Risk Committee (GORC).

The Board of Directors is ultimately accountable for the effective management of risks and for the system of internal controls in the Group. The system of internal control is designed to ensure thorough and regular evaluation of the nature and extent of risks, and the ability of the Group to react accordingly. The Board is supported by the Board Risk Committee on risk oversight matters and the Group Audit Committee in relation to the effectiveness of the system of internal controls. Each of the Board Committees and the executive committees that form part of the risk governance framework operate in accordance with clear terms of reference, approved by the Board or parent executive committee, setting out their respective roles and responsibilities. Further detail outlining the key responsibilities of the Group's Board-level risk committees can be found on pages 103 and 110 within the Governance section.

2 Risk Management Framework *(continued)*

2.1 Risk governance *(continued)*



During 2020, the Group undertook a review and challenge process to streamline the existing executive governance structure. The objective of the review was to ensure the structure was not only fit for current purposes but positioned the Group for the future and was sufficiently clear and robust in preparation for the Senior Executive Accountability Regime (SEAR) that will soon apply in Ireland. A refreshed structure was introduced with effect from 1 January 2021 and will be reported on in greater detail in the 2021 Annual Report. The governance structure underwent a rigorous process of review and challenge, informed by internal and external experts and governance best practices. The maintenance of a strong control environment - with risk management and customer outcomes at the forefront of all decisions - has been and remains a key governance consideration.

A review was also undertaken of the Board Risk and Audit Committees' terms of reference to ensure inter alia clearer delineation of the roles and responsibilities of these key committees as they relate to internal control and risk management.

The **Group Risk Policy Committee** is the most senior management risk committee and reports to the BRC. It is chaired by the Group CRO and its membership comprises members of the Group Executive team and Group-wide divisional and control function executives. It met 41 times during 2020.

The GRPC is responsible for managing all risk types across the Group, including monitoring and reviewing the Group's risk profile and compliance with risk appetite and other approved

2 Risk Management Framework *(continued)*

2.1 Risk governance *(continued)*

policy limits, approving risk policies and actions within discretion delegated to it by the BRC. The GRPC reviews and makes recommendations on all risk matters where the Board and the BRC has reserved authority. The BRC oversees the decisions of the GRPC through a review of the GRPC minutes and reports from the Committee Chair. The GRPC delegates specific responsibility for oversight of the major classes of risk to specific committees and individuals that are accountable to it.

The relevant committees are set out in the following table.

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

Three lines of defence approach

The Risk Governance Framework is supported by the Group's management body and outlines how risk responsibilities extend throughout the organisation based on a three lines of defence approach.

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

2 Risk Management Framework *(continued)*

2.1 Risk governance *(continued)*

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

In 2020 the Group appointed a new Chief Compliance Officer, with responsibilities for regulatory, financial crime, compliance and conduct risk activities. The Group also appointed the Head of a new Non-Financial Risks function.

Third line of defence: GIA provides independent, reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering Group businesses and functions (including outsourcing providers - subject to the right to audit), with ratings assigned as appropriate. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates. Credit Review (CR), an independent function within GIA, is responsible for reviewing the quality and management of credit risk assets across the Group. In 2020 the Group appointed a new Group Chief Internal Auditor.

Management oversight of risk

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

Group Risk is responsible for the Group's overall risk strategy and integrated risk reporting to the Board, the BRC and Group Executive team, in addition to oversight of all risks. The function is led by the Group CRO who is a member of the Group Executive team and reports directly to the Group CEO, and may directly influence business decisions by:
- emphasising a portfolio approach to risk management in addition to a transactional approach;
- leading the discussion on the setting of risk appetite; and
- providing appropriate risk measurements to influence the assessment of business performance.

The Group CRO provides independent advice and constructive challenge to the Group Executive in the support of effective risk-informed business decisions. This involves acting as an enabler as well as a challenger of well-structured business growth opportunities that can be shown to fit within the Group's risk appetite. The Group CRO will retire in March 2021 and a selection process is underway.

In addition, a number of other Group functions have responsibility for the Group's other key risk types, namely Group Corporate Affairs (reputation risk) and Group Finance (pension risk). Business and strategic risk is managed by the relevant Divisional CEOs, with risk ownership assigned to Group Strategy Development and Group Finance. Life insurance risk is managed within NIAC, an independent regulated subsidiary with its own independent board, with risk ownership assigned to the CFO, NIAC.

2.2 Risk culture

The Group risk appetite articulates the level of risk the Group is prepared to take to achieve its strategic priorities. The culture of the Group reflects the balance between:
- risk management and financial return; and
- risk taking and incentives.

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

Transforming the Group is a strategic priority and ongoing oversight and measurement of cultural transformation is required to deliver this efficiently and effectively. The Group has developed a Culture Transformation Strategy to support the delivery of a culture consistent with our Purpose, Values and Strategic Priorities. The current strategy will run to end of 2021 after which point a new strategy will be implemented reflecting the culture journey to date.

The Culture Transformation Strategy aims to embed a consistent and robust culture across the Group and build on existing infrastructure and focus on:
- **enhancing existing processes - making good better and better best** e.g. enhanced performance management drawing direct links to recognition and ultimately reward;
- **reinforcing the Purpose and Values - knowing is not enough, we must apply** e.g. by restructuring the Code of Conduct in line with the Group Values and using the Code of Conduct check in meetings; and
- **formalising existing practices - being willing is not enough, we must show and do** e.g. by formalising accountabilities so that they drive decision making.

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

2 Risk Management Framework *(continued)*

2.3 Risk strategy and appetite

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

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

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

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

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

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

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

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

2 Risk Management Framework *(continued)*

2.4 Risk identification and materiality assessment

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

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

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

The ten key risk types are outlined below:

2.5 Risk analysis and measurement

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

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

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

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

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

The Group conducts:
- loan loss forecasting which informs senior management about potential outcomes related to loan loss evolution under chosen macroeconomic scenarios. This information is regularly used as an input into the Group's budget, strategic plan and ICAAP. Additionally, it can be used to forecast future provisioning needs and / or to understand, and therefore anticipate, earnings volatility and future capital utilisation, such as at portfolio / transaction level. Results of forecasting are used by the Group to enhance the understanding of potential vulnerabilities and to make decisions around risk appetite and capital adequacy or to help prepare mitigating actions;

2 Risk Management Framework *(continued)*

2.5 Risk analysis and measurement *(continued)*

- solvency stress tests evaluate the Group's financial position under 'severe but plausible' scenarios or sensitivities and provide an indication of how much capital might be needed to absorb losses should such a shock occur. Scenarios for solvency stress testing are approved by GRPC but regulators can also request that a mandated stress scenario be run to assess capital needs across banks in a particular jurisdiction. The approved scenarios are applied to the Group's credit portfolios and financials as appropriate, in order to generate stressed loan loss forecasts and other impacts over the scenario period. The outputs of the solvency stress testing are reviewed and approved by the Board, and used by the Group to inform risk appetite, strategy and capital planning and are an integral component of the Group's ICAAP process. They are also used by regulators to assess the Group's ability to continue to meet its capital requirements under severe adverse conditions; and
- reverse stress testing evaluates the Group's ability to survive an unforeseen severe event or combination of events that would cause the Group's business model to become unviable. Reverse stress testing complements and builds on solvency stress testing by exploring more extreme scenarios / events beyond the likelihood thresholds looked at in solvency stress testing. This is achieved as reverse stress testing is developed in reverse, working back from an outcome of business failure to causal analysis, while the more typical solvency stress testing works towards defining a range of outcomes or probabilities given defined inputs.

Due to the unprecedented nature of the COVID-19 economic shock, this has been a primary focus of loan loss forecasting and solvency stress testing activities during 2020. In parallel the Group is developing its scenario modelling and scenario capabilities in the climate risk space (please refer to page 32).

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

Market risk
The following market risks are subject to stress testing as part of its normal risk measurement and management process:
- discretionary market risk, consisting of Trading Book positions and discretionary Interest Rate Risk in the Banking Book (IRRBB) risk;
- structural IRRBB consisting of balance sheet basis risk; and
- structural FX, the sensitivity of Group capital ratios to exchange rate movement.

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

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

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

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

Recovery and resolution planning
In line with the BRRD for EU banks, the Group maintains a Recovery Plan which sets out options to restore financial stability and viability of the Group in the event of the relevant circumstances arising. The Group's Recovery Plan is approved by the Board on the recommendation of BRC and GRPC.

For institutions which are under the remit of the Single Resolution Board (SRB), including the Group, resolution plans are prepared by the SRB to determine an institution's critical functions, to identify and address any impediments to its resolvability and to prepare for its possible resolution. The SRB published an Expectations for Banks document which sets out the actions required by institutions (including the Group) to demonstrate they are resolvable.

2 Risk Management Framework *(continued)*

2.6 Risk monitoring and reporting

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

The key risk types identified under the Group's risk identification process are assessed and their status is reported quarterly by the Group CRO in the Court Risk Report which is reviewed by the GRPC, the BRC and the Board. The content of the report includes an analysis of and commentary on all key risk types as set out on pages 154 to 189. Updates on risk dashboards and risk appetite compliance are provided on a monthly basis. The frequency of reporting is assessed and increased as appropriate during times of stress / crisis.

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

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

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

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

3 Management of key Group risks

3.1 Credit risk

Key points:

- The macroeconomic environment in Ireland and the UK, which are the Group's key markets, has been materially impacted by the emergence of the COVID-19 pandemic and associated social restrictions, and to a lesser extent, uncertainty during the year pending the completion of Brexit trade negotiations between the UK and EU.
- Total loans and advances to customers (before impairment loss allowance) at amortised cost[1] reduced to €78.5 billion at 31 December 2020 from €80.5 billion at 31 December 2019 reflecting the combined impacts of FX rates, utilisation of impairment loss allowance and net new lending.
- Credit risk has increased in 2020, almost entirely due to the economic impact of the COVID-19 pandemic and associated social restrictions. While the Group's NPEs had reduced significantly in previous years, a combination of a revised technical definition of default and the deterioration in economic conditions due to COVID-19 during 2020 has resulted in a higher level of NPEs.
- Total net impairment losses on loans and advances to customers of €1.1 billion compared to a prior year loss of €0.2 billion. The loss primarily reflects impairments recognised arising from: impairment model updates incorporating the change in the macroeconomic outlook due to the COVID-19 pandemic (€0.5 billion); loss emergence primarily from a number of commercial exposures in Corporate and Treasury and Retail UK (€0.4 billion); and the application of Group management adjustments which primarily reflect the potential risk that longer-term credit supports may be required for customers affected by COVID-19 (€0.2 billion).

Definition of credit risk *(audited)*

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

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

Credit facilities can be largely grouped into the following categories:

- cash advances (e.g. loans, overdrafts, revolving credit facilities (RCFs) and bonds), and associated commitments and letters of offer;
- credit related contingent facilities (issuing of guarantees / performance bonds / letters of credit);
- derivative instruments; and
- settlement lines.

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

Default risk

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

- deterioration in macroeconomic or general market conditions;
- deterioration in a borrower's capacity to service its credit obligation;
- a credit event (e.g. a corporate transaction);
- a natural or manmade disaster;
- regulatory change, or technological development that causes an abrupt deterioration in credit quality;
- a mismatch between the currency of a borrower's income and their borrowing / repayments; and
- environmental factors that impact on the credit quality of the counterparty.

Credit concentration risk

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

Country risk

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

Migration risk

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

Collateral risk

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

[1] *Excludes €0.4 billion of loans and advances to customers at 31 December 2020 that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9 (31 December 2019: €0.3 billion).*

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

Credit risk management *(audited)*

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

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

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

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

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

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

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

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

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

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

Credit risk measurement *(audited)*

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

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

The Group's credit risk rating systems and impairment models and methodologies play a key role in quantifying the appropriate level of impairment loss allowance. Further details are provided in the section on credit risk methodologies on page 161.

An analysis of the Group's impairment loss allowances at 31 December 2020 is set out in note 28 on page 269.

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

Credit risk mitigation *(audited)*

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

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. disposals, securitisations, hedging strategies) are explored and recommended to the PRC.

Collateral

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

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

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in the tables on pages 350 and 359.

Counterparty credit risk arising from derivatives

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

Credit risk reporting / monitoring *(audited)*

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

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

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

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

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

Management of challenged assets *(audited)*

The Group has in place a range of initiatives to manage challenged and vulnerable credit. These include:

- enhanced collections and recoveries processes;
- specialist work-out teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions; and
- support from central teams in managing 'at risk' portfolios at a business unit level.

Group forbearance strategies

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

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

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

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. 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.

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.

As outlined on page 166, in line with regulatory guidance and wider industry practice, cases where customers availed of COVID-19 payment breaks or concessions were typically not classified as forborne.

Where customers require further support following the expiry of COVID-19 payment breaks or concessions (i.e. are unable to return to paying full capital and interest) the Group's objective is to offer suitable and sustainable solutions in a timely manner. The Group has alternative repayment arrangements available, including forbearance arrangements, for customers who require further financial support and these are based on an assessment of the individual needs of each customer and what is the most suitable solution.

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

Asset quality methodology

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

- **Stage 1 - 12 month expected credit losses (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 expected credit losses (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 expected credit losses (credit-impaired)**
  Credit-impaired financial instruments, other than Purchased or Originated Credit-impaired (POCI) financial assets. An impairment loss allowance equal to lifetime ECL is recognised. The manner in which the Group identifies financial assets as credit-impaired results in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets (in accordance with regulatory guidelines including European Banking Authority (EBA) Guidelines on the application of the definition of default under Article 178 of the Capital Requirements Regulation (CRR)). 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 and / or (ii) the borrower is greater than or equal to 90 days past due and the arrears amount is material.

- **Purchased or originated credit-impaired financial assets**
  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 page 164.

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

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, 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'.

Non-performing exposures

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, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and

(ii) **other loans** meeting NPE criteria as aligned with regulatory requirements.

Quantitative information about credit risk can be found in note 28 Credit risk exposures.

Non-performing exposures

The tables below provide an analysis of loans and advances to customers that are non-performing by asset classification as at 31 December 2020.

2020 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[1]	2,197	1,040	1,083	145	4,465
Not credit-impaired[2]	7	19	12	-	38
Total	**2,204**	**1,059**	**1,095**	**145**	**4,503**

2019 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[1]	1,694	784	549	100	3,127
Not credit-impaired[2]	245	104	43	-	392
Total	**1,939**	**888**	**592**	**100**	**3,519**

Unaudited:

In addition to the NPEs on loans and advances to customers shown above, the Group has total non-performing off-balance sheet exposures amounting to €0.1 billion (31 December 2019: €0.1 billion).

NPEs increased to €4.5 billion at 31 December 2020 from €3.5 billion at 31 December 2019. Implementation of the revised definition of default during the year has resulted in close alignment between the assets classified as credit-impaired and NPEs.

The movements in NPEs in the year are broadly consistent with the movements in credit-impaired loans as set out in the composition and impairment section below. At 31 December 2020, the Group's NPE impairment loss allowance cover ratio was 50% (31 December 2019: 37%), with the increase reflecting the €1.1 billion impairment loss on loans and advances to customers in the year.

[1] *Includes Stage 3 and Purchased or Originated Credit-impaired assets which remain credit-impaired at the reporting date.*

[2] *Not credit-impaired figures for 2019 include forborne loans that had yet to satisfy exit criteria in line with European Banking Authority guidance to return to performing.*

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

Composition and impairment

The table below summarises the composition, credit-impaired volumes and related impairment loss allowance of the Group's loans and advances to customers at amortised cost as at 31 December 2020.

2020 **Total loans and advances to customers at amortised cost - Composition and impairment[1]**	**Advances (pre-impairment loss allowance) €m**	**Credit-impaired loans[2] €m**	**Credit-impaired loans as % of advances %**	**Impairment loss allowance[3] €m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	44,742	2,197	4.9%	374	17%
- Retail Ireland	*22,942*	*1,509*	*6.6%*	*329*	*22%*
- Retail UK	*21,800*	*688*	*3.2%*	*45*	*7%*
Non-property SME and corporate	19,858	1,040	5.2%	429	41%
- Republic of Ireland SME	*7,073*	*672*	*9.5%*	*261*	*39%*
- UK SME	*1,790*	*114*	*6.4%*	*26*	*23%*
- Corporate	*10,995*	*254*	*2.3%*	*142*	*56%*
Property and construction	8,591	1,083	12.6%	461	43%
- Investment	*7,633*	*1,049*	*13.7%*	*446*	*43%*
- Development	*958*	*34*	*3.5%*	*15*	*44%*
Consumer	5,271	145	2.8%	80	55%
Total	**78,462**	**4,465**	**5.7%**	**1,344**	**30%**

2019 **Total loans and advances to customers at amortised cost - Composition and impairment[1]**	**Advances (pre-impairment loss allowance) €m**	**Credit-impaired loans[2] €m**	**Credit-impaired loans as % of advances %**	**Impairment loss allowance[3] €m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	46,271	1,694	3.7%	380	22%
- Retail Ireland	*23,035*	*1,290*	*5.6%*	*340*	*26%*
- Retail UK	*23,236*	*404*	*1.7%*	*40*	*10%*
Non-property SME and corporate	20,433	784	3.8%	353	45%
- Republic of Ireland SME	*7,305*	*495*	*6.8%*	*225*	*45%*
- UK SME	*1,687*	*80*	*4.7%*	*38*	*48%*
- Corporate	*11,441*	*209*	*1.8%*	*90*	*43%*
Property and construction	8,112	549	6.8%	180	33%
- Investment	*7,253*	*519*	*7.2%*	*162*	*31%*
- Land and development	*859*	*30*	*3.5%*	*18*	*60%*
Consumer	5,727	100	1.7%	63	63%
Total	**80,543**	**3,127**	**3.9%**	**976**	**31%**

[1] *Excludes €361 million of loans and advances to customers at 31 December 2020 (2019: €252 million) that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.*
[2] *Includes Stage 3 and Purchased or Originated Credit-impaired assets which remain credit-impaired at the reporting date.*
[3] *Impairment loss allowance on credit impaired loans and Purchased or Originated Credit-impaired assets.*

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

At 31 December 2020, loans and advances to customers (pre impairment loss allowance) of €78.5 billion were €2.1 billion lower than 31 December 2019, reflecting the combined impacts of currency translation, utilisation of impairment loss allowances and net new lending (note 27).

Credit-impaired loans increased to €4.5 billion or 5.7% of customer loans at 31 December 2020 from €3.1 billion or 3.9% at 31 December 2019. This increase in credit-impaired loans was due in part to the revised definition of default that was implemented for the majority of the Group's portfolios in 2020 which resulted in €0.9 billion of assets being re-classified as credit-impaired on implementation during the year. The remaining increase in credit-impaired assets reflected the emergence of new defaults for case specific reasons primarily in the Corporate and Property and construction portfolios. The increase in credit-impaired loans was partly offset by ongoing resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

COVID-19 has impacted the Group's IFRS 9 staging profile, whereby the application of updated forward-looking information, as well as individually assessed risk ratings has resulted in a material migration of loans from Stage 1 to Stage 2 (i.e. identified as having experienced a significant increase in credit risk).

The stock of impairment loss allowance on credit-impaired loans increased to €1.3 billion at 31 December 2020 from €1.0 billion at 31 December 2019. This net increase incorporates the impact of the impairment loss on credit-impaired loans €0.4 billion in the year partly offset by impairment loss allowance utilisation of c.€0.2 billion.

The total impairment loss allowance as at 31 December 2020 includes a total Group management adjustment of €237 million (31 December 2019: €56 million), €53 million of which is related to credit-impaired assets. Details on the Group management adjustment are provided in note 2 on page 228 of the consolidated financial statements.

Impairment loss allowance as a percentage of credit-impaired loans remained broadly stable at 30% at 31 December 2020 compared to 31% at 31 December 2019. The level of impairment loss allowance for credit-impaired assets at 31 December 2020 reflects the recognition of impairment losses on credit impaired loans in the year combined with the impact of the revised definition of default which involved the classification of cases as credit-impaired that have assessed impairment loss allowance coverage that is lower than average.

While at a Group level impairment loss allowance cover for credit-impaired loans was stable compared to 2019, there was an increase in impairment cover observed in the Corporate and Investment property portfolios reflecting case specific impairment assessments for some larger defaulted assets. This was offset by lower impairment cover for credit-impaired assets in other portfolios. Most notably cover for residential mortgages reduced due to the impact of the revised definition of default (as described above), resilience in the residential housing markets and the impact of impairment model parameter updates (including forward-looking information as well as refreshed cure rates and sales ratios).

The table below summarises the composition, NPEs and related impairment loss allowance of the Group's loans and advances to customers at 31 December 2020.

2020 **Total loans and advances to customers Composition and impairment[1]**	**Advances (pre-impairment) loss allowance €m**	**NPEs €m**	**NPEs as % of advances %**	**Total impairment loss allowance €m**	**Total Impairment loss allowance as % of NPEs %**
Residential mortgages	44,742	2,197	4.9%	479	22%
- Retail Ireland	*22,942*	*1,508*	*6.6%*	*393*	*26%*
- Retail UK	*21,800*	*689*	*3.2%*	*86*	*12%*
Non-property SME and corporate	19,858	1,059	5.3%	931	88%
- Republic of Ireland SME	*7,073*	*685*	*9.7%*	*501*	*73%*
- UK SME	*1,790*	*120*	*6.7%*	*72*	*60%*
- Corporate	*10,995*	*254*	*2.3%*	*358*	*141%*
Property and construction	8,591	1,095	12.7%	596	54%
- Investment	*7,633*	*1,061*	*13.9%*	*556*	*52%*
- Development[2]	*958*	*34*	*3.5%*	*40*	*118%*
Consumer	5,271	145	2.8%	236	163%
Total	**78,462**	**4,496**	**5.7%**	**2,242**	**50%**

[1] *Excludes €361 million (31 December 2019: €252 million) of loans and advances to customers at 31 December 2020 that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.*

[2] *Formerly land and development.*

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

2019 Total loans and advances to customers Composition and impairment[1]	Advances (pre-impairment) loss allowance €m	NPEs €m	NPEs as % of advances %	Total impairment loss allowance €m	Total Impairment loss allowance as % of NPEs %
Residential mortgages	46,271	1,939	4.2%	432	22%
- Retail Ireland	*23,035*	*1,461*	*6.3%*	*369*	*25%*
- Retail UK	*23,236*	*478*	*2.1%*	*63*	*13%*
Non-property SME and corporate	20,433	888	4.3%	487	55%
- Republic of Ireland SME	*7,305*	*548*	*7.5%*	*297*	*54%*
- UK SME	*1,687*	*106*	*6.3%*	*49*	*46%*
- Corporate	*11,441*	*234*	*2.0%*	*141*	*60%*
Property and construction	8,112	592	7.3%	230	39%
- Investment	*7,253*	*559*	*7.7%*	*209*	*37%*
- Development[2]	*859*	*33*	*3.8%*	*21*	*64%*
Consumer	5,727	100	1.7%	159	159%
Total	**80,543**	**3,519**	**4.4%**	**1,308**	**37%**

Unaudited:
The movements in NPEs in the year are broadly consistent with the movements in credit-impaired loans as set out on page 159. At 31 December 2020, the Group's NPE impairment loss allowance cover ratio was 50% (2019: 37%).

Credit risk methodologies *(audited)*

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

Internal credit rating models

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

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

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

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 Rating Based (FIRB) 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.

[1] *Excludes €252 million of loans and advances to customers at 31 December 2019 that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.*
[2] *Formerly Land and development.*

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

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 Internal Rating Based (IRB) approach for the majority of its retail exposures. Under this approach, the Group calculates its own estimates for PD, LGD and credit conversion factors.

External ratings do not play a role within the Group's retail internal rating systems, however, external credit bureau data can play a role in assessing certain borrowers.

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

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

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

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

Other uses of internal estimates

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

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

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

Impairment models are described further on page 163.

Control mechanisms for credit rating and impairment models

The Group Model Risk Policy and Group Model Risk Standards, as approved by the BRC and GRPC respectively, 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 and impairment 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 appropriateness of model use.

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

- **independent validation:** 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) 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

Approach to measurement of impairment loss allowances

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

In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However this may not be the case for very highly collateralised loans, such as residential mortgages at low loan to value (LTV) ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the year. The Group's methodologies for valuation of property collateral are set out on page 165, noting further that FLI (page 223) 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 losses on financial instruments and impairment loss allowances is set out in notes 16, 27 and 28 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. The ECL framework allocates financial instruments to Stage 1, 2 or 3 and measures the applicable 12 month or lifetime ECL. The characteristics of an exposure determine which impairment model is applied, 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 (BTL), general corporate lending, general business lending).

ECLs are calculated as the sum of the marginal losses for each time period from the reporting date. The key components of the ECL calculation are probability of default (PD), exposure at default (EAD) and loss given default (LGD) and are described below. Other components include discount rate and maturity. The current contractual interest 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 RCFs, contractual maturity is used in the ECL calculation. For other revolving facilities, behavioural life is generally used.

IFRS 9 Probability of Default

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

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 two 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 calculate 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.

Due to the unprecedented nature of the COVID-19 macro-economic scenario, a greater degree of management judgement (based on available reasonable and supportable internal and external information) has been incorporated into IFRS 9 PD estimates at 31 December 2020. Further details are provided in note 2(a) Critical Accounting Estimates and Judgements.

IFRS 9 Exposure at Default

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

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

IFRS 9 Loss Given Default
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 Discounted Cash Flow analysis
For credit-impaired financial instruments in Business Banking, Corporate Banking and certain other relationship-managed portfolios, the impairment loss allowance is primarily determined by an individual 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, (primarily UK unsecured consumer lending and RoI asset finance 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;
- the credit management PD risk rating for individually assessed / relationship managed assets is above a defined risk threshold; and / or
- the exposure is a forborne loan or a NPE.

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

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

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

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

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

Identifying defaulted assets and credit-impaired assets
During 2020, the Group implemented a revised definition of default for the purposes of credit risk management. The definition was formulated with regard to regulatory guidelines including EBA Guidelines on the application of the definition of default under Article 178 of the Capital Requirements Regulation. The Group's Impairment Policy has been revised accordingly. The Group's population of credit-impaired financial assets are consistent with its population of defaulted financial assets and closely aligned with the Group's definition of NPEs. Where default criteria are no longer met, the credit facility (obligor for non-retail exposures) exits credit-impaired (Stage 3), subject to meeting defined probation criteria, in line with regulatory requirements.

The revised definition of default was implemented across the Group in 2020 and resulted in €0.9 billion of assets being reclassified as defaulted (Stage 3), with a corresponding increase in NPEs of €0.6 billion. The change resulted in a c.€65 million increase in impairment loss allowance which has been recognised within the impairment charge for the year.

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

The re-classification of assets as defaulted reflects the wider scope of default triggers under the revised policy, including: nonperforming forborne loans; probation periods; the impact of contagion; and revised 'unlikeliness to pay' assessment triggers.

Where necessary, the remaining lifetime probability of default at initial recognition has been re-calibrated to take into account the revised definition of default and other model parameters have been updated within the normal review process to take into account the revised definition of default.

Under the revised definition of default the Group considers certain events as resulting in mandatory default and credit-impaired classification without further assessment. These include:
- greater than or equal to 90 days past due and the past due amount is material;
- more than 3 full monthly payments past due (retail credit facilities only);
- a forbearance arrangement is put in place and that arrangement involves debt forgiveness or reduction in interest rate / margin;
- legal action is underway by the Group to enforce repayment or realise security;
- the Group or a receiver takes security into possession;
- the Group has formally sought an insolvency arrangement in respect of the borrower;
- the exposure is classified as non-performing forborne for supervisory reporting purposes; and
- residential mortgages where default has occurred on another credit facility secured on the same property collateral, or more than 20% of overall balance sheet exposure to the customer in the mortgage portfolio is in default.

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 or will be repaid only via recourse by the Group to actions such as realising security, default and credit-impaired classification is mandatory. For larger value commercial lending cases (typically greater than €1 million or £850,000), the lender assessment involves production of an individual discounted cash flow analysis. The events differ by portfolio and include those set out below.

All portfolios:
- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans, including refinancing and renegotiation of facilities where during the renegotiation process, the lender becomes aware that the borrower is under actual or apparent financial distress;
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
- a borrower's sources of recurring income are no longer available to meet regular loan repayments;
- evidence of fraudulent activity by the borrower or another party connected with the loan;
- the contractual maturity date has passed without repayment in full;
- repayment of a credit obligation is suspended because of a law allowing this option or other legal restrictions;
- it becomes known that an insolvency arrangement is in force; or
- in respect of the borrower or 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 Small and Medium Enterprise / corporate and property loans:
- the borrower has breached the covenants of a credit contract with the Group;
- there is a crisis in the sector in which the counterparty operates combined with a weak position of the counterparty in this sector;
- external credit rating has been downgraded below a certain level;
- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and / or a negative net assets position;
- the borrower has ceased trading;
- a fall in the assessed current value of security such that the LTV ratio is greater than or equal to 120% (Property and construction only);
- a fall in net rent such that it is inadequate to cover interest with little / no other income to support debt service capacity (investment property exposures only); or
- a fall in the assessed gross development value such that sale proceeds are no longer expected to fully repay debt (development exposures only).

Review of credit-impaired loans

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

Methodologies for valuation of property collateral

The Group's approach to the determination of the market value of property collateral is set out in a Board-approved Group Property Collateral Valuation Policy, supported by GRPC-

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

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 2020 is set out in the Board-approved Group Impairment Policy and is described below.

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

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

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

Typically, more frequent valuations are required for properties held as security for NPEs with an annual valuation required for NPEs in excess of €300,000.

COVID-19 *(unaudited)*
In response to the COVID-19 pandemic and the imposition of social restrictions, the Group established a range of supports for personal and business customers, including credit-related supports such as payment breaks for impacted customers; working capital funding (including access to government supported schemes); and other concessions such as covenant waivers /amendments.

The Group's processes in relation to payment breaks were in line with the common industry-wide approaches agreed through industry bodies and regulatory authorities in Ireland and the UK.

During the year, the Group granted payment breaks to c.100,000 customers, the vast majority of which expired with c.5,600 customers remaining on an active payment break as at 31 December 2020. 30% of customers that availed of an initial 3-month COVID-19 payment break requested a further 3-month extension to the original concession.

Detailed information on the profile of accounts with payment breaks as at 31 December 2020 can be found on page 366.

The Group has considered regulatory and supervisory statements issued since the onset of the pandemic, which provided guidance on the treatment of COVID-19 payment breaks, including EBA guidelines on the criteria applicable in determining whether such payment breaks should be considered as forbearance. The approach adopted by the Group in response to COVID-19 is consistent with regulatory guidance and key elements of the Group's approach are outlined below:

- due weight to longer-term economic outlook versus the short-term impacts of COVID-19, has been considered in the formulation of forward-looking information (FLI) at the reporting date. FLI scenarios for the period from 2021 to 2025 assume reversion to potential economic growth rates, with consideration given to impact of governmental supports for customers and payment moratoria;
- COVID-19 payment breaks did not automatically result in migration of cases into Stage 2 (or forbearance classification) or Stage 3;
- individual assessments for corporate cases and the majority of relationship managed business banking cases, which received COVID-19 concessions have been completed;
- top-down sectoral assessments for business banking portfolios have been considered with outputs utilised to inform post-model Group management adjustments to the model driven impairment loss allowances, as well as the appropriate staging classification for relationship managed business banking portfolios;
- collective assessments have been considered for retail portfolios (i.e. residential mortgages, consumer lending, and asset finance), with outputs utilised to inform post-model Group management adjustments to the model driven loss allowance, where impairment models were unable to adequately capture effects of COVID-19 for the year ended 31 December 2020; and
- A greater degree of management judgement (based on available reasonable and supportable internal and external information) has been incorporated into impairment reporting processes this year. In particular judgement has been applied where the unprecedented nature of the COVID-19 FLI scenarios would have generated inappropriate predictions of default.

Where customers require further support following the expiry of COVID-19 payment breaks or concessions, the Group's objective is to offer suitable and sustainable solutions in a timely manner. The Group has alternative repayment arrangements available, including forbearance arrangements, for customers who require further financial support and these are based on an assessment of the individual needs of each customer and what is the most suitable solution. As at 31 December c.3,600 customers have requested further support following the expiry of their payment break arrangement, representing 4% of customers who availed of payment breaks during the year.

Further details on the selected FLI scenarios for the reporting period, Group management adjustments and management judgement incorporated into impairment model parameters are provided in note 2(a) Critical Accounting Estimates and Judgements.

Quantitative information about credit risk within financial instruments held by the Group can be found in note 27 Credit risk exposures.

3 Management of key Group risks *(continued)*

3.1 Credit risk *(continued)*

Changes in estimates

Forward looking information

Forward Looking Information (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 has used five RoI FLI scenarios and five UK FLI scenarios at 31 December 2020, an increase from three scenarios in previous reporting periods, comprising of two central scenarios, an upside scenario, and two downside scenarios, all extending over a five year forecast period, with reversion to long run averages for property for years beyond the forecast period. The Group keeps under review the number of FLI scenarios and the need to produce projections for other jurisdictions.

The central FLI scenarios for the year ending 31 December 2020 are based on internal and external information and management judgement and follow the same process as used in prior periods, though for December 2020 two central scenarios were developed for both RoI and UK to reflect different base case Brexit assumptions:

- central scenario 1 is based on less adverse base case consensus forecasts that assumed a Free Trade Agreement (FTA) Brexit; and
- central scenario 2 is based on more adverse base case consensus forecasts that assumed a World Trade Organisation (WTO) Brexit.

With the UK and EU reaching an agreement prior to year-end a higher weighting was applied to central scenario 1 (45%), with a small (5%) weighting retained for central scenario 2 to address initial disruption and uncertainty around the granular details of the new trading arrangement.

The upside and downside scenarios in previous reporting periods were generated using a simulation model that uses historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to the unprecedented nature of the COVID-19 economic shock, the Group employed an amended approach for the selection of the upside and downside FLI scenarios for the 31 December 2020 reporting date in order to avoid counter-intuitive trends in the respective scenarios.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative-driven alternative scenarios (one upside and two downside) were constructed to reflect different lengths of restrictions, depth of downturn and pace of economic recovery.

The existing FLI methodology was leveraged to assign probability weightings to the narrative driven scenarios. The FLI methodology is a simulation tool that uses recent actual observed values and historical data to produce a number of possible paths for the relevant economic variables based on their historical relationships and volatilities. The FLI model is used for scenario generation for a defined probability weighting and for assessing probability weights for a given scenario.

The narrative-driven scenarios were assessed relative to the simulated distribution. The probability weightings attached to the scenarios are a function of their relative position on the distribution, with a lower probability weighting attached to the scenarios that were assessed to be more distant from the centre of the distribution. The weightings were also informed by external forward looking information (e.g. equity market indicators).

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.

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.

A €24 million post-model Group management adjustment to the Group's impairment loss allowance was applied due to late-breaking events (i.e. an acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Group's key markets in late December 2020). This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Group's multiple economic scenarios utilised in its impairment models were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%).

For further information, see note 2(a) Critical Accounting Estimates and Judgements.

3 Management of key Group risks *(continued)*

3.2 Funding and liquidity risk

Key points:

- Group customer deposits of €88.6 billion have increased by €4.6 billion since 31 December 2019. The Group's LDR reduced by 9% to 86% at 31 December 2020 (31 December 2019: 95%). The main driver of this deposit movement was due to €7.1 billion growth in Retail Ireland, which was primarily driven by higher household and SME savings. On a constant currency basis, Group customer deposits increased by €7.2 billion (see page 373 for further information on alternative performance measures).
- The Group's LCR[1] at 31 December 2020 was 153% (31 December 2019 was 138%). The Group's NSFR[1] at 31 December 2020 was 138% (31 December 2019 was 131%).

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

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

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

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

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

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

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

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

The Group's treasury function within Markets and Treasury provides top down centralised management of the Group's funding and liquidity position including overall responsibility for the management of the Group's liquidity position and funding strategy. This ensures a coordinated 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 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 2020, and as at 31 December 2020 maintained a buffer significantly in excess of regulatory liquidity requirements.

[1] *Prepared on a regulatory group basis, in accordance with the Capital Requirements Directive (CRD IV), which comprises banking and other relevant financial institutions within the Bank of Ireland Group, but excludes non-banking related institutions such as insurance entities. For further information, see the Group's Pillar 3 disclosures (tab 1.3), available on the Group's website.*

3 Management of key Group risks *(continued)*

3.2 Funding and liquidity risk *(continued)*

Bank of Ireland (UK) plc is authorised by the 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 2020, and as at 31 December 2020 maintained a buffer significantly in excess of regulatory liquidity requirements.

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

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

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

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

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

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

The tables 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 2020 and 31 December 2019. 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 €5,892 million and €13,479 million respectively (2019: €5,890 million and €12,694 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.

3 Management of key Group risks *(continued)*

3.2 Funding and liquidity risk *(continued)*

2020 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	10,953	-	-	-	-	10,953
Trading securities	-	-	-	-	-	-
Derivative financial instruments	135	73	135	1,036	838	2,217
Other financial assets at FVTPL[1]	1,902	35	29	307	3,713	5,986
Loans and advances to banks	228	2,084	141	-	-	2,453
Debt securities at amortised cost	-	31	311	1,367	4,557	6,266
Financial assets at FVOCI	-	300	422	5,620	4,600	10,942
Loans and advances to customers (before impairment loss allowance)	1,854	4,119	7,314	31,557	33,979	78,823
Total	**15,072**	**6,642**	**8,352**	**39,887**	**47,687**	**117,640**
Liabilities						
Deposits from banks	97	363	-	-	-	460
Monetary Authorities secured funding	-	117	278	1,533	-	1,928
Customer accounts	77,902	6,101	3,187	1,395	52	88,637
Derivative financial instruments	173	55	90	787	1,152	2,257
Debt securities in issue	-	733	519	4,088	1,027	6,367
Lease liabilities	-	11	34	173	280	498
Subordinated liabilities	-	-	-	276	1,158	1,434
Total	**78,172**	**7,380**	**4,108**	**8,252**	**3,669**	**101,581**

2019 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	8,325	-	-	-	-	8,325
Trading securities	-	-	-	-	32	32
Derivative financial instruments	184	102	122	654	937	1,999
Other financial assets at FVTPL[1]	1,483	103	115	262	3,559	5,522
Loans and advances to banks	426	2,744	158	-	-	3,328
Debt securities at amortised cost	-	47	49	1,590	2,825	4,511
Financial assets at FVOCI	-	86	1,665	4,893	4,153	10,797
Loans and advances to customers (before impairment loss allowance)	1,503	4,568	7,072	31,719	35,933	80,795
Total	**11,921**	**7,650**	**9,181**	**39,118**	**47,439**	**115,309**
Liabilities						
Deposits from banks	94	349	-	-	-	443
Monetary Authorities secured funding	-	-	1,117	619	-	1,736
Customer accounts	70,457	6,610	4,586	2,224	91	83,968
Derivative financial instruments	194	147	253	760	1,124	2,478
Debt securities in issue	-	971	870	5,069	1,899	8,809
Lease liabilities	-	17	47	168	333	565
Subordinated liabilities	-	209	-	263	1,218	1,690
Total	**70,745**	**8,303**	**6,873**	**9,103**	**4,665**	**99,689**

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

3 Management of key Group risks *(continued)*

3.2 Funding and liquidity risk *(continued)*

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

Customer deposits *(unaudited)*
The Group's customer deposit strategy is to:
- maintain and optimise its stable retail customer deposit base in line with balance sheet requirements;
- prudently manage deposit pricing and margins; and
- optimise stable funding levels in line with regulatory liquidity requirements.

Group customer deposits of €88.6 billion were €4.6 billion higher than 2019. The main driver of this movement was due to €7.1 billion growth in Retail Ireland, which was primarily driven by higher household and SME savings rates, whilst deposit volumes in Corporate and Treasury marginally decreased by €0.3 billion. Deposit volumes in Retail UK decreased by £0.9 billion to £18.2 billion.

At 31 December 2020, customer deposits of €88.6 billion (2019: €84.0 billion) do not include €0.4 billion (2019: €0.6 billion) of savings and investment products sold by Wealth and Insurance. These products have fixed terms (typically five to seven years) and consequently are an additional source of stable funding for the Group.

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

The Group issued €0.1 billion of MREL eligible senior debt and down-streamed it to the Bank in 2020 (2019: €1.3 billion).

Foreign exchange funding mismatch *(unaudited)*
The Group's operations in the UK are conducted primarily through Bank of Ireland (UK) plc. The Group's strategy is to originate all new retail lending in the UK through Bank of Ireland (UK) plc which is funded primarily via sterling deposits. During 2020, the Group provided £0.6 billion of additional term funding to Bank of Ireland (UK) plc as part of the Group's overall funding and liquidity optimisation (2019: £1.6 billion).

The Group also provides banking services in the UK through its UK branch. This comprises corporate and business banking activities and the management of residential mortgage contracts which have not been transferred to Bank of Ireland (UK) plc and which are funded primarily via cross currency derivatives.

At 31 December 2020, the stock of sterling denominated assets funded by cross currency derivatives was c.£9.3 billion (2019: c.£8.5 billion) of which £2.2 billion relates to funding provided to Bank of Ireland (UK) plc.

Customer deposits	2020 €bn	2019 €bn
Retail Ireland	59	52
- Deposits	*23*	*22*
- Current account credit balances	*36*	*30*
Retail UK	21	22
Retail UK (Stg£bn equivalent)	*18*	*19*
- UK Post Office	*12*	*13*
- Other Retail UK	*6*	*6*
Corporate and Treasury	9	10
Total customer deposits	**89**	**84**
Loan to deposit ratio	**86%**	**95%**

3 Management of key Group risks *(continued)*

3.2 Funding and liquidity risk *(continued)*

Wholesale funding maturity analysis[1] *(unaudited)*	2020 Unsecured funding €bn	2020 Secured funding from Monetary Authorities €bn	2020 Secured funding private sources €bn	2020 Total wholesale funding €bn	2019 Unsecured funding €bn	2019 Secured funding from Monetary Authorities €bn	2019 Secured funding private sources €bn	2019 Total wholesale funding €bn
Less than three months	1	-	1	2	-	-	1	1
Three months to one year	-	-	-	-	1	1	1	3
One to five years	2	2	2	6	2	1	3	6
More than five years	-	-	1	1	-	-	1	1
Wholesale funding	**3**	**2**	**4**	**9**	**3**	**2**	**6**	**11**

Funding and liquidity position *(unaudited)*

The BOIG plc senior debt credit ratings from Moody's, Standard & Poor's (S&P) and Fitch have remained unchanged during 2020 at Baa2, BBB- and BBB respectively.

During 2020, the Bank's senior debt credit rating was upgraded by Fitch to BBB+ (from BBB). The Bank's senior debt credit ratings from Moody's and S&P have remained unchanged during 2020 at A2 and A- respectively.

In April 2020, in light of the potential economic impacts from COVID-19 and in line with a large number of European banks, S&P and Fitch assigned a Negative outlook to both the BOIG plc and Bank senior debt credit ratings. Moody's continue to assign a Stable outlook to the BOIG plc and Bank senior debt credit ratings.

Ireland - Senior debt *(unaudited)*	2020	2019
Standard & Poor's	AA- (Stable)	AA- (Stable)
Moody's	A2 (Stable)	A2 (Stable)
Fitch	A+ (Stable)	A+ (Stable)

BOIG plc - Senior debt *(unaudited)*	2020	2019
Standard & Poor's	BBB- (Negative)	BBB- (Stable)
Moody's	Baa2 (Stable)	Baa2 (Stable)
Fitch	BBB (Negative)	BBB (Stable)

The Governor and Company of the Bank of Ireland - Senior debt *(unaudited)*	2020	2019
Standard & Poor's	A- (Negative)	A- (Stable)
Moody's	A2 (Stable)	A2 (Stable)
Fitch	BBB+ (Negative)	BBB (Positive)

Balance sheet encumbrance *(audited)*

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

As part of managing its funding requirements, the Group from time to time encumbers assets as collateral to support wholesale funding initiatives. This would include covered bonds, asset backed securities, securities repurchase agreements and other structures that are secured over customer loans. At 31 December 2020, €11 billion (2019: €14 billion) of the Group's assets and collateral received were encumbered[2], primarily through these structures. The Group's overall encumbrance level[2] was 10% (2019: 13%). The decrease in encumbered assets is due to a reduction in the volume of secured wholesale funding outstanding.

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

[1] *The maturity analysis has been prepared using the expected maturity of the liabilities.*
[2] *Prepared on a regulatory group basis, in accordance with the Capital Requirements Directive (CRD IV), which comprises banking and other relevant financial institutions within the Bank of Ireland Group, but excludes non-banking related institutions such as insurance entities. For further information, see the Group's Pillar 3 disclosures (tab 1.3), available on the Group's website.*

3 Management of key Group risks *(continued)*

3.3 Market risk

Key points:

- The VaR arising from discretionary risk-taking remained at relatively low levels during 2020. Discretionary risk-taking was paused during the peak and in the immediate aftermath of the COVID-19 related market volatility. The Group continues to take moderate interest rate positions in both Trading and Banking books in addition to positions in FX and traded credit markets.
- With the exception of market basis risks, the Group manages structural market risks arising from interest rate and FX positions according to passive Asset Liability Management conventions, which are regularly reviewed by the Group's Asset & Liability Committee (ALCO).

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

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

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

Group Market & Liquidity Risk (GM&LR) provides second line oversight of the Group's exposure to market risk, ensuring that the Group correctly identifies and assesses the market risks to which it is exposed. GM&LR is a part of the Group Risk Function reporting to the Group CRO.

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 adverse movements in the credit spreads of bonds held as liquid assets, or held as matching assets in the New Ireland life assurance business (NIAC). The latter is the predominant economic exposure arising on the NIAC fixed interest portfolio.

Market risks that arise are transferred to and managed by Bank of Ireland Global Markets (BoIGM), the treasury execution arm of the Group. These market risks are hedged by BoIGM as a matter of course with the external market 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 risk (including inflation exposure), FX risk and traded credit risk.

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

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

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

Balance sheet linkage *(audited)*
The accompanying table (page 174) classifies the balance sheet in terms of Banking Book, Trading Book (as defined above) and Insurance assets and liabilities. The principal risk factors which drive changes in earnings or value in relation to each line item are also outlined. Trading Book assets and liabilities were a small proportion of the balance sheet at 31 December 2020 and this is representative of the position throughout the year. Interest rates are the most significant risk factor.

Discretionary market risk *(audited)*
Discretionary risk is a risk that is carried in the expectation of gain from near-term movements in liquid financial markets. BoIGM is the sole Group business unit permitted to run discretionary market risk.

Discretionary risk can be taken by leaving naturally arising retail or wholesale generated risks unhedged for a period (discretionary IRRBB) or by taking proprietary positions in the market (Trading Book risk). In conformity with the CRR, customer derivatives are booked in the Trading Book and can be a source of trading risk if not fully closed out.

3 Management of key Group risks *(continued)*

3.3 Market risk *(continued)*

Market risk linkage to the balance sheet (unaudited) 2020	Total €m	Trading €m	Non-trading €m	Insurance €m	Primary Risk Sensitivity
Assets					
Cash and balances at central banks	10,953	-	10,953	-	Interest Rate
Derivative financial instruments	2,217	1,429	788	-	Interest Rate, FX, Credit Spread
Trading and other financial assets at FVTPL	17,392	-	155	17,237	Interest Rate, FX, Credit Spread
Loans and advances to banks	2,453	-	2,226	227	Interest Rate
Loans and advances to customers	76,581	-	76,581	-	Interest Rate
Debt securities at amortised cost	6,266	-	6,266	-	Interest Rate
Financial assets at FVOCI	10,942	-	10,942	-	Interest Rate, FX, Credit Spread
ViF asset	615	-	-	615	Equity
Other assets	6,335	-	3,753	2,582	Interest Rate
Total assets	**133,754**	**1,429**	**111,664**	**20,661**	
Liabilities					
Deposits from banks	2,388	-	2,388	-	Interest Rate
Customer deposits	88,637	-	88,637	-	Interest Rate
Derivative financial instruments	2,257	1,626	631	-	Interest Rate, FX, Credit Spread
Debt securities in issue	6,367	-	6,367	-	Interest Rate
Liabilities arising from insurance and investment contracts	19,371	-	-	19,371	Interest Rate, FX, Credit Spread, Equity
Loss allowance provision on loan commitments and financial guarantees	99	-	99	-	Interest Rate
Lease Liabilities	498	-	498	-	Interest Rate, FX
Other liabilities	3,082	-	2,385	697	Interest Rate, FX
Subordinated liabilities	1,434	-	1,434	-	Interest Rate
Total liabilities	**124,133**	**1,626**	**102,439**	**20,068**	

Discretionary risk taking was paused, at the instruction of management, during the peak and in the immediate aftermath of the COVID-19 related market volatility. Discretionary risk-taking resumed for the remainder of the year once market volatility and liquidity levels returned to acceptable levels.

Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. BoIGM's discretionary market risk is confined to interest rate risk (including inflation exposure), FX risk and credit spread exposure to sovereigns, banks and credit default swap (CDS) indices. A limit on discretionary risk and a high-level stop loss are set in the Risk Appetite Statement approved by the Board. These are supplemented by an ALCO approved framework of limits and controls, based on VaR (see below), scenario stress tests and sensitivities. The Group does not seek to generate a material proportion of its earnings through discretionary risk-taking and it has a low tolerance for earnings volatility arising from this activity which is reflected in policy, limits and other controls applied.

The Group employs a VaR approach to measure, and set limits on, discretionary market risk whether taken in the Banking Book (discretionary IRRBB risk) or pro-actively assumed in the Trading Book. The Group utilises a monte-carlo simulation model approach for the calculation of the interest rate risk component and a parametric VaR approach for the FX, inflation and credit risk components at a 99% (two tailed) confidence level, using a one day holding period and based on one year of historic data.

The volatilities and correlations which are used to generate VaR numbers are estimated using the exponentially weighted moving average approach which gives more weight to recent data and responds quickly to changes in market volatility. VaR is backtested and reported on a daily basis with all exceptions subject to review and explanation.

For the nature of risks assumed by the Group, VaR remains a reliable basis of risk measurement, supplemented by stress testing.

The Group uses VaR to allocate capital to discretionary trading book risk in its ICAAP but uses the standardised approach (TSA) for Pillar 1 Trading Book capital.

The Group recognises that VaR is subject to certain inherent limitations and therefore VaR limits are supplemented by scenario-based stress tests. These are particularly important in periods of low market volatility when VaR numbers can understate the risks of loss from large adverse market moves. Position limits and 'stop losses' are also a central element of the control environment.

The table below shows total VaR at 31 December 2020 was €0.5 million (2019: €0.5 million). Total VaR is the sum of overall interest rate, FX and traded credit VaR. Overall Interest Rate VaR is a correlated measure of trading book interest rate and discretionary IRRBB.

3 Management of key Group risks *(continued)*

3.3 Market risk *(continued)*

Total VaR *(audited)*	**2020 €m**	**2019 €m**
Total	0.5	0.5

The Group's peak, average and end-period VaR numbers for the Trading Book by risk class and discretionary IRRBB are shown in the 'VaR' table below for 31 December 2020 and 2019.

Total VaR *(audited)*	**2020 €m**	**2019 €m**
Discretionary IRRBB		
Peak	1.2	0.8
Average	0.3	0.3
End period	0.1	0.2
Trading book interest rate VaR		
Peak	0.9	1.6
Average	0.5	0.6
End period	0.3	0.3
Foreign exchange VaR		
Peak	0.8	1.2
Average	0.4	0.4
End period	-	0.1
Traded credit risk VaR		
Peak	0.5	0.7
Average	0.2	0.3
End period	-	0.1

Structural and other risks *(audited)*
Notwithstanding the overriding objective of running minimal levels of market risk, certain structural market risks remain and are managed centrally as part of the Group's asset and liability management process.

Structural interest rate risk *(unaudited)*
Structural interest rate risk is predominantly the exposure of Group earnings to interest rate changes arising from the presence of non-interest bearing or behaviourally fixed-rate assets and liabilities on the balance sheet. The principal non-interest bearing liabilities are equity and non-interest bearing current accounts. It is Group policy to invest its net non-interest bearing liabilities (or free funds) in a portfolio of swaps with an average life of 3.5 years and a maximum life of seven years. This has the effect of helping to mitigate the impact of the interest rate changes on interest income. The table below outlines the Group's average volumes of structural hedges and contribution to interest income.

Structural hedge *(unaudited)*	**2020**	**2019**
Average structural hedge volume (€bn)	35.6	33.3
Interest income from structural hedge (€m)	124	165

Other structural risks arise from credit-impaired loans and floored loans and deposits.

Net interest income sensitivity analysis *(unaudited)*
The Group uses net interest income sensitivity analysis to measure the responsiveness of earnings to scenarios for short and long-term rates.

The following table shows the estimated sensitivity of the Group's net interest income (before tax) to an instantaneous and sustained 1% parallel movement in interest rates. The estimates are based on management assumptions primarily related to the repricing of customer transactions; the relationship between key official interest rates set by Monetary Authorities and market determined interest rates; and the assumption of a constant balance sheet by size and composition. In addition, changes in market interest rates could impact a range of other items including the valuation of the Group's IAS 19 defined benefit pension schemes.

Estimated sensitivity of Group income (1 year horizon) *(unaudited)*	**2020 €m**	**2019 €m**
100bps higher	c.220	c.210
100bps lower	(c.220)	(c.250)

Basis risk *(unaudited)*
Basis risk is the exposure of the Group's earnings to sustained changes in the differentials between the floating market related benchmark rates to which the Group's assets, liabilities and derivative hedges are linked. In the Group's case, the principal rates used for product and derivative repricing are one, three and six month Euro Inter Bank Offered Rate (EURIBOR) and sterling London Inter Bank Offered Rate (LIBOR), Sterling Overnight Index Average, Euro Overnight Index Average, EUR short-term rate, the ECB refinancing rate and the BoE base rate. In addition, the Group funds 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 2021.

The Group applies notional limits and stress scenario analysis to its basis positions.

Credit spread risk *(unaudited)*
Credit spread risk arises from the potential impact of changes to the spread between the bond yield and swap rates. Bonds purchased primarily as liquid assets and classified as fair value through other comprehensive income (FVOCI) are held at fair value on the balance sheet and as such, movements in the credit spreads can result in adverse impacts on the fair value of these holdings. At 31 December 2020, the Group held €10.9 billion in securities classified as FVOCI (2019: €10.8 billion). A 1 % increase in the average credit spread of the book in 2020 would have reduced its value by €490 million (2019: €446 million).

An analogous economic risk exists in relation to securities held by NIAC to match policyholder liabilities and to invest its capital. At 31 December 2020, NIAC's bond portfolio had a market value

3 Management of key Group risks *(continued)*

3.3 Market risk *(continued)*

of €1.6 billion (2019: €1.5 billion). At 31 December 2020, a 1% widening of all credit spreads (measured as bond yields minus the corresponding swap rate) would have had an impact on earnings of €122 million negative, while a 1% tightening would have had a positive impact of €143 million (2019: €120 million negative and €138 million positive respectively).

The Group also models the spread risk for both the FVOCI and NIAC portfolios over a one-year horizon using a delta-normal VaR model. It approximates a potential one-year loss in portfolio value due to changes in credit spreads.

Interest rate risk in New Ireland Assurance Company plc *(unaudited)*

In managing the interest rate risk in its business, NIAC has regard to the sensitivity of its capital position, as well as its IFRS earnings, to market movements. NIAC follows a policy of asset / liability matching to ensure that the exposure of its capital position to interest rate movements remains within tolerances, while also managing the impact on IFRS profits. At 31 December 2020, a 1% fall in swap and yield rates would have reduced its excess own funds (own funds less solvency capital requirement (SCR)) by €56 million and decreased its IFRS profit by €2 million (2019: €48 million negative and €3 million positive respectively).

Equity risk *(unaudited)*

NIAC's earnings are also indirectly exposed to changes in equity markets. This arises because a management fee is charged on the value of €5.4 billion of equities held for policyholders in insurance contracts in its unit linked book. As equity markets move up and down, this gives rise to a change in current and discounted future streams of equity-related fees which is reflected in NIAC's earnings. Every 1% fall in equity markets applied to positions at 31 December 2020 would have reduced NIAC's earnings by €2 million (2019: €2 million reduction). Every 1% increase in equity markets would have had a broadly equal and opposite impact.

Structural FX *(unaudited)*

The Group defines structural FX risk as the exposure of its key capital ratios to changes in exchange rates. Changes in exchange rates can increase or decrease the overall euro-equivalent level of RWAs. It is Group policy to manage structural FX risk by ensuring that the currency composition of its RWAs and its structural net asset position by currency are broadly similar. This is designed to minimise the impact of exchange rate movements on the principal capital ratios.

At 31 December 2020, the estimated sensitivity of the Group's fully loaded CET1 ratio to a combined 10% movement of sterling and dollar combined against the euro was three basis points.

The structural FX positions at 31 December 2020 and the preceding year end were as follows:

Structural FX position *(audited)*	**2020 €m**	**2019 €m**
Sterling - net asset position	2,156	2,394
US dollar - net asset position	366	426
Total structural FX position	**2,522**	**2,820**

Use of derivatives in the management of market risk *(audited)*

The activities set out above involve, in many instances, transactions in a range of derivative instruments. The Group makes extensive use of derivatives to hedge its balance sheet, service its customer needs and, to a lesser extent, assume discretionary risk. The Group's participation in derivatives markets is subject to policy approved by the ALCO. The Group makes a clear distinction between derivatives which must be transacted on a perfectly hedged basis and those whose risks can be managed within broader interest rate or FX books.

Discretionary market risk can only be assumed in clearly defined categories of derivatives which are traded in well-established liquid markets, supported by industry standard conventions and documentation and valued in accordance with generally accepted methods.

The approach to hedging and managing market risk is governed by policies explicitly designed to ensure that all hedging activities are risk reducing. Interest rate risk arising on customer lending and term deposit-taking is centralised by way of internal hedging transactions with BoIGM. This exposure is, in turn, substantially eliminated by BoIGM through external hedges.

Structural risk is managed by way of selective and strategic hedging initiatives which are executed under ALCO's authority.

Policy requires that, where behavioural optionality hedging relies on assumptions about uncertain customer behaviour and where material, it is subject to limits or other controls.

3 Management of key Group risks *(continued)*

3.4 Life insurance risk

Key points:

- NIAC remains focused on the Irish insurance market, selling a core suite of products across a range of distribution channels, including the Bank of Ireland customer base. The risk profile in respect of life insurance risk is largely stable. The processes of appropriate underwriting at both the new business and claims stages, as well as reinsuring a proportion of the life insurance risk written, all remain key risk management tools.
- The 2020 ORSA has been completed and reported to the NIAC board. The process confirmed the robustness of NIAC's financial position in the face of extreme but plausible adverse scenarios.
- NIAC maintains sufficient capital and liquid resources to enable it to meet cash flows associated with establishing and maintaining a portfolio of life insurance business. Available resources have been tested for adequacy under a wide range of adverse sensitivities and scenarios with no significant weaknesses identified. The Company's capital structure is consistent with its risk profile.
- There has been no material adverse impact from COVID-19 on the life insurance risk profile to date. High levels of reinsurance act as a significant mitigant if there were adverse mortality developments, together with the diversification effect of mortality and longevity risks. The impact of COVID-19 will continue to be monitored and there is no material adverse impact expected for the upcoming year.

Definition *(audited)*
Life insurance risk is the risk of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behaviour characteristics, may be short or long term in nature. The sub-categories of life insurance risk such as mortality, longevity and persistency risk each relate to different sources of loss which arise as a result of writing life insurance business.

Risk management *(audited)*
Life insurance risk is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the board of NIAC which is delegated through internal governance structures. Aggregate life insurance risk exposure and exposure to the sub-categories of life insurance risk are monitored through a suite of management reporting metrics.

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.

The Group transfers some life insurance risk to reinsurance companies who then meet an agreed share of the claims that arise on a book of business in return for a premium. This creates a credit exposure to these reinsurance companies which is managed within the NIAC risk management framework with responsibilities delegated through the Reinsurance Risk Policy. A review of the panel of reinsurers that may be used and the structure of reinsurance arrangements is carried out at least annually. Senior members of the management team with actuarial and underwriting expertise contribute to the effective oversight of this risk.

Risk measurement *(audited)*
Risk experience is monitored regularly with actual claims experience being compared to the underlying risk assumptions. The results of this analysis are used to inform management of the appropriateness of those assumptions for use in pricing, capital management and new product design.

Exposure to life insurance risk is measured by means of sensitivity and scenario testing. Risk capital is calculated for each individual risk type by stressing the best estimate assumptions of future experience by extreme, but plausible, factors. The stress factors are pre-defined by regulation and are set at a level with an expected frequency of occurrence of one year in every 200. NIAC also carries out an ORSA annually which is overseen by the NIAC board. Within the ORSA, NIAC's risk profile is considered, both quantitatively and qualitatively, in a holistic manner with potential areas of risk identified along with conclusions in respect of how those risks will be mitigated. Further details can be found in note 37.

Risk mitigation *(audited)*
The Group mitigates the potential impact of insurance risk through a number of measures. Capital is held against exposure to life insurance risk. Exposure to risk is also managed and controlled by the use of medical and financial underwriting, risk mitigating contract design features and reinsurance, as detailed in risk management policies.

Risk reporting *(audited)*
An update on the status of life insurance risk is included in the Court Risk Report on a quarterly basis. NIAC's ORSA report in respect of the NIAC annual assessment is also presented to the GRPC on an annual basis.

3 Management of key Group risks *(continued)*

3.5 Conduct risk

Key points:

- Significant activity has taken place to ensure adequate oversight over customer impacting issues. Metrics in the Board approved Risk Appetite Statement and a suite of management reporting metrics facilitate the monitoring of our principal conduct risks.
- To deliver the strategic objective of serving customers brilliantly, strong risk management of customer protection risks continued to be a focus throughout 2020, through Conduct Risk and Culture Transformation initiatives. The pace and quality of remediation, including root cause analysis to establish lessons learned and help prevent similar issues in the future, continued.
- Conduct risk function has increased oversight of decisions and actions taken to support customers during COVID-19 e.g. payment breaks, this includes oversight of underpinning processes and controls.

Definition

Conduct risk is defined as the risk that the Group, and / or its staff, conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes. It includes the risk the Group's wholesale market activities do not meet the necessary standards of integrity and the level of professionalism required or expected. The Group acknowledges that a level of residual risk arises from the provision of a full range of financial services across a range of systems and processes it is committed to continually reducing same. The Group has no appetite for the Group, and / or its staff, conducting business in an inappropriate or negligent manner that leads to adverse outcomes for customers, colleagues and communities.

The key conduct risk exposure areas managed by the Group include the following:

Customer-focused strategy: The risk of not delivering fair outcomes to customers. The delivery of fair outcomes for customers forms the principal consideration of the Group's customer focused value and strategic priority of serving customers brilliantly.

Product and Service Lifecycle Management: The Group is committed to creating and maintaining suitable and appropriate products and services for customers as they are working towards their financial goals. This helps to ensure that the customer has a positive experience throughout the product and service lifecycle.

Behavioural Standards and Culture: The Group is committed to mitigating any risk arising out of business unit or employee behaviours which result in poor outcomes for customers.

Risk management and measurement

The Group manages conduct risk under the Group CRMF which is consistent with the overarching Group Risk Framework. It sets out the risk management activities and underlying enablers (tools, structures and roles) established by the Group to ensure an effective, prudent and proportionate response to its principal Conduct risks. The risk management activities and enablers together form a framework for identifying, measuring, mitigating, controlling and reporting on the performance and status of conduct risk within the Group. A key priority of the CRMF is the avoidance of systemic unfair customer outcomes.

The CRMF comprises the following risk management activities, namely:

- conduct risk management approach;
- conduct risk governance;
- key metrics and risk indicators;
- conduct risk policy development and policy compliance; and
- guidance and training.

In particular, the Group seeks to ensure that its conduct risk management practices comply with any specific conduct risk related obligations arising within the jurisdictions in which it operates. On an annual basis, the Board approves the Group Risk Appetite Statement, which incorporates statements for all material risks, including conduct risk.

Risk mitigation

The primary risk mitigants for conduct risk are the suite of policies and policy standards. The Group Conduct Risk Policy sets out the minimum requirements for the effective management of conduct risk within the Group to ensure that the Group's overall exposure remains within the boundary conditions of the Board's approved conduct risk appetite. The standards of behaviour are detailed in the Group Code of Conduct to which all management and staff must adhere and affirm annually. The Speak-Up Policy sets out the steps staff can take to raise any concerns they might have of wrongdoing, risk or malpractice in the Group. The Group has a training schedule across the Group to support staff and management in this regard.

Risk reporting

The current status of conduct risk is reported to the GRPC (Senior Executives) and the Board members through the Court Risk Report on a monthly basis. The GRCRC oversees the status of conduct risk in the Group, including the progress of associated risk mitigation initiatives, issues and breaches, and significant regulatory interactions on a quarterly basis.

3 Management of key Group risks *(continued)*

3.6 Regulatory risk

Key points:

- During 2020, there was enhanced regulatory oversight by supervisory bodies as a result of COVID-19 which focused on the key areas of business model and profitability risk, credit risk, payment breaks, impairment provisioning (IFRS 9), capital adequacy, business continuity management, operational resilience, cyber risk, Brexit and behaviour and culture.
- Engagement with the Group's regulators in 2020 included matters such as credit risk modelling, Targeted Review of Internal Models, Tracker Mortgage Examination and COVID-19 related impacts.
- In response to COVID-19, the Group's regulators took a number of supervisory measures and provided operational reliefs including the rescheduling of on-site inspections and the extending of deadlines for certain non-critical supervisory measures, operational acts and data requests. In addition the ECB took a pragmatic approach to the Supervisory Review and Evaluation Process, focussing on the Group's ability to respond to prevailing challenges and the most material risks and vulnerabilities.
- Existing programmes continued and new programmes were established in the Group during the year to continue preparations for the significant regulatory change agenda over the coming years.
- The heavy regulatory and compliance agenda is expected to continue in 2021. The Group will maintain its focus on continuing compliance with the existing regulatory requirements of the jurisdictions in which it operates.
- Regulators conduct investigations and examinations on an industry wide basis from time to time.

Definition

Regulatory risk is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. Underpinned by strong engagement with regulatory stakeholders, regulatory risk comprises regulatory compliance risk, corporate governance risk, regulatory change risk and financial crime risk.

Regulatory change risk is the risk that changes to existing or new laws / regulations / codes / guidance applicable to the Group are not effectively addressed and the risk that the Group fails to take timely and remedial actions.

Regulatory compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and / or the violating of contracts and can diminish an institution's reputation.

Corporate governance risk is the risk of loss arising from inappropriate corporate governance structures, authorities or activities leading to incorrect or improper business decisions, or regulatory / legal sanctions.

Financial crime risk is the risk of the firm being used in connection with money laundering or terrorist financing and that the measures adopted by the Group to prevent and detect money laundering, terrorist financing or sanctions evasion are not effective and / or do not meet regulatory expectations.

Risk management and measurement

The Group manages regulatory risk under the Group Risk Framework. The framework identifies the Group's formal governance process around risk, including its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives and monitored by the GRCRC, the GRPC, the BRC and Board in line with the overall Group risk governance structure outlined on pages 146 to 149. The effective management of regulatory risk is primarily the responsibility of business management and is supported by Group Compliance.

As detailed in the Group's Risk Appetite Statement, the Group has no appetite to knowingly breach any of its regulatory obligations. However, it acknowledges that instances may occur as a consequence of being in business. The Group has therefore established an approach to ensure the identification, assessment, monitoring, management and reporting of these instances. The Group also undertakes risk based regulatory and compliance monitoring.

Risk mitigation

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

Risk reporting

The current status of regulatory risk is reported to Senior Executives and Board members through the Court Risk Report on a monthly basis. The Group Chief Compliance Officer reports to the GRCRC on the status of regulatory risk in the Group, including the status of the top regulatory risks, the progress of risk mitigation plans, issues and breaches, and significant regulatory interactions, on a quarterly basis.

3 Management of key Group risks *(continued)*

3.7 Operational risk

Key points:

- The business control framework has continued to mature across the Group resulting in enhanced risk identification and assessment, leading to improved risk based decisions and prioritisation of mitigating activities.
- The Group continues its multi-year programme to make substantial investment in its IT systems and given the risk attendant to any large transformation, there is continued focus to ensure the sustainability and integrity of the Group's operations.
- The global pandemic resulting from COVID-19 impacted on how the Group provided its services to customers, and accelerate the adoption of remote working and digital solutions. Business disruption was avoided by the swift and effective utilisation of the Group's Crisis Management Framework and business continuity arrangements.
- Since the onset of COVID-19, there has been proactive management intervention applied to the credit models in particular. This includes a triangulation of the model outputs with external reference points and engaging subject matter experts to reduce the reliance on model outputs and thereby mitigating model risk. The overall risk rating reported to the Board for Model risk remains unchanged.
- The Group took steps to strengthen the management of Non-Financial risk with the establishment a Non-Financial Risk function, with responsibility for the effective management and oversight of non-financial risks. As part of the initiative, a Non-Financial Risk Improvement Programme was launched.
- During 2020, a number of enhancements to risk management such as risk libraries were developed and implemented. Continuing progress on the enhancement of control certification and testing, business process mapping, and forward looking risk management processes.

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This risk includes Business Continuity Risk, Data Quality & Reliability, Fraud, Information Security and Cyber Risk, Information Technology, Insurable, Legal & Contractual, Model, Payments, Sourcing, Unauthorised Trading and Business Processes.

Risk management

The Group faces operational risks in the normal pursuit of its business objectives. The primary goals of operational risk management are ensuring the sustainability and integrity of the Group's operations and the protection of its reputation by controlling, mitigating or transferring the impact of operational risk. Operational risk cannot be fully eliminated. The Group has established a formal approach to the management of operational risk in the form of an 'Operational Risk Management Framework' which defines the Group's approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Group's business objectives.

This framework outlines, inter alia the following:

- formulation and dissemination of a Group Operational Risk Policy specifying the risk management obligations of management and staff within the Group;
- maintaining organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- setting aside capital and maintaining a suite of insurance policies;
- setting out the boundary conditions in which operational risks are to be managed, by way of Board approved Risk Appetite Statement; and
- embedding formal operational risk management processes and standards throughout the Group.

Operational risk policy and governance

The Group continues to maintain its ongoing oversight and control of its exposure to operational risk. A critical component of the operational risk management framework is a BRC approved Operational Risk Policy which sets out the Group's objectives and the obligations of management in respect of operational risk.

Governance and oversight of operational risk forms part of the Group's Risk Framework which aims to ensure that risk management activities are adequate and commensurate with the Board approved risk appetite. The GORC is appointed by the GRPC and is responsible for the oversight and monitoring of operational risk within the Group and material subsidiaries.
Business units hold primary responsibility for the management of operational risk and compliance with internal control requirements.

Group Operational Risk is accountable for the development and maintenance of an Operational Risk Management Framework to ensure a robust, consistent and systematic approach is applied to managing operational risk exposures across the Group.

Operational risk appetite

The Board has set out its appetite for operational risk in terms of both qualitative factors and quantitative measures reflecting the nature of non-financial risks. As such, the monitoring of operational risk indicators is supplemented with qualitative review and discussion at senior management executive committees to ensure appropriate actions are taken to enhance controls.

Risk assessment

A systematic identification and assessment of the operational risks faced by the Group is a core component of the Group's overall operational risk framework. This is known as the Risk and Control Self Assessment (RCSA) and is a framework for capturing,

3 Management of key Group risks *(continued)*

3.7 Operational risk *(continued)*

measuring and managing operational risk as well as providing a mechanism for consistent identification, monitoring, reviewing, updating and reporting of risks throughout the Group. A key element of this process is the categorisation of risks by taxonomy.

Risk mitigation and transfer

In addition to business unit risk mitigation initiatives, the Group implements specific policies and risk mitigation measures for key operational risks including, but not limited to, fraud, sourcing, technology and business disruption risks. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, whereby selected risks are reinsured externally. The Group Insurance programme is reviewed annually to ensure coverage remains appropriate to the Group's risk management objectives. The Group's total capital requirement arising from operational risk is covered by Pillar 1 regulatory capital, calculated using the TSA, and the Pillar 2 capital add-on, calculated using an internal model based on outputs of the scenario analysis programme as part of the ICAAP process.

Risk reporting

Regular reporting of operational risk is a key component of the Group's Operational Risk Framework.

The Board receives monthly update on the operational risk profile via the Court Risk Report which provides a timely assessment of material operational risks against risk appetite.

At least four times a year, the Head of Group Operational Risk reports to GORC on the status of operational risk in the Group, including the status of the top operational risks, the progress of risk mitigation initiatives and programmes, significant loss events, and the nature, scale and frequency of overall losses. In addition, specified operational risk information is collated for the purposes of reporting to regulatory supervisors in the jurisdictions in which the Group operates.

3 Management of key Group risks *(continued)*

3.8 Business and strategic risk

Key points:

- On an annual basis, the Board reviews the Group's strategic objectives and key underlying assumptions to confirm that the strategic shape and focus of the Group remains appropriate.
- With ongoing competition for skilled resources, the Group has launched a People Strategy focused on a range of initiatives to ensure recruitment and retention of resources.
- The Group is undergoing significant transformation across Culture, Business Model and Systems with a number of programmes underway delivering against this strategy.
- The Group continues to effectively manage a range of technology programmes including supporting the Group's strategy to accelerate its pivot to digital, complying with the evolving regulatory environment whilst continuing to invest in improving resilience, efficiencies and customer experience across channels.
- Continued low levels of bond yields, official interest rates and discount rates, cause challenges and risk.
- The Group's Benchmark Interest Rate Reform programme is managing transition to the new regulatory compliant interest rate benchmarks.
- The Group continues to develop its RSB agenda and has enhanced Board and executive oversight. During 2020 the Group has developed its RSB strategy which involves consideration of, inter alia, climate related impacts both across our own footprint and that of our customers and stakeholders. As part of our enterprise approach to manage climate risks, the Group is embedding the assessment of risks and opportunities into key business planning and risk management processes (page 138).
- The impact of COVID-19 extends across all other business and strategic risks. It has accelerated existing trends, with consumer activity switching rapidly to digital alternatives and new ways of working impacting customers and colleagues, and created an uncertain economic outlook with groups of customers and sectors likely to benefit from a recovery at differing scales and speeds.
- In terms of Brexit, the Group continues to monitor the trading relationship between the EU and UK identifying, monitoring and mitigating risks associated with the current trade agreement.
- We are committed to the UK market where our focus is on improving sustainable returns. We have commenced a multi-year restructuring programme, that will, over time, reduce our balance sheet size, enabling us to lower our cost base and focus on higher margin businesses across mortgages, Car Finance and Travel Money.

Definition

Business and strategic risk encompasses:

(i) the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment; and

(ii) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns based on its strategic plans and financial forecasts, and an assessment of the business environment.

It includes the risk that the Group fails to develop or to execute successful strategies to deliver acceptable returns in the context of the economic, competitive, regulatory / legal and interest rate environments that arise. It also includes non-financial risks such as people risks and risks relating to climate change.

Risk management, measurement and reporting

Divisions and business units are responsible for delivery of their business plans and management of such factors as pricing, sales and loan volumes, operating expenses and other factors that may introduce earnings volatility. Business, divisional and portfolio strategy is developed within the boundaries of the Group's strategy as well as the Group's Risk Appetite Statement. These strategies are approved by business divisional CEOs and presented to the Board on an annual basis.

Monitoring of business and strategic risk is performed on a divisional basis, and measured quarterly, with a scorecard addressing movements in key indicators around income diversification, margin trends, customer advocacy, costs, and employee engagement. In addition to this, business and strategic risk is evaluated through quarterly updates in the Court Risk Report which is reviewed by the GRPC, the BRC and the Board.

The key dimensions evaluated within business and strategic risk are:

- the strength of the Group's returns;
- appropriate strategic plan and financial projections;
- strength of the Group's competitive position; and
- management capability, technology capability and resource availability.

The Group also reviews business and strategic risk as part of the annual risk identification process. In addition there is an annual review of business and strategic risk to ensure that the BRC is comfortable with the processes in place to manage business and strategic risk and that residual risk is within the Group's risk appetite.

Risk mitigation

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

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

In the case of strategic risk, this risk is mitigated through regular updates to the Board on industry developments, the macroeconomic environment and associated trends which may impact the Group's activities, review of the competitive environment and strategies at a divisional and business unit level.

3 Management of key Group risks *(continued)*

3.9 Pension risk

Key points:

- Defined benefit pension funds are subject to market fluctuations, and interest rate and inflation risks, thus a level of volatility is associated with defined benefit pension funding.
- In order to further address this volatility, a review of the Group sponsored defined benefit pension schemes was initiated and completed in 2013. The resulting proposals arising from the review were accepted by employee members of the main defined benefit scheme, the BSPF.
- These proposals have now been implemented for the BSPF. Similar proposals were implemented for two other Group defined benefit schemes during 2014 and a third scheme in 2015.
- The Group has continued to support Trustees in taking action to improve the correlation between assets and liabilities and reduce volatility.
- The Group has reduced deficit sensitivity to both euro and sterling interest rate and inflation rate movements through increased hedging.
- The Group has also supported Trustees in diversifying asset portfolios away from listed equity into other return-seeking but potentially less volatile asset classes.
- Further liability and risk management exercises will be considered on an ongoing basis in 2021.

Definition

Pension risk is the risk in the Group defined benefit pension schemes that the assets are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities. This risk crystallises for the sponsor when a deficit emerges of a size which implies a material probability that the liabilities will not be met.

Risk management, measurement and reporting

The Group sponsors a number of defined benefit pension schemes for past and current employees. At 31 December 2020, the Group's net IAS 19 pension deficit was €0.1 billion (2019: €0.1 billion deficit) (note 47). The investment policy pursued to meet the schemes' estimated future liabilities is a matter for the Trustees and the schemes' Investment Committees. The Group, as sponsor, has an opportunity to communicate its views on investment strategy to the Trustees and receives regular updates including scenario analysis of pension risk.

The Board receives monthly updates on movements in assets, liabilities and the size of the deficit and also more detailed quarterly updates through the Court Risk Report. In addition, there is an annual review of pension risk to ensure that the Board is satisfied with the processes in place to manage the risk and that residual risk is within the Group's risk appetite.

Risk mitigation

In order to mitigate pension risk, a new hybrid scheme was introduced in 2007 for all new entrants (note 47) and the defined benefit schemes were closed to new entrants. A defined contribution scheme was introduced during 2014 for all new employees and the hybrid scheme was closed to new entrants.

In 2010, the Group carried out an extensive pensions review in order to address the pension deficit by a combination of benefit restructuring and additional employer contributions over a period of time to 2017.

In 2013, a further review, which also incorporated benefit restructuring, was carried out which reduced the pension deficit and is expected to further reduce the deficit through additional employer financial support in the period from 2016 to 2020. This additional financial support will broadly match the deficit reduction as a result of the benefit restructuring.

Liability and risk management exercises continued in 2020 and are considered on an ongoing basis. Nevertheless, a deficit still exists and as the pension funds are subject to market fluctuations, interest rate and inflation risks, a level of volatility associated with IAS 19 pension deficits (note 47) and their impact on the Group's capital ratios remains.

3 Management of key Group risks *(continued)*

3.10 Reputation risk

Key points:

- The Group's reputation continues to be influenced and shaped by a range of factors; the macroeconomic and political environment, media and public commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives, and their interaction with the external environment, will influence the Group's reputation and how it is perceived by stakeholders.
- In 2020, COVID-19 had a significant impact on the Group's operations and activities risk and continues to be the lens through which reputation risk is managed.
- Within this context, actions and achievements of the Group over the past 12 months that have impacted positively on the Group's reputation include:
  - swift response to provide support for customers impacted by COVID-19 including through payment breaks, supports for those self-isolating, emergency capital for businesses;
  - extensive community assistance including a €1 million COVID-19 Emergency Community Fund, a €1 million Arts Fund, and the launch of the Begin Together Awards;
  - a commitment to support economic recovery in a range of ways including extending the Bank's Sustainable Finance Fund, and participation in the Government's Credit Guarantee Scheme supported by a €400,000 marketing campaign;
  - a national fraud awareness campaign to further support and protect customers;
  - the rollout of the Group's new mobile banking app and launch of Apple and Google pay; and
  - the launch of a new Green Bond framework enabling the Bank to issue Green Bonds and finance sustainable initiatives.
- Some events in 2020 had a negative impact on the Group's reputation including the temporary closure of some branches through the initial lockdown, the impact of 'smishing' on customers, and broader commentary in respect of sectoral actions during COVID-19 including the availability and terms and conditions of payment breaks.
- All reputational issues were carefully and intensively managed through the identification of potential risks and the deployment of communication strategies to mitigate these risks, as appropriate.

Definition

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

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

Risk management, measurement and reporting

Group Corporate Affairs is the primary function responsible for managing reputation risk in the Group. With the exception of certain specific communications to, for example, investors, regulators and customers, Group Corporate Affairs manages all external communications, stakeholder and government relations. The division works closely with Group Investor Relations, Group Culture and Internal Communications, Group Marketing and Group Strategy, to ensure communication with external and internal stakeholders is consistent, thereby helping to protect and enhance the Group's reputation. Reputation risk indicators are tracked on an ongoing basis.

These indicators include:

- monitoring of print, broadcast, online and social media;
- trust and reputation tracking;
- market trends and events;
- stakeholder engagement; and
- monitoring risk events which may have the potential to impact Group reputation.

The Group reviews reputation risk as part of the annual risk identification process and has a Group Reputation Risk Policy in place.

Quarterly updates are reported to the GRPC, the BRC and the Board as part of the Court Risk Report. In addition, there is an annual review of reputation risk to ensure that the BRC is comfortable with the processes in place to manage reputation risk and that residual risk is within the Group's risk appetite.

Risk mitigation

A wide range of processes and structures are used to identify, assess and mitigate potential risk to the Group's reputation. This ensures that potential impacts on the Group's reputation are taken into account as part of the decision making process.

4 Capital management

Key points:

- CET1 ratio of 14.9% under regulatory rules and 13.4% on a fully loaded basis at 31 December 2020.
- The Group is required to maintain a minimum CET1 ratio of 9.27% on a regulatory basis as at 31 December 2020, increasing to 9.77% from July 2021:
  - this includes a Pillar 1 requirement of 4.5%, a Pillar 2 requirement (P2R) of 1.27%, a capital conservation buffer (CCB) of 2.5%, and an Other Systemically Important Institutions (O-SII) buffer of 1.0% (increasing to 1.5% from 1 July 2021);
  - Pillar 2 guidance (P2G) is not disclosed in accordance with regulatory preference.
- Total capital ratio of 19.2% under regulatory rules at 31 December 2020.
- Leverage ratio of 7.1% on a regulatory basis and 6.4% on a fully loaded basis as at 31 December 2020.
- MREL ratio of 24.6% at 31 December 2020.

Capital management objectives and policies *(audited)*

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital while 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 regulatory authorities and economic capital based on internal models are used by the Group as the basis for its capital management. The Group seeks to maintain sufficient capital to ensure that these requirements are met.

The current status of capital adequacy, including risk dashboards and risk appetite compliance, is reported to Senior Executives and the Board through the Court Risk Report on a monthly basis.

Internal Capital Adequacy Assessment Process *(unaudited)*

The Internal Capital Adequacy Assessment Process (ICAAP) is carried out by the Group on an annual basis. The ICAAP process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Group's risk profile to ensure the Group holds sufficient capital to cover these risks and support its strategy. Underpinning the ICAAP process, the Group prepares detailed financial projections. Base case projections are prepared using consensus macroeconomic forecasts together with Group-specific assumptions, and the stress case is prepared based on a severe but plausible stress economic scenario.

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

The Board approved ICAAP Report and supporting documentation is submitted to the ECB and CBI on an annual basis, and is subject to regulatory review as part of the SREP.

4 Capital management *(continued)*

CRD IV - 2019 *(unaudited)*			CRD IV - 2020 *(unaudited)*	
Regulatory €m	**Fully loaded €m**		**Regulatory €m**	**Fully loaded €m**
		Capital Base		
10,433	10,433	Total equity	9,621	9,621
(189)	(189)	- less foreseeable dividend deduction[1]	-	-
(750)	(750)	- less AT1 capital	(975)	(975)
9,494	**9,494**	**Total equity less foreseeable dividend deduction and equity instruments not qualifying as Common equity tier 1**	**8,646**	**8,646**
(440)	**(1,076)**	**Regulatory adjustments being phased in / out under CRD IV**	**(281)**	**(1,230)**
(513)	*(1,027)*	*- Deferred tax assets[2]*	*(658)*	*(1,101)*
-	*(49)*	*- 10% / 15% threshold deduction*	*(56)*	*(129)*
73	-	*- IFRS 9 transitional adjustment*	433	-
(1,512)	**(1,512)**	**Other regulatory adjustments**	**(1,149)**	**(999)**
(423)	*(423)*	*- Expected loss deduction*	*(111)*	-
(761)	*(761)*	*- Intangible assets and goodwill*	*(478)*	*(478)*
(2)	*(2)*	*- Coupon expected on AT1 instrument*	*(10)*	*(10)*
14	*14*	*- Cash flow hedge reserve*	*26*	*26*
3	*3*	*- Own credit spread adjustment (net of tax)*	*3*	*3*
(47)	*(47)*	*- Securitisation deduction*	*(5)*	*(5)*
(123)	*(123)*	*- Pension asset deduction[3]*	*(131)*	*(131)*
(173)	*(173)*	*- Other adjustments[4]*	*(443)*	*(404)*
7,542	**6,906**	**Common equity tier 1**	**7,216**	**6,417**
		Additional tier 1		
-	-	AT1 instruments (issued by parent entity[5])	975	975
611	611	Instruments issued by subsidiaries that are given recognition in AT1 capital[6]	-	-
8,153	**7,517**	**Total tier 1 capital**	**8,191**	**7,392**
		Tier 2		
1,130	1,130	Tier 2 instruments (issued by parent entity[3,5])	1,038	1,038
210	210	Instruments issued by subsidiaries that are given recognition in Tier 2 capital[3,6]	215	215
-	-	Provisions in excess of expected losses on defaulted assets	-	138
		Regulatory adjustments		
(160)	(160)	Other adjustments	(160)	(160)
1,180	**1,180**	**Total tier 2 capital**	**1,093**	**1,231**
9,333	**8,697**	**Total capital**	**9,284**	**8,623**
50.1	**49.9**	**Total risk weighted assets (€bn)**	**48.4**	**48.0**
		Capital ratios[7]		
15.0%	13.8%	Common equity tier 1	14.9%	13.4%
16.3%	15.1%	Tier 1[6]	16.9%	15.4%
18.6%	17.4%	Total capital[6]	19.2%	18.0%
7.1%	6.5%	Leverage ratio[6]	7.1%	6.4%

[1] *No foreseeable dividend (31 December 2019: €189 million) has been deducted as required under Article 2 of European Union Regulation No. 241/2014.*

[2] *Deduction relates to deferred tax assets on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 60% in 2020, increasing annually at a rate of 10% thereafter.*

[3] *2019 pension asset deduction of €123 million debit has been reclassified from 'other adjustments' to 'pension asset deduction'. 2019 'Tier 2 instruments (issued by parent entity)' have been reduced by €38 million and 2019 'instruments issued by subsidiaries that are given recognition in Tier 2 capital' have been increased by €38 million.*

[4] *Includes technical items such as non-qualifying Common equity tier 1 items, Prudential Valuation Adjustment, Calendar Provisioning and IFRS 9 addback adjustment to the deferred tax charge.*

[5] *The parent entity refers to BOIG plc.*

[6] *The calculation of the Group's Tier 1, Total Capital and related ratios (including Leverage ratio) at 31 December 2020 are stated after a prudent application of the requirements of Articles 85 and 87 of Capital Requirements Regulation. As a result of the establishment of BOIG plc, and due to the requirements of Articles 85 and 87 of the Capital Requirements Regulation, regulatory capital instruments issued by subsidiaries (i.e. The Governor and Company of the Bank of Ireland) cannot be recognised in full in the prudential consolidation.*

[7] *The capital ratios are calculated using unrounded risk weighted asset amounts.*

4 Capital management *(continued)*

CRD IV - 2019 *(unaudited)* Regulatory €bn	CRD IV - 2019 *(unaudited)* Fully loaded €bn		CRD IV - 2020 *(unaudited)* Regulatory €bn	CRD IV - 2020 *(unaudited)* Fully loaded €bn
		Risk weighted assets[1,2]		
40.5	40.4	Credit risk	38.0	37.8
0.6	0.6	Counterparty credit risk	0.8	0.8
0.6	0.6	Securitisation	0.8	0.8
0.4	0.4	Market risk	0.6	0.6
4.4	4.4	Operational risk	4.2	4.2
3.6	3.5	Other assets / 10% / 15% threshold deduction	4.0	3.8
50.1	**49.9**	**Total RWA**	**48.4**	**48.0**

Capital Requirements Directive IV *(unaudited)*
The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent amendments, including EU Regulation 2019/876 (CRR II) and EU Directive 2019/878 (CRD V) published on 7 June 2019 and EU Regulation 2020/873 published on 26 June 2020 (COVID Quick Fix, which accelerated a number of amendments which were to be introduced during 2021).

In line with the above regulations, the Group's regulatory capital ratios reflect the phased implementation of the DTAs (dependent on future profitability) deduction and the transitional implementation of IFRS 9. These items will be fully implemented in 2024 and 2025 respectively.

Regulatory Capital Developments *(unaudited)*
The CRD IV rules continue to evolve through amendments to current regulations, directives and the adoption of new technical standards. The key changes impacting capital ratios as at 31 December 2020 contained in CRR II, the majority of which were accelerated by COVID Quick Fix, included an increase to IFRS 9 transitional addbacks to capital, changes to the SME supporting factor and amendments to the rules relating to the deduction of certain software assets from capital.

In addition there were a number of changes to ECB / EBA regulatory requirements implemented during the year that impacted the Group's regulatory capital and RWA calculations. These included new ECB and EBA NPL Guidelines; EBA standards and guidelines on Definition of Default and PD / LGD Estimates.

The remainder of the amendments introduced in CRR II will become applicable on 28 June 2021 including a binding leverage requirement and the implementation of the standardised approach for Counterparty Credit Risk. These amendments are not anticipated to have a material impact on the Group's capital ratios. The revisions to the capital requirements for Market Risk, originally intended to apply in 2021 have been deferred until 2023.

The Basel Committee revisions to the Basel Framework focus on the standardised and internal ratings-based approaches to measuring credit risk. These include the introduction of an aggregate output floor to ensure banks' RWAs calculated via internal models are no lower than 72.5% of RWAs calculated under the standard approach. The revised standards which were originally due to take effect from 1 January 2022, are now deferred to 1 January 2023, with a phase-in period of five years for the aggregate output floor. The Group continues to monitor developments with any impact dependent on the implementation at EU level.

Capital Actions
In 2020, the Group issued two AT1 securities: €675 million (initial coupon of 7.5%) in May 2020 and €300 million (initial coupon of 6.0%) in September 2020. These issuances supported the redemption in June 2020 of the €750 million (coupon 7.375%) AT1 security issued by The Governor and Company of the Bank of Ireland.

Capital requirements / buffers *(unaudited)*
The table below sets out the Group's CET1 capital requirements for 2020 and the authorities responsible for setting those requirements.

The Group is required to maintain a CET 1 ratio of 9.27% on a regulatory basis at 31 December 2020, increasing to 9.77% from 1 July 2021. This includes a Pillar 1 requirement of 4.5%, a CET1 P2R of 1.27%, a CCB of 2.5% and an O-SII Buffer of 1.0% (increasing to 1.5% from 1 July 2021). P2G is not disclosed in accordance with regulatory preference.

The Group's CET1 capital requirements at 31 December 2020 have decreased by c.188 basis points from those at 31 December 2019 due to a range of measures introduced by supervisors in response to the economic impact of COVID-19. The ECB confirmed, in its letter dated 8 April 2020, that the Group's P2R of 2.25%, which was previously to be held in the form of CET1 capital, is now to be held in the form of 56.25% of CET1 capital and 75% Tier 1 capital, as a minimum. This represents a P2R of 1.27% for CET1 capital, 1.69% for Tier 1 capital and 2.25% for Total Capital. This change reduced the Group's CET1 requirement by c.98 basis points.

Countercyclical Capital Buffers (CCyBs) are independently set in each country by the relevant designated authority. The Financial Policy Committee UK (FPC) and the CBI have reduced the UK and RoI CCyB rates to 0% until at least the end of 2022. These changes reduced the Group's CET1 requirement at 31 December 2020 by c.90 basis points.

[1] *Risk weighted assets reflect the application of certain Central Bank of Ireland required Balance Sheet Assessment adjustments and the updated treatments of expected loss.*
[2] *Further details on risk weighted assets as at 31 December 2020 can be found in the Group's Pillar 3 disclosures for the year ended 31 December 2020 available on the Group's website.*

4 Capital management *(continued)*

Pro forma CET1 Regulatory Capital Requirements	Set by	2019	2020	2021
Pillar 1 - CET1	CRR	4.50%	4.50%	4.50%
Pillar 2 Requirement	SSM	2.25%	1.27%	1.27%
Capital Conservation Buffer	CRD	2.50%	2.50%	2.50%
Countercyclical buffer				
Ireland (c.60% of RWA)	CBI	0.60%	-	-
UK (c.30% of RWA)	FPC (UK)	0.30%	-	-
US and other (c.10% of RWA)	Fed / Various	-	-	-
O-SII Buffer (from 1 July 2020)	CBI	0.50%	1.00%	1.50%
Systemic Risk Buffer - Ireland	CBI	-	-	TBC
Pro forma Minimum CET1 Regulatory Requirements		**10.65%**	**9.27%**	**9.77%**
Pillar 2 Guidance	**Not disclosed in line with regulatory preference**			

The CBI has advised that the Group is required to maintain an O-SII buffer of 0.5% from 1 July 2019, 1.0% from 1 July 2020 and 1.5% from 1 July 2021. The O-SII buffer is subject to annual review by the CBI.

In light of the impact of COVID-19, the CBI have stated that it does not intend to begin a phase-in of the systemic risk buffer during 2021.

The Group expects to maintain both regulatory and fully loaded capital ratios significantly in excess of minimum regulatory requirements.

Minimum Requirement for Own Funds and Eligible Liabilities *(unaudited)*
The Group's interim binding MREL requirements, to be met by 1 January 2022, are 24.95% on RWA basis and 7.59% on a leverage basis. The MREL RWA requirement consists of a Single Resolution Board (SRB) target of 20.95% (based on the Group's capital requirements as at 30 June 2020) and the Group's expected Combined Buffer Requirement (CBR) of 4% on 1 January 2022 (comprising the Capital Conservation Buffer of 2.5% and an O-SII buffer of 1.5%).

The SRB target is subject to annual review; while the CBR is dynamic, updating as changes in capital requirements become effective. Therefore the Group's 2024 MREL requirement is expected to increase to c.28% (based on expected December 2021 regulatory capital requirements) as the SRB target is updated to reflect the phase-in of the O-SII buffer and the phase-out of MREL adjustments.

The Group's MREL position at 31 December 2020 is 24.6% on an RWA basis and 10.3% on a leverage basis. The Group expects to maintain a buffer over its MREL requirements.

Risk weighted assets *(unaudited)*
Risk weighted assets (RWAs) on a regulatory basis, were €48.4 billion at 31 December 2020 (31 December 2019: €50.1 billion). The decrease of €1.7 billion in RWA is primarily due to loan book movements and the impact of regulatory change being offset by reductions in RWA from the application of revised SME Supporting Factor, impact of changes in asset quality and FX movements.

Regulatory ratio *(unaudited)*
The CET 1 ratio is 14.9% at 31 December 2020 (15.0% at 31 December 2019). The decrease of c.10 basis points since 31 December 2019 is primarily due to the benefit of pre-impairment organic capital generation (c.130 basis points), implementation of SME support factor and software asset rules (c.75 basis points) and the withdrawal of the 2019 dividend (c.40 basis points); offset by the impact of CRD phasing for 2020 (c.-25 basis points), credit quality deterioration (c.-50 basis points), RWA growth (c.-25 basis points), the impact of regulatory change (c.-65 basis points), investment in the Group's transformation programmes (c.-75 basis points) and other net movements, including movements in the Group's defined benefit pension schemes (c.-15 basis points).

Fully loaded ratio *(unaudited)*
The Group's fully loaded CET 1 ratio is 13.4% at 31 December 2020 (31 December 2019: 13.8%). The decrease of c.40 basis points since 31 December 2019 is primarily due to organic capital generation (c.125 basis points), benefit from implementation of SME support factor and software asset rules (c.75 basis points and the withdrawal of the 2019 dividend (c.40 basis points), offset by the impact of credit quality deterioration (c.-110 basis points), RWA growth (c.-20 basis points), the impact of regulatory change (c.-65 basis points), investment in the Group's transformation programmes (c.-75 basis points) and other net movements, including movements in the Group's defined benefit pension schemes (c.-10 basis points).

Leverage ratio *(unaudited)*
The leverage ratio at 31 December 2020 is 7.1% on a CRD IV regulatory basis (31 December 2019: 7.1%) and 6.4% on a proforma fully loaded basis (31 December 2019: 6.5%).

The European Commission (EC) has introduced a binding leverage requirement of 3% which will be applicable from 28 June 2021. The Group expects to remain well in excess of this requirement.

Distribution policy *(unaudited)*
The Group proposed the payment of a dividend of €189 million, equivalent to 17.5 cents per share in respect of the 2019 financial year. In light of the evolving COVID-19 pandemic, and following the recommendation of the ECB on 27 March 2020 on dividend

4 Capital management *(continued)*

distributions for all significant institutions during the COVID-19 pandemic, the Group announced on 30 March 2020 that it withdrew its proposed dividend for the year ended 31 December 2019, and that it would assess dividends at a future date, based on performance and capital position, the earliest of which, in line with the latest ECB recommendation on 15 December 2020, would be 30 September 2021. Consistent with the ECB recommendation, the Group is not currently making a foreseeable dividend deduction.

The Group expects that distributions will increase on a prudent and progressive basis over time. The distribution level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

Distributable items *(unaudited)*

As at 31 December 2020, the Company had reserves available for distribution of €6.2 billion. Further information on the Company's equity is provided on page 336.

Individual consolidation *(unaudited)*

The regulatory CET1 ratio of the Bank calculated on an individual consolidated basis as referred to in Article 9 of the CRR is 13.7% at 31 December 2020 (2019: 15.2%).

Impediments to the transfer of funds *(unaudited)*

There is a requirement to disclose any impediment to the prompt transfer of funds within the Group. In respect of the Group's licensed subsidiaries, the Group is obliged to meet certain license conditions in respect of capital and / or liquidity.

These requirements may include meeting or exceeding appropriate capital and liquidity ratios and obtaining appropriate regulatory approvals for the transfer of capital or, in certain circumstances, liquidity. The Group's licensed subsidiaries would be unable to remit funds to the parent when to do so would result in such ratios or other regulatory permissions being breached. Apart from this requirement, there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

At 31 December 2020, own funds were in excess of the required minimum requirement.

Financial Statements

Contents

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditor's Report set out on pages 192 to 198, 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 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 IAS Regulation. Company law requires the Directors to prepare Group and Company financial statements for each financial year.

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

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

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

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

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

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

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

The Directors are responsible for monitoring the effectiveness of the Company's systems of internal control in relation to the financial reporting process, and have a general responsibility for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

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

Signed on behalf of the Board by
26 February 2021

Patrick Kennedy	**Richard Goulding**	**Francesca McDonagh**
Chairman	*Deputy Chairman*	*Group Chief Executive*

Independent Auditor's Report
to the members of Bank of Ireland Group plc

Report on the audit of the financial statements

Opinion

We have audited the Group and Company financial statements of Bank of Ireland Group plc (the 'Company') for the year ended 31 December 2020 set out on pages 199 to 341, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity and related notes, including the Group accounting policies set out in note 1 and the Company accounting policies set out on page 337. Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, Irish Law and FRS 101 Reduced Disclosure Framework issued in the United Kingdom by the Financial Reporting Council.

In our opinion:
- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework issued by the UK's Financial Reporting Council; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were appointed as Auditor by the Board of Directors on 19 April 2018. The period of total uninterrupted engagement is therefore three years for the year ended 31 December 2020. 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Director's assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:
- we used our knowledge of the Group and Company, the financial services industry, and the general economic environment to identify the inherent risks to the business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group and Company's available financial resources over this period were;
  - the availability of funding and liquidity in the event of a market wide stress scenario in which the global COVID-19 pandemic continues to unfold; and
  - the impact on regulatory capital requirements in the event of an economic slowdown or recession.
- we considered whether these risks could plausibly affect the availability of financial resources in the going concern period by comparing severe, but plausible, downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.
- our procedures also included:
  - we benchmarked significant assumptions included in the Directors' downside scenarios relevant to liquidity and capital metrics. In particular, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of the impact of severe, but plausible, scenarios on these and assessing whether these downside scenarios applied consider reasonably possible outcomes.

Based on the work we have performed, we have not identified a material uncertainty relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

We found the significant assumptions associated with the use of the going concern basis of accounting, outlined in disclosure in note 1 to be acceptable.

In relation to the Group and the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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.

Following performance of our risk assessment procedures, we have not assessed 'Conduct risk - specifically, the Tracker Mortgage Examination (TME) provision' as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 page 211 and 212 (accounting policy) and note 27 (financial statement 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.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's compliance with IFRS 9 include but are not limited to:

Accuracy of PD models

The Probability of Default (PD) models are the key drivers of the expected credit loss calculation and also impact the staging of assets. ECLs may be inappropriate if PD models do not accurately predict defaults over time, become out of line with wider industry experience, or fail to reflect the credit risk of financial assets. This is particularly relevant for the current environment, where there are increased challenges in predicting defaults in light of the uncertainty created by COVID-19.

Material qualitative adjustments

Qualitative adjustments are raised by management to address known impairment model limitations and/or emerging trends. There is a high degree of estimation uncertainty and management judgment involved in post model adjustments (PMA's) and management overlays.

Economic Scenarios

Economic scenarios have a direct impact on the staging of loans and the resultant ECL. Significant management judgment is applied to the determination of the economic scenarios and the weightings applied to them especially when considering the current uncertain economic environment as a result of COVID-19.

Identification and quantification of Stage 3 loans

There is a risk that individually assessed ECLs held against counterparties are incorrectly or inappropriately calculated by management. Management judgement is applied to value the collateral, in determining the probability weighting of scenarios used to calculate the level of provisioning required and the impact of the likely courses of action with borrowers on ECL.

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 significant data inputs into the impairment models.
- We tested the design and implementation of key controls over the assessment and calculation of material SICR indicators and criteria, including credit risk monitoring controls.
- 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 and implementation 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 estimation of macroeconomic forecasts used in measuring ECL including the economic scenarios and probability weightings applied to them.
- We tested key aspects of the Group's SICR calculations determine whether SICR was appropriately identified.
- We assessed the reasonableness of the significant assumptions in the ECL models and the loss rate ECL calculations.
- We re-performed the calculation of certain components of the ECL model calculation.
- We involved our own economic specialists to assist us in assessing the reasonableness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed key economic variables used and challenged the overall reasonableness of the economic forecasts by comparing management's significant assumptions to observable industry forecasts. We assessed the reasonableness of the Group's considerations of the ECL impact of anticipated economic uncertainty associated with COVID-19.
- We assessed the completeness and 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 COVID-19 and Brexit.
- For a risk-based selection of loans, we critically assessed and challenged the reasonableness of management's judgment by reference to the underlying documentation and through inquiry of management, whether the indicators for a credit impairment had been identified.
- For a selection of credit-impaired loans, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision and challenged the significant assumptions through comparing estimates to external support where available. When relevant, 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.
- We found the significant judgments used by management in determining the ECL charge and provision, including the accuracy of PD models, application of PMAs, economic scenarios and identification and quantification of stage 3 loans, to be reasonable.

Valuation of defined benefit pension net liability €126 million (2019: €139 million)

Refer to page 218 and 219 (accounting policy) and note 47 (financial statement 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 €126 million at 31 December 2020.

The valuations of the pension obligations are calculated with reference to a number of significant 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 significant 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 significant 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 any changes in methodology, assess the appropriateness of the methodology used, and challenged the reasonableness of the significant assumptions used in the calculation of the liability, comparing them to industry benchmarks.
- We also assessed the adequacy of the Group's disclosures in respect to the sensitivity of the pension liability to these significant assumptions.
- Overall, we found that the significant assumptions and methodologies used by management in the valuation of the retirement benefit obligations, including the discount rates, inflation rates and mortality assumptions, to be reasonable.

Valuation of the insurance contract liabilities €13,479 million (2019: €12,694 million) and the Value of in Force business (ViF) asset €615 million (2019: €631 million)

Refer to page 220 and 221 (accounting policy) and notes 37 and 41 (financial statement 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 significant 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 tested the design and implementation, and operating effectiveness of the key controls relevant to the valuation of the insurance contract liabilities and the ViF asset.
- We tested, on a sample basis, the completeness and accuracy of the significant data used in the valuation calculation valuation of the insurance contract liabilities and the ViF asset.
- In conjunction with our actuarial specialists, we evaluated the methodologies applied and the significant assumptions, including consideration of alternatives used in the valuation.
- We assessed and challenged the methodology and basis used to set the underlying significant 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 significant assumptions and significant data inputs into the actuarial models to those we had evaluated;
  - testing the design, implementation and operating effectiveness of management’s key controls over the output of the calculations; and
  - evaluating the external actuary’s report on the actuarial methodologies, significant assumptions and calculations.
- We found that the significant assumptions used in the valuation of the insurance contract liabilities and the ViF asset, including mortality, morbidity, persistency, expenses, unit growth rates and interest rates, were reasonable.

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 privileged user access management controls to be critical in ensuring that only appropriately authorised changes are made to relevant IT systems. 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 implementation, and operating effectiveness, of the key controls over the continued integrity of the IT systems that are relevant to financial reporting.
- In conjunction with our IT audit specialists, we updated our understanding of the Group's IT environment having particular regard for developments with respect to the Group's Integrated IT plans. We used this understanding to identify those IT systems which support financial reporting processes.
- 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, program development and change management.
- We also tested the design and 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 continue to identify certain design and operating effectiveness deficiencies with user access controls, the existence of compensating controls provided us with sufficient evidence to rely on the operation of the Group's IT systems for the purposes of our audit.

Recognition of impairment on internally generated intangible assets €697 million (2019: €760 million)

Refer to page 218 (accounting policy) and note 32 (financial statement disclosures)

The key audit matter

The Group balance sheet includes capitalised intangible assets of €697 million and an impairment of €139 million has been recognised in the consolidated income statement during the year.

We considered this a key audit matter due to the significance of the costs capitalised and the fact that there is considerable judgement involved in assessing whether the criteria in IAS 38 required for capitalisation of such costs, have been met and, where impairment indicators are identified, determining the recoverable amount of the intangible asset.

For recognition of intangible assets, 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.

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 and implementation, and operating effectiveness, of key controls relating to the capitalisation of expenditure and impairment of intangible assets.
- 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 and 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, vouching to supporting documentation.
- Where external third-party contractors were used, we agreed on a sample basis that the amounts invoiced were appropriately capitalized. 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 selected a sample of the individual hours recorded and checked that the hours charged were appropriately capitalised.
- We compared the methodology used by the Group to market practice.
- We obtained management's impairment calculations and tested the accuracy of the underlying calculations.
- We assessed the reasonableness of significant assumptions used in the impairment calculations through inquiries of management to understand and evaluate their basis for determining the significant assumptions, and critically assessing the significant assumptions with reference to relevant external and internal sources of information.
- For intangible assets with identified impairment indicators, we obtained and tested management's analysis around the significant assumptions, to ascertain whether certain adverse changes to significant assumptions, both individually and in aggregate, would not cause the carrying amount of intangible assets to exceed the recoverable amount.
- We considered whether the development of new software provided any evidence of obsolescence for existing internally generated intangible assets on the balance sheet.
- We evaluated management's assessment on whether any events or change in circumstances indicate there may be a change in the expected useful lives of intangible assets.
- We found that the costs were capitalised in line with Group policy and on a basis which is consistent with the requirements of IAS 38.
- We found that the significant assumptions used in the recognition and impairment assessments, including the future economic benefits and determination of impairment indicators, to be reasonable.

Recoverability of deferred tax assets (DTAs) €1,165 million (2019: €1,088 million)

Refer to page 219 (accounting policy) and note 35 (financial statement disclosures)

The key audit matter

The Group has DTAs of €1,165 million which are projected to be recovered by 2037. The total DTAs before netting by jurisdiction is €1,253 million. This includes unutilised tax losses of €1,157 million, of which €1,133 million relates to Ireland and €18 million relates to the UK, with recovery periods of 19 and 10 years respectively.

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

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

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

- We tested the design and implementation, and operating effectiveness, of key controls over the forecasting and approval of the projections of future profits used to support the recognition of the deferred tax assets.
- With the assistance of our tax specialists we tested the accuracy of the DTA calculations and the appropriateness of tax utilisation strategies applied.
- We assessed whether the forecast profits used in support of the forecasts were reasonable by reference to recent performance and challenged the significant assumptions underpinning the Group's future forecasts using our knowledge of the business, the Group’s strategy and wider initiatives within the Group. We focused on those significant assumptions directly impacting the forecast profits. We assessed the reasonableness of the external significant economic assumptions applied in the future forecast assessment with reference to observable market data.
- We assessed how management considered alternative outcomes and potential estimation uncertainty in arriving at their base case projections.
- We considered whether significant assumptions within the DTA calculations were internally consistent and assessed the reasonableness of the period over which the asset is projected to be recovered.
- We assessed the adequacy of disclosures provided in the financial statements, including disclosures of the significant assumptions and found them to be appropriate.
- On the basis of the work performed, we found the significant assumptions associated with the recoverability of DTA, including the timing and sufficiency of future taxable profits to be reasonable.

Recoverability of the carrying value of the investment by BOIG plc in the Governor and Company of the Bank of Ireland (Company only risk and key audit matter) €7,962 million (2019: €7,035 million)

Refer to page 337 (accounting policy) and note c of the Company Financial statements (financial statement disclosures)

The key audit matter

The Group completed a corporate reorganisation during 2017 which included the creation of a new Group holding company, Bank of Ireland Group plc (the 'Company').

The Company balance sheet includes a €8 billion investment in The Governor and Company of the Bank of Ireland (GovCo).

The accounting policy followed by the Company is to carry the investment at cost less impairment. Impairment testing includes the comparison of the carrying value with its recoverable amount. The recoverable amount is the higher of the investment’s fair value less costs of disposal or its value in use.

We consider this a key audit matter because of the significance of the investment to the Company and the judgement associated with its recovery which is predicated on the achievement of future projections.

How the matter was addressed in our audit

- We tested the design and implementation of key controls over the over the forecasting and approval of the projections of future profits.
- We assessed the accuracy of management's fair value assessment, which was based on the market capitalisation both before and after the year end and on external broker reports, and challenged the significant assumptions underlying the value in use calculations.
- We assessed the significant assumptions underlying the projections in the value in use calculations and considered other potential plausible scenarios by considering the relevant factors for each input that would return the investment to break-even, and sensitising these to determine at what point each stressed scenario would generate a material impairment charge.
- We assessed the adequacy of disclosures in the Company's financial statements.
- Based on evidence obtained, we found that the significant assumptions associated with recoverability of the carrying value, including the underlying projections in the Group’s value in use calculations and the discount rate, to be 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 €32.5 million (2019: €38 million). This has been calculated as c.8.7% of the benchmark of Group’s underlying loss before taxation of €374 million, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. We reported to the Group Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €1.5 million in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The materiality for the Company financial statements is €87 million which represents 1% of net assets. The Company is the ultimate holding company of the Group and its activities to date have been limited to its investment in GovCo and the issue of subordinated liabilities and debt securities. Hence a benchmark based on net assets reflects the focus of the users of the financial statements.

Our audit work addressed each of the Group’s five operating segments which are headquartered in Ireland and the UK: Retail Ireland, Wealth and Insurance, Retail UK, Corporate and Treasury (C&T) and Group Centre. In planning the audit we used materiality to assist in making the determination to perform full scope audits of the complete financial information of the Retail Ireland, Wealth and Insurance, Retail UK and Corporate and Treasury operating segments. An audit of account balances was performed on the Group Centre operating segment.

We applied materiality to assist us determine what risks were significant risks and the Group audit team instructed component auditors as to the significant areas to be covered by them, 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 undertook an assessment of the audit risk and strategy and regular meetings were held through video conference meetings with these component auditors. At these 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.

Other information

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Strategic Report on pages 3 to 46, the unaudited sections of the Risk Management Report on pages 134 to 189, the Financial review on pages 47 to 70, the Governance section on pages 71 to 133 (except for the Remuneration Report on page 131), the unaudited parts of Other Information on pages 342 to 381.

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 undertaken during the course of the audit, we report that, in those parts of the directors' report specified for our consideration:

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

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- the Directors' confirmation within The Report of the Directors on page 116 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- the Directors' explanation in The Report of the Directors of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other corporate governance disclosures

We are required to address the following items and report to you in the following circumstances:

- fair, balanced and understandable: if we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- Report of the Audit Committee: if the section of the Annual Report describing the work of the GAC does not appropriately address matters communicated by us to the GAC;
- 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 of Euronext Dublin and the UK Listing Authority for our review;
- if the Directors' statement relating to Going Concern required under the Listing Rules of Euronext Dublin and the UK Listing Authority set out on page 207 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Governance section on pages 71 to 133, that:

- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/EC) Regulations 2006 and specified for our consideration, is consistent with the financial statements and has been prepared in accordance with the Act;
- based on our knowledge and understanding of the Company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information; and
- the Governance Section contains the information required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017.

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

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

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

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are 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 Company has not provided the information required by Section 1110N in relation to its remuneration report for the financial year ended 31 December 2019;
- the Company has not provided the information required by section 5(2) to (7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 for the year ended 31 December 2019 as required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (amendment) Regulations 2018.

We have nothing to report in this regard.

The Listing Rules of Euronext Dublin and the UK Listing Authority require us to review:
- the Directors' Statement, set out on page 116, in relation to going concern and longer-term viability;
- the part of the Governance section on page 116 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Board of Directors' remuneration committee.

We have nothing to report in this regard.

Respective responsibilities and restrictions on use

Directors' responsibilities

As explained more fully in their statement set out on page 191, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

N. Marshall

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

26 February 2021

Consolidated financial statements

Consolidated income statement *(for the year ended 31 December 2020)*

	Note	2020 €m	*Restated[1]* 2019 €m
Interest income calculated using the effective interest method	4	2,183	2,350
Other interest income	4	387	408
Interest income		**2,570**	**2,758**
Interest expense	5	(481)	(586)
Net interest income		**2,089**	**2,172**
Net insurance premium income	6	1,627	1,518
Fee and commission income	7	428	510
Fee and commission expense	7	(172)	(205)
Net trading income	8	26	121
Life assurance investment income, gains and losses	9	270	1,311
Other leasing income	10	65	62
Other leasing expense	10	(55)	(52)
Other operating income	11	57	120
Total operating income		**4,335**	**5,557**
Insurance contract liabilities and claims paid	12	(1,690)	(2,647)
Total operating income, net of insurance claims		**2,645**	**2,910**
Total operating expenses		(2,036)	(2,006)
- Other operating expenses	13	*(1,888)*	*(2,006)*
- Impairment of intangible assets	32	*(139)*	-
- Impairment of goodwill	32	*(9)*	-
Cost of restructuring programme	14	(245)	(59)
Operating profit before impairment losses on financial instruments		**364**	**845**
Net impairment losses on financial instruments	16	(1,133)	(214)
Operating (loss) / profit		**(769)**	**631**
Share of results of associates and joint ventures (after tax)	17	(4)	39
Gain / (loss) on disposal / liquidation of business activities	18	13	(25)
(Loss) / profit before tax		**(760)**	**645**
Taxation credit / (charge)	19	53	(197)
(Loss) / profit for the year		**(707)**	**448**
Attributable to shareholders		(742)	386
Attributable to non-controlling interests	51	35	62
(Loss) / profit for the year		**(707)**	**448**
Earnings per ordinary share	20	(72.4c)	35.9c
Diluted earnings per ordinary share	20	(72.4c)	35.9c

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

Consolidated statement of comprehensive income *(for the year ended 31 December 2020)*

	2020 €m	2019 €m
(Loss) / profit for the year	**(707)**	**448**
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss in subsequent years:		
Debt instruments at FVOCI reserve, net of tax:		
Changes in fair value	11	28
Transfer to income statement		
- Asset disposal	(6)	(3)
Net change in debt instruments at FVOCI reserve	**5**	**25**
Cash flow hedge reserve, net of tax:		
Changes in fair value	344	(390)
Transfer to income statement	(356)	386
Net change in cash flow hedge reserve	**(12)**	**(4)**
Foreign exchange reserve:		
Foreign exchange translation (losses) / gains	(169)	139
Transfer to income statement	(5)	(9)
Net change in foreign exchange reserve	**(174)**	**130**
Total items that may be reclassified to profit or loss in subsequent years	**(181)**	**151**
Items that will not be reclassified to profit or loss in subsequent years:		
Remeasurement of the net defined benefit pension liability, net of tax	(80)	39
Revaluation of property, net of tax	(7)	3
Net change in liability credit reserve, net of tax	2	(18)
Total items that will not be reclassified to profit or loss in subsequent years	**(85)**	**24**
Other comprehensive income for the year, net of tax	**(266)**	**175**
Total comprehensive income for the year, net of tax	**(973)**	**623**
Total comprehensive income attributable to equity shareholders	(1,008)	561
Total comprehensive income attributable to non-controlling interests	35	62
Total comprehensive income for the year, net of tax	**(973)**	**623**

The effect of tax on these items is shown in note 19.

Consolidated balance sheet *(as at 31 December 2020)*

	Note	2020 €m	2019 €m
Assets			
Cash and balances at central banks	52	10,953	8,325
Items in the course of collection from other banks		166	223
Trading securities		-	32
Derivative financial instruments	21	2,217	1,999
Other financial assets at FVTPL	22	17,392	16,453
Loans and advances to banks	23	2,453	3,328
Debt securities at amortised cost	24	6,266	4,511
Financial assets at FVOCI	25	10,942	10,797
Assets classified as held for sale	26	5	-
Loans and advances to customers	27	76,581	79,487
Interest in associates	30	54	56
Interest in joint ventures	31	54	76
Intangible assets and goodwill	32	751	838
Investment properties	33	843	999
Property, plant and equipment	34	889	1,009
Current tax assets		42	36
Deferred tax assets	35	1,165	1,088
Other assets	36	2,819	2,497
Retirement benefit assets	47	162	129
Total assets		**133,754**	**131,883**
Equity and liabilities			
Deposits from banks	38	2,388	2,179
Customer accounts	39	88,637	83,968
Items in the course of transmission to other banks		216	219
Derivative financial instruments	21	2,257	2,478
Debt securities in issue	40	6,367	8,809
Liabilities to customers under investment contracts	41	5,892	5,890
Insurance contract liabilities	41	13,479	12,694
Other liabilities	42	2,234	2,413
Leasing liabilities	43	498	565
Current tax liabilities		12	33
Provisions	44	268	143
(Loss) allowance provision on loan commitments and financial guarantees	46	99	30
Deferred tax liabilities	35	64	71
Retirement benefit obligations	47	288	268
Subordinated liabilities	48	1,434	1,690
Total liabilities		**124,133**	**121,450**
Equity			
Share capital	49	1,079	1,079
Share premium account		456	456
Retained earnings		7,337	8,180
Other reserves		(260)	(60)
Own shares held for the benefit of life assurance policyholders		(25)	(30)
Shareholders' equity		**8,587**	**9,625**
Other equity instruments - Additional Tier 1	50	966	-
Total equity excluding non-controlling interests		**9,553**	**9,625**
Non-controlling interests	51	68	808
Total equity		**9,621**	**10,433**
Total equity and liabilities		**133,754**	**131,883**

Patrick Kennedy
Chairman

Richard Goulding
Deputy Chairman

Francesca McDonagh
Group Chief Executive

Sarah McLaughlin
Group Secretary

Consolidated statement of changes in equity
(for the year ended 31 December 2020)

	Share capital €m	Share premium account €m	Retained earnings €m	Other reserves: Debt instruments at FVOCI reserve €m	Cash flow hedge reserve €m	Liability credit reserve €m	Foreign exchange reserve €m	Capital reserve €m	Merger reserve €m	Revaluation reserve €m	Own shares held for benefit of life assurance policyholders €m	Attributable to equity holders of Parent €m	Other equity instruments €m	Non-controlling interests €m	Total €m
Balance at 1 January 2020	**1,079**	**456**	**8,180**	**158**	**(14)**	**(3)**	**(703)**	**451**	**17**	**34**	**(30)**	**9,625**	**-**	**808**	**10,433**
Loss for the year	-	-	(742)	-	-	-	-	-	-	-	-	(742)	-	35	(707)
Other comprehensive income for the year	-	-	(80)	5	(12)	2	(174)	-	-	(7)	-	(266)	-	-	(266)
Total comprehensive income for the year	**-**	**-**	**(822)**	**5**	**(12)**	**2**	**(174)**	**-**	**-**	**(7)**	**-**	**(1,008)**	**-**	**35**	**(973)**
Transactions with owners															
Contributions by and distributions to owners of the Group															
- AT1 securities issued during the period, net of expenses (note 50)	-	-	-	-	-	-	-	-	-	-	-	-	966	-	966
- Redemption of NCI - AT1 securities (note 51)	-	-	(10)	-	-	-	-	-	-	-	-	(10)	-	(740)	(750)
- Distribution paid to NCI - AT1 coupon (note 51)	-	-	-	-	-	-	-	-	-	-	-	-	-	(28)	(28)
- Distribution on other equity instruments - AT1 coupon (note 50)	-	-	(25)	-	-	-	-	-	-	-	-	(25)	-	-	(25)
- Dividends paid to NCI - preference stock (note 51)	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
- Changes in value and amount of shares held	-	-	-	-	-	-	-	-	-	-	5	5	-	-	5
- Dividends on ordinary shares (note 63)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**(35)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**(30)**	**966**	**(775)**	**161**
Transfer from capital reserve to retained earnings	-	-	14	-	-	-	-	(14)	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	**1,079**	**456**	**7,337**	**163**	**(26)**	**(1)**	**(877)**	**437**	**17**	**27**	**(25)**	**8,587**	**966**	**68**	**9,621**

Consolidated statement of changes in equity
(for the year ended 31 December 2019)

	Share capital €m	Share premium account €m	Retained earnings €m	Other reserves: Debt instruments at FVOCI reserve €m	Cash flow hedge reserve €m	Liability credit reserve €m	Foreign exchange reserve €m	Capital reserve €m	Merger reserve €m	Revaluation reserve €m	Own shares held for benefit of life assurance policyholders €m	Attributable to equity holders of Parent €m	Other equity instruments €m	Non-controlling interests €m	Total €m
Balance at 1 January 2019	**1,079**	**456**	**7,975**	**133**	**(10)**	**24**	**(833)**	**396**	**17**	**31**	**(25)**	**9,243**	**-**	**808**	**10,051**
Profit for the year	-	-	386	-	-	-	-	-	-	-	-	386	-	62	448
Other comprehensive income for the year	-	-	39	25	(4)	(18)	130	-	-	3	-	175	-	-	175
Total comprehensive income for the year	**-**	**-**	**425**	**25**	**(4)**	**(18)**	**130**	**-**	**-**	**3**	**-**	**561**	**-**	**62**	**623**
Transactions with owners															
Contributions by and distributions to owners of the Group															
- Dividends on ordinary shares (note 63)	-	-	(173)	-	-	-	-	-	-	-	-	(173)	-	-	(173)
- Dividends paid to NCI - preference stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
- Distribution paid to NCI - AT1 coupon	-	-	-	-	-	-	-	-	-	-	-	-	-	(55)	(55)
- Changes in value and amount of shares held	-	-	-	-	-	-	-	-	-	-	(5)	(5)	-	-	(5)
- Redemption of NCI - AT1 securities (note 51)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- AT1 securities issued during the period, net of expenses (note 50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Distribution on other equity instruments AT1 coupon (note 50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**(173)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(178)**	**-**	**(62)**	**(240)**
Transfer from capital reserve to retained earnings	-	-	(55)	-	-	-	-	55	-	-	-	-	-	-	-
Transfer from liability credit reserve to retained earnings	-	-	9	-	-	(9)	-	-	-	-	-	-	-	-	-
Other movements	-	-	(1)	-	-	-	-	-	-	-	-	(1)	-	-	(1)
Balance at 31 December 2019	**1,079**	**456**	**8,180**	**158**	**(14)**	**(3)**	**(703)**	**451**	**17**	**34**	**(30)**	**9,625**	**-**	**808**	**10,433**

Consolidated cash flow statement *(for the year ended 31 December 2020)*

	Note	2020 €m	2019 €m
Cash flows from operating activities			
(Loss) / profit before tax		(760)	645
Share of results of associates and joint ventures	17	4	(39)
(Gain) / loss on disposal / liquidation of business activities	18	(13)	25
Depreciation and amortisation	10,13	281	317
Net impairment loss on financial instruments, excluding cash recoveries	16	1,171	262
Impairment of property, plant and equipment	14,34	6	4
Revaluation loss on property	13	4	-
Impairment of intangible assets and goodwill	32	148	-
Reversal of impairment on property	13	(3)	-
Revaluation of investment property	33	77	3
Interest expense on subordinated liabilities	5	74	106
Interest expense on lease liabilities	5	14	15
Charge for pension and similar obligations	47	50	101
Net change in accruals and interest payable		(82)	(17)
Net change in prepayments and interest receivable		22	(16)
Charge for provisions	44	256	111
Non-cash and other items		47	(1)
Cash flows from operating activities before changes in operating assets and liabilities		**1,296**	**1,516**
Net change in items in the course of collection from other banks		54	(13)
Net change in trading securities		32	(3)
Net change in derivative financial instruments		(515)	250
Net change in other financial assets at FVTPL		(934)	(2,325)
Net change in loans and advances to banks		186	(18)
Net change in loans and advances to customers		77	(1,322)
Net change in other assets		(355)	(210)
Net change in deposits from banks		298	(392)
Net change in customer accounts		5,914	3,903
Net change in debt securities in issue		(2,380)	(146)
Net change in liabilities to customers under investment contracts		2	651
Net change in insurance contract liabilities		785	1,691
Net change in other operating liabilities		(250)	(226)
Net cash flow from operating assets and liabilities		**2,914**	**1,840**
Net cash flow from operating activities before tax		**4,210**	**3,356**
Tax paid		(56)	(54)
Net cash flow from operating activities		**4,154**	**3,302**
Investing activities (section a below)		(2,111)	651
Financing activities (section b below)		(212)	(876)
Effect of exchange translation and other adjustments		108	(100)
Net change in cash and cash equivalents		**1,939**	**2,977**
Opening cash and cash equivalents		11,326	8,349
Closing cash and cash equivalents	52	**13,265**	**11,326**

Consolidated cash flow statement *(for the year ended 31 December 2020) (continued)*

	Note	2020 €m	2019 €m
(a) Investing activities			
Additions to financial assets at FVOCI	25	(3,029)	(1,525)
Disposal / redemption of financial assets at FVOCI	25	2,863	2,827
Additions to debt securities at amortised cost		(1,858)	(803)
Disposal / redemption of debt securities at amortised cost		91	373
Additions to property, plant and equipment - owned assets	34	(54)	(81)
Disposal of property, plant and equipment		25	22
Additions to intangible assets	32	(229)	(223)
Additions to investment property	33	-	(11)
Disposal of investment property		65	39
Dividends received from joint ventures	31	16	31
Net change in interest in associates	30	(1)	2
Cash flows from investing activities		**(2,111)**	**651**
(b) Financing activities			
Net proceeds from the issue of other equity instruments	50	966	-
Redemption of non-controlling interests - AT1 securities	51	(750)	-
Repayment of subordinated liabilities	53	(208)	(750)
Interest paid on subordinated liabilities	53	(84)	(107)
Payment of lease liability	43	(62)	(69)
Distribution to non-controlling interests - AT1 coupon	51	(28)	(55)
Distribution on other equity instruments - AT1 coupon	50	(25)	-
Interest paid on lease liability	43	(14)	(15)
Dividend paid to non-controlling interests - preference stock	51	(7)	(7)
Net proceeds from issue of subordinated liabilities	53	-	300
Dividend paid to ordinary shareholders	63	-	(173)
Cash flows from financing activities		**(212)**	**(876)**

Notes to the consolidated financial statements

1 Group accounting policies

Basis of preparation

These consolidated financial statements are financial statements of the Bank of Ireland Group plc ('BOIG plc' or the 'Company') and its subsidiaries (collectively the 'BOIG plc Group' or the 'Group').

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated cash flow statement, the notes to the consolidated financial statements on pages 206 to 333 and the notes to the Company financial statements on pages 337 to 341.

The financial statements include the information that is described as being an integral part of the audited financial statements contained in:
(i) Sections 3.1, 3.2, 3.3, 3.4 and 4 of the Risk Management Report as described further on the bottom of page 134;
(ii) the Remuneration Report as described further on page 131; and
(iii) Other Information - Group exposures to selected countries as described further on the top of page 343.

The financial statements also include the tables in Other Information - Supplementary asset quality disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 346.

The amounts presented in the financial statements are rounded to millions.

The consolidated financial statements of the Group are prepared in accordance with IFRS as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the EU (Credit Institutions: Financial Statements) regulations 2015 and the Asset Covered Securities Acts 2001 and 2007.

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

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

The accounting policies and critical accounting estimates applied by the Company are included in note a to the Company financial statements on page 337.

FX rates used during the year are as follows:

	2020		2019	
	Average	Closing	Average	Closing
€ / Stg£	0.8897	0.8990	0.8778	0.8508
€ / US$	1.1422	1.2271	1.1195	1.1234

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

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for 2020 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 Directors also considered the economic impact of COVID-19 on the Group's core markets in Ireland and the UK, which has resulted in reduced levels of activity across the Group's businesses.

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.

1 Group accounting policies *(continued)*

Adoption of new and amended accounting standards and voluntary change in accounting policy

The following amendments to standards have been adopted by the Group during the year ended 31 December 2020:

Amendments to IFRS 3 'Business Combinations'

This amendment narrowed and clarified the definition of a business. The amended definition emphasises that a business must include inputs and a process, and clarified that the process must be substantive, and the inputs and process must together significantly contribute to creating outputs. This amendment narrowed the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs. It also added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This amendment applies to business combinations and asset acquisitions that occur on or after 1 January 2020 and does not have a significant impact on the Group at 31 December 2020.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

These amendments are aimed at improving the understanding of the existing requirements rather than significantly impacting current materiality judgements. They provide a new definition of material which shall be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements. These amendments do not have a significant impact on the Group at 31 December 2020.

Voluntary change in accounting policy - presentation of Interest Income and Expense

The Group has voluntarily changed its accounting policy for the presentation of interest income and expense on certain financial instruments.

In prior periods, the total fair value movement on assets and liabilities held at FVTPL, including interest income or expense, was recognised in net trading income. The only exception to this was the recognition of interest income or expense on derivatives in a qualifying hedging relationship, where interest income or expense on the derivative designated as hedging instrument was recognised with the interest on the hedged item.

To enable a more relevant and enhanced understanding of business performance, the Group has adopted an amended accounting policy in 2020, such that interest income and expense on the following financial instruments is now included within the components of net interest income:

- Interest income on debt financial assets measured at FVTPL, excluding assets held for trading and those within the Group's life assurance operations;
- Interest expense on debt financial liabilities measured at FVTPL, excluding liabilities held for trading; and
- interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges).

The Group believes this revised accounting policy provides reliable and more relevant information as it more closely reflects the basis upon which the underlying businesses are managed, on a net interest basis as opposed to a fair value basis.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The effect of this change is explained further in note 64.

Comparatives

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

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.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income. The Group presents interest resulting from negative effective interest rates on financial assets as interest expense.

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or liability and in the allocation and recognition of interest revenue or interest expense in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the ECL (except, in accordance with IFRS 9 in the case of 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.

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

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

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

1 Group accounting policies *(continued)*

Where the Group revises its estimates of payments or receipts on a financial instrument (excluding modifications of a financial asset and changes in ECL), 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). The adjustment is recognised as interest income or expense.

Interest income or expense on derivatives designated as hedging instruments are presented in net interest income, in line with the underlying hedged asset or liability. Interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges) is included in other interest income or expense. Interest income or expense on derivatives held with trading intent is included in trading income.

Interest income on debt financial assets measured at FVTPL, excluding assets held for trading and those within the Group's life assurance operations, is recognised when earned and presented within other interest income.

Interest expense on debt financial liabilities measured at FVTPL, excluding liabilities held for trading, is recognised when incurred and presented in other interest expense.

Modifications

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

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.

Financial assets

1. Recognition, classification and measurement

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

- financial assets at amortised cost;
- financial assets at FVOCI; or
- financial assets at FVTPL.

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

In determining the business model for a group of financial assets, the Group considers factors such as how performance is evaluated and reported to key management personnel (KMP); 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

1 Group accounting policies *(continued)*

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

Debt instruments

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

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

Purchases and sales of debt instruments at FVOCI are recognised on trade date. Gains and losses arising from changes in fair value are included in other comprehensive income (OCI). Interest revenue using the effective interest method and FX gains and losses on the amortised cost of the financial asset are recognised in the income statement.

The impairment loss allowance for ECL does not reduce the carrying amount but an amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement. On derecognition, the cumulative gain or loss previously recognised in OCI is reclassified to the income statement.

Equity instruments

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

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

(c) Financial assets at fair value through profit or loss

All other financial assets are measured, subsequent to initial recognition, at FVTPL. Financial assets at FVTPL comprise:

Financial assets mandatorily measured at fair value through profit or loss

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

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

Financial assets designated as measured at fair value through profit or loss

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

Regular way purchases and sales of financial assets at FVTPL 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 the Group retains the obligation to service the transferred financial asset, the transferred asset is derecognised if it meets the derecognition criteria and an asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (an asset) or is less than adequate (a liability) for performing the servicing.

Where a modification results in a substantial change on a quantitative or qualitative basis, to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

1 Group accounting policies *(continued)*

Impairment of financial instruments

Scope
The Group recognises impairment loss allowances for ECL on the following categories of financial instruments unless measured at FVTPL:
- financial assets that are debt instruments;
- loan commitments;
- lease receivables recognised under IFRS 16 'Leases';
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance Contracts'; and
- receivables and contract assets recognised under IFRS 15 'Revenue from Contracts with Customers'.

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

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

Stage 2: Lifetime expected credit losses (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 expected credit losses (credit-impaired)
These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

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

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

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

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

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

Measurement of expected credit losses 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.

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

1 Group accounting policies *(continued)*

- the Group has reasonable and supportable information upon which to base its expectations and assumptions.

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a 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 ECL are presented in the financial statements as follows:
- **Financial assets at amortised cost:** as a deduction from the gross carrying amount in the balance sheet.
- **Loan commitments and financial guarantee contracts:** generally, as a provision in the balance sheet.
- **Debt instruments at fair value through other comprehensive income:** an amount equal to the allowance is recognised in OCI as an accumulated impairment amount.

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

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

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

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally classified as Stage 2. A financial asset can only be reclassified from Stage 3 when certain conditions are met over a pre-defined period of time or probation period, in line with regulatory requirements.

Where the cash flows from a forborne loan are considered to have expired, due to the loan being restructured in such a way that results in a substantial modification, 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.

Financial liabilities
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.

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).

1 Group accounting policies *(continued)*

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

Financial guarantees issued by the Group

The Group issues financial guarantees to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities and in connection with the performance of customers under payment obligations related to contracts and the payment of import duties. 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 amount of the impairment loss allowance for ECL determined in accordance with the requirements of IFRS 9, and the initial measurement less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

Offsetting

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

Valuation of financial instruments

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

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

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

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

For liabilities designated at FVTPL, the fair values reflect changes in the Group's own credit spread.

Transfers between levels of the fair value hierarchy

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

Group accounts

1. **Subsidiaries**
   Subsidiary undertakings are investees controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the

1 Group accounting policies *(continued)*

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

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

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

2. Associates and Joint Ventures
Associates are all entities over which the Group has significant influence, but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights. A joint arrangement is an arrangement of which two or more parties have joint control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

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

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

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

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

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

3. Non-controlling interests
Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity that does not result in loss of control is recognised in equity.

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

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

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

1 Group accounting policies *(continued)*

Foreign currency translation

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

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. FX gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the appropriate functional currency using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date the fair value was determined. Exchange rate differences on non-monetary items are recognised based on the classification of the underlying items.

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

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

Operating profit / loss

Operating profit / loss includes the Group's earnings from ongoing activities after net impairment 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 gain / loss on disposal / liquidation of business activities.

Leases

Identifying a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A Group company is the lessee

The Group recognises a RoU asset and lease liability at the lease commencement date. This policy is applied to contracts entered into (or changed) on or after 1 January 2019. RoU assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities. The recognised RoU assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of Assets'.

The Group has elected not to recognise RoU assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

RoU assets, comprised of leases of buildings which do not meet the definition of investment properties, and computer equipment, are presented in property, plant and equipment. RoU assets which meet the definition of investment properties are presented within investment properties.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the Incremental Borrowing Rate (IBR) if the interest rate implicit in the lease is not readily determinable. Lease payments include fixed rental payments. Generally, the Group uses its IBR as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonable certain not to be exercised.

When the lease liability is remeasured a corresponding adjustment is made to the RoU asset and / or profit or loss, as appropriate.

The Group has applied judgement in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised.

The Group has a number of leases which contain break options and applies judgement in evaluating whether it is reasonably certain not to exercise the option. That is, on commencement of a lease the Group considers all relevant factors that create an incentive for it to exercise the option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option.

Under IFRS 16, where the Group is an intermediate lessor the subleases are classified with reference to the RoU asset arising from the head lease, not with reference to the underlying asset. Where the Group continues to retain the risks and rewards of ownership as the intermediate lessor, it retains the lease liability and the RoU asset relating to the head lease in its balance sheet. If the Group does not retain the risks and rewards of ownership as the intermediate lessor, these subleases are deemed finance leases. During the term of the sublease, the group recognises

1 Group accounting policies *(continued)*

both finance lease income on the sublease and interest expense on the head lease.

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

Sale and repurchase agreements and lending of assets

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

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

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

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

Issued debt and equity securities

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

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

Derivative financial instruments and hedge accounting

The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments that are not financial assets are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the entire host contract is not carried at FVTPL.

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

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

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

Where a hedging instrument is novated to a clearing counterparty, the Group does not discontinue hedge accounting where the following criteria are met:
- the novation arises due to laws or regulations, or the introduction of laws and regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

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

The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate commercial loan or a FVOCI bond.

1 Group accounting policies *(continued)*

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

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

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

(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.

RoU assets recognised as property, plant and equipment are measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities.

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

Increases in the carrying amount arising on the revaluation of land and buildings, are recognised in 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 - 15 years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.
- the recognised RoU assets are depreciated on a straight-line basis over the earlier of the end of the useful life of the RoU asset or the end of the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its Value in Use (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, except where the property is used by the Group for administrative purposes or the supply of services, in which case it is classified as owner occupied property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value as determined by external qualified property surveyors and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

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 five and ten years.

(b) Other intangible assets

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

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

(c) Goodwill

Goodwill represents the excess of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the CGU.

Provisions

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

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

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

Employee benefits

(a) Pension obligations

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

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

Where a plan amendment, curtailment or settlement occurs and the net defined benefit liability is remeasured to determine past service cost or the gain or loss on settlement, the current service cost and net interest for the remainder of the period are remeasured using the same assumptions.

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

Remeasurements of the net defined benefit 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 defined benefit liability / (asset).

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

1 Group accounting policies *(continued)*

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

(b) Short-term employee benefits

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

(c) Termination payments

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

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

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

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

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 either the 'most likely amount' method or the 'expected value' method as appropriate for the particular uncertainty and by management assessing the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

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

(b) Deferred income tax

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

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

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

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

Deferred tax on items taken to OCI is also recognised in OCI and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity, except for the income tax consequences of dividends on a financial instrument classified as equity, which are recognised according to where the previous transactions or events that generated distributable profits were recognised.

(c) Uncertain tax positions

The Group considers uncertain tax positions together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax position, it reflects the effect of the uncertainty using either the 'most likely amount' method or the 'expected value' method, as appropriate for the particular uncertainty.

Where the Group concludes it is probable that a tax authority will accept its assessment of an uncertain tax position, the taxable profit or loss, the tax bases, unused tax losses, unused tax credits and the tax rates are determined consistently with the tax treatment used or planned to be used in the income tax filing.

Share capital and reserves

1. Equity transaction costs

Incremental external costs directly attributable to equity transactions, including the issue of new equity shares or options, are shown as a deduction from the component of equity in which the equity transaction is recognised, net of tax.

2. Dividends on ordinary shares

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders on the recommendation of the Board of Directors, or approved by the Board of Directors, as appropriate. Interim dividends are recognised in equity in the period in which they are paid.

3. Treasury shares

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

1 Group accounting policies *(continued)*

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

5. **Foreign exchange 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. **Share premium account**
Where the company issues shares at a premium, a sum equal to the aggregate amount or value of the premiums on those shares is transferred to the share premium account. Where, pursuant to Section 84 of the Companies Act 2014, there has been a reduction of the Company's share capital by the cancellation of share premium, the resulting profits available for distribution, as defined by Section 117 of the Companies Act 2014, are reclassified from the share premium account to retained earnings.

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 hedged transactions impact the Group's profit or loss.

9. **Merger reserve**
In the Company balance sheet, the merger reserve represents the difference between the carrying value of the Company's initial investment in the Bank arising from the corporate reorganisation in 2017 and the nominal value of the shares issued as part of that reorganisation, less amounts capitalised as share premium. In the Consolidated balance sheet, the merger reserve also includes an adjustment to eliminate the capital stock, share premium, capital reserve and retained earnings of the Bank at the date of corporate reorganisation, which do not carry forward to the balance sheet of the Group.

10. **Debt instruments at fair value through other comprehensive income 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. 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 reporting date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

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

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

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

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

Premiums and claims

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

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.

1 Group accounting policies *(continued)*

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.

Impact of new accounting standards
The following standards will be relevant to the Group but were not effective at 31 December 2020 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 standards is outlined as follows:

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
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The Group expects that IFRS 17 is likely to have a material impact on the recognition, measurement and presentation of the insurance business in the Group's financial statements. The Group is currently assessing the nature and likely extent of the impact. Given the complexity of the standard and ongoing implementation activity, the Group is not yet in a position to reasonably estimate the impact on the Group's financial statements.

A Group IFRS 17 implementation programme is in place supported by appropriate external advisors. Work to date has focused on interpreting the requirements of the standard, developing methodologies and accounting policies, and scoping and assessing the changes required to the reporting, administration and other systems to enable IFRS 17 readiness. The development and build of systems and implementation is the key focus for 2021.

1 Group accounting policies *(continued)*

Pronouncement	Effective date
Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39) **Nature of change** The Interest Rate Benchmark Reform—Phase 2 amendments deal with issues affecting financial reporting during the implementation of the benchmark rate (BMR) reform. The amendments provide practical expedients related to accounting for changes in the basis for determining contractual cash flows of financial instruments and lease contracts, arising as a direct consequence of the BMR reform. The amendments also provide additional temporary exceptions from applying specific hedge accounting requirements of IAS 39 and IFRS 9 to hedge accounting relationships, which will generally allow hedging accounting relationships directly affected by the BMR reform to continue.	The effective date is for reporting periods beginning on or after 1 January 2021, with early application permitted. The Group will adopt the amendments with effect from 1 January 2021. **Impact** The amendments will enable the Group to account for transitions to an alternative BMR as a change to a floating rate of interest, generally allow existing hedge accounting relationships to continue upon the replacement of an existing BMR with an alternative BMR and require the Group to provide additional disclosures related to the BMR Reform.

Pronouncement	Effective date
Amendments to IAS 1 - Classification of liabilities as current or non-current **Nature of change** The purpose of these amendments is to promote consistency in application and to clarify the requirements on determining whether a liability is current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments also clarify the situations that are considered to be the settlement of a liability. The amendments are still subject to EU endorsement.	The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted. **Impact** The amendments are not expected to have a significant impact on the Group.

2 Critical accounting estimates and judgements

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

(a) Impairment loss allowance on financial assets

The measurement of impairment loss allowance requires significant judgement and estimation and is dependent on complex impairment models.

In arriving at impairment loss allowances, accounting estimates which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include:
- generation of forward looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances; and
- valuing property collateral (including residential property).

Accounting judgements which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include determining if Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

Other key accounting estimates which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:
- determining the period over which to measure ECL for uncommitted RCFs; and
- determining timeframes to realisation and likely net sale proceeds.

Other key accounting judgements which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

2 Critical accounting estimates and judgements *(continued)*

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as PD and LGD.

The Group's approach to measurement of impairment loss allowances and associated methodologies is set out in the credit risk methodologies section on pages 163 to 166.

Changes in estimates

Forward Looking Information

Forward Looking Information (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 has used five RoI FLI scenarios and five UK FLI scenarios at 31 December 2020, an increase from three scenarios in previous years, comprising of two central scenarios, an upside scenario, and two downside scenarios, all extending over a five year forecast period, with reversion to long run averages for property for years beyond the forecast period. The Group keeps under review the number of FLI scenarios and the need to produce projections for other jurisdictions.

The central FLI scenarios for the year ending 31 December 2020 are based on internal and external information and management judgement and follow the same process as used in prior periods, though for December 2020 two central scenarios were developed for both RoI and UK to reflect different base case Brexit assumptions:

- central scenario 1 is based on less adverse base case consensus forecasts that assumed a Free Trade Agreement (FTA) Brexit; and
- central scenario 2 is based on more adverse base case consensus forecasts that assumed a World Trade Organisation (WTO) Brexit.

With the UK and EU reaching an agreement prior to year-end a higher weighting was applied to central scenario 1 (45%), with a small (5%) weighting retained for central scenario 2 to address initial disruption and uncertainty around the granular details of the new trading arrangement.

In prior years, the upside and downside scenarios have previously been generated using a simulation model that used historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to the unprecedented nature of the COVID-19 economic shock, the Group employed an amended approach for the selection of the upside and downside FLI scenarios for 2020 to avoid counter-intuitive trends in the respective scenarios.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative driven alternative scenarios comprising one upside and two downside scenarios have been constructed.

The existing FLI methodology was leveraged to assign probability weightings to the narrative driven scenarios. The FLI methodology is a simulation tool that uses recent actual observed values and historical data to produce a number of possible paths for the relevant economic variables based on their historical relationships and volatilities. The FLI model is used for scenario generation for a defined probability weighting and for assessing probability weights for a given scenario.

The narrative-driven scenarios were assessed relative to the simulated distribution. The probability weightings attached to the scenarios are a function of their relative position on the distribution, with a lower probability weighting attached to the scenarios that were assessed to be more distant from the centre of the distribution. The weightings were also informed by external forward looking information (e.g. equity market indicators).

The table below shows the mean average forecast values for the key macroeconomic variables under each scenario for the forecast period 2021 to 2025, together with the scenario weightings for both the RoI and the UK.

	Republic of Ireland					United Kingdom				
	Central			Downside		Central			Downside	
	Scenario 1	Scenario 2	Upside scenario	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Upside scenario	Scenario 1	Scenario 2
Scenario probability weighting	45%	5%	20%	25%	5%	45%	5%	20%	25%	5%
GDP Growth[1]	3.5%	3.0%	4.3%	2.0%	0.9%	3.2%	2.7%	4.0%	1.3%	0.4%
GNP Growth[1]	3.4%	2.7%	4.2%	1.6%	0.5%	n/a	n/a	n/a	n/a	n/a
Unemployment rate[2]	6.4%	7.1%	5.3%	9.6%	12.3%	5.5%	5.6%	4.5%	8.5%	10.6%
Residential property price growth[3]	0.4%	0.2%	1.2%	(0.6%)	(1.4%)	0.4%	0.2%	1.4%	(1.6%)	(2.8%)
Commercial property price growth[3]	(0.3%)	(0.3%)	0.5%	(1.1%)	(2.4%)	(0.2%)	(0.7%)	0.5%	(1.4%)	(2.2%)

[1] *Annual growth rate*
[2] *Average yearly rate*
[3] *Year-end figures*

2 Critical accounting estimates and judgements *(continued)*

The tables below sets out the forecast values for 2021 and 2022 and the average forecast values for the period 2023 to 2025 for the key macroeconomic variables which underpin the above mean average values

	Republic of Ireland			United Kingdom		
	2021	2022	2023-2025	2021	2022	2023-2025
Central scenario 1 - 45% weighting						
GDP Growth[1]	5.1%	3.6%	3.0%	6.3%	4.0%	1.9%
GNP Growth[1]	5.1%	3.4%	2.8%	n/a	n/a	n/a
Unemployment rate[2]	10.2%	5.9%	5.3%	7.1%	6.0%	4.7%
Residential property price growth[3]	(3.0%)	0.0%	1.7%	(3.0%)	(1.0%)	2.0%
Commercial property price growth[3]	(4.5%)	0.0%	1.0%	(3.5%)	0.0%	0.8%
Central scenario 2 - 5% weighting						
GDP Growth[1]	2.7%	3.7%	2.9%	4.3%	2.8%	2.1%
GNP Growth[1]	1.6%	3.5%	2.8%	n/a	n/a	n/a
Unemployment rate[2]	10.7%	8.1%	5.5%	7.3%	6.2%	4.9%
Residential property price growth[3]	(4.0%)	0.0%	1.7%	(4.0%)	(1.5%)	2.2%
Commercial property price growth[3]	(5.5%)	1.0%	1.0%	(5.0%)	(1.5%)	1.0%
Upside- 20% weighting						
GDP Growth[1]	8.1%	3.9%	3.2%	9.3%	4.3%	2.1%
GNP Growth[1]	8.3%	3.7%	3.0%	n/a	n/a	n/a
Unemployment rate[2]	9.1%	4.7%	4.2%	5.9%	4.8%	3.9%
Residential property price growth[3]	(1.0%)	1.0%	2.0%	(1.0%)	0.0%	2.7%
Commercial property price growth[3]	(2.0%)	1.5%	1.0%	(1.5%)	1.0%	1.0%
Downside scenario 1 - 25% weighting						
GDP Growth[1]	(1.9%)	3.5%	2.8%	(1.0%)	2.4%	1.8%
GNP Growth[1]	(3.0%)	3.3%	2.6%	n/a	n/a	n/a
Unemployment rate[2]	12.9%	10.5%	8.2%	9.8%	9.2%	7.8%
Residential property price growth[3]	(5.0%)	(2.0%)	1.3%	(7.0%)	(4.0%)	1.0%
Commercial property price growth[3]	(7.0%)	(1.0%)	0.8%	(7.0%)	(2.5%)	0.8%
Downside scenario 2 - 5% weighting						
GDP Growth[1]	(2.1%)	(1.0%)	2.5%	(1.5%)	(1.0%)	1.5%
GNP Growth[1]	(3.2%)	(1.2%)	2.3%	n/a	n/a	n/a
Unemployment rate[2]	14.0%	14.3%	11.1%	10.5%	11.7%	10.2%
Residential property price growth[3]	(5.0%)	(4.0%)	0.7%	(8.0%)	(6.0%)	0.0%
Commercial property price growth[3]	(9.0%)	(4.0%)	0.3%	(8.0%)	(4.0%)	0.3%

There was acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Group's key markets in late December 2020. In light of these late-breaking events a post-model management adjustment to the Group's impairment loss allowance (€24 million) has been recognised as at 31 December 2020. This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Group's multiple economic scenarios utilised in its impairment models (per the table above) were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%). For further reference see Group management adjustment for late breaking events on page 228.

[1] *Annual growth rate.*
[2] *Average yearly rate.*
[3] *Year-end figures.*

2 Critical accounting estimates and judgements *(continued)*

The central, upside and downside scenarios are described below for the both the RoI and the UK:

Central scenario 1
Having been significantly impacted in the spring of 2020 when stringent measures to contain the spread of COVID-19 were imposed, the Irish and UK economies saw a pick-up in activity over the summer months and into the autumn. However, rising virus cases led to a tightening of public health restrictions again in late 2020 and tensions over future UK-EU trading arrangements were high ahead of the end of the Brexit transition period on 31 December 2020.

The scenario assumes that restrictions are in place into 2021 and that the UK and EU have reached agreement on a trade deal which takes effect on 1 January 2021. Gross Domestic Product (GDP) in Ireland expands in 2021, with growth continuing over the rest of the forecast horizon and the unemployment rate declining. Following a sharp fall in 2020 as a whole, GDP in the UK rebounds in 2021 and increases further over the rest of the forecast horizon, while the unemployment rate peaks in 2021 before declining.

Central scenario 2
This scenario also assumes that COVID-19 restrictions are in place into 2021 but that the UK would fail to reach agreement with the EU meaning trade is conducted on WTO terms from 1 January 2021. The latter causes additional short-term disruption but GDP still expands in 2021 in Ireland and the UK (tariffs and a weaker pound add to inflation in the UK). Growth continues over the remainder of the forecast horizon in both economies and unemployment rates move down.

Upside scenario
With medical advances helping to keep the virus under control, the Irish and UK economies expand strongly in 2021 even as the new UK-EU trade deal takes effect. Solid GDP growth continues over the remainder of the forecast horizon and unemployment in the two countries settles at a low rate.

Downside scenario 1
Attempts to contain COVID-19 prove unsuccessful with another virus wave in the first half of 2021 resulting in a full shutdown of the Irish and UK economies. Uncertainty, increasing business failures and less favourable post-Brexit trading terms also weigh on activity and GDP contracts for the year as a whole. And while growth resumes in both countries in 2022, unemployment rates remain high for some time.

Downside scenario 2
Ongoing attempts to contain COVID-19 prove unsuccessful and repeat waves of the virus see the Irish and UK economies fully shutdown in the first half of 2021 and again towards the end of 2021 and early 2022. This, together with less favourable post-Brexit trading terms, delivers a significant blow to activity. GDP contracts in 2021 and in 2022, while cautious behaviour on the part of consumers and widespread business failures keep the unemployment rate elevated in both countries out the forecast horizon.

Property price growth, all scenarios
In central scenario 1, after showing resilience throughout 2020 average residential prices reduce by 3% in both RoI and UK in 2021 with further weakening in the UK in 2022. From 2023 onwards both markets recover to record marginally positive growth of 1-2% per-annum. Central scenario 2 shows marginally worse falls in the average residential property prices in 2021 and 2022 before recovering to similar growth levels as central scenario 1 in later years. Commercial property prices are expected to record significant falls in 2020 and average price growth remains negative in 2021 with average prices expected to reduce by between 3.5% and 4.5% in central scenario 1 and 5% to 5.5% in central scenario 2 for UK and RoI respectively. Low level recovery then takes place from 2023 onwards in central scenario 1 whilst in central scenario 2 recovery begins in RoI in 2022 but is delayed in the UK until 2023.

In the downside scenarios, residential prices in 2021 are incrementally negatively impacted relative to the central scenarios and this persists into 2022 (and into 2023 in UK downside scenario 2) before recovery in 2024 and 2025. Downside scenario 1 produces a trough point with average prices expected to reduce by between 7% and 11% whilst for downside scenario 2 this is expected to be between 9% and 15% in RoI and UK respectively for both scenarios. Similarly, commercial prices see additional negativity in 2021 with this negativity persisting into 2022 in downside scenario 1 and 2023 in downside scenario 2 before marginal growth returns. Downside scenario 1 produces a trough point from 2021 with average prices expected to reduce by between 8% to 9.5% in RoI and UK respectively and downside scenario 2 is expected to reduce by 13% for the UK and by 14% in RoI.

In the upside scenario residential prices are marginally negative in 2021 increasing gradually in subsequent years in each jurisdiction with slightly stronger growth seen in the UK. Commercial prices remain marginally negative in 2021 in both jurisdictions before showing modest growth levels out to the end of the forecast period.

The quantum of impairment loss allowance is impacted by the application of five probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2020, excluding post model Group management adjustments to impairment loss allowances, was increased by virtue of applying multiple scenarios rather than only a central scenario (central scenario 1).

2 Critical accounting estimates and judgements *(continued)*

2020 Impact of applying multiple scenarios rather than only central scenario 1[1]	Additional impairment loss allowance							
	Stage 1		Stage 2		Stage 3		Total	
	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %
Residential mortgages	5	15%	6	34%	5	2%	16	4%
- Retail Ireland	*3*	*14%*	*4*	*34%*	*3*	*1%*	*10*	*3%*
- Retail UK	*2*	*17%*	*2*	*34%*	*2*	*6%*	*6*	*9%*
Non-property SME and corporate	7	8%	29	10%	-	-	36	4%
Property and construction	-	1%	12	12%	3	1%	15	3%
Consumer	13	15%	3	13%	-	-	16	8%
Total	**25**	**11%**	**50**	**11%**	**8**	**1%**	**83**	**4%**

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 central, upside and downside future macroeconomic scenarios respectively:

2020 Impact of applying only central scenarios rather than multiple probability weighted scenarios[1]	Multiple Scenarios	Central Scenario 1		Central Scenario 2	
	Impairment loss allowance €m	Impairment loss allowance €m	Impact %	Impairment loss allowance €m	Impact %
Residential mortgages	377	(16)	(4%)	(3)	(1%)
- Retail Ireland	*309*	*(10)*	*(3%)*	*1*	*-*
- Retail UK	*68*	*(6)*	*(9%)*	*(4)*	*(6%)*
Non property SME and corporate	837	(36)	(4%)	(26)	(3%)
Property and construction	585	(15)	(3%)	4	1%
Consumer	206	(16)	(8%)	(7)	(3%)
Total	**2,005**	**(83)**	**(4%)**	**(32)**	**(2%)**

2020 Impact of applying only upside scenarios rather than multiple probability weighted scenarios[1]	Multiple Scenarios	Upside Scenario	
	Impairment loss allowance €m	Impairment loss allowance €m	Impact %
Residential mortgages	377	(43)	(11%)
- Retail Ireland	*309*	*(29)*	*(9%)*
- Retail UK	*68*	*(14)*	*(21%)*
Non property SME and corporate	837	(86)	(10%)
Property and construction	585	(41)	(7%)
Consumer	206	(36)	(17%)
Total	**2,005**	**(206)**	**(10%)**

[1] *The scenarios outlined in the table are based on the FLI weightings outlined on page 224.*

2 Critical accounting estimates and judgements *(continued)*

2020 Impact of applying only downside scenarios rather than multiple probability weighted scenarios[1]	Multiple Scenarios Impairment loss allowance €m	Downside Scenario 1 Impairment loss allowance €m	Downside Scenario 1 Impact %	Downside Scenario 2 Impairment loss allowance €m	Downside Scenario 2 Impact %
Residential mortgages	377	75	20%	143	38%
- Retail Ireland	*309*	*33*	*11%*	*58*	*19%*
- Retail UK	*68*	*42*	*62%*	*85*	*125%*
Non property SME and corporate	837	115	14%	242	29%
Property and construction	585	46	8%	97	17%
Consumer	206	47	23%	79	38%
Total	**2,005**	**283**	**14%**	**561**	**28%**

The following table indicates the approximate extent to which impairment loss allowances for the residential mortgage portfolios, excluding post model Group management adjustments, would be higher or lower than the application of a central scenario 1 if there was an immediate change in residential property prices. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Group's impairment loss allowance to a once-off change in residential property values.

2020 Impact of an immediate change in residential property prices compared to central scenario 1 impairment loss allowances	Impairment loss allowance - central scenario 1 €m	Residential property price reduction of 10% Impact €m	Residential property price reduction of 10% Impact %	Residential property price reduction of 5% Impact €m	Residential property price reduction of 5% Impact %	Residential property price increase of 5% Impact €m	Residential property price increase of 5% Impact %	Residential property price increase of 10% Impact €m	Residential property price increase of 10% Impact %
Residential mortgages	361	84	23%	40	11%	(35)	(10%)	(65)	(18%)
- Retail Ireland	*300*	*58*	*19%*	*28*	*9%*	*(25)*	*(8%)*	*(47)*	*(16%)*
- Retail UK	*61*	*26*	*43%*	*12*	*20%*	*(10)*	*(16%)*	*(18)*	*(30%)*

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2020 to Stage 2 would increase the Group's impairment loss allowance by c.€13 million excluding Group management adjustments.

Management judgement in impairment measurement

A higher level of management judgement has been incorporated into the Group's impairment measurement process for 2020 compared to previous years. Management judgement can be described with reference to:

- management judgement in impairment model parameters; and
- post-model Group management adjustments to Impairment loss allowance and staging classification.

Management judgement in impairment model parameters

The macroeconomic situation, which reflects the impact of COVID-19, is unprecedented compared to historic experience, resulting in impairment models generating Probability of Default (PD) rates that in certain cases were not considered to be reasonable.

In order for the Group's impairment loss allowance as at 31 December 2020 to reflect an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, management judgement is required to adjust certain impairment model parameters (i.e. PD rate estimates, residential mortgage prepayment rates and staging classification). The Group has assessed reasonable and supportable information available both internally and externally to inform its approach for management judgement applied to impairment model parameters. Where initial PD estimates from impairment models were considered to be unreasonable, a number of reference points were assessed, utilising data derived from internal and external information (including historical peak default rates; more recently observed default rates; IRB central tendencies; payment break cases; and equity and credit default swap implied PDs). Where relevant, management judgement informed by these reference points was utilised to select more appropriate PDs for central scenario 1, with corresponding PDs in the other upside, central and downside scenarios derived from the central scenario 1 taking into account the severity of the respective scenarios. Once the PDs incorporating management judgement were applied, the standard ECL calculation was followed within the existing credit methodologies (which include the control framework).

[1] *The scenarios outlined in the table are based on the FLI weightings outlined on page 224.*

2 Critical accounting estimates and judgements *(continued)*

In addition, for the corporate banking portfolio, the assessment for a significant increase in credit risk (SICR) included consideration of qualitative factors that are not captured through the quantitative model-based assessment. This assessment informed the staging classification of exposures.

The ECL model framework was also updated in the year to reflect the implementation of the revised definition of default (as outlined on page 164 of the Risk Management Report) and model factor updates to reflect recent observed information. This included the utilisation of an enhanced data source for the sales ratio parameter in the Retail Ireland residential mortgages Loss Given Default (LGD) model, resulting in a decrease in impairment loss allowance of c.€59 million on implementation.

Post-model 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. At 31 December 2020, the Group's impairment loss allowance of €2.2 billion includes the total impact of a post-model Group management adjustment of c.€237 million. This comprises the total impact of a COVID-19 Group management adjustment of €163 million, a Group management adjustment for late breaking events €24 million, a stage 3 Group management adjustment for residential mortgages €50 million. Further details of each are outlined below.

COVID-19 Group management adjustment

At 31 December 2020, the Group considered the data and measurement limitations arising from the unprecedented impact of COVID-19, including the availability of government supports and the general availability of payment breaks during the year to all customers regardless of credit status. While the majority of payment breaks have expired prior to the reporting date the Group's view is that modelled impairment losses at 31 December 2020 may not fully capture expected credit losses relating to these customers as the days past due count was paused when payment breaks were applied in line with the industrywide approach. As a result, a post-model management adjustment of c.€152 million was applied, with €103 million of this management adjustment allocated to Stage 1 and €49 million to Stage 2. €49 million of the adjustment is related to RoI and UK residential mortgages, a further €72 million relates to the RoI and UK SME portfolios; €27 million is related to the Consumer portfolio; and €4 million relates to property and construction.

Individual assessments for corporate cases and the majority of relationship managed business banking cases, which received COVID-19 concessions have been completed. In addition, sector-level COVID-19 and Brexit risk assessments for the business banking portfolios were completed informed by the prevalence of payment breaks, macro-prudential sector risk classifications, and management judgement. Certain sectors (e.g. hospitality and entertainment) were identified to be highly impacted where the risk was not considered to be adequately captured in the modelled PD estimates.

Payment break cohorts in the mortgage, consumer and asset finance portfolios were reviewed at a portfolio level. The above portfolio level review was completed with reference to the outputs of the IFRS 9 impairment models, combined with other available data sources including a customer vulnerability assessment and management judgement. The vulnerability assessments were informed by data on loans that availed of payment breaks during 2020 with cross reference to other credit characteristics (e.g. employment type; employment status; employment sector; IFRS 9 staging status).

Given the level at which this review was performed for mortgage, consumer, asset finance and micro SME portfolios, the Group did not reclassify any exposures into a different stage than that initially identified by the impairment models for these portfolios.

The total population remaining with payment breaks in place at 31 December 2020 was €1.2 billion (June 2020: was c.€11.5 billion). Further details in relation to payment breaks are set out on page 166. The Group's management adjustment of €103 million in Stage 1 is broadly equivalent to the impact from a transfer of c.6% of the Group's Stage 1 assets into Stage 2.

In addition, a post model staging adjustment has been applied to relationship managed business banking portfolios whereby all customers who operate in 'highly impacted' sectors, as referenced above, are classified as Stage 2 with a lifetime impairment loss allowance applied. The impact of this staging adjustment is c.€0.9 billion increase in Stage 2 volumes and a c.€11 million increase in impairment loss allowances (€8 million of which relates to RoI SME; €2 million to Investment property; and €1 million to UK SME).

Group management adjustment for late breaking events

A post-model management adjustment to the Group's impairment loss allowance of €24 million has been recognised as at the 31 December 2020 to reflect an acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Group's key markets in late December 2020.

This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Group's multiple economic scenarios utilised in its impairment models were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%).

The adjustment is allocated across portfolios to reflect the estimated impacts of the adjusted scenario weightings on impairment loss allowance, with €6 million allocated to Stage 1, €15 million to Stage 2, and €3 million to Stage 3. The stage classification of assets was not changed through the application this management adjustment.

2 Critical accounting estimates and judgements *(continued)*

Stage 3 Group management adjustment for residential mortgages

The impairment loss allowance for residential mortgages of €479 million also includes a management adjustment of €50 million (2019: €56 million), for the Retail Ireland portfolio.

The management adjustment for the Retail Ireland mortgage portfolio primarily reflects the concentration of Stage 3 assets which are longer in default, where utilisation of alternative recovery strategies to achieve realisation may require higher impairment coverage on disposal that currently cannot be reasonably reflected in IFRS 9 impairment model methodology. The €50 million (2019: €50 million) management adjustment reflects the profile of the Stage 3 population at 31 December 2020 and has been calculated and applied through increases to the LGD component of modelled impairment loss allowances for Stage 3 residential mortgages that have been in default for more than five years.

The €6 million management adjustment previously applied across all stages in the Retail UK Mortgage portfolio at 31 December 2019, pending further evolution of impairment model methodology, is no longer considered to be required, noting that the combined COVID-19 and the adjustment for late breaking events includes €19 million relating to the Retail UK Mortgage portfolio and the amount of impairment loss allowance for the portfolio is considered to be appropriate.

(b) Taxation

The current taxation charge of €38 million (note 19) 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. At 31 December 2020, the net DTA was €1,101 million (2019: €1,017 million), of which €1,157 million (2019: €1,089 million) related to trading losses. The closing DTA includes €1,133 million of Irish trading losses, €18 million of UK trading losses, and €6 million of US trading losses.

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

The recognition of a DTA relies on management's estimate of the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences against which the losses can be utilised. This is particularly relevant due to the material impact of COVID-19 on business and financial performance in the current period and future financial projections and also changes in UK tax legislation for the utilisation of tax losses. Under current UK and Irish legislation, there is no time limit on the utilisation of these losses.

RoI deferred tax asset

Judgement

The Group's judgement takes into consideration the impact of both positive and negative evidence in assessing the recoverability of the deferred tax asset. Positive factors which have been considered include:

- with the exception of the current year and the years of the financial crisis, the Group has a sustained history of Irish operating profits and a large market share and it is considered likely that the Group's Irish activities will be profitable into the future;
- the absence of any expiry dates for Irish and UK tax losses; and
- external economic forecasts for Ireland and the UK which indicate a return to economic growth and improved employment levels in 2021.

The Group also considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:

- the absolute level of deferred tax assets compared to the Group's equity;
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of projecting over a long period, taking account of the level of competition and a lower-for-longer interest rate environment; and
- accelerated transformation of banking business models.

Based on the Group's financial projections, the DTA in respect of tax losses is estimated to be recovered in full by the end of 2039 (2019: 2037). The increase in the recovery period is due to more challenging economic headwinds including the significant impacts of COVID-19.

Based on the Group's proven earnings history, its strong position within the Irish financial services market and its strategic priorities to deliver sustained future Irish profits, the Directors believe that the Group will be profitable over the longer term but acknowledge the external challenges facing the banking industry, in particular, the traditional, full service banks and the inherent uncertainties of long-term financial projections.

There is a risk that the final taxation outcome could be different to the amounts currently recorded. If future profits or subsequent forecasts differ from current forecasts, an adjustment may be required to the DTA.

UK deferred tax assets

Judgement

Changes were introduced to UK tax legislation in 2017 which have been considered in assessing the utilisation of UK tax losses incurred in the current year and the recognition of the UK DTA at 31 December 2020. In general terms, UK tax legislation restricts the proportion of a bank's annual taxable profit that can be offset by pre 2017 losses to 25%. Greater flexibility is provided for tax losses that were incurred after 2017 such that they can, where possible, be carried forward and offset against up to 50% of the remaining relevant taxable profits of other UK group companies each year. There is therefore now the potential to recognise a DTA for brought forward, post April 2017 losses, that can be surrendered to UK companies within the same UK tax group in future periods.

2 Critical accounting estimates and judgements *(continued)*

UK Branch

Judgement

Notwithstanding the absence of any expiry date for trading losses in the UK, the Group continues to conclude 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 ten year period of projected UK branch profits at the prevailing UK tax rates. This ten 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. 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.

The DTA of the UK Branch relating to trading losses has been reassessed and reduced by €14 million at 31 December 2020 (31 December 2019: reduction of €2 million).

Bank of Ireland (UK) plc

Judgement

The Directors believe that Bank of Ireland (UK) plc will achieve an overall level of profitability in the foreseeable future but acknowledge the external challenges facing the banking industry. In particular, the economic environment has become more challenging with COVID-19, residual Brexit uncertainty, forecast continuation of a lower for longer interest rate environment and accelerated transformation of banking business models.

Therefore, notwithstanding the absence of any expiry date for trading losses in the UK, management believes it continues to be appropriate to restrict the recognition of the DTA relating to the tax losses of Bank of Ireland (UK) plc to the amount of losses that are expected to be used within ten years. This ten year timescale is supported by forecast taxable profits and takes into account the Group's long-term financial and strategic plans and reflects the period over which the Group believes it can conclude that it is probable that future taxable profits will arise in Bank of Ireland (UK) plc.

This restriction, together with more challenging economic headwinds including the significant impacts of COVID-19 on future profits, will result in a lower utilisation of Bank of Ireland (UK) plc tax losses than projected at December 2019 and results in a further reassessment and reduction of the DTA relating to trading losses of €21 million at 31 December 2020 (31 December 2019: reduction of €45 million).

There is a risk that the final taxation outcome could be different to the amounts currently recorded. If future profits or subsequent forecasts differ from current forecasts, a further adjustment may be required to the DTA.

Sources of estimation uncertainty

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 to support the conclusion that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The Group's profitability projections are based on its strategic priorities where the focus will be to increase overall returns, improve cost efficiencies and grow sustainable profits. The projections also reflect the significant impact of COVID-19 on business performance, the external challenges facing the banking industry including the lower-for-longer interest rate environment and the residual uncertainty around the impact of Brexit on the UK economy.

The Group's assessment of deferred tax recoverability is based on its financial projections covering its five year initial planning period with an annual 2% growth rate thereafter. The forecast for after year five is based on the projections within that fifth year of the initial planning period and the deferred tax recoverability is most sensitive to the forecast in the initial planning period.

If the projected rate of growth of taxable profits after the fifth year of the strategic planning period was decreased by two percentage points, the Group estimates that this would increase the recovery period of its Irish DTA by two years. If it was increased by one percentage point, the Group estimates that this would decrease the recovery period of its Irish DTA by one year.

Liability management exercise

Judgement

The Group conducted a series of liability management exercises 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 have now issued their technical views on the tax treatment of all of the liability management exercises and have accepted the Group's tax assessment in respect of certain of the gains that arose and challenged others. The Group expects that the resolution of the tax treatment will result in certain of the gains being treated as taxable, and therefore a provision of €15 million (€11 million tax and €4 million of interest) has been made in respect of the year ended 31 December 2020 (note 19).

(c) Retirement benefit obligations

The Group sponsors a number of defined benefit 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.

Sources of estimation uncertainty

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

2 Critical accounting estimates and judgements *(continued)*

assumptions were used. A quantitative analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 47.

(d) Life assurance operations

The Group accounts for the value of the shareholders' interest in its long-term assurance business using Market Consistent Embedded Value (MCEV) Principles and Guidelines. Embedded value is comprised of the net tangible assets of Bank of Ireland Wealth and Insurance and the ViF asset. 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.

Sources of estimation uncertainty

The estimation of 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 asset 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 37.

(e) Tracker Mortgage Examination Review

At 31 December 2020 the Group holds a provision of €74 million (2019: €75 million) in respect of the industry wide Tracker Mortgage Examination. While the supervisory phase of the examination was concluded by the CBI in July 2019, the provision covers the estimated costs of remediation of any remaining impacted customers, addressing customer appeals and closing out all other outstanding costs of the exercise, in particular, any sanction that may be incurred as a result of Central Bank of Ireland enforcement actions.

Judgement

The Group has exercised judgement in particular in determining the level of potential appeals and the impact of any potential administrative sanction. With respect to the latter, the Group considers that there is a range of potential sanction outcomes based on general and specific circumstances and the amount of any sanction imposed may differ from the amount provided at 31 December 2020.

(f) Intangible assets

Judgement

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which meet the various recognition criteria of IAS 38 including probable generation of future economic benefits are recognised as intangible assets, with a net book value at 31 December 2020 of €697 million (31 December 2019: €760 million). Computer software and other intangible assets are assessed for impairment indicators annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This assessment is a key area of judgement for the Group.

During the year ended 31 December 2020, the Group reviewed its software intangible assets for indicators of impairment, including internal indicators such as obsolescence, and external indicators such as the evolution of emerging technologies. As a consequence of the existence of such indicators, the Group formed the judgement that certain software assets were impaired, as they were no longer expected to provide future economic benefits. Accordingly, an impairment charge of €139 million has been recognised in the year, €136 million of which is recognised as non-core with €127 million charged to the transformation investment asset and €9 million charged to other internally generated computer software. There was no similar charge for 2019.

The Group considers that the remaining carrying amount of €697 million is recoverable as it comprises both intangible assets which are currently in use, with no indicators of a reduction in useful economic lives, and intangible assets which are currently in development and which are expected to be deployed in the near future when available for use.

3 Operating segments

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

Retail Ireland
Retail Ireland is one of the largest providers of financial services in Ireland with a network of branches across the country, mobile and online banking applications and customer contact centre. Retail Ireland offers a broad range of financial products and services including current accounts, savings, mortgages, credit cards, motor finance and loans to personal and business banking customers and is managed through a number of business units, namely Distribution Channels, Customer Segments and Propositions, Products (including BoIMB) and Business Banking (including Bank of Ireland Finance).

Wealth and Insurance
Wealth and Insurance includes the Group’s life assurance subsidiary NIAC which distributes protection, investment and pension products to the Irish market, across three core channels made up of the Group’s distribution channels, independent financial brokers and its own financial advisor network and corporate partners. It also includes Investment Markets and the Group’s general insurance brokerage Bank of Ireland Insurance Services, which offers home, car and travel insurance cover through its agency with insurance providers.

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 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 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
Corporate and Treasury 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 US, Germany, France and Spain.

Group Centre
Group Centre comprises Group Technology and Customer Solutions, Group Finance, Group Risk, Group Marketing, People Services, Group Strategy & Development and Group Internal Audit. The Group's 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 CEO and CFO are considered to be the chief operating decision maker for the Group. The Group’s operating segments reflect its organisational and management structures. The CEO and CFO review the Group’s internal reporting based around these segments to assess performance and allocate resources. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

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

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division’s current funding requirement.

External revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other operating income, other leasing 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 or loss excludes:
- cost of restructuring programme;
- impairment of internally generated computer software;
- customer redress charges;
- portfolio divestments;
- gain / loss on disposal / liquidation of business activities;
- investment return on treasury shares held for policyholders; and
- gross-up for policyholder tax in the Wealth and Insurance business.

3 Operating segments *(continued)*

2020	Retail Ireland[1] €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	**937**	**(7)**	**559**	**630**	**(2)**	**(2)**	**2,115**
Other income, net of insurance claims	205	178	(2)	131	(10)	3	505
Total operating income, net of insurance claims	**1,142**	**171**	**557**	**761**	**(12)**	**1**	**2,620**
Other operating expenses	(642)	(106)	(254)	(172)	(416)	(2)	(1,592)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	*(642)*	*(104)*	*(250)*	*(172)*	*(241)*	*(2)*	*(1,411)*
- Transformation Investment charge	*-*	*-*	*-*	*-*	*(56)*	*-*	*(56)*
- Levies and regulatory charges	*-*	*(2)*	*(4)*	*-*	*(119)*	*-*	*(125)*
Depreciation and amortisation	(67)	(9)	(42)	(11)	(124)	-	(253)
Impairment of goodwill and intangibles	-	-	(9)	-	(3)	-	(12)
Total operating expenses	**(709)**	**(115)**	**(305)**	**(183)**	**(543)**	**(2)**	**(1,857)**
Underlying operating profit / (loss) before impairment charges on financial assets	**433**	**56**	**252**	**578**	**(555)**	**(1)**	**763**
Net impairment losses on financial instruments	(314)	-	(268)	(549)	(2)	-	(1,133)
Share of results of associates and joint ventures	(3)	-	(1)	-	-	-	(4)
Underlying profit / (loss) before tax	**116**	**56**	**(17)**	**29**	**(557)**	**(1)**	**(374)**

2020 **Reconciliation of underlying loss before tax to loss before tax**	**Group €m**
Underlying loss before tax	(374)
Cost of restructuring programme	(245)
Impairment of internally generated computer software	(136)
Customer redress charges	(39)
Portfolio divestments	5
Gain on disposal / liquidation of business activities	13
Investment return on treasury shares held for policyholders	9
Gross-up for policyholder tax in the Wealth and Insurance business	7
Loss before tax	**(760)**

[1] *Included in underlying profit before tax of Retail Ireland in 2019 is an underlying loss before tax of €1.2 million, comprising operating income of €2.5 million, and operating expenses of €3.7 million relating to its Irish non-branch ATM business from which the Group has made a strategic decision to exit. For 2020, income and expense from the Irish non-branch ATM business has been excluded from underlying profit before tax of Retail Ireland and presented within non-core items on the reconciliation table above as 'Portfolio divestments'.*

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

3 Operating segments *(continued)*

Restated[1] 2019	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	1,005	(8)	563	603	(2)	6	2,167
Other income, net of insurance claims	253	312	(15)	129	(3)	(7)	669
Total operating income, net of insurance claims	**1,258**	**304**	**548**	**732**	**(5)**	**(1)**	**2,836**
Other operating expenses	(670)	(128)	(281)	(182)	(349)	1	(1,609)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	*(670)*	*(126)*	*(277)*	*(182)*	*(130)*	*1*	*(1,384)*
- Transformation Investment charge	-	-	-	-	*(108)*	-	*(108)*
- Levies and regulatory charges	-	*(2)*	*(4)*	-	*(111)*	-	*(117)*
Depreciation and amortisation	(75)	(7)	(48)	(13)	(151)	1	(293)
Impairment of goodwill and intangibles	-	-	-	-	-	-	-
Total operating expenses	**(745)**	**(135)**	**(329)**	**(195)**	**(500)**	**2**	**(1,902)**
Underlying operating profit / (loss) before impairment charges on financial assets	**513**	**169**	**219**	**537**	**(505)**	**1**	**934**
Net impairment (losses) / gains on financial instruments	(50)	-	(82)	(82)	(1)	-	(215)
Share of results of associates and joint ventures	5	-	34	-	-	-	39
Underlying profit / (loss) before tax	**468**	**169**	**171**	**455**	**(506)**	**1**	**758**

2019 Reconciliation of underlying profit before tax to profit before tax	**Group €m**
Underlying profit before tax	758
Customer redress charges	(74)
Cost of restructuring programme	(59)
Gross-up for policyholder tax in the Wealth and Insurance business	35
Loss on disposal / liquidation of business activities	(25)
Portfolio divestments	12
Investment return on treasury shares held for policyholders	(2)
Profit before tax	**645**

[1] As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.

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

3 Operating segments *(continued)*

2020 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	**54**	**-**	**54**	**-**	**-**	**-**	**108**
External assets	33,933	20,666	32,688	36,107	10,375	(15)	133,754
Inter segment assets	73,281	486	879	97,490	23,804	(195,940)	-
Total assets	**107,214**	**21,152**	**33,567**	**133,597**	**34,179**	**(195,955)**	**133,754**
External liabilities	61,256	20,132	24,158	13,359	5,234	(6)	124,133
Inter segment liabilities	44,026	255	7,151	119,689	24,848	(195,969)	-
Total liabilities	**105,282**	**20,387**	**31,309**	**133,048**	**30,082**	**(195,975)**	**124,133**

2019 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	**56**	**-**	**76**	**-**	**-**	**-**	**132**
External assets	34,873	19,532	35,608	34,355	7,519	(4)	131,883
Inter segment assets	69,738	696	2,046	90,488	24,893	(187,861)	-
Total assets	**104,611**	**20,228**	**37,654**	**124,843**	**32,412**	**(187,865)**	**131,883**
External liabilities	55,579	19,240	27,061	13,858	5,716	(4)	121,450
Inter segment liabilities	46,957	252	7,880	109,956	22,842	(187,887)	-
Total liabilities	**102,536**	**19,492**	**34,941**	**123,814**	**28,558**	**(187,891)**	**121,450**

2020 Revenue by operating segments	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	**1,233**	**1,955**	**1,057**	**856**	**9**	**(71)**	**5,039**
Inter segment revenues	530	(9)	(84)	542	197	(1,176)	-
Revenue before claims paid	**1,763**	**1,946**	**973**	**1,398**	**206**	**(1,247)**	**5,039**
Insurance contract liabilities and claims paid	-	(1,691)	-	-	1	-	(1,690)
Revenue	**1,763**	**255**	**973**	**1,398**	**207**	**(1,247)**	**3,349**
Interest expense	**(58)**	**-**	**(176)**	**(138)**	**(171)**	**62**	**(481)**
Capital expenditure	**10**	**96**	**58**	**25**	**144**	**-**	**333**

3 Operating segments *(continued)*

Restated[1] 2019 **Revenue by operating segments**	**Retail Ireland €m**	**Wealth and Insurance €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
External revenue	**1,360**	**2,965**	**1,164**	**975**	**17**	**(42)**	**6,439**
Inter segment revenues	477	83	(14)	374	248	(1,168)	-
Revenue before claims paid	**1,837**	**3,048**	**1,150**	**1,349**	**265**	**(1,210)**	**6,439**
Insurance contract liabilities and claims paid	-	(2,642)	-	-	(5)	-	(2,647)
Revenue	**1,837**	**406**	**1,150**	**1,349**	**260**	**(1,210)**	**3,792**
Interest expense	**(79)**	**-**	**(239)**	**(127)**	**(189)**	**48**	**(586)**
Capital expenditure	**18**	**20**	**64**	**-**	**205**	**-**	**307**

2020 **Geographical analysis**	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
External revenue	3,834	1,106	99	-	5,039
Inter segment revenues	102	121	16	(239)	-
Revenue before claims paid	**3,936**	**1,227**	**115**	**(239)**	**5,039**
Insurance contract liabilities and claims paid	(1,691)	-	1	-	(1,690)
Revenue	**2,245**	**1,227**	**116**	**(239)**	**3,349**
Capital expenditure	**284**	**49**	**-**	**-**	**333**
External assets	98,449	33,915	1,390	-	133,754
Inter segment assets	10,003	2,862	1,293	(14,158)	-
Total assets	**108,452**	**36,777**	**2,683**	**(14,158)**	**133,754**
External liabilities	99,259	24,798	76	-	124,133
Inter segment liabilities	1,810	9,887	2,463	(14,160)	-
Total liabilities	**101,069**	**34,685**	**2,539**	**(14,160)**	**124,133**

Restated[1] 2019 **Geographical analysis**	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
External revenue	5,086	1,246	107	-	6,439
Inter segment revenues	171	82	32	(285)	-
Revenue before claims paid	**5,257**	**1,328**	**139**	**(285)**	**6,439**
Insurance contract liabilities and claims paid	(2,642)	-	(5)	-	(2,647)
Revenue	**2,615**	**1,328**	**134**	**(285)**	**3,792**
Capital expenditure	**258**	**49**	**-**	**-**	**307**
External assets	93,285	37,025	1,573	-	131,883
Inter segment assets	11,086	4,258	1,008	(16,352)	-
Total assets	**104,371**	**41,283**	**2,581**	**(16,352)**	**131,883**
External liabilities	93,604	27,736	110	-	121,450
Inter segment liabilities	3,119	10,941	2,294	(16,354)	-
Total liabilities	**96,723**	**38,677**	**2,404**	**(16,354)**	**121,450**

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and interest expense on certain financial instruments. See note 64 for additional information.*

4 Interest income

Interest income includes interest on debt financial assets measured at FVTPL, excluding assets held for trading and those within the Group's life assurance operations; and interest income on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges).

Interest income on loans and advances to customers is shown net of:
- a charge of €22 million (2019: €nil) arising from an interest rate implementation review which was carried out by the Group in 2020. For further details, see note 44 Provisions.
- a charge of €4 million (2019: €10 million) related to redress arising from the Tracker Mortgage Examination Review.

Interest income recognised on loans and advances to customers
In 2020, €87 million of interest was recognised on credit-impaired loans and advances to customers (2019: €68 million).

In 2020, €98 million of interest income was received on credit-impaired loans and advances to customers (2019: €73 million).

In 2020, interest recognised on total forborne loans and advances to customers was €152 million (2019: €140 million).

In 2020, interest income received on total forborne loans and advances to customers was €154 million (2019: €134 million).

Transferred from cash flow hedge reserve
Interest income is presented net of a charge of €61 million (2019: €98 million charge) transferred from the cash flow hedge reserve (page 245).

Interest income recognised on debt securities at fair value through other comprehensive income
Interest income on FVOCI financial assets is recognised net of negative interest on derivatives which are in a hedge relationship with the relevant financial asset of €86 million (2019: €92 million).[2]

	2020 €m	*Restated*[1] 2019 €m
Financial assets measured at amortised cost		
Loans and advances to customers	2,129	2,261
Loans and advances to banks	10	31
Debt securities at amortised cost	2	9
Interest income on financial assets measured at amortised cost	**2,141**	**2,301**
Financial assets at fair value through other comprehensive income		
Debt securities at FVOCI	9	30
	2,150	**2,331**
Negative interest on financial liabilities	33	19
Interest income calculated using the effective interest method	**2,183**	**2,350**
Other interest income		
Finance leases and hire purchase receivables	171	175
Loans and advances to customers at FVTPL	18	13
Other financial assets at FVTPL	1	5
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	197	215
Other interest income	**387**	**408**
Interest income	**2,570**	**2,758**

[1] As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.

[2] The comparative disclosure of negative interest on derivatives in a hedge relationship with debt securities at FVOCI has been restated to include interest on all such derivatives. Negative interest on derivatives in a hedge relationship with debt securities at FVOCI increased by €64 million from €28 million to €92 million. There was no impact on interest from debt securities at FVOCI or interest income.

5 Interest expense

Interest expense includes interest on debt financial liabilities measured at FVTPL, excluding liabilities held for trading; and interest expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges).

Interest expense recognised on subordinated liabilities
Interest expense on subordinated liabilities is recognised on an Effective Interest Rate basis, net of interest income of €11 million (2019: €12 million)[2] 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 Effective Interest Rate basis net of interest income of €49 million (2019: €51 million) on derivatives which are in a hedge relationship with the relevant liability.

Other interest expense
Other interest expense is made up of €4 million interest expense on certain taxable gains arising from liability management exercises between 2009 and 2011 (see notes 2 and 19 for further information) and other interest expense €1 million.

	2020 €m	*Restated*[1] 2019 €m
Financial liabilities measured at amortised cost		
Customer accounts	60	135
Debt securities in issue	84	103
Subordinated liabilities	63	90
Lease liabilities	14	15
Deposits from banks	9	20
Interest expense on financial liabilities measured at amortised cost	**230**	**363**
Negative interest on financial assets	10	7
Interest expense calculated using effective interest rate method	**240**	**370**
Other interest expense		
Customer accounts at FVTPL	5	9
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	231	207
Other interest expense	5	-
Other interest expense	**241**	**216**
Interest expense	**481**	**586**

6 Net insurance premium income

	2020 €m	2019 €m
Gross premiums written	1,905	1,704
Ceded reinsurance premiums	(278)	(186)
Net premium written	**1,627**	**1,518**

7 Fee and commission income and expense

2020 Income	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Group €m
Retail banking customer fees	229	-	64	40	-	333
Credit related fees	6	-	2	14	-	22
Insurance commissions	-	11	1	-	-	12
Asset management fees	-	3	-	-	-	3
Brokerage fees	2	-	1	-	-	3
Other	7	3	22	23	-	55
Fee and commission income	**244**	**17**	**90**	**77**	**-**	**428**

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

[2] *The comparative disclosure of interest income on derivatives in a hedge relationship with subordinated liabilities has been restated to include interest on all such derivatives. Interest income on derivatives in a hedge relationship with subordinated liabilities reduced by €4 million from €16 million to €12 million. There was no impact on interest on subordinated liabilities or interest expense.*

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

2019 Income	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Group €m
Retail banking customer fees	274	-	89	44	-	407
Credit related fees	8	-	4	17	-	29
Insurance commissions	-	12	1	-	-	13
Asset management fees	-	3	-	-	-	3
Brokerage fees	1	-	1	-	-	2
Other	11	5	16	24	-	56
Fee and commission income	**294**	**20**	**111**	**85**	**-**	**510**

Expense
Fee and commission expense of €172 million (2019: €205 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

8 Net trading income

Net trading income includes the gains and losses on financial instruments mandatorily measured at FVTPL and those designated at FVTPL (other than unit linked life assurance assets and investment contract liabilities). It includes the fair value movement on these instruments and the realised gains and losses arising on the purchase and sale. It also includes the interest income receivable and expense payable on financial instruments held for trading and €14 million of a net gain arising from FX (2019: net gain €18 million).

It does not include interest income on debt financial assets mandatorily measured at FVTPL, interest expense on financial liabilities designated at FVTPL and interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges).

Net fair value hedge ineffectiveness reflects a net charge from hedging instruments of €42 million (2019: net charge of €78 million) offsetting a net gain from hedged items of €39 million (2019: net gain of €76 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement in 2020 amounted to €nil (2019: €nil).

	2020 €m	*Restated*[1] 2019 €m
Financial liabilities designated at fair value	40	(141)
Related derivatives held for trading	(44)	147
	(4)	**6**
Net income from financial instruments mandatorily measured at fair value through profit or (loss)[2]		
Other financial instruments held for trading	31	80
Equities[3]	6	36
Loans and advances	(2)	(2)
Non-trading debt securities[3]	(2)	3
	29	**123**
Net fair value hedge ineffectiveness	(3)	(2)
Cash flow hedge ineffectiveness	-	-
Net trading income	**26**	**121**

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

[2] *Net income from other financial assets mandatorily measured at fair value through profit or loss includes dividend income from equities. It also includes realised and unrealised gains and losses.*

[3] *Non-trading equities and debt securities mandatorily measured at fair value through profit or loss are reported in the balance sheet under the caption other financial assets at fair value through profit or loss. The income from life assurance investments which also comprise other financial assets at fair value through profit or loss is reported in note 9 Life assurance investment income, gains and losses.*

9 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 the Wealth and Insurance division, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts. These instruments are mandatorily measured at FVTPL.

Life assurance investment income gains are €270 million for the year ended 31 December 2020 (2019: gains of €1,311 million). The gains on other financial assets is consistent with favourable investment market performance. Movement in insurance contract liabilities (note 41) is consistent with the investment returns in the year.

The losses on investment property is consistent with change in fair value revaluation loss net of rental income and expenses.

	2020 €m	2019 €m
Gains on other financial assets held on behalf of Wealth and Insurance policyholders	299	1,284
(Losses) / gains on investment property held on behalf of Wealth and Insurance policyholders	(29)	27
Life assurance investment income, gains and (losses)	**270**	**1,311**

10 Other leasing income and expense

Other leasing income and expense relate to the business activities of MLL, a wholly-owned subsidiary of the Group. MLL is a car and commercial leasing and fleet management company based in the UK.

Other leasing income includes: €35 million (2019: €35 million) of operating lease payments received (note 34), €25 million arising from the sale of leased assets (2019: €20 million), and €5 million relating to other income (2019: €7 million).

Other leasing expense includes: depreciation of €28 million related to rental vehicles (2019: €28 million) and other selling and disposal costs of €27 million (2019: €24 million).

	2020 €m	2019 €m
Other leasing income	65	62
Other leasing expense	(55)	(52)
Net other leasing income	**10**	**10**

11 Other operating income

	2020 €m	2019 €m
Other insurance income	58	52
Movement in Value of in Force asset (note 37)	(16)	60
Transfer from debt instruments at FVOCI reserve on asset disposal (note 25)	7	3
Elimination of investment return on treasury shares held for the benefit of policyholders in the Wealth and Insurance business	4	(1)
Other income	3	5
Dividend income	1	1
Other operating income	**57**	**120**

12 Insurance contract liabilities and claims paid

	2020 €m	2019 €m
Claims paid		
Policy surrenders	915	897
Death and critical illness claims	187	171
Annuity payments	91	90
Policy maturities	-	2
Other claims	79	79
Gross claims paid	**1,272**	**1,239**
Recovered from reinsurers	(124)	(116)
Net claims paid	**1,148**	**1,123**
Change in insurance contract liabilities		
Change in gross liabilities	786	1,690
Change in reinsured liabilities	(244)	(166)
Net change in insurance contract liabilities	**542**	**1,524**
Insurance contract liabilities and claims paid	**1,690**	**2,647**

13 Other operating expenses

Administrative expenses and staff costs	2020 €m	2019 €m
Staff costs excluding restructuring and Transformation Investment staff costs	826	855
Amortisation of intangible assets (note 32)	164	193
Levies and regulatory charges	125	117
- Irish bank levy	*34*	*34*
- Other	*91*	*83*
Depreciation of property, plant and equipment (note 34)	89	96
Transformation Investment charge	56	108
Lease expenses	9	11
- Variable lease payments (note 43)	*8*	*8*
- Short-term leases (note 43)	*1*	*3*
Revaluation loss on property (note 34)	4	-
Reversal of previously recognised impairment (note 34)	(3)	-
Other administrative expenses excluding cost of restructuring programme	618	626
Total	**1,888**	**2,006**
Total staff costs are analysed as follows:		
Wages and salaries	681	659
Social security costs	78	74
Retirement benefit costs (defined benefit plans) (note 47)	66	103
Retirement benefit costs (defined contribution plans)	35	31
Other staff expenses	-	8
	860	**875**
Staff costs capitalised	(34)	(20)
Staff costs excluding restructuring and Transformation Investment staff costs	**826**	**855**
Additional restructuring and Transformation Investment staff costs:		
Included in cost of restructuring programme (note 14)	193	34
Included in Transformation Investment charge	13	17
Total staff costs recognised in the income statement	**1,032**	**906**

13 Other operating expenses *(continued)*

The Group has incurred levies and regulatory charges of €125 million (2019: €117 million). The other levies and regulatory charges for 2020 primarily reflect the Group's contribution to the SRF and the DGS fund, along with the charges for the FSCS levy.

Transformation Investment income statement charge of €56 million (2019: €108 million) includes €12 million (2019: €30 million) for associated application and infrastructure costs.

In 2020, there was €63 million (2019: €69 million) depreciation of RoU assets under IFRS 16 included within depreciation of property, plant and equipment. In 2020, a €3 million reversal of impairment relates to the transferral of computer & other equipment to assets classified as held for sale, see notes 26 and 34 for further details.

Other administrative expenses includes a charge of €10 million (2019: €57 million) relating to the Tracker Mortgage Examination Review and a charge of €3 million (2019: €nil) arising from an interest rate implementation review which was carried out by the Group in 2020 (see note 44 for further details).

Retirement benefit costs on the defined benefit plans have reduced mainly due to a negative past service cost recognised in 2020 of €26 million (2019: €nil). See note 47 for further details.

Staff numbers

At 31 December 2020, the number of staff (full time equivalents) was 9,782 (2019: 10,440) which excludes employees who exited the Group under the Voluntary Redundancy Scheme up to and including 31 December 2020.

The table below outlines the reduction in the average number of staff employed by the Group.

Average number of staff (full time equivalents)	**2020**	**2019**
Retail Ireland	4,056	4,139
Retail UK	1,433	1,490
Wealth and Insurance	891	902
Corporate and Treasury	697	691
Group Centre	3,226	3,202
Total	**10,303**	**10,424**

14 Cost of restructuring programme

	2020 €m	**2019 €m**
Transformation Investment costs	237	55
- Staff costs (note 13)	*193*	*34*
- Programme management costs	*22*	*17*
- UK Strategic review costs	*16*	*-*
- Property-related costs	*6*	*4*
Other restructuring charges	8	4
Total	**245**	**59**

During 2020, the Group recognised a restructuring charge of €245 million (2019: €59 million) of which €237 million (2019: €55 million) related to the Group's Transformation Investment programme and €8 million (2019: €4 million) for other restructuring costs.

The Transformation Investment costs predominantly relate to the Group-wide voluntary redundancy scheme which was open to employees between August and September 2020 (the 'Scheme'). The €193 million staff costs includes voluntary redundancy costs of €189 million for employees that had exited the Group by 31 December 2020 and employees for which the Group has exit plans in place and has made appropriate communications as at 31 December 2020 and €4 million for other staff costs. The Transformation Investment costs also include external programme management costs of €22 million (2019: €17 million), costs of €16 million incurred related to the planning and scoping of the strategic review of the Group's Northern Ireland and UK operations, of which €3 million related to the impairment of property, plant and equipment, costs related to the implementation of the Group's property strategy of €6 million (2019: €4 million) which is due to the loss on disposal of assets arising from the exit of property.

Other restructuring costs of €8 million (2019: €4 million) includes €3 million related to the impairment of property, plant and equipment and other related costs of €5 million.

15 Auditor's remuneration (excluding Value Added Tax)

	Note	RoI (i) €m	Overseas (ii) €m	2020 €m	2019 €m
Audit and assurance services					
Statutory audit of financial statements		2.8	0.7	3.5	3.5
Other assurance services	(iii)	0.6	0.4	1.0	1.1
		3.4	**1.1**	**4.5**	**4.6**
Tax advisory services		0.1	-	0.1	-
Total Auditors' remuneration		**3.5**	**1.1**	**4.6**	**4.6**

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 (KPMG) for services provided to the Group be disclosed in this format. All years presented are on that basis.

The GAC has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

(i) Fees paid to the Statutory Auditor, KPMG.

(ii) Fees paid to overseas auditors consist of fees paid to KPMG UK in the UK; and

(iii) Assurance services consist primarily of review of the interim financial statements, review of Bank of Ireland UK plc's regulatory returns and associated governance and controls and other processes in relation to the preparation of the returns, fees in connection with reporting to regulators including the CBI, letters of comfort and review of compliance with the Government Guarantee Schemes.

(iv) Tax Advisory services consists primarily of taxation advice in relation to historical property related transactions & cash flow analysis services.

16 Net impairment losses on financial instruments

	2020 €m	2019 €m
Loans and advances to customers	(1,061)	(209)
- *Movement in impairment (loss) allowances* (note 27)	*(1,099)*	*(257)*
- *Cash recoveries*	*38*	*48*
Loan commitments	(65)	(5)
Guarantees and irrevocable letters of credit	(4)	-
Other financial assets	(3)	-
Net impairment (losses) on financial instruments	**(1,133)**	**(214)**

Loans and advances to customers at amortised cost

Net impairment losses

The Group's net impairment losses on loans and advances to customers at amortised cost are set out in this table.

In April 2019, the Group entered into a securitisation arrangement for a portfolio of residential mortgage NPEs through an unconsolidated special purpose vehicle named Mulcair Securities Designated Activity Company (DAC). An impairment gain of €5 million arose on the disposal of this portfolio, which was included in the Group's net impairment loss on financial instruments for the year ended 31 December 2019.

There have been no such disposals or resulting impairment gains / losses in the year ended 31 December 2020.

	2020 €m	2019 €m
Residential mortgages	(53)	(52)
- *Retail Ireland*	*(23)*	*(60)*
- *Retail UK*	*(30)*	*8*
Non-property SME and corporate	(512)	(76)
- *Republic of Ireland SME*	*(217)*	*(18)*
- *UK SME*	*(29)*	*9*
- *Corporate*	*(266)*	*(67)*
Property and construction	(388)	(24)
- *Investment*	*(372)*	*(30)*
- *Land and development*	*(16)*	*6*
Consumer	(108)	(57)
Total	**(1,061)**	**(209)**

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

	2020 €m	2019 €m
Associates (note 30)	(3)	5
First Rate Exchange Services (note 31)	(1)	34
Share of results of associates and joint ventures (after tax)	**(4)**	**39**

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

The 2019 loss on disposal of business activities reflects the sale of the Retail UK credit card portfolio in 2019. In July 2019, the portfolio was sold for total consideration of €580 million resulting in a net loss on disposal of €21 million. The net loss on disposal also included a provision of €39 million related to the costs of migration and other costs associated with the disposal (note 44). This provision was based upon management's best estimates at that time of the length of the migration period and the related costs.

In October 2020 the migration concluded and consequently management has adjusted the provision during 2020 to reflect the actual costs and timing of the migration. This has resulted in a release of €8 million from the provision during 2020 which is reflected as an adjustment to the loss on disposal line during the current year.

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 2020, 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 €5 million relating to these foreign operations from the FX reserve to the income statement during 2020 (2019: losses of €4 million).

	2020 €m	2019 €m
Disposal of Retail UK card portfolio	8	(21)
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	5	(4)
Gain / (loss) on disposal / liquidation of business activities	**13**	**(25)**

19 Taxation

The taxation credit for the year is €53 million with an effective statutory taxation rate of 7% (2019: taxation charge of €197 million and taxation rate of 31%). The effective tax rate is influenced by changes in the jurisdictional mix of profits and losses and the reassessment of the tax value of the tax losses carried forward.

Between 2009 and 2011, the Group conducted a series of liability management exercises in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel, that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HMRC, over the last number of years as it considers these transactions. Details of these transactions are outlined in Critical Accounting Estimates and Judgements (note 2) on page 229.

Recognised in income statement	2020 €m	2019 €m
Current tax		
Irish Corporation Tax		
- Current year	6	48
- Adjustment in respect of prior year	-	(1)
Foreign tax		
- Current year	25	49
- Adjustments in respect of prior year	7	(5)
Current tax charge	**38**	**91**
Deferred tax		
Current year (losses)	(100)	33
Adjustments in respect of prior year	(7)	1
Origination and reversal of temporary differences	(10)	25
Impact of Corporation Tax rate change	(9)	-
Reassessment of value of tax (losses) carried forward	35	47
Deferred tax (credit) / charge	**(91)**	**106**
Taxation (credit) / charge	**(53)**	**197**

19 Taxation *(continued)*

Reconciliation of tax on the (loss) / profit before taxation at the standard Irish corporation tax rate to actual tax (credit) / charge	2020 €m	2019 €m
(Loss) / Profit before tax multiplied by the standard rate corporation tax in Ireland of 12.5% (2019: 12.5%)	(95)	81
Effects of:		
Reassessment of value of tax (losses) carried forward	35	47
Foreign earnings subject to different rates of tax	4	35
Wealth and Insurance companies - different basis of accounting	(9)	16
Adjustments in respect of prior year	-	(5)
Share of results of associates and joint ventures shown post tax in the income statement	-	(4)
Impact of Corporation Tax rate change[1]	(9)	-
Other adjustments for tax purposes	21	27
Taxation (credit) / charge	**(53)**	**197**

	2020			2019		
	Pre-tax €m	Tax €m	Net of Tax €m	Pre-tax €m	Tax €m	Net of Tax €m
Debt instruments at FVOCI reserve						
Changes in fair value	13	(2)	11	32	(4)	28
Transfer to income statement						
- Asset disposal	(7)	1	(6)	(3)	-	(3)
Net change in debt instruments at FVOCI reserve	**6**	**(1)**	**5**	**29**	**(4)**	**25**
Remeasurement of the net defined benefit pension liability	**(87)**	**7**	**(80)**	**44**	**(5)**	**39**
Cash flow hedge reserve						
Changes in fair value	394	(50)	344	(440)	50	(390)
Transfer to income statement	(403)	47	(356)	442	(56)	386
- Net trading income / (expense)	*(464)*	*54*	*(410)*	*344*	*(44)*	*300*
- Net interest income	*61*	*(7)*	*54*	*98*	*(12)*	*86*
Net change in cash flow hedge reserve	**(9)**	**(3)**	**(12)**	**2**	**(6)**	**(4)**
Net change in foreign exchange reserve	**(174)**	**-**	**(174)**	**130**	**-**	**130**
Net change in revaluation reserve	**(9)**	**2**	**(7)**	**3**	**-**	**3**
Liability credit reserve						
Changes in fair value of liabilities designated at fair value through profit or (loss) due to own credit risk	2	-	2	(22)	4	(18)
Other comprehensive income for the year	**(271)**	**5**	**(266)**	**186**	**(11)**	**175**

[1] *The tax credit of €9 million (2019: €nil) in respect of corporation tax rate changes is due to the main UK corporation tax rate remaining at 19 percent rather than reducing to the previously enacted rate of 17%. This change was substantively enacted on 17 March 2020.*

20 Earnings per share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares (own shares held for the benefit of life assurance policyholders).

Diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares adjusted for the effect of all dilutive potential ordinary shares.

For 2020 and 2019, there was no difference in the weighted average number of units of share used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive.

	2020 €m	2019 €m
Basic and diluted earnings per share		
(Loss) / profit attributable to shareholders	(742)	386
Distributions on other equity instruments - AT1 coupon	(25)	-
Redemption of NCI - AT1 securities	(10)	-
(Loss) / profit attributable to ordinary shareholders	**(777)**	**386**
	Shares (millions)	**Shares (millions)**
Weighted average number of shares in issue excluding treasury shares	1,073	1,075
Basic and diluted earnings per share (cent)	(72.4c)	35.9c

21 Derivative financial instruments

The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Risk Management Report on pages 134 to 189. 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.

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 €2.2 billion at 31 December 2020 (2019: €2.0 billion):
- €2.0 billion (2019: €1.7 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. At 31 December 2020, cash collateral of €0.2 billion (2019: €0.2 billion) was held against these assets and is reported within deposits from banks (note 38); and
- €0.2 billion (2019: €0.3 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the reporting date.

At 31 December 2020, placements with other banks include cash collateral of €0.6 billion (2019: €0.8 billion) and loans and advances to customers include cash collateral of €0.01 billion placed with derivative counterparties in respect of a net derivative liability position of €0.5 billion (2019: €0.9 billion) and is reported within loans and advances to banks (note 23) and loans and advances to customers (note 27).

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

21 Derivative financial instruments *(continued)*

	2020			2019		
	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	2,068	13	13	3,427	21	22
Currency forwards	3,894	63	55	3,746	45	41
Over the counter currency options	115	1	1	370	1	1
Total foreign exchange derivatives held for trading	**6,077**	**77**	**69**	**7,543**	**67**	**64**
Interest rate derivatives						
Interest rate swaps	173,036	1,268	1,393	144,223	1,103	1,347
Cross currency interest rate swaps	1,801	34	19	2,349	84	132
Over the counter interest rate options	12,090	8	7	11,875	3	6
Interest rate futures	20	-	-	99	-	-
Forward rate agreements	4,304	2	3	4,020	1	1
Total interest rate derivatives held for trading	**191,251**	**1,312**	**1,422**	**162,566**	**1,191**	**1,486**
Equity contracts, commodity contracts and credit derivatives						
Equity index-linked contracts held	1,866	38	29	1,766	135	11
Credit derivatives	-	-	-	100	5	5
Total equity contracts and credit derivatives	**1,866**	**38**	**29**	**1,866**	**140**	**16**
Total derivative assets / liabilities held for trading	**199,194**	**1,427**	**1,520**	**171,975**	**1,398**	**1,566**
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	46,522	595	707	47,165	572	560
Cross currency interest rate swaps	82	-	4	-	-	-
Total designated as fair value hedges	**46,604**	**595**	**711**	**47,165**	**572**	**560**
Derivatives designated as cash flow hedges						
Cross currency interest rate swaps	11,875	180	21	9,933	3	346
Interest rate swaps	857	15	5	1,383	26	6
Total designated as cash flow hedges	**12,732**	**195**	**26**	**11,316**	**29**	**352**
Total derivative assets / liabilities held for hedging	**59,336**	**790**	**737**	**58,481**	**601**	**912**
Total derivative assets / liabilities	**258,530**	**2,217**	**2,257**	**230,456**	**1,999**	**2,478**

21 Derivative financial instruments *(continued)*

Interest rate benchmark reform

At 31 December 2020, EURIBOR, GBP LIBOR and USD LIBOR represented the most significant interbank offered rate benchmarks subject to reform to which the Group's fair value and cash flow hedge relationships of interest rate risk are exposed.

As EURIBOR has been reformed and complies with the EU Benchmarks Regulation under a new hybrid methodology, the Group expects EURIBOR to continue as a benchmark interest rate for the foreseeable future and, therefore, does not consider interest rate hedge relationships of EURIBOR to be directly affected by BMR reform as at 31 December 2020. In line with regulatory guidance and now established market practice it is expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR and SOFR (Secured Overnight Financing Rate) will replace USD LIBOR.

A formal Group-wide Benchmark Reform Programme is progressing to plan so as to manage the orderly transition to new regulatory compliant benchmarks. The process being used by the Group to manage the transition to alternative benchmark rates is further discussed in the Risk Management report on page 138.

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships. The Group has applied judgement in relation to market expectations when determining the fair value of the hedging instrument and the present value of the estimated cash flows of the hedged item.

The key judgement is that the cash flows for contracts indexing rates subject to the BMR reform are currently expected to be broadly equivalent to the cash flows when those contracts transition to alternative BMRs. However, this may no longer be the case. Hedge accounting relationships impacted by the BMR reform may experience increased ineffectiveness due to the following reasons:

- Market participants' expectations for when the transition from the existing benchmark rate to an alternative benchmark interest rate may occur. This could give rise to hedge ineffectiveness in the prospective assessment, in particular where the replacement of the benchmark rate in the hedged item and the hedging instrument is expected to occur at different times or to be subject to different market conventions.
- Modification to the terms of the existing BMR contracts that results in the derecognition of a hedged item or the hedging instrument. If upon transition to an alternative benchmark rate, the new basis for determining contractual cash flows is not economically equivalent to the previous basis and the modification is deemed to be substantial, the hedging instrument and / or hedged item will be required to be derecognised, which would imply discontinuation of the corresponding hedge accounting relationship. Any subsequent re-designation of such hedge relationships may increase hedge ineffectiveness.

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.

	2020				2019			
Hedging strategy	**Up to 1 year €m**	**1-2 years €m**	**2-5 years €m**	**>5 years €m**	**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	1,783	4,375	7,438	8,127	3,386	1,851	9,738	6,771
- Average fixed interest rate	0.38%	0.69%	0.46%	0.41%	0.92%	0.39%	0.58%	0.72%
Foreign Exchange risk								
Interest rate risk								
- Cross currency interest rate swap - notional amount	-	-	-	82	-	-	-	-
- Average EUR - JPY foreign exchange rate	-	-	-	0.01	-	-	-	-
Cash flow hedge								
Interest rate risk								
- Interest rate swap - notional amount	434	-	-	423	-	434	139	810
- Average fixed interest rate	0.84%	-	-	0.63%	-	0.86%	1.20%	1.18%
Foreign exchange risk								
- Cross currency interest rate swap - notional amount	4,569	4,353	2,953	-	5,297	4,631	5	-
- Average EUR - GBP foreign exchange rate	0.89	0.87	0.91	-	0.89	0.89	0.87	-

21 Derivative financial instruments *(continued)*

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:

2020 Items designated as hedging instruments and hedge ineffectiveness 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	Nominal amount of the hedging instruments affected by BMR reform[4] €m
Interest rate risk	Interest rate swaps	46,522	595	(707)	(38)	(3)	7,035
Foreign Exchange Risk	Cross Currency Interest Rate Swaps	82	-	(4)	(4)	-	-
Total		**46,604**	**595**	**(711)**	**(42)**	**(3)**	**7,035**

2019 Items designated as hedging instruments and hedge ineffectiveness 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	Nominal amount of the hedging instruments affected by BMR reform[4] €m
Interest rate risk	Interest rate swaps	47,165	572	(560)	(78)	(2)	10,133
Foreign Exchange Risk	Cross Currency Interest Rate Swaps	-	-	-	-	-	-
Total		**47,165**	**572**	**(560)**	**(78)**	**(2)**	**10,133**

2020 Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item Assets €m	Carrying amount of the hedged item Liabilities €m	Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item Assets €m	Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item Liabilities €m	Changes in value used for calculating hedge ineffectiveness €m	Remaining adjustments for discontinued hedges €m
Interest rate risk						
Debt instruments measured at FVOCI	10,837	-	271	-	69	43
Debt securities at amortised cost	5,706	-	233	-	71	-
Loans and advances to customers	7,720	-	87	-	63	2
Customer accounts	-	17,727	-	(308)	(129)	(78)
Debt securities in issue	-	6,595	-	(196)	(39)	(1)
Foreign exchange risk						
Debt securities in issue	-	78	1	-	4	-
Total	**24,263**	**24,400**	**592**	**(504)**	**39**	**(34)**

[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] *The main cause of ineffectiveness in the Group's fair value hedge relationships are differences in maturities between certain interest rate swaps and their related hedged items.*
[4] *In previous periods, these figures were reported as the Nominal amount of the hedging instruments affected by IBOR reform.*

21 Derivative financial instruments *(continued)*

2019 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 discontinued hedges €m
Interest rate risk						
Debt instruments measured at FVOCI	10,571	-	232	-	116	61
Debt securities at amortised cost	4,144	-	160	-	121	-
Loans and advances to customers	8,807	-	30	-	46	(3)
Customer accounts	-	17,287	-	(244)	(156)	(28)
Debt securities in issue	-	8,438	-	(153)	(51)	(2)
Foreign exchange risk						
Debt securities in issue	-	-	-	-	-	-
Total	**23,522**	**25,725**	**422**	**(397)**	**76**	**28**

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.

2020 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 in profit or (loss) [2,3] €m	Amount reclassified from the cash flow hedge reserve to profit or (loss)[4] €m	Nominal amount of the hedging instruments affected by BMR reform[5] €m
Interest rate risk								
Interest rate swaps	856	15	(5)	9	(9)	-	(28)	228
Foreign exchange risk								
Cross currency interest rate swaps	11,876	180	(21)	464	(464)	-	(375)	3,152
Total	**12,732**	**195**	**(26)**	**473**	**(473)**	**-**	**(403)**	**3,380**

[1] All hedging instruments are included within derivative financial instruments on the balance sheet.
[2] Ineffectiveness is included within net trading income on the income statement.
[3] There are no material causes of ineffectiveness in the Group's cash flow hedges.
[4] Balances include €nil (2019: €nil) 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.
[5] In previous periods, these figures were reported as the Nominal amount of the hedging instruments affected by IBOR reform.

21 Derivative financial instruments *(continued)*

2019 Risk category and hedging instrument[1]	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument Assets €m	Carrying amount of the hedging instrument Liabilities €m	Changes in value used for calculating hedge ineffectiveness €m	Changes in the value of the hedging instrument recognised in other comprehensive income €m	Ineffectiveness recognised in profit or (loss)[2,3] €m	Amount reclassified from the cash flow hedge reserve to profit or (loss)[4] €m	Nominal amount of the hedging instruments affected by BMR reform[5] €m
Interest rate risk								
Interest rate swaps	1,383	26	(6)	(19)	19	-	(39)	950
Foreign exchange risk								
Cross currency interest rate swaps[6]	9,933	3	(346)	(372)	372	-	481	9,933
Total	**11,316**	**29**	**(352)**	**(391)**	**391**	**-**	**442**	**10,883**

2020 Risk category	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discontinued hedges €m
Interest rate risk	(9)	(5)	8
Foreign exchange risk	(464)	24	-
Total	**(473)**	**19**	**8**

2019 Risk category	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discontinued hedges €m
Interest rate risk	19	(16)	31
Foreign exchange risk[6]	372	3	-
Total	**391**	**(13)**	**31**

1 *All hedging instruments are included within derivative financial instruments on the balance sheet.*
2 *Ineffectiveness is included within net trading income on the income statement.*
3 *There are no material causes of ineffectiveness in the Group's cash flow hedges.*
4 *Balances include €nil (2019: €nil) 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.*
5 *In previous periods, these figures were reported as the Nominal amount of the hedging instruments affected by IBOR reform.*
6 *The changes in value used for calculating hedge ineffectiveness on cross currency interest rate swaps and the hedged foreign exchange risk have been restated in order to include changes in value attributed to movements in spot foreign exchange rates that were transferred to the income statement during 2019. The changes in value used for calculating hedge ineffectiveness have been amended by €376 million from €4 million net gain on the cross currency interest rate swaps and €4 million net loss on the hedged foreign exchange risk to €372 million net loss on the cross currency interest rate swaps and €372 million net gain on the hedged foreign exchange risk. This restatement had no impact on either the hedge ineffectiveness or the income statement.*

21 Derivative financial instruments *(continued)*

In 2020 and 2019, 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 note 19 (page 245).

Movement in cash flow hedge reserve	**2020 €m**	**2019 €m**
Changes in fair value		
- Interest rate risk	41	45
- Foreign exchange risk	353	(485)
Transfer to income statement		
Interest income		
- Interest rate risk	(7)	(7)
- Foreign exchange risk	68	105
Net trading income / (expense)		
- Interest rate risk	(21)	(32)
- Foreign exchange risk	(443)	376
Deferred tax on reserve movements	(3)	(6)
Net decrease in cash flow hedge reserve	**(12)**	**(4)**

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 2020, such assets were €15,258 million (2019: €14,425 million). Included in these assets are investments in unconsolidated structured entities which comprise investments in collective investment vehicles of €10,889 million (2019: €10,029 million) (note 57).

Other financial assets of €2,134 million (2019: €2,028 million) include €1,980 million (2019: €1,809 million) relating to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities. Further details on financial assets mandatorily measured at FVTPL is set out in note 59. Included in these assets are investments in unconsolidated structured entities which comprise investments in collective investment vehicles of €219 million (2019: €147 million) (note 57).

During the year, the National Asset Management Agency (NAMA) redeemed all of its subordinated bonds which were held within other financial assets at FVTPL. The fair value was therefore €nil at 31 December 2020 (2019: €73 million).

	2020 €m	**2019 €m**
Assets linked to policyholder liabilities		
Equity securities	11,266	10,792
Unit trusts	1,710	1,364
Debt securities	1,644	1,543
Government bonds	638	726
	15,258	**14,425**
Other financial assets		
Government bonds	904	854
Debt securities	898	916
Unit trusts	192	119
Equity securities	140	139
	2,134	**2,028**
Other financial assets at fair value through profit or (loss)	**17,392**	**16,453**

23 Loans and advances to banks

Loans and advances to banks are classified as financial assets at amortised cost or financial assets mandatorily at FVTPL. The associated impairment loss allowance on loans and advances to banks is measured on a 12-month or lifetime ECL approach.

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. At 31 December 2020, the Group's loans and advances to banks includes €200 million (2019: €198 million) of assets held on behalf of Wealth and Insurance life policyholders.

Mandatory deposits with central banks includes €1.2 billion relating to collateral in respect of the Group's issued bank notes in NI (2019: €1.4 billion).

Placements with other banks includes cash collateral of €0.6 billion (2019: €0.8 billion) placed with derivative counterparties in relation to net derivative liability positions (note 21).

The Group enters into transactions to purchase securities with agreement to resell and accepts collateral that it is permitted to be sold or repledged in the absence of default by the owner of the collateral. At 31 December 2020, there was no collateral included in the loans and advances to banks at FVTPL (2019: €nil).

	2020 €m	2019 €m
Mandatory deposits with central banks	1,288	1,519
Placements with banks	917	1,474
Funds placed with central banks not on demand	22	30
	2,227	**3,023**
Less impairment loss allowance on loans and advances to banks	(1)	(1)
Loans and advances to banks at amortised cost	**2,226**	**3,022**
Loans and advances to banks at FVTPL	227	306
Loans and advances to banks	**2,453**	**3,328**

There has been no significant change in the impairment loss allowance on loans and advances to banks held at amortised cost during the year. The composition of loans and advances to banks at amortised cost by stage is set out on page 269 and the asset quality of loans and advances to banks at amortised cost is set out on page 279.

Loans and advances to banks at FVTPL are not subject to impairment under IFRS 9.

24 Debt securities at amortised cost

The following table details the significant categories of debt securities at amortised cost.

At 31 December 2020, debt securities at amortised cost with a fair value of €99 million (2019: €18 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 on debt securities at amortised cost was €3 million at 31 December 2020 (2019: €1 million). The composition of debt securities at amortised cost by stage is set out on page 269 and the asset quality of debt securities at amortised cost is set out on page 279.

	2020 €m	2019 €m
Government bonds	5,494	3,767
Other debt securities at amortised cost	739	687
Asset backed securities	36	58
Less impairment loss allowance	(3)	(1)
Debt securities at amortised cost	**6,266**	**4,511**

25 Financial assets at fair value through other comprehensive income

At 31 December 2020, debt instruments at FVOCI with a fair value of €24 million (2019: €17 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 €3 million at 31 December 2020 (2019: €3 million). The composition of debt instruments at FVOCI by stage is set out on page 269 and the asset quality of debt instruments at FVOCI is set out on page 279.

In 2020, the Group disposed of debt instruments at FVOCI of €1,124 million (2019: €1,178 million) which resulted in a transfer of €7 million (2019: €3 million) from the debt instruments at FVOCI reserve to the income statement.

At 31 December 2020, financial assets at FVOCI included €921 million (2019: €664 million) placed with Monetary Authorities as collateral, to access intraday and other funding facilities.

	2020 €m	2019 €m
Debt instruments at FVOCI		
Government bonds	5,879	5,849
Other debt securities		
- listed	5,063	4,948
Total debt instruments at FVOCI	10,942	**10,797**
Impairment loss allowance on debt instruments at FVOCI	**(3)**	**(3)**

Fair value	2020 €m	2019 €m
Opening balance	**10,797**	**12,048**
Additions	3,029	1,525
Redemptions and disposals	(2,863)	(2,827)
Revaluation, exchange and other adjustments	(21)	51
Closing balance	**10,942**	**10,797**

26 Assets classified as held for sale

At 31 December 2020, the Group is in the process of disposing of two ATM fleets with a carrying value of €5 million. These transactions are as follows:

- Retail UK has reached agreement to transfer ownership of c1,400 ATMs directly to the Post Office and to remove the remaining c.600 Bank of Ireland UK Post Office ATMs. As a result, these assets have been reclassified from property, plant and equipment to assets classified as held for sale. The assets are measured at their fair value less costs to sell of €3 million.
- Retail Ireland has substantially progressed the disposal of its fleet of non-branch ATMs. The devices are primarily located in non Bank retail units throughout Ireland. As a result, these assets have been reclassified from property plant and equipment to assets classified as held for sale at their fair value less costs to sell of €2 million.

	2020 €m	2019 €m
Retail UK: Post Office ATMs	3	-
Retail Ireland: Non Branch ATMs	2	-
At end of year	**5**	**-**

27 Loans and advances to customers

Loans and advances to customers includes cash collateral of €5 million (2019: €98 million) placed with derivative counterparties in relation to net derivative liability positions.

Of loans and advances to customers at FVTPL, €239 million (2019: €246 million) 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. The remaining €122 million (2019: €6 million) of loans and advances to customers at FVTPL relate to syndicated corporate facilities. As the Group's objective is to realise cash flows through the sale of these assets, they are classified as loans and advances to customers at FVTPL.

Included within loans and advances to customers is €328 million of lending in relation to the UK government-backed Bounce Back Loan and Coronavirus Business Interruption schemes.

In 2019, the Group completed three transactions whereby it derecognised or disposed of €479 million of loans and advances to customers (after impairment loss allowance) as follows:
- a portfolio of residential mortgage NPEs with a net carrying value of €326 million, was transferred to Mulcair Securities DAC;
- a portfolio of residential and commercial property NPEs with a net carrying value of €151 million, was sold to Promontoria 2019 DAC; and
- a portfolio of UK personal loan NPEs with a net carrying value of €2 million, was sold to Intrum Finance Limited.

In 2019 the Group has recognised a net impairment loss of €23 million on these transactions which has been reported through net impairment (losses) / gains on financial instruments, as required by IFRS 9 (note 16).

In June 2019, the Group purchased a €265 million portfolio of commercial loans predominantly in the RoI from KBC Ireland.

	2020 €m	2019 €m
Loans and advances to customers at amortised cost	74,870	76,543
Finance leases and hire purchase receivables	3,592	4,000
	78,462	80,543
Less allowance for impairment charges on loans and advances to customers	(2,242)	(1,308)
Loans and advances to customers at amortised cost	**76,220**	**79,235**
Loans and advances to customers at fair value through profit or loss[1]	361	252
Total loans and advances to customers	**76,581**	**79,487**
Amounts include		
Due from joint ventures and associates	106	142

The following tables show the gross carrying amount and impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost.

2020 **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)	40,016	10,637	2,639	4,961	58,253
Stage 2 - Lifetime ECL (not credit-impaired)	2,528	8,181	4,869	165	15,743
Stage 3 - Lifetime ECL (credit-impaired)	2,196	1,014	1,021	145	4,376
Purchased / originated credit-impaired	2	26	62	-	90
Gross carrying amount at 31 December 2020	**44,742**	**19,858**	**8,591**	**5,271**	**78,462**

2020 **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)	74	134	9	129	346
Stage 2 - Lifetime ECL not credit-impaired	31	368	126	27	552
Stage 3 - Lifetime ECL credit-impaired	374	416	442	80	1,312
Purchased / originated credit-impaired	-	13	19	-	32
Impairment loss allowance at 31 December 2020	**479**	**931**	**596**	**236**	**2,242**

[1] *Loans and advances to customers at fair value through profit or loss are not subject to impairment under IFRS 9.*

27 Loans and advances to customers *(continued)*

2019 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)	42,898	17,474	5,985	5,421	71,778
Stage 2 - Lifetime ECL (not credit-impaired)	1,677	2,175	1,513	206	5,571
Stage 3 - Lifetime ECL (credit-impaired)	1,693	757	549	100	3,099
Purchased / originated credit-impaired	3	27	65	-	95
Gross carrying amount at 31 December 2019	**46,271**	**20,433**	**8,112**	**5,727**	**80,543**

2019 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)	16	56	6	64	142
Stage 2 - Lifetime ECL not credit-impaired	36	78	42	32	188
Stage 3 - Lifetime ECL credit-impaired	380	353	180	63	976
Purchased / originated credit-impaired	-	-	2	-	2
Impairment loss allowance at 31 December 2019	**432**	**487**	**230**	**159**	**1,308**

The following tables show the changes in gross carrying amount and impairment loss allowances of loans and advances to customers at amortised cost for the year ended 31 December 2020. The tables are prepared based on a combination of aggregation of monthly movements for material term loan portfolios (i.e. incorporating all movements a loan in these portfolios has made during the year) and full year movements for revolving-type facilities and less material (primarily Consumer) portfolios.

Transfers between stages represent the migration of loans from Stage 1 to Stage 2 following a 'significant increase in credit risk' or to Stage 3 as loans enter defaulted status. Conversely, improvement in credit quality and loans exiting default result in loans migrating in the opposite direction. The approach taken to identify a 'significant increase in credit risk' and identifying defaulted and credit-impaired assets is outlined in the credit risk section of the Risk Management Report on page 164 and the Group accounting policies note on page 211 with updates for 2020 (including the impact of the implementation of a revised definition of default) outlined in the Credit Risk section of the Risk Management Report on pages 157 to 167.

Transfers between each stage reflect the balances and impairment loss allowances prior to transfer. The impact of re-measurement of impairment loss allowance on stage transfer is reported within 're-measurement' in the new stage that a loan has transferred into. For those tables based on an aggregation of the months transfers between stages, transfers may include loans which have subsequently transferred back to their original stage or migrated further to another stage.

'Net changes in exposure' comprise the movements in the gross carrying amount and impairment loss allowance as a result of new loans originated and repayments of outstanding balances throughout the reporting period.

'Net impairment (losses) / gains in income statement' does not include the impact of cash recoveries which are recognised directly in the income statement (note 16).

'Remeasurements' includes the impact of remeasurement on stage transfers noted above, other than those directly related to the update of FLI and / or other model and parameter updates, changes in management adjustments and remeasurement due to changes in asset quality that did not result in a transfer to another stage.

'ECL model parameter changes' represents the impact on impairment loss allowances of semi-annual updates to the FLI, and other model and parameter updates used in the measurement of impairment loss allowances , including the impact of stage migrations where the migration is directly related to the update of FLI and / or other model and parameter updates.

'Impairment loss allowances utilised' represents the reduction in the gross carrying amount and associated impairment loss allowance on loans where the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The utilisation of an allowance does not, of itself, alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

27 Loans and advances to customers *(continued)*

2020 **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 gross carrying amount €m**
Opening balance 1 January 2020	**71,778**	**5,571**	**3,099**	**95**	**80,543**
Total net transfers	(13,909)	11,867	2,042	-	-
- to 12-month ECL not credit-impaired	*4,139*	*(4,076)*	*(63)*	-	-
- to lifetime ECL not credit-impaired	*(17,512)*	*18,036*	*(524)*	-	-
- to lifetime ECL credit-impaired	*(536)*	*(2,093)*	*2,629*	-	-
Net changes in exposure	2,149	(1,457)	(528)	(1)	163
Impairment loss allowances utilised	-	-	(173)	-	(173)
Exchange adjustments	(1,849)	(234)	(65)	(4)	(2,152)
Measurement reclassification and other movements	84	(4)	1	-	81
Gross carrying amount at 31 December 2020	**58,253**	**15,743**	**4,376**	**90**	**78,462**

Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2020 includes €78 million of contractual amounts outstanding that are still subject to enforcement activity.

2020 **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 impairment loss allowance €m**
Opening balance 1 January 2020	**142**	**188**	**976**	**2**	**1,308**
Total net transfers	(3)	(58)	61	-	-
- to 12-month ECL not credit-impaired	*110*	*(101)*	*(9)*	-	-
- to lifetime ECL not credit-impaired	*(101)*	*161*	*(60)*	-	-
- to lifetime ECL credit-impaired	*(12)*	*(118)*	*130*	-	-
Net impairment (losses) / gains in income statement	212	424	433	30	1,099
- Re-measurement	*116*	*165*	*602*	*30*	*913*
- Net changes in exposure	*(1)*	*(63)*	*(131)*	-	*(195)*
- ECL model parameter changes	*97*	*322*	*(38)*	-	*381*
Impairment loss allowances utilised	-	-	(173)	-	(173)
Exchange adjustments	(4)	(2)	(9)	-	(15)
Measurement reclassification and other movements	(1)	-	24	-	23
Impairment loss allowance at 31 December 2020	**346**	**552**	**1,312**	**32**	**2,242**
Impairment coverage at 31 December 2020 (%)	**0.59%**	**3.51%**	**29.98%**	**35.56%**	**2.86%**

Total gross loans and advances to customers decreased during the period by €2.0 billion from €80.5 billion as at 31 December 2019 to €78.5 billion as at 31 December 2020.

Stage 1 loans have decreased by €13.5 billion primarily reflecting the impact of net transfers to other risk stages and adverse FX movements, offset by net new lending. Total net transfers to other risk stages of €13.9 billion reflect the impact of COVID-19 on asset quality across all portfolios as the application of updated FLI, as well as individually assessed risk ratings has resulted in a material migration of loans from Stage 1 to Stage 2. Transfers to Stage 2 also include the c.€0.9 billion impact of a post model staging adjustment at 31 December 2020. See note 2 for further details.

Impairment loss allowances on Stage 1 loans have increased by €204 million resulting in an increase in coverage on Stage 1 loans from 0.20% at 31 December 2019 to 0.59% at 31 December 2020. The increase in coverage reflects a combination of the impact of FLI / impairment model parameter updates during 2020 of €97 million presented above as 'ECL model parameter changes' and re-measurements of €116 million which includes the impact of the total €109 million post-model management adjustment applied to Stage 1 loans at 31 December 2020. See note 2 for

[1] *At 31 December 2020, Purchased or Originated Credit-impaired assets included €1 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.*

[2] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2020 is €nil.*

27 Loans and advances to customers *(continued)*

further details. Excluding the impact of the post-model management adjustments coverage on Stage 1 loans at 30 June 2020 would be 0.41%.

Stage 2 loans have increased by €10.2 billion with net transfers from other stages of €11.9 billion offset by net repayments of €1.5 billion. Stage 2 increases are primarily in the Non-property SME and corporate and Property and construction portfolios with a doubling of lifetime PD, due to a combination of the evolution of FLI / impairment model parameter updates, a Group management staging adjustment for certain relationship managed business banking assets and case specific credit events, the main driver of transfers to Stage 2 from Stage 1.

Coverage on Stage 2 loans has increased from 3.37% at 31 December 2019 to 3.51% at 31 December 2020 primarily due to FLI / impairment model parameter updates (excluding the classification impact of the revised definition of default). The parameter updates reflected the change in the macroeconomic outlook and resulted in an increase of €322 million in impairment loss allowances, a combination of increases on loans already in Stage 2 and the migration of loans from Stage 1. Re-measurements of €165 million include the impact of re-measurement on migration from other stages excluding those due to FLI / impairment model parameter updates and the management adjustment of €64 million applied to Stage 2 loans.

Stage 3 loans have increased by €1.3 billion with the key drivers being a net migration from other stages of €2.0 billion offset by the impact of net repayments of €0.5 billion and the utilisation of impairment loss allowances of €0.2 billion. The increase in Stage 3 loans is due in part to the revised definition of default that was implemented for the majority of the Group's portfolios in 2020 which resulted in €0.9 billion of assets being re-classified as credit-impaired. The remaining increase reflects the emergence of new defaults for case specific reasons primarily in the Corporate and Property and construction portfolios. The increase in credit-impaired loans was partly offset by ongoing resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

Stage 3 impairment loss allowances have increased by €336 million primarily due to re-measurement of €602 million offset by the utilisation of impairment loss allowances of €173 million. Re-measurement relates mainly to the Non-property SME and Property and construction portfolios and reflects changes in the macroeconomic outlook, case specific loss emergence on a small number of defaulted cases in the Corporate Banking and Retail UK portfolios and the increase in impairment loss allowances due to the re-classification of assets to stage 3 due to the revised definition of default.

Cover on Stage 3 loans has decreased from 31.49% at 31 December 2019 to 29.98% at 31 December 2020. While an increase in impairment cover was observed in the Corporate and Property and construction portfolios reflecting case specific impairment assessments for some larger defaulted assets as noted above, this was offset by lower impairment cover for credit-impaired assets in other portfolios, in part reflecting the impact of the revised definition of default which involved the classification of cases as credit-impaired with lower assessed impairment loss coverage than average. Most notably cover for residential mortgages reduced due to the impact of the revised definition of default (as described above), resilience in the residential housing markets and the impact of impairment model parameter updates (including FLI as well as refreshed cure rates and sales ratios).

2019 **Gross carrying amount (before impairment loss allowance) including held for sale**	**Stage 1 - 12 month ECL (not credit impaired) €m**	**Stage 2 - Lifetime ECL (not credit impaired) €m**	**Stage 3 - Lifetime ECL (credit impaired) €m**	**Purchased / originated credit impaired [1] €m**	**Total gross carrying amount €m**
Opening balance 1 January 2019	**68,802**	**5,075**	**4,483**	**70**	**78,430**
Total net transfers	(1,566)	1,169	397	-	-
- to 12-month ECL not credit-impaired	*3,132*	*(3,122)*	*(10)*	-	-
- to lifetime ECL not credit-impaired	*(4,544)*	*5,240*	*(696)*	-	-
- to lifetime ECL credit-impaired	*(154)*	*(949)*	*1,103*	-	-
Net changes in exposure	3,405	(705)	(1,118)	22	1,604
Impairment loss allowances utilised	-	-	(696)	-	(696)
Exchange adjustments	1,564	90	49	3	1,706
Measurement reclassification and other movements	(427)	(58)	(16)	-	(501)
Gross carrying amount at 31 December 2019	**71,778**	**5,571**	**3,099**	**95**	**80,543**

[1] *At 31 December 2019, Purchased or Originated Credit-impaired assets included €67 million of assets with an impairment loss allowance of €2 million 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.*

27 Loans and advances to customers *(continued)*

2019 Impairment loss allowance including held for sale	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Purchased / originated credit-impaired[1,2] €m	Total impairment loss allowance €m
Opening balance 1 January 2019	**120**	**176**	**1,432**	**-**	**1,728**
Total net transfers	52	(1)	(51)	-	-
- to 12-month ECL not credit-impaired	*79*	*(76)*	*(3)*	-	-
- to lifetime ECL not credit-impaired	*(19)*	*130*	*(111)*	-	-
- to lifetime ECL credit-impaired	*(8)*	*(55)*	*63*	-	-
Net impairment (losses) / gains in income statement	(29)	19	265	2	257
- Re-measurement	*(44)*	*7*	*361*	*2*	*326*
- Net changes in exposure	*10*	*(17)*	*(169)*	-	*(176)*
- ECL model parameter changes	*5*	*29*	*73*	-	*107*
Impairment loss allowances utilised	-	-	(696)	-	(696)
Exchange adjustments	3	2	11	-	16
Measurement reclassification and other movements	(4)	(8)	15	-	3
Impairment loss allowance at 31 December 2019	**142**	**188**	**976**	**2**	**1,308**
Impairment coverage at 31 December 2019 (%)	**0.20%**	**3.37%**	**31.49%**	**2.11%**	**1.62%**

The impact of the disposal of the UK credit card portfolio during 2019 which was classified as held for sale at 1 January 2019 is included within 'Measurement reclassification and other movements' and resulted in reductions in gross carrying amount of €587 million and impairment loss allowance of €25 million.

Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2019 includes €297 million of contractual amounts outstanding that are still subject to enforcement activity.

[1] *At 31 December 2019, Purchased or Originated Credit-impaired assets included €67 million of assets with an impairment loss allowance of €2 million which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as Purchased or Originated Credit-impaired until derecognition.*

[2] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2019 is €2 million.*

27 Loans and advances to customers *(continued)*

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 is set out in the following tables. These tables are prepared on the same basis as the total Group tables as set out above.

Residential Mortgages

2020 **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[1] €m**	**Total gross carrying amount €m**
Opening balance 1 January 2020	**42,898**	**1,677**	**1,693**	**3**	**46,271**
Total net transfers	(1,788)	1,050	738	-	-
- to 12-month ECL not credit-impaired	*1,827*	*(1,787)*	*(40)*	-	-
- to lifetime ECL not credit-impaired	*(3,330)*	*3,657*	*(327)*	-	-
- to lifetime ECL credit-impaired	*(285)*	*(820)*	*1,105*	-	-
Net changes in exposure	78	(168)	(190)	(1)	(281)
Impairment loss allowances utilised	-	-	(20)	-	(20)
Exchange adjustments	(1,190)	(31)	(25)	-	(1,246)
Measurement reclassification and other movements	18	-	-	-	18
Gross carrying amount at 31 December 2020	**40,016**	**2,528**	**2,196**	**2**	**44,742**

2020 **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[1,2] €m**	**Total impairment loss allowance €m**
Opening balance 1 January 2020	**16**	**36**	**380**	**-**	**432**
Total net transfers	34	(36)	2	-	-
- to 12-month ECL not credit-impaired	*45*	*(42)*	*(3)*	-	-
- to lifetime ECL not credit-impaired	*(10)*	*38*	*(28)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(32)*	*33*	-	-
Net impairment (losses) / gains in income statement	25	32	3	-	60
- Re-measurement	*13*	*28*	*52*	-	*93*
- Net changes in exposure	*(4)*	-	*(16)*	-	*(20)*
- ECL model parameter changes	*16*	*4*	*(33)*	-	*(13)*
Impairment loss allowances utilised	-	-	(20)	-	(20)
Exchange adjustments	(1)	(1)	(2)	-	(4)
Measurement reclassification and other movements	-	-	11	-	11
Impairment loss allowance at 31 December 2020	**74**	**31**	**374**	**-**	**479**
Impairment coverage at 31 December 2020 (%)	**0.18%**	**1.23%**	**17.03%**	**-**	**1.07%**

Impairment loss allowances utilised on Residential mortgages at amortised cost during 2020 includes €16 million of contractual amounts outstanding that are still subject to enforcement activity.

On initial implementation of the Group's revised definition of default, €0.6 billion of assets within the Residential mortgages portfolio were reclassified as credit-impaired (Stage 3). This resulted in a €32 million increase in impairment loss allowances as at 31 December 2020, which has been recognised within the impairment charge for the year.

[1] *At 31 December 2020, Purchased or Originated Credit-impaired assets included €1 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.*

[2] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2020 is €nil.*

27 Loans and advances to customers *(continued)*

2019 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[1] €m	Total gross carrying amount €m
Opening balance 1 January 2019	**41,096**	**1,873**	**2,465**	**3**	**45,437**
Total net transfers	(33)	(17)	50	-	-
- to 12-month ECL not credit-impaired	*1,699*	*(1,699)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,685)*	*2,133*	*(448)*	-	-
- to lifetime ECL credit-impaired	*(47)*	*(451)*	*498*	-	-
Net changes in exposure	734	(205)	(670)	-	(141)
Impairment loss allowances utilised	-	-	(176)	-	(176)
Exchange adjustments	1,080	27	23	-	1,130
Measurement reclassification and other movements	21	(1)	1	-	21
Gross carrying amount at 31 December 2019	**42,898**	**1,677**	**1,693**	**3**	**46,271**

2019 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[1,2] €m	Total impairment loss allowance €m
Opening balance 1 January 2019	**14**	**31**	**492**	**-**	**537**
Total net transfers	25	1	(26)	-	-
- to 12-month ECL not credit-impaired	*29*	*(29)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(4)*	*45*	*(41)*	-	-
- to lifetime ECL credit-impaired	*-*	*(15)*	*15*	-	-
Net impairment (losses) / gains in income statement	(24)	4	78	-	58
- Re-measurement	*(12)*	*(7)*	*64*	-	*45*
- Net changes in exposure	*(16)*	*(3)*	*(50)*	-	*(69)*
- ECL model parameter changes	*4*	*14*	*64*	-	*82*
Impairment loss allowances utilised	-	-	(176)	-	(176)
Exchange adjustments	1	-	3	-	4
Measurement reclassification and other movements	-	-	9	-	9
Impairment loss allowance at 31 December 2019	**16**	**36**	**380**	**-**	**432**
Impairment coverage at 31 December 2019 (%)	**0.04%**	**2.15%**	**22.45%**	**-**	**0.93%**

Impairment loss allowances utilised on Residential mortgages at amortised cost during 2019 includes €27 million of contractual amounts outstanding that are still subject to enforcement activity.

[1] *At 31 December 2019, Purchased or Originated Credit-impaired assets included €2 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.*

[2] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2019 is €nil.*

27 Loans and advances to customers *(continued)*

Non-property SME and corporate

2020 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 gross carrying amount €m
Opening balance 1 January 2020	**17,474**	**2,175**	**757**	**27**	**20,433**
Total net transfers	(7,786)	7,196	590	-	-
- to 12-month ECL not credit-impaired	*1,393*	*(1,377)*	*(16)*	-	-
- to lifetime ECL not credit-impaired	*(9,020)*	*9,132*	*(112)*	-	-
- to lifetime ECL credit-impaired	*(159)*	*(559)*	*718*	-	-
Net changes in exposure	1,277	(1,045)	(222)	-	10
Impairment loss allowances utilised	-	-	(89)	-	(89)
Exchange adjustments	(389)	(143)	(23)	(1)	(556)
Measurement reclassification and other movements	61	(2)	1	-	60
Gross carrying amount at 31 December 2020	**10,637**	**8,181**	**1,014**	**26**	**19,858**

2020 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[1] €m	Total impairment loss allowance €m
Opening balance 1 January 2020	**56**	**78**	**353**	**-**	**487**
Total net transfers	(38)	13	25	-	-
- to 12-month ECL not credit-impaired	*38*	*(35)*	*(3)*	-	-
- to lifetime ECL not credit-impaired	*(72)*	*92*	*(20)*	-	-
- to lifetime ECL credit-impaired	*(4)*	*(44)*	*48*	-	-
Net impairment (losses) / gains in income statement	117	277	126	13	533
- Re-measurement	*100*	*91*	*214*	*13*	*418*
- Net changes in exposure	*(27)*	*(38)*	*(87)*	-	*(152)*
- ECL model parameter changes	*44*	*224*	*(1)*	-	*267*
Impairment loss allowances utilised	-	-	(89)	-	(89)
Exchange adjustments	-	-	(2)	-	(2)
Measurement reclassification and other movements	(1)	-	3	-	2
Impairment loss allowance at 31 December 2020	**134**	**368**	**416**	**13**	**931**
Impairment coverage at 31 December 2020 (%)	**1.26%**	**4.50%**	**41.03%**	**50.00%**	**4.69%**

Impairment loss allowances utilised on non-property SME and corporate during 2020 includes €11 million of contractual amounts outstanding that are still subject to enforcement activity.

On initial implementation of the Group's revised definition of default, €0.2 billion of assets within the Non-property SME and corporate portfolio were reclassified as credit-impaired (Stage 3). This resulted in a €17 million increase in impairment loss allowances as at 31 December 2020, which has been recognised within the impairment charge for the year.

[1] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2020 is €nil.*

27 Loans and advances to customers *(continued)*

2019 **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 gross carrying amount €m**
Opening balance 1 January 2019	**16,547**	**1,850**	**1,067**	**1**	**19,465**
Total net transfers	(771)	640	131	-	-
- to 12-month ECL not credit-impaired	*872*	*(870)*	*(2)*	-	-
- to lifetime ECL not credit-impaired	*(1,602)*	*1,780*	*(178)*	-	-
- to lifetime ECL credit-impaired	*(41)*	*(270)*	*311*	-	-
Net changes in exposure	1,354	(339)	(189)	26	852
Impairment loss allowances utilised	-	-	(260)	-	(260)
Exchange adjustments	256	24	9	-	289
Measurement reclassification and other movements	88	-	(1)	-	87
Gross carrying amount at 31 December 2019	**17,474**	**2,175**	**757**	**27**	**20,433**

2019 **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[1] €m**	**Total impairment loss allowance €m**
Opening balance 1 January 2019	**50**	**74**	**501**	**-**	**625**
Total net transfers	18	11	(29)	-	-
- to 12-month ECL not credit-impaired	*26*	*(25)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(8)*	*61*	*(53)*	-	-
- to lifetime ECL credit-impaired	-	*(25)*	*25*	-	-
Net impairment (losses) / gains in income statement	(12)	(7)	122	-	103
- Re-measurement	*(7)*	*(5)*	*174*	-	*162*
- Net changes in exposure	*(6)*	*(8)*	*(62)*	-	*(76)*
- ECL model parameter changes	*1*	*6*	*10*	-	*17*
Impairment loss allowances utilised	-	-	(260)	-	(260)
Exchange adjustments	-	-	2	-	2
Measurement reclassification and other movements	-	-	17	-	17
Impairment loss allowance at 31 December 2019	**56**	**78**	**353**	**-**	**487**
Impairment Coverage at 31 December 2019 (%)	**0.32%**	**3.59%**	**46.63%**	**-**	**2.38%**

Impairment loss allowances utilised on non-property SME and corporate during 2019 includes €182 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 2019 is €nil.*

27 Loans and advances to customers *(continued)*

Property and construction

2020 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 gross carrying amount €m
Opening balance 1 January 2020	**5,985**	**1,513**	**549**	**65**	**8,112**
Total net transfers	(4,158)	3,541	617	-	-
- to 12-month ECL not credit-impaired	*769*	*(769)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(4,895)*	*4,963*	*(68)*	-	-
- to lifetime ECL credit-impaired	*(32)*	*(653)*	*685*	-	-
Net changes in exposure	896	(128)	(104)	-	664
Impairment loss allowances utilised	-	-	(26)	-	(26)
Exchange adjustments	(90)	(55)	(15)	(3)	(163)
Measurement reclassification and other movements	6	(2)	-	-	4
Gross carrying amount at 31 December 2020	**2,639**	**4,869**	**1,021**	**62**	**8,591**

2020 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[1,2] €m	Total impairment loss allowance €m
Opening balance 1 January 2020	**6**	**42**	**180**	**2**	**230**
Total net transfers	(1)	(22)	23	-	-
- to 12-month ECL not credit-impaired	*10*	*(10)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(11)*	*17*	*(6)*	-	-
- to lifetime ECL credit-impaired	-	*(29)*	*29*	-	-
Net impairment (losses) / gains in income statement	4	106	262	17	389
- Re-measurement	-	*16*	*282*	*17*	*315*
- Net changes in exposure	*2*	*(5)*	*(21)*	-	*(24)*
- ECL model parameter changes	*2*	*95*	*1*	-	*98*
Impairment loss allowances utilised	-	-	(26)	-	(26)
Exchange adjustments	-	-	(3)	-	(3)
Measurement reclassification and other movements	-	-	6	-	6
Impairment loss allowance at 31 December 2020	**9**	**126**	**442**	**19**	**596**
Impairment coverage at 31 December 2020 (%)	**0.34%**	**2.59%**	**43.29%**	**30.65%**	**6.94%**

Impairment loss allowances utilised on Property and construction during 2020 includes €20 million of contractual amounts outstanding that are still subject to enforcement activity.

On initial implementation of the Group's revised definition of default, €0.1 billion of assets within the Property and construction portfolio were reclassified as credit-impaired (Stage 3). This resulted in a €7 million increase in impairment loss allowances as at 31 December 2020, which has been recognised within the impairment charge for the year.

[1] *At 31 December 2020, Purchased or Originated Credit-impaired assets included €nil of assets with an impairment loss allowance of €nil which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as Purchased or Originated Credit-impaired until derecognition.*

[2] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2020 is €nil.*

27 Loans and advances to customers *(continued)*

2019 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 gross carrying amount €m
Opening balance 1 January 2019	**6,343**	**1,102**	**843**	**66**	**8,354**
Total net transfers	(651)	504	147	-	-
- to 12-month ECL not credit-impaired	*409*	*(408)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(1,041)*	*1,108*	*(67)*	-	-
- to lifetime ECL credit-impaired	*(19)*	*(196)*	*215*	-	-
Net changes in exposure	222	(124)	(236)	(4)	(142)
Impairment loss allowances utilised	-	-	(219)	-	(219)
Exchange adjustments	71	33	14	3	121
Measurement reclassification and other movements	-	(2)	-	-	(2)
Gross carrying amount at 31 December 2019	**5,985**	**1,513**	**549**	**65**	**8,112**

2019 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[1,2] €m	Total impairment loss allowance €m
Opening balance 1 January 2019	**4**	**38**	**369**	**-**	**411**
Total net transfers	5	1	(6)	-	-
- to 12-month ECL not credit-impaired	*8*	*(8)*	-	-	-
- to lifetime ECL not credit-impaired	*(3)*	*18*	*(15)*	-	-
- to lifetime ECL credit-impaired	-	*(9)*	*9*	-	-
Net impairment (losses) / gains in income statement	(3)	1	28	2	28
- Re-measurement	*(5)*	*(6)*	*69*	*2*	*60*
- Net changes in exposure	*1*	*(4)*	*(41)*	-	*(44)*
- ECL model parameter changes	*1*	*11*	-	-	*12*
Impairment loss allowances utilised	-	-	(219)	-	(219)
Exchange adjustments	-	1	4	-	5
Measurement reclassification and other movements	-	1	4	-	5
Impairment loss allowance at 31 December 2019	**6**	**42**	**180**	**2**	**230**
Impairment Coverage at 31 December 2019 (%)	**0.10%**	**2.78%**	**32.79%**	**3.08%**	**2.84%**

Impairment loss allowances utilised on Property and construction during 2019 includes €64 million of contractual amounts outstanding that are still subject to enforcement activity.

[1] *At 31 December 2019, Purchased or Originated Credit-impaired assets included €65 million of assets with an impairment loss allowance of €2 million which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as Purchased or Originated Credit-impaired until derecognition.*

[2] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2019 is €2 million.*

27 Loans and advances to customers *(continued)*

Consumer

2020 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 €m	Total gross carrying amount €m
Opening balance 1 January 2020	**5,421**	**206**	**100**	**-**	**5,727**
Total net transfers	(177)	80	97	-	-
- to 12-month ECL not credit-impaired	*150*	*(143)*	*(7)*	-	-
- to lifetime ECL not credit-impaired	*(267)*	*284*	*(17)*	-	-
- to lifetime ECL credit-impaired	*(60)*	*(61)*	*121*	-	-
Net changes in exposure	(102)	(116)	(12)	-	(230)
Impairment loss allowances utilised	-	-	(38)	-	(38)
Exchange adjustments	(180)	(5)	(2)	-	(187)
Measurement reclassification and other movements	(1)	-	-	-	(1)
Gross carrying amount at 31 December 2020	**4,961**	**165**	**145**	**-**	**5,271**

2020 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[1] €m	Total impairment loss allowance €m
Opening balance 1 January 2020	**64**	**32**	**63**	**-**	**159**
Total net transfers	2	(13)	11	-	-
- to 12-month ECL not credit-impaired	*17*	*(14)*	*(3)*	-	-
- to lifetime ECL not credit-impaired	*(8)*	*14*	*(6)*	-	-
- to lifetime ECL credit-impaired	*(7)*	*(13)*	*20*	-	-
Net impairment (losses) / gains in income statement	66	9	42	-	117
- Re-measurement	*3*	*30*	*54*	-	*87*
- Net changes in exposure	*28*	*(20)*	*(7)*	-	*1*
- ECL model parameter changes	*35*	*(1)*	*(5)*	-	*29*
Impairment loss allowances utilised	-	-	(38)	-	(38)
Exchange adjustments	(3)	(1)	(2)	-	(6)
Measurement reclassification and other movements	-	-	4	-	4
Impairment loss allowance at 31 December 2020	**129**	**27**	**80**	**-**	**236**
Impairment Coverage at 31 December 2020 (%)	**2.60%**	**16.36%**	**55.17%**	**-**	**4.48%**

Impairment loss allowances utilised on consumer during 2020 includes €31 million of contractual amounts outstanding that are still subject to enforcement activity.

On initial implementation of the Group's revised definition of default, €38 million of assets within the Consumer portfolio were reclassified as credit-impaired (Stage 3). This resulted in a €9 million increase in impairment loss allowances as at 31 December 2020, which has been recognised within the impairment charge for the year.

[1] *The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially Purchased or Originated Credit-impaired during 2020 is €nil.*

27 Loans and advances to customers *(continued)*

2019 **Consumer - Gross carrying amount (before impairment loss allowance) including held for sale**	**Stage 1 - 12 month ECL (not credit-impaired) €m**	**Stage 2 - Lifetime ECL (not credit-impaired) €m**	**Stage 3 - Lifetime ECL (credit-impaired) €m**	**Purchased / originated credit-impaired €m**	**Total gross carrying amount €m**
Opening balance 1 January 2019	**4,816**	**250**	**108**	**-**	**5,174**
Total net transfers	(111)	42	69	-	-
- to 12-month ECL not credit-impaired	*152*	*(145)*	*(7)*	-	-
- to lifetime ECL not credit-impaired	*(216)*	*219*	*(3)*	-	-
- to lifetime ECL credit-impaired	*(47)*	*(32)*	*79*	-	-
Net changes in exposure	1,095	(37)	(23)	-	1,035
Impairment loss allowances utilised	-	-	(41)	-	(41)
Exchange adjustments	157	6	3	-	166
Measurement reclassification and other movements	(536)	(55)	(16)	-	(607)
Gross carrying amount at 31 December 2019	**5,421**	**206**	**100**	**-**	**5,727**

2019 **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[1] €m**	**Total impairment loss allowance €m**
Opening balance 1 January 2019	**52**	**33**	**70**	**-**	**155**
Total net transfers	4	(14)	10	-	-
- to 12-month ECL not credit-impaired	*16*	*(14)*	*(2)*	-	-
- to lifetime ECL not credit-impaired	*(4)*	*6*	*(2)*	-	-
- to lifetime ECL credit-impaired	*(8)*	*(6)*	*14*	-	-
Net impairment (losses) / gains in income statement	10	21	37	-	68
- Re-measurement	*(20)*	*25*	*54*	-	*59*
- Net changes in exposure	*31*	*(2)*	*(16)*	-	*13*
- ECL model parameter changes	*(1)*	*(2)*	*(1)*	-	*(4)*
Impairment loss allowances utilised	-	-	(41)	-	(41)
Exchange adjustments	2	1	2	-	5
Measurement reclassification and other movements	(4)	(9)	(15)	-	(28)
Impairment loss allowance at 31 December 2019	**64**	**32**	**63**	**-**	**159**
Impairment Coverage at 31 December 2019 (%)	**1.18%**	**15.53%**	**63.00%**	**-**	**2.78%**

Impairment loss allowances utilised on consumer during 2019 includes €24 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 2019 is €nil.*

27 Loans and advances to customers *(continued)*

Finance leases and hire purchase receivables

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed in the table below. The net investment in finance leases at 31 December 2020 was €3.6 billion, a decrease of €0.4 billion since 31 December 2019. This was primarily driven by volume decreases in the Northridge business in Retail UK.

	2020 €m	2019 €m
Gross investment in finance leases		
Not later than 1 year	1,169	1,289
1 to 2 years	1,057	1,085
2 to 3 years	926	984
3 to 4 years	496	743
4 to 5 years	186	209
Later than 5 years	15	20
	3,849	4,330
Unearned future finance income on finance leases	(257)	(330)
Net investment in finance leases	**3,592**	**4,000**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	1,090	1,191
1 to 2 years	986	1,002
2 to 3 years	864	909
3 to 4 years	463	686
4 to 5 years	175	194
Later than 5 years	14	18
	3,592	**4,000**

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. With the exception of Mulcair Securities, all of the Group's securitisation structured entities are consolidated. See note 57 for further details.

28 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 161 to 167.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: funding and liquidity risk, market risk and life insurance risk. The Group's approach to the management of these risks, together with its approach to Capital management, are set out in sections 3.1 (credit risk), 3.2 (funding and liquidity risk), 3.3 (market risk), 3.4 (life insurance risk) and 4 (capital management) of the Risk Management Report.

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and PD percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

28 Credit risk exposures *(continued)*

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+, BBB
5-7	0.26% ≤ PD < 1.45%	BBB-, BB+, BB, BB-
8-9	1.45% ≤ PD < 3.60%	B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

Financial assets

Composition and risk profile

The tables below summarise the composition and risk profile of the Group's financial assets subject to impairment and the impairment loss allowances on these financial assets.

2020 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
Financial assets measured at amortised cost					
Loans and advances to customers	58,253	15,743	4,376	90	78,462
Loans and advances to banks	2,227	-	-	-	2,227
Debt securities	6,258	11	-	-	6,269
Other financial assets	11,123	-	-	-	11,123
Total financial assets measured at amortised cost	**77,861**	**15,754**	**4,376**	**90**	**98,081**
Debt instruments at FVOCI	10,942	-	-	-	10,942
Total	**88,803**	**15,754**	**4,376**	**90**	**109,023**

2020 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
Financial assets measured at amortised cost					
Loans and advances to customers	346	552	1,312	32	2,242
Loans and advances to banks	1	-	-	-	1
Debt securities	1	2	-	-	3
Other financial assets	4	-	-	-	4
Total financial assets measured at amortised cost	**352**	**554**	**1,312**	**32**	**2,250**
Debt instruments at FVOCI	3	-	-	-	3
Total	**355**	**554**	**1,312**	**32**	**2,253**

[1] *At 31 December 2020, Purchased or Originated Credit-impaired assets included €1 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.*

28 Credit risk exposures *(continued)*

Loans and advances to customers excludes €361 million (2019: €252 million) of loans mandatorily at FVTPL at 31 December 2020 which are not subject to impairment under IFRS 9 and are therefore excluded from impairment related tables (note 27).

At 31 December 2020, other financial assets includes: cash and balances at central banks of €10,957 million (2019: €8,327 million) and items in the course of collection from other banks of €166 million (2019: €223 million). The tables below and on the preceding page exclude loan commitments, guarantees and letters of credit of €15,897 million at 31 December 2020 (2019: €14,671 million) that are subject to impairment (note 46).

2019 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
Financial assets measured at amortised cost					
Loans and advances to customers	71,778	5,571	3,099	95	80,543
Loans and advances to banks	3,017	6	-	-	3,023
Debt securities	4,512	-	-	-	4,512
Other financial assets	8,550	-	-	-	8,550
Total financial assets measured at amortised cost	**87,857**	**5,577**	**3,099**	**95**	**96,628**
Debt instruments at FVOCI	10,797	-	-	-	10,797
Total	**98,654**	**5,577**	**3,099**	**95**	**107,425**

2019 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
Financial assets measured at amortised cost					
Loans and advances to customers	142	188	976	2	1,308
Loans and advances to banks	1	-	-	-	1
Debt securities	1	-	-	-	1
Other financial assets	2	-	-	-	2
Total financial assets measured at amortised cost	**146**	**188**	**976**	**2**	**1,312**
Debt instruments at FVOCI	3	-	-	-	3
Total	**149**	**188**	**976**	**2**	**1,315**

[1] *At 31 December 2019, Purchased or Originated Credit-impaired assets included €67 million of assets with an impairment loss allowance of €2 million 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.*

28 Credit risk exposures *(continued)*

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Group's loans and advances to customers at amortised cost.

Loans and advances to customers Composition and risk profile (before impairment loss allowance)[1]	2020 Not credit-impaired €m	2020 Credit-impaired €m	2020 Total €m	2020 Total %	2019 Not credit-impaired €m	2019 Credit-impaired €m	2019 Total €m	2019 Total %
Residential mortgages	42,544	2,196	44,740	57%	44,575	1,693	46,268	58%
- Retail Ireland	*21,432*	*1,508*	*22,940*	*29%*	*21,743*	*1,289*	*23,032*	*29%*
- Retail UK	*21,112*	*688*	*21,800*	*28%*	*22,832*	*404*	*23,236*	*29%*
Non-property SME and corporate	18,818	1,014	19,832	25%	19,649	757	20,406	25%
- Republic of Ireland SME	*6,401*	*672*	*7,073*	*9%*	*6,810*	*495*	*7,305*	*9%*
- UK SME	*1,676*	*114*	*1,790*	*2%*	*1,607*	*78*	*1,685*	*2%*
- Corporate	*10,741*	*228*	*10,969*	*14%*	*11,232*	*184*	*11,416*	*14%*
Property and construction	7,508	1,021	8,529	11%	7,498	549	8,047	10%
- Investment	*6,584*	*987*	*7,571*	*10%*	*6,669*	*519*	*7,188*	*9%*
- Land and development	*924*	*34*	*958*	*1%*	*829*	*30*	*859*	*1%*
Consumer	5,126	145	5,271	7%	5,627	100	5,727	7%
Total	**73,996**	**4,376**	**78,372**	**100%**	**77,349**	**3,099**	**80,448**	**100%**
Impairment loss allowance on loans and advances to customers	**898**	**1,312**	**2,210**	**3%**	**330**	**976**	**1,306**	**2%**

Asset quality - not credit-impaired

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are not credit-impaired.

2020 Not credit-impaired loans and advances to customers Composition and impairment loss allowance[1]	Stage 1 Loans €m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance €m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans €m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance €m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	40,016	51%	74	0.18%	2,528	3%	31	1.23%
- Retail Ireland	*19,552*	*25%*	*44*	*0.23%*	*1,880*	*2%*	*20*	*1.06%*
- Retail UK	*20,464*	*26%*	*30*	*0.15%*	*648*	*1%*	*11*	*1.70%*
Non-property SME and corporate	10,637	14%	134	1.26%	8,181	11%	368	4.50%
- Republic of Ireland SME	*4,155*	*5%*	*96*	*2.31%*	*2,246*	*3%*	*144*	*6.41%*
- UK SME	*1,064*	*1%*	*9*	*0.85%*	*612*	*1%*	*37*	*6.05%*
- Corporate	*5,418*	*8%*	*29*	*0.54%*	*5,323*	*7%*	*187*	*3.51%*
Property and construction	2,639	3%	9	0.34%	4,869	6%	126	2.59%
- Investment	*2,357*	*3%*	*7*	*0.30%*	*4,227*	*5%*	*103*	*2.44%*
- Land and development	*282*	*-*	*2*	*0.71%*	*642*	*1%*	*23*	*3.58%*
Consumer	4,961	6%	129	2.60%	165	-	27	16.36%
Total	**58,253**	**74%**	**346**	**0.59%**	**15,743**	**20%**	**552**	**3.51%**

[1] *Excluded from the table above are Purchased or Originated Credit-impaired assets of €90 million (2019: €95 million), €1 million (2019: €67 million) of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination. These assets will remain classified as Purchased or Originated Credit-impaired until derecognition.*

28 Credit risk exposures *(continued)*

2019	Stage 1				Stage 2			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**
Residential mortgages	42,898	53%	16	0.04%	1,677	2%	36	2.15%
- Retail Ireland	*20,610*	*26%*	*7*	*0.03%*	*1,133*	*1%*	*22*	*1.94%*
- Retail UK	*22,288*	*27%*	*9*	*0.04%*	*544*	*1%*	*14*	*2.57%*
Non-property SME and corporate	17,474	22%	56	0.32%	2,175	3%	78	3.59%
- Republic of Ireland SME	*5,799*	*7%*	*33*	*0.57%*	*1,011*	*2%*	*39*	*3.86%*
- UK SME	*1,382*	*2%*	*3*	*0.22%*	*225*	*-*	*8*	*3.56%*
- Corporate	*10,293*	*13%*	*20*	*0.19%*	*939*	*1%*	*31*	*3.30%*
Property and construction	5,985	7%	6	0.10%	1,513	2%	42	2.78%
- Investment	*5,418*	*6%*	*5*	*0.09%*	*1,251*	*2%*	*40*	*3.20%*
- Land and development	*567*	*1%*	*1*	*0.18%*	*262*	*-*	*2*	*0.76%*
Consumer	5,421	7%	64	1.18%	206	-	32	15.53%
Total	**71,778**	**89%**	**142**	**0.20%**	**5,571**	**7%**	**188**	**3.37%**

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 269.

2020	Residential mortgages		Non-property SME and corporate		Property and construction		Consumer		Total	
Not credit-impaired loans and advances to customers Asset quality[1] - PD grade	**€m**	**%**	**€m**	**%**	**€m**	**%**	**€m**	**%**	**€m**	**%**
Stage 1										
1-4	1,819	4%	1,351	7%	-	-	1	-	3,171	4%
5-7	20,287	48%	2,290	12%	2,198	29%	325	6%	25,100	34%
8-9	13,952	33%	4,824	26%	375	5%	2,803	55%	21,954	30%
10-11	3,958	9%	2,172	12%	66	1%	1,832	36%	8,028	11%
Total Stage 1	**40,016**	**94%**	**10,637**	**57%**	**2,639**	**35%**	**4,961**	**97%**	**58,253**	**79%**
Stage 2										
1-4	-	-	48	-	-	-	-	-	48	-
5-7	266	1%	2,040	11%	1,933	26%	-	-	4,239	6%
8-9	946	2%	1,953	10%	1,994	27%	23	-	4,916	7%
10-11	1,316	3%	4,140	22%	942	12%	142	3%	6,540	8%
Total Stage 2	**2,528**	**6%**	**8,181**	**43%**	**4,869**	**65%**	**165**	**3%**	**15,743**	**21%**
Not credit-impaired										
1-4	1,819	4%	1,399	7%	-	-	1	-	3,219	4%
5-7	20,553	49%	4,330	23%	4,131	55%	325	6%	29,339	40%
8-9	14,898	35%	6,777	36%	2,369	32%	2,826	55%	26,870	37%
10-11	5,274	12%	6,312	34%	1,008	13%	1,974	39%	14,568	19%
Total not credit-impaired	**42,544**	**100%**	**18,818**	**100%**	**7,508**	**100%**	**5,126**	**100%**	**73,996**	**100%**

[1] *Excluded from the table above are Purchased or Originated Credit-impaired assets of €90 million (2019: €95 million), €1 million (2019: €67 million) of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination. These assets will remain classified as Purchased or Originated Credit-impaired until derecognition.*

28 Credit risk exposures *(continued)*

2019 Not credit-impaired loans and advances to customers Asset quality[1] - PD grade	Residential mortgages €m	Residential mortgages %	Non-property SME and corporate €m	Non-property SME and corporate %	Property and construction €m	Property and construction %	Consumer €m	Consumer %	Total €m	Total %
Stage 1										
1-4	24,895	56%	5,804	30%	3,888	52%	19	-	34,606	45%
5-7	15,699	35%	6,670	34%	2,028	27%	472	8%	24,869	32%
8-9	1,592	3%	4,413	22%	42	1%	3,520	63%	9,567	12%
10-11	712	2%	587	3%	27	-	1,410	25%	2,736	4%
Total Stage 1	**42,898**	**96%**	**17,474**	**89%**	**5,985**	**80%**	**5,421**	**96%**	**71,778**	**93%**
Stage 2										
1-4	90	-	170	1%	151	2%	-	-	411	1%
5-7	218	1%	565	3%	894	12%	2	-	1,679	2%
8-9	304	1%	679	3%	65	1%	41	1%	1,089	1%
10-11	1,065	2%	761	4%	403	5%	163	3%	2,392	3%
Total Stage 2	**1,677**	**4%**	**2,175**	**11%**	**1,513**	**20%**	**206**	**4%**	**5,571**	**7%**
Not credit-impaired										
1-4	24,985	56%	5,974	31%	4,039	54%	19	-	35,017	46%
5-7	15,917	36%	7,235	37%	2,922	39%	474	8%	26,548	34%
8-9	1,896	4%	5,092	25%	107	2%	3,561	64%	10,656	13%
10-11	1,777	4%	1,348	7%	430	5%	1,573	28%	5,128	7%
Total not credit-impaired	**44,575**	**100%**	**19,649**	**100%**	**7,498**	**100%**	**5,627**	**100%**	**77,349**	**100%**

Increase in not credit-impaired PD grading reflects the combination of impairment model updates, including the change in the macroeconomic outlook due to the COVID-19 pandemic, and risk assessments completed in the period.

Asset quality - credit-impaired

Credit-impaired loans include loans where the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security, and loans where the borrower is greater than 90 days past due and the arrears amount is material. All credit-impaired loans and advances to customers are risk rated PD grade 12.

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are credit-impaired (i.e. Stage 3).

Credit-impaired loans and advances to customers Composition and impairment loss allowance[1]	2020 Credit-impaired loans €m	2020 CI loans as % of total advances %	2020 Impairment loss allowance €m	2020 ILA as % of loans %	2019 Credit-impaired loans €m	2019 CI loans as % of total advances %	2019 Impairment loss allowance €m	2019 ILA as % of loans %
Residential mortgages	2,196	3%	374	17%	1,693	2%	380	22%
- Retail Ireland	*1,508*	*2%*	*329*	*22%*	*1,289*	*2%*	*340*	*26%*
- Retail UK	*688*	*1%*	*45*	*7%*	*404*	*-*	*40*	*10%*
Non-property SME and corporate	1,014	1%	416	41%	757	1%	353	47%
- Republic of Ireland SME	*672*	*1%*	*261*	*39%*	*495*	*1%*	*225*	*45%*
- UK SME	*114*	*-*	*26*	*23%*	*78*	*-*	*38*	*49%*
- Corporate	*228*	*-*	*129*	*57%*	*184*	*-*	*90*	*49%*
Property and construction	1,021	1%	442	43%	549	1%	180	33%
- Investment	*987*	*1%*	*427*	*43%*	*519*	*1%*	*162*	*31%*
- Land and development	*34*	*-*	*15*	*44%*	*30*	*-*	*18*	*60%*
Consumer	145	-	80	55%	100	-	63	63%
Total credit-impaired	**4,376**	**5%**	**1,312**	**30%**	**3,099**	**4%**	**976**	**31%**

1 *Excluded from the table above are Purchased or Originated Credit-impaired assets of €90 million (2019: €95 million), €1 million (2019: €67 million) of 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.*

28 Credit risk exposures *(continued)*

Segmental analysis

The tables below provide an analysis of the risk profile of loans and advances to customers at amortised cost by division.

2020 **Risk profile of loans and advances to customers** **(before impairment loss allowance)**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Stage 1 - 12 month ECL (not credit-impaired)	26,124	24,712	7,417	58,253
Stage 2 - Lifetime ECL (not credit-impaired)	5,181	1,783	8,779	15,743
Stage 3 - Lifetime ECL (credit-impaired)	2,557	1,202	617	4,376
Purchased / originated credit-impaired	2	61	27	90
Gross carrying amount at 31 December 2020	**33,864**	**27,758**	**16,840**	**78,462**

2019 **Risk profile of loans and advances to customers** **(before impairment loss allowance)**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Stage 1 - 12 month ECL (not credit-impaired)	29,654	27,514	14,610	71,778
Stage 2 - Lifetime ECL (not credit-impaired)	2,653	1,146	1,772	5,571
Stage 3 - Lifetime ECL (credit-impaired)	2,141	765	193	3,099
Purchased / originated credit-impaired	3	67	25	95
Gross carrying amount at 31 December 2019	**34,451**	**29,492**	**16,600**	**80,543**

2020 **Risk profile of loans and advances to customers** **- non-performing exposures**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Credit-impaired[1]	2,558	1,263	644	4,465
Not credit-impaired[2]	30	8	-	38
Total	**2,588**	**1,271**	**644**	**4,503**

2019 **Risk profile of loans and advances to customers** **- non-performing exposures**	**Retail Ireland €m**	**Retail UK €m**	**Corporate & Treasury €m**	**Total Group €m**
Credit-impaired[1]	2,143	766	218	3,127
Not credit-impaired[2]	259	106	27	392
Total	**2,402**	**872**	**245**	**3,519**

[1] Credit-impaired loans include Stage 3 and Purchased or Originated Credit-impaired assets which remain credit-impaired at the reporting date.
[2] Not credit-impaired figures for 2019 include forborne loans that had yet to satisfy exit criteria in line with European Banking Authority guidance to return to performing.

28 Credit risk exposures *(continued)*

Geographical and industry analysis of loans and advances to customers

The following tables provide a geographical and industry breakdown of loans and advances to customers at amortised cost, and the associated impairment loss allowances.

2020	Gross carrying amount (before impairment loss allowance)				Impairment loss allowance			
Geographical[1] / industry analysis	**RoI €m**	**UK €m**	**RoW[2] €m**	**Total €m**	**RoI €m**	**UK €m**	**RoW[2] €m**	**Total €m**
Personal	**24,933**	**25,080**	**-**	**50,013**	**464**	**251**	**-**	**715**
- Residential mortgages	*22,942*	*21,800*	*-*	*44,742*	*393*	*86*	*-*	*479*
- Other consumer lending	*1,991*	*3,280*	*-*	*5,271*	*71*	*165*	*-*	*236*
Property and construction	**7,379**	**1,212**	**-**	**8,591**	**317**	**279**	**-**	**596**
- Investment	*6,477*	*1,156*	*-*	*7,633*	*287*	*269*	*-*	*556*
- Development	*902*	*56*	*-*	*958*	*30*	*10*	*-*	*40*
Non-property SME & corporate[3,4]	**16,292**	**2,383**	**1,183**	**19,858**	**798**	**99**	**34**	**931**
- Manufacturing	*3,101*	*341*	*458*	*3,900*	*98*	*16*	*16*	*130*
- Administrative and support service activities	*1,913*	*324*	*199*	*2,436*	*113*	*13*	*6*	*132*
- Wholesale and retail trade	*2,022*	*291*	*36*	*2,349*	*118*	*9*	*-*	*127*
- Accommodation and food service activities	*1,542*	*144*	*35*	*1,721*	*84*	*6*	*1*	*91*
- Agriculture, forestry and fishing	*1,460*	*211*	*-*	*1,671*	*63*	*4*	*-*	*67*
- Human health services and social work activities	*1,196*	*211*	*113*	*1,520*	*52*	*22*	*1*	*75*
- Transport and storage	*855*	*88*	*51*	*994*	*63*	*4*	*2*	*69*
- Other services	*717*	*58*	*145*	*920*	*58*	*3*	*5*	*66*
- Professional, scientific and technical activities	*600*	*37*	*69*	*706*	*19*	*1*	*1*	*21*
- Financial and Insurance activities	*619*	*76*	*1*	*696*	*15*	*1*	*-*	*16*
- Real estate activities	*414*	*173*	*-*	*587*	*47*	*10*	*-*	*57*
- Arts, entertainment and recreation	*462*	*56*	*11*	*529*	*30*	*7*	*1*	*38*
- Education	*294*	*78*	*39*	*411*	*8*	*-*	*1*	*9*
- Other sectors	*1,097*	*295*	*26*	*1,418*	*30*	*3*	*-*	*33*
Total	**48,604**	**28,675**	**1,183**	**78,462**	**1,579**	**629**	**34**	**2,242**
Analysed by stage:								
Stage 1	32,404	25,095	754	58,253	200	139	7	346
Stage 2	13,320	2,015	408	15,743	438	93	21	552
Stage 3	2,851	1,504	21	4,376	928	378	6	1,312
Purchased / originated credit-impaired	29	61	-	90	13	19	-	32
Total	**48,604**	**28,675**	**1,183**	**78,462**	**1,579**	**629**	**34**	**2,242**

[1] *The geographical breakdown is primarily based on the location of the business unit where the asset is booked.*
[2] *Rest of World (RoW).*
[3] *The Non-property SME & corporate portfolio is analysed by NACE code. The NACE code classification system is a pan-European classification system that groups organisations according to their business activities.*
[4] *Exposures to NACE codes totalling less than €400 million are grouped together as 'Other sectors'. The NACE codes reported in the table above can therefore differ period on period.*

28 Credit risk exposures *(continued)*

2019 Geographical[1] / industry analysis	Gross carrying amount (before impairment loss allowance) RoI €m	UK €m	RoW[2] €m	Total €m	Impairment loss allowance RoI €m	UK €m	RoW[2] €m	Total €m
Personal	**25,240**	**26,758**	**-**	**51,998**	**430**	**161**	**-**	**591**
- Residential mortgages	*23,035*	*23,236*	*-*	*46,271*	*369*	*63*	*-*	*432*
- Other consumer lending	*2,205*	*3,522*	*-*	*5,727*	*61*	*98*	*-*	*159*
Property and construction[3]	**6,719**	**1,393**	**-**	**8,112**	**156**	**74**	**-**	**230**
- Investment[3]	*5,923*	*1,330*	*-*	*7,253*	*142*	*67*	*-*	*209*
- Development	*796*	*63*	*-*	*859*	*14*	*7*	*-*	*21*
Non-property SME & corporate[4,5]	**16,868**	**2,381**	**1,184**	**20,433**	**408**	**72**	**7**	**487**
- Manufacturing	*3,453*	*433*	*532*	*4,418*	*34*	*25*	*3*	*62*
- Wholesale and retail trade	*2,177*	*257*	*54*	*2,488*	*77*	*4*	*-*	*81*
- Administrative and support service activities	*1,816*	*270*	*135*	*2,221*	*44*	*6*	*1*	*51*
- Agriculture, forestry and fishing	*1,497*	*248*	*-*	*1,745*	*39*	*2*	*-*	*41*
- Accommodation and food service activities	*1,534*	*150*	*34*	*1,718*	*26*	*2*	*-*	*28*
- Human health services and social work activities	*1,159*	*230*	*73*	*1,462*	*22*	*18*	*1*	*41*
- Transport and storage	*945*	*86*	*54*	*1,085*	*41*	*1*	*-*	*42*
- Other services	*771*	*71*	*157*	*999*	*55*	*3*	*2*	*60*
- Financial and Insurance activities	*629*	*66*	*-*	*695*	*7*	*-*	*-*	*7*
- Professional, scientific and technical activities	*572*	*40*	*61*	*673*	*9*	*1*	*-*	*10*
- Real estate activities	*407*	*178*	*-*	*585*	*28*	*7*	*-*	*35*
- Arts, entertainment and recreation	*389*	*46*	*9*	*444*	*10*	*1*	*-*	*11*
- Education	*311*	*84*	*40*	*435*	*2*	*-*	*-*	*2*
- Electricity, gas, steam and air conditioning supply	*346*	*58*	*-*	*404*	*4*	*-*	*-*	*4*
- Other sectors	*862*	*164*	*35*	*1,061*	*10*	*2*	*-*	*12*
Total	**48,827**	**30,532**	**1,184**	**80,543**	**994**	**307**	**7**	**1,308**
Analysed by stage:								
Stage 1	42,455	28,176	1,147	71,778	75	62	5	142
Stage 2	4,033	1,507	31	5,571	129	57	2	188
Stage 3	2,289	804	6	3,099	790	186	-	976
Purchased / originated credit-impaired	50	45	-	95	-	2	-	2
Total	**48,827**	**30,532**	**1,184**	**80,543**	**994**	**307**	**7**	**1,308**

1 The geographical breakdown is primarily based on the location of the business unit where the asset is booked.
2 Rest of World (RoW).
3 In the table above, comparative figures for Property and construction – Investment have been restated, as €346 million of gross carrying amount was misclassified as RoI when it should have been classified as UK. The gross carrying amount for RoI Property and construction – Investment loans has reduced by €346 million to €5,923 million and the gross carrying amount for UK Property and construction – Investment loans has increased by €346 million to €1,330 million.
4 The Non-property SME & corporate portfolio is analysed by NACE code. The NACE code classification system is a pan-European classification system that groups organisations according to their business activities.
5 Exposures to NACE codes totalling less than €400 million are grouped together as 'Other sectors'. The NACE codes reported in the table above can therefore differ period on period.

28 Credit risk exposures *(continued)*

The following tables provide an analysis of loans and advances to customers at amortised cost, and the associated impairment loss allowances, by portfolio, sub-sector and stage.

2020	Gross carrying amount (before impairment loss allowance)					Impairment loss allowance				
Sectoral analysis by stage	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI[1] €m	Total €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI[1] €m	Total €m
Personal										
Residential mortgages	40,016	2,528	2,196	2	44,742	74	31	374	-	479
Other consumer	4,961	165	145	-	5,271	129	27	80	-	236
- Motor lending UK	*1,798*	*71*	*31*	*-*	*1,900*	*10*	*5*	*13*	*-*	*28*
- Loans UK	*1,295*	*43*	*42*	*-*	*1,380*	*90*	*17*	*32*	*-*	*139*
- Motor lending RoI	*751*	*-*	*22*	*-*	*773*	*8*	*-*	*8*	*-*	*16*
- Loans RoI	*678*	*42*	*33*	*-*	*753*	*18*	*4*	*17*	*-*	*39*
- Credit cards - RoI	*439*	*9*	*17*	*-*	*465*	*3*	*1*	*10*	*-*	*14*
	44,977	**2,693**	**2,341**	**2**	**50,013**	**203**	**58**	**454**	**-**	**715**
Property and construction	**2,639**	**4,869**	**1,021**	**62**	**8,591**	**9**	**126**	**442**	**19**	**596**
- Investment	*2,357*	*4,227*	*987*	*62*	*7,633*	*7*	*103*	*427*	*19*	*556*
- Development	*282*	*642*	*34*	*-*	*958*	*2*	*23*	*15*	*-*	*40*
Non-property SME & corporate[2,3]	**10,637**	**8,181**	**1,014**	**26**	**19,858**	**134**	**368**	**416**	**13**	**931**
- Manufacturing	*2,076*	*1,742*	*82*	*-*	*3,900*	*19*	*75*	*36*	*-*	*130*
- Administrative and support service activities	*1,388*	*926*	*96*	*26*	*2,436*	*25*	*39*	*55*	*13*	*132*
- Wholesale and retail trade	*1,520*	*688*	*141*	*-*	*2,349*	*19*	*31*	*77*	*-*	*127*
- Accommodation and food service activities	*236*	*1,354*	*131*	*-*	*1,721*	*5*	*46*	*40*	*-*	*91*
- Agriculture, forestry and fishing	*1,187*	*352*	*132*	*-*	*1,671*	*16*	*16*	*35*	*-*	*67*
- Human health services and social work activities	*727*	*760*	*33*	*-*	*1,520*	*10*	*55*	*10*	*-*	*75*
- Transport and storage	*436*	*489*	*69*	*-*	*994*	*4*	*23*	*42*	*-*	*69*
- Other services	*431*	*370*	*119*	*-*	*920*	*3*	*15*	*48*	*-*	*66*
- Professional, scientific and technical activities	*475*	*216*	*15*	*-*	*706*	*7*	*9*	*5*	*-*	*21*
- Financial and Insurance activities	*588*	*85*	*23*	*-*	*696*	*4*	*5*	*7*	*-*	*16*
- Real estate activities	*308*	*190*	*89*	*-*	*587*	*12*	*10*	*35*	*-*	*57*
- Arts, entertainment and recreation	*78*	*389*	*62*	*-*	*529*	*1*	*20*	*17*	*-*	*38*
- Education	*311*	*99*	*1*	*-*	*411*	*2*	*6*	*1*	*-*	*9*
- Other sectors	*876*	*521*	*21*	*-*	*1,418*	*7*	*18*	*8*	*-*	*33*
Total	**58,253**	**15,743**	**4,376**	**90**	**78,462**	**346**	**552**	**1,312**	**32**	**2,242**

[1] Purchased or originated credit-impaired (POCI).
[2] The Non-property SME & corporate portfolio is analysed by NACE code. The NACE code classification system is a pan-European classification system that groups organisations according to their business activities.
[3] Exposures to NACE codes totalling less than €400 million are grouped together as 'Other sectors'. The NACE codes reported in the table above can therefore differ period on period.

28 Credit risk exposures *(continued)*

2019 Sectoral analysis by stage	Gross carrying amount (before impairment loss allowance) Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI[1] €m	Total €m	Impairment loss allowance Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI[1] €m	Total €m
Personal										
Residential mortgages	42,898	1,677	1,693	3	46,271	16	36	380	-	432
Other consumer	5,421	206	100	-	5,727	64	32	63	-	159
- Motor lending UK	*2,147*	*58*	*21*	*-*	*2,226*	*6*	*3*	*10*	*-*	*19*
- Loans UK	*1,232*	*40*	*24*	*-*	*1,296*	*42*	*17*	*21*	*-*	*80*
- Motor lending RoI	*821*	*-*	*14*	*-*	*835*	*3*	*-*	*6*	*-*	*9*
- Loans RoI	*681*	*74*	*30*	*-*	*785*	*9*	*6*	*19*	*-*	*34*
- Credit cards - RoI	*540*	*34*	*11*	*-*	*585*	*4*	*6*	*7*	*-*	*17*
	48,319	**1,883**	**1,793**	**3**	**51,998**	**80**	**68**	**443**	**-**	**591**
Property and construction	**5,985**	**1,513**	**549**	**65**	**8,112**	**6**	**42**	**180**	**2**	**230**
- Investment	*5,418*	*1,251*	*519*	*65*	*7,253*	*5*	*40*	*162*	*2*	*209*
- Development	*567*	*262*	*30*	*-*	*859*	*1*	*2*	*18*	*-*	*21*
Non-property SME & corporate[2,3]	**17,474**	**2,175**	**757**	**27**	**20,433**	**56**	**78**	**353**	**-**	**487**
- Manufacturing	*3,963*	*356*	*99*	*-*	*4,418*	*10*	*11*	*41*	*-*	*62*
- Wholesale and retail trade	*2,031*	*327*	*129*	*1*	*2,488*	*8*	*10*	*63*	*-*	*81*
- Administrative and support service activities	*1,987*	*142*	*67*	*25*	*2,221*	*7*	*5*	*39*	*-*	*51*
- Agriculture, forestry and fishing	*1,523*	*127*	*94*	*1*	*1,745*	*7*	*5*	*29*	*-*	*41*
- Accommodation and food service activities	*1,476*	*193*	*49*	*-*	*1,718*	*3*	*6*	*19*	*-*	*28*
- Human health services and social work activities	*1,018*	*414*	*30*	*-*	*1,462*	*4*	*15*	*22*	*-*	*41*
- Transport and storage	*902*	*137*	*46*	*-*	*1,085*	*3*	*5*	*34*	*-*	*42*
- Other services	*778*	*98*	*123*	*-*	*999*	*2*	*7*	*51*	*-*	*60*
- Financial and Insurance activities	*662*	*14*	*19*	*-*	*695*	*1*	*-*	*6*	*-*	*7*
- Professional, scientific and technical activities	*597*	*67*	*9*	*-*	*673*	*2*	*3*	*5*	*-*	*10*
- Real estate activities	*435*	*90*	*60*	*-*	*585*	*3*	*5*	*27*	*-*	*35*
- Arts, entertainment and recreation	*364*	*62*	*18*	*-*	*444*	*1*	*3*	*7*	*-*	*11*
- Education	*426*	*8*	*1*	*-*	*435*	*1*	*-*	*1*	*-*	*2*
- Electricity, gas, steam and air conditioning supply	*363*	*38*	*3*	*-*	*404*	*1*	*1*	*2*	*-*	*4*
- Other sectors	*949*	*102*	*10*	*-*	*1,061*	*3*	*2*	*7*	*-*	*12*
Total	**71,778**	**5,571**	**3,099**	**95**	**80,543**	**142**	**188**	**976**	**2**	**1,308**

Repossessed collateral

At 31 December 2020, the Group had collateral held as security, as follows:

Repossessed collateral is sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

Repossessed collateral	2020 €m	2019 €m
Residential properties		
Ireland	9	10
UK and other	3	11
	12	21
Other	2	1
Total	**14**	**22**

[1] Purchased or originated credit-impaired (POCI).
[2] The Non-property SME & corporate portfolio is analysed by NACE code. The NACE code classification system is a pan-European classification system that groups organisations according to their business activities.
[3] Exposures to NACE codes totalling less than €400 million are grouped together as 'Other sectors'. The NACE codes reported in the table above can therefore differ period on period.

28 Credit risk exposures *(continued)*

Asset quality - other financial assets

The table below summarises the asset quality of debt instruments at FVOCI by IFRS 9 twelve month PD grade.

Debt instruments at FVOCI Asset quality	2020						2019					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	10,265	94%	-	-	10,265	94%	9,987	92%	-	-	9,987	92%
5-7	677	6%	-	-	677	6%	810	8%	-	-	810	8%
8-9	-	-	-	-	-	-	-	-	-	-	-	-
10-11	-	-	-	-	-	-	-	-	-	-	-	-
Total	**10,942**	**100%**	**-**	**-**	**10,942**	**100%**	**10,797**	**100%**	**-**	**-**	**10,797**	**100%**

The table below summarises the asset quality of debt securities at amortised cost by IFRS 9 twelve month PD grade.

Debt securities at amortised cost (before impairment loss allowance) Asset quality	2020						2019					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	6,258	100%	1	9%	6,259	100%	4,499	100%	-	-	4,499	100%
5-7	-	-	1	9%	1	-	2	-	-	-	2	-
8-9	-	-	-	-	-	-	-	-	-	-	-	-
10-11	-	-	9	82%	9	-	11	-	-	-	11	-
Total	**6,258**	**100%**	**11**	**100%**	**6,269**	**100%**	**4,512**	**100%**	**-**	**-**	**4,512**	**100%**

The table below summarises the asset quality of loans and advances to banks at amortised cost by IFRS 9 twelve month PD grade.

Loans and advances to banks at amortised cost before impairment loss allowance) Asset quality	2020						2019					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	2,162	97%	-	-	2,162	97%	2,948	98%	-	-	2,948	98%
5-7	7	-	-	-	7	-	3	-	5	83%	8	-
8-9	58	3%	-	-	58	3%	66	2%	1	17%	67	2%
10-11	-	-	-	-	-	-	-	-	-	-	-	-
Total	**2,227**	**100%**	**-**	**-**	**2,227**	**100%**	**3,017**	**100%**	**6**	**100%**	**3,023**	**100%**

28 Credit risk exposures *(continued)*

Asset quality: Other financial instruments
Other financial instruments as set out in the table below include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include trading securities, derivative financial instruments, loans and advances to banks at fair value, other financial instruments at FVTPL (excluding equity instruments) and any reinsurance assets. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

Other financial instruments with ratings equivalent to:	2020		2019	
	€m	%	€m	%
AAA to AA-	4,984	50%	4,619	50%
A+ to A-	2,677	26%	2,943	32%
BBB+ to BBB-	1,841	18%	1,070	11%
BB+ to BB-	193	2%	259	3%
B+ to B-	441	4%	323	4%
Lower than B-	7	-	5	-
Total	**10,143**	**100%**	**9,219**	**100%**

29 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.

This table excludes loans subject to COVID-19 payment breaks. COVID-19 payment breaks are disclosed separately in the Supplementary asset quality section on page 366, and include €899 million of assets which were granted a COVID-19 payment break, while they had an impairment loss allowance measured at an amount equal to lifetime ECL.

	2020 €m	2019 €m
Financial assets modified during the year		
Amortised cost before modification	1,157	387
Net modification gains (i.e. net of impairment gains impact)	7	-
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the year	309	608

30 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 214, 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.

	2020 €m	2019 €m
At beginning of year	56	53
Increase in investments	5	8
Decrease in investments	(4)	(10)
Share of results after tax (note 17)	(3)	5
At end of year	**54**	**56**

31 Interest in joint ventures

For further information on joint ventures refer to note 57 Interests in other entities.

	2020 €m	2019 €m
At beginning of year	76	69
Dividends received	(16)	(31)
Share of results after tax (note 17)	(1)	34
- First Rate Exchange Services	*(1)*	*34*
Exchange adjustments	(5)	4
At end of year	**54**	**76**

32 Intangible assets and goodwill

	2020					2019				
	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	**36**	**72**	**2,003**	**211**	**2,322**	**34**	**71**	**1,768**	**204**	**2,077**
Additions	-	-	229	-	229	-	-	223	-	223
Disposals / write-offs	-	-	-	(24)	(24)	-	-	-	-	-
Exchange adjustments	(2)	(1)	(13)	(7)	(23)	2	1	12	7	22
At 31 December	**34**	**71**	**2,219**	**180**	**2,504**	**36**	**72**	**2,003**	**211**	**2,322**
Amortisation and impairment										
At 1 January	**-**	**(72)**	**(1,243)**	**(169)**	**(1,484)**	**-**	**(71)**	**(1,060)**	**(144)**	**(1,275)**
Disposals / write-offs	-	-	-	24	24	-	-	-	-	-
Impairment	(9)	-	(139)	-	(148)	-	-	-	-	-
Amortisation charge for the year (note 13)	-	-	(150)	(14)	(164)	-	-	(173)	(20)	(193)
Exchange adjustments	-	1	10	8	19	-	(1)	(10)	(5)	(16)
At 31 December	**(9)**	**(71)**	**(1,522)**	**(151)**	**(1,753)**	**-**	**(72)**	**(1,243)**	**(169)**	**(1,484)**
Net book value	**25**	**-**	**697**	**29**	**751**	**36**	**-**	**760**	**42**	**838**

The category 'computer software internally generated' includes the Transformation Investment asset with a carrying value of €295 million (2019: €331 million). This asset reflects investment in technical infrastructure, applications and software licences. The reduction in carrying value of this asset is primarily due to impairment, partially offset by additions, during the year ended 31 December 2020. See 'impairment review – computer software internally generated' section below for further information. €216 million (2019: €173 million) of the Transformation Investment asset is an amortising asset, with amortisation periods normally ranging from five to ten years and with the majority being amortised over a period of ten years. The remaining €79 million (2019: €158 million) represents assets under construction on which amortisation will commence once the assets are available for use.

Impairment review - computer software internally generated

During 2020, the Group reviewed its software intangible assets for indicators of impairment. The Group concluded that certain aspects of the Transformation Investment asset product set capability had not matured sufficiently, and that technology and approaches to systems transformation have evolved.

As a consequence of the existence of such indicators of impairment, the Group concluded that certain software assets were impaired, as they were no longer expected to provide future economic benefits. Accordingly, an impairment charge of €139 million has been recognised (2019: €nil), of which €127 million relates to the Transformation Investment Asset and €12 million relates to other internally generated computer software.

32 Intangible assets and goodwill *(continued)*

This charge is presented separately on the Group consolidated income statement.

Impairment review – other externally purchased intangible assets
Other externally purchased intangible assets have been reviewed for any indication that impairment may have occurred.

There was no impairment identified in the year ended 31 December 2020 (2019: €nil).

Goodwill
Goodwill was recognised on the acquisition of MLL, a car commercial leasing and fleet management company in the UK.

Impairment testing of goodwill
Goodwill is allocated to cash generating units (CGU) at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.

The calculation of the recoverable amount of goodwill for each of these CGU is based upon a VIU calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the CGU. 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 2020 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 0%.

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 CGU 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 an impairment of goodwill which is different to the amount recognised as at December 2020.

Impairment Review - Goodwill
Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of goodwill to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the asset. An impairment review was carried out during the year 2020 which resulted in a write down of the carrying value of goodwill to its recoverable amount, which is based on value-in-use.

The Group's forecast was revised during the year as a result of the impact of COVID-19. This created an additional uncertainty to the longer term shape of the motor vehicle financing sector, in addition to pre-existing concerns regarding combustion engines, alternative fuels and changing customer behaviours. It is currently unknown to what extent COVID-19 may lead to, for example, a longer term shift to remote working on a larger scale, and what impact this may have on the car market. Management have factored this additional uncertainty into the cash flow projections used for the impairment review.

As a result of the impairment review, goodwill was determined to be impaired by €9 million, which has been charged to the income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods, even if it was recognised in an interim period of the same financial year.

33 Investment properties

At 31 December 2020, the Group held investment property of €843 million (2019: €999 million) on behalf of Wealth and Insurance policyholders.

Investment properties are carried at fair value as determined by external qualified Property Surveyors (the 'Surveyors') appropriate to the properties held. The surveyors arrive at their opinion of fair value by using their professional judgement in applying comparable current trends in the property market such as rental yields in the retail, office and industrial property sectors, to both the existing rental income stream and also to the future ERV. Other inputs taken into consideration include occupancy forecasts, rent free periods that may need to be granted to new incoming tenants, capital expenditure and fees. As these inputs are unobservable, the valuation is deemed to be based on level 3 inputs. All properties are valued based on highest and best use.

In the early part of the year, COVID-19 impacted the property market, causing the number of transactions to decline. As a response, surveyors attached less weight to previous market evidence and all valuations were prepared on a 'material valuation uncertainty' basis. Since then and as at 31 December 2020, such uncertainty has been removed for all investment properties with the exception of retail properties located in the Republic of Ireland (€101 million of investment properties portfolio).

Therefore, to ensure transparency, the Surveyors have attached less weight to previous market evidence for comparison purposes such that valuations of these retail properties are subject to a 'material valuation uncertainty' clause in line with the RICS (Royal Institute of Chartered Surveyors) Valuation – Global Standards. All other investment properties were not subject to the material valuation uncertainty clause.

In 2020 rental income from investment property amounted to €52 million (2019: €52 million). Expenses directly attributable to investment properties generating rental income was €8 million (2019: €6 million).

In 2019, the Group reclassified €21 million from investment properties to property, plant and equipment. There were no such reclassifications for the year ended 31 December 2020.

	2020 €m	2019 €m
At beginning of year	999	1,037
Revaluation	(77)	(3)
Disposals	(71)	(39)
Exchange adjustment	(8)	14
Reclassifications	-	(21)
Additions	-	11
At end of year	**843**	**999**

34 Property, plant and equipment

2020	Freehold land & buildings & long leaseholds (FV) of which; own-use €m	Freehold land & buildings & long leaseholds (FV) of which; subject to operating lease €m	Adaptations (at cost) of which; own-use €m	Adaptations (at cost) of which; subject to operating lease €m	Computer & other equipment (at cost) of which; own-use €m	Computer & other equipment (at cost) of which; subject to operating lease €m	Payments on accounts & assets in the course of construction (at cost) €m	Total owned assets €m	Right of Use assets, excluding investment property Buildings €m	Right of Use assets, excluding investment property Computer & other equipment €m	Total right of use assets €m	Total property plant and equipment €m
Cost or valuation at 1 January 2020	**181**	**15**	**165**	**6**	**269**	**145**	**21**	**802**	**547**	**78**	**625**	**1,427**
Additions	-	-	1	-	2	39	12	54	1	49	50	104
Disposals/ write offs	-	-	(14)	-	(7)	(46)	-	(67)	(4)	(54)	(58)	(125)
Revaluation recognised in OCI	(8)	(1)	-	-	-	-	-	(9)	-	-	-	(9)
Revaluation recognised in Income Statement (note 13)	(4)	-	-	-	-	-	-	(4)	-	-	-	(4)
Reclassifications	(6)	6	7	-	(4)	-	(16)	(13)	(1)	-	(1)	(14)
Adjustment of lease liability	-	-	-	-	-	-	-	-	(30)	(18)	(48)	(48)
Exchange adjustments	(2)	(1)	(1)	-	(4)	(8)	-	(16)	(3)	(1)	(4)	(20)
As at 31 December 2020	**161**	**19**	**158**	**6**	**256**	**130**	**17**	**747**	**510**	**54**	**564**	**1,311**
Accumulated Depreciation at 1 January 2020	**-**	**-**	**(102)**	**(2)**	**(200)**	**(31)**	**-**	**(335)**	**(43)**	**(40)**	**(83)**	**(418)**
Charge for the year (notes 10,13)	-	-	(9)	-	(17)	(28)	-	(54)	(41)	(22)	(63)	(117)
Impairment for the year	-	-	-	-	-	-	-	-	(6)	-	(6)	(6)
Reversal of previously recognised impairment	-	-	-	-	3	-	-	3	-	-	-	3
Disposals / write-offs	-	-	9	-	6	25	-	40	4	54	58	98
Reclassifications	-	-	-	-	9	-	-	9	-	-	-	9
Exchange adjustments	-	-	1	-	5	2	-	8	1	-	1	9
As at 31 December 2020	**-**	**-**	**(101)**	**(2)**	**(194)**	**(32)**	**-**	**(329)**	**(85)**	**(8)**	**(93)**	**(422)**
Net book value at 31 December 2020	**161**	**19**	**57**	**4**	**62**	**98**	**17**	**418**	**425**	**46**	**471**	**889**

At 31 December 2020, property, plant and equipment held at fair value was €180 million (2019: €196 million). A revaluation of Group property was carried out as at 31 December 2020 by an independent external valuer. A total revaluation deficit of €13 million has been recognised as a reversal of previously held revaluation surplus in OCI of €9 million with the remaining €4 million recognised as part of operating expenses. The historical cost of property, plant and equipment held at fair value was €75 million (2019: €78 million). The net book value of property, plant and equipment held at cost less accumulated depreciation and impairment (excluding RoU assets) was €238 million (2019: €271 million) and RoU assets was €471 million (2019: €542 million).

At 31 December 2020, €5 million of computer & other equipment held for own use was transferred to assets classified as held for sale, see note 26 for further details. At 31 December 2020, the €48 million adjustment of lease liability was incurred due to the early termination of leases.

34 Property, plant and equipment *(continued)*

2019	Freehold land & buildings & long leaseholds (FV) of which; own-use €m	Freehold land & buildings & long leaseholds (FV) of which; subject to operating lease €m	Adaptations (at cost) of which; own-use €m	Adaptations (at cost) of which; subject to operating lease €m	Computer & other equipment (at cost) of which; own-use €m	Computer & other equipment (at cost) of which; subject to operating lease €m	Payments on accounts & assets in the course of construction (at cost) €m	Total owned assets €m	Right of Use assets, excluding investment property Buildings €m	Right of Use assets, excluding investment property Computer & other equipment €m	Total right of use assets €m	Total property plant and equipment €m
Cost or valuation at 1 January 2020	**156**	**14**	**158**	**6**	**260**	**126**	**13**	**733**	**555**	**78**	**633**	**1,366**
Additions	-	-	-	-	1	53	27	81	1	2	3	84
Disposals / write offs	-	-	(5)	-	(4)	(40)	-	(49)	-	(1)	(1)	(50)
Revaluation recognised in OCI	2	1	-	-	-	-	-	3	-	-	-	3
Reclassifications	21	-	10	-	9	-	(19)	21	(5)	-	(5)	16
Adjustment of lease liability	-	-	-	-	-	-	-	-	(4)	(1)	(5)	(5)
Exchange adjustments	2	-	2	-	3	6	-	13	-	-	-	13
Revaluation recognised in income statement	-	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2019	**181**	**15**	**165**	**6**	**269**	**145**	**21**	**802**	**547**	**78**	**625**	**1,427**
Accumulated depreciation at 1 January 2019	**-**	**-**	**(94)**	**(2)**	**(181)**	**(23)**	**-**	**(300)**	**-**	**(12)**	**(12)**	**(312)**
Charge for the year (notes 10,13)	-	-	(11)	-	(16)	(28)	-	(55)	(40)	(29)	(69)	(124)
Impairment (note 14)	-	-	-	-	(2)	-	-	(2)	(2)	-	(2)	(4)
Disposals / write-offs	-	-	4	-	2	21	-	27	-	1	1	28
Exchange adjustments	-	-	(1)	-	(3)	(1)	-	(5)	(1)	-	(1)	(6)
Reversal of previously recognised impairment	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2019	**-**	**-**	**(102)**	**(2)**	**(200)**	**(31)**	**-**	**(335)**	**(43)**	**(40)**	**(83)**	**(418)**
Net book value at 31 December 2019	**181**	**15**	**63**	**4**	**69**	**114**	**21**	**467**	**504**	**38**	**542**	**1,009**

34 Property, plant and equipment *(continued)*

Future capital expenditure

This table shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

Future capital expenditure	2020 €m	2019 €m
Contracted but not provided for in the financial statements	167	10
Authorised by the Directors but not contracted	12	236

Group as lessor

Computer and other equipment subject to an operating lease relates to the business activities of MLL. MLL enters into operating leases, as lessor, through its car and commercial leasing activities. The terms of the leases vary but the majority of the leases typically run for a non-cancellable period of two to four years through which MLL is exposed to residual value risk on the vehicles leased.

MLL ensures that residual value risk is effectively managed to minimise exposure. The residual values used mirror those utilised in the creation of the original client contract. Residual values for MLL's fleet of vehicles are benchmarked against industry standards using third party valuation tools. The residual values for the entire portfolio are reassessed using an independent vehicle valuation estimate on a regular basis throughout the life of the underlying contracts to determine if impairment is required. The process of realising asset values at the end of lease contracts is effectively managed to maximise net sale proceeds. MLL received operating lease income of €35 million in 2020 (2019: €35 million) (note 10).

The Group has also entered into a small number of operating leases and operating sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements. The Group received operating lease income on these leases of €2 million in 2020 (2019: €1 million).

The table sets out the future undiscounted operating lease payments receivable.

Operating lease receivables	2020 €m	2019 €m
Not later than 1 year	23	27
1 to 2 years	17	18
2 to 3 years	6	9
3 to 4 years	2	3
4 to 5 year	1	1
Later than 5 years	3	-
Total operating lease receivables	**52**	**58**

35 Deferred tax

The DTA of €1,165 million (31 December 2019: €1,088 million) includes an amount of €1,157 million (31 December 2019: €1,089 million) in respect of operating losses which are available to shelter future profits from tax, of which €1,133 million relates to Irish tax losses carried forward by the 'Bank', €18 million relates to UK tax losses carried forward by Bank of Ireland (UK) plc and the UK branch of the bank, and €6 million relates to US tax losses carried forward by the US branch of the Bank.

The recognition of a DTA in respect of tax losses carried forward requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the losses can be utilised.

In considering the available evidence to support recognition of the deferred tax asset, the Group takes into consideration the impact of both positive and negative evidence including historical financial performance, projections of future taxable income and the impact of tax legislation.

The key judgements and estimates applied in the recognition of deferred tax assets on unused tax losses are set out in Critical Accounting Estimates and Judgements (note 2).

Net DTAs at 31 December 2020 of €1.1 billion (2019: €1.0 billion) are expected to be recovered after more than one year.

Deferred tax liabilities have not been recognised for tax that may be payable if distributable reserves of certain overseas subsidiaries and joint ventures 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. Distributable reserves for overseas subsidiaries and joint ventures totalled €1.2 billion at 31 December 2020 (2019: €1.5 billion).

The Group has not recognised a DTA of €194 million (2019: €136 million) in respect of temporary differences, unused tax losses and tax credits of which €43 million (2019: €47 million) relates to US tax losses which are subject to a 20 year life and are scheduled to expire unused in the period 2026 - 2029 due to an annual limitation of use. The balance relates to UK tax losses which have no expiry date but are currently not projected to be recovered within 10 years.

35 Deferred tax *(continued)*

2020	Net balance at 1 January €m	Recognised in profit or loss €m	Recognised in OCI €m	Foreign exchange and other movements €m	Balance at 31 December Net €m	Balance at 31 December Deferred tax assets €m	Balance at 31 December Deferred tax liabilities €m
Unutilised tax losses	1,089	68	-	-	1,157	1,157	-
Pensions and other post retirement benefits	14	(16)	7	-	5	5	-
Assets used in the business[1]	30	6	-	-	36	36	-
Impact of adopting IFRS 9	18	(3)	-	-	15	15	-
Cash flow hedge reserve	5	-	(3)	(1)	1	1	-
Other temporary differences - assets	26	23	-	(11)	38	38	-
Wealth & Insurance - Different Basis of Accounting	(59)	8	-	-	(51)	-	(51)
Debt instruments at FVOCI	(23)	-	(1)	-	(24)	-	(24)
Property revaluation surplus	(21)	1	2	-	(18)	-	(18)
Liability credit reserve	1	-	-	-	1	1	-
Other temporary differences - liabilities	(63)	4	-	-	(59)	-	(59)
Tax assets / (liabilities) before set-off	**1,017**	**91**	**5**	**(12)**	**1,101**	**1,253**	**(152)**
Set-off of tax					**-**	**(88)**	**88**
Net tax assets / (liabilities)					**1,101**	**1,165**	**(64)**

2019	Net balance at 1 January €m	Recognised in profit or loss €m	Recognised in OCI €m	Foreign exchange and other movements €m	Balance at 31 December Net €m	Balance at 31 December Deferred tax assets €m	Balance at 31 December Deferred tax liabilities €m
Unutilised tax losses	1,162	(73)	-	-	1,089	1,089	-
Pensions and other post retirement benefits	28	(9)	(5)	-	14	14	-
Assets used in the business[1]	26	4	-	-	30	30	-
Impact of adopting IFRS 9	19	(1)	-	-	18	18	-
Cash flow hedge reserve	11	-	(6)	-	5	5	-
Other temporary differences - assets	21	(6)	-	11	26	26	-
Wealth & Insurance - Different Basis of Accounting	(35)	(24)	-	-	(59)	-	(59)
Debt instruments at FVOCI	(20)	1	(4)	-	(23)	-	(23)
Property revaluation surplus	(20)	(1)	-	-	(21)	-	(21)
Liability credit reserve	(6)	3	4	-	1	1	-
Other temporary differences - liabilities	(63)	-	-	-	(63)	-	(63)
Tax assets / (liabilities) before set-off	**1,123**	**(106)**	**(11)**	**11**	**1,017**	**1,183**	**(166)**
Set-off of tax					**-**	**(95)**	**95**
Net tax assets / (liabilities)					**1,017**	**1,088**	**71**

[1] *Formerly Accelerated capital allowances on equipment used by the Group.*

36 Other assets

	2020 €m	2019 €m
Reinsurance asset	1,352	1,108
Value of in Force asset (note 37)	615	631
Sundry and other debtors	427	345
Interest receivable[1]	259	280
Accounts receivable and prepayments	87	88
Trade receivables and contract assets	79	45
Other assets	**2,819**	**2,497**
Trade receivables and contract assets		
Trade receivables	76	40
Contract assets	3	5
Less: impairment loss allowance on trade receivables and contract assets	-	-
Total trade receivable and contract assets	**79**	**45**
Other assets are analysed as follows:		
Within 1 year	810	722
After 1 year	2,009	1,775
	2,819	**2,497**
The movement in the reinsurance asset is noted below:		
At beginning of year	1,108	942
New business	209	108
Changes in business	35	58
At end of year	**1,352**	**1,108**

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €10.1 billion (2019: €9.2 billion) in note 28 on page 280.

[1] *Interest receivable is subject to impairment under IFRS 9; the impairment loss allowance on interest receivable is presented in the balance sheet along with the financial asset to which it relates.*

37 Life assurance business

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The ViF asset, which is presented gross of attributable tax, represents the present value of future profits, less an allowance for the cost of required capital, expected to arise from insurance contracts written by the reporting date. It is determined by projecting the future surpluses and other cash flows attributable to the shareholder arising from these contracts and discounting using risk free interest rates as specified under the Solvency II directive.

The process used in determining the key economic and experience assumptions is as follows:

Interest rates and unit growth rate
Interest rates and unit-growth rates are based on a range of duration-specific rates determined by a risk free yield curve. This yield curve is provided by the EIOPA.

The Group's Life Assurance business has also received regulatory approval to use the Volatility Adjustment (VA). The 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. It is based on a risk corrected spread on the assets in a reference portfolio.

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.

Value of in Force asset	**2020 €m**	**2019 €m**
At beginning of year	631	571
Income statement movement in Value of in Force asset (gross of tax)	(16)	60
At end of year	**615**	**631**

Sensitivities: Impact on annual profit before tax	**2020 €m**	**2019 €m**
1% increase in interest rates and unit growth rates	(12)	(19)
1% decrease in interest rates and unit growth rates	(2)	3
10% improvement in mortality	23	22
10% improvement in longevity[1]	(39)	(37)
10% improvement in morbidity	13	12
10% deterioration in persistency	(14)	(16)
10% increase in equity and property markets	35	35
5% improvement in maintenance expenses	22	19
0.5% widening in bond spreads[2]	(63)	(61)

Maintenance expenses
Allowance is made for future policy costs and expense inflation explicitly.

Sensitivities
This table indicates the standalone impact of changes in the key assumptions on profit.

While this table shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

38 Deposits from banks

Deposits from banks include cash collateral of €0.2 billion (2019: €0.2 billion) received from derivative counterparties in relation to net derivative asset positions (note 21).

	2020 €m	**2019 €m**
Monetary Authority secured funding	1,928	1,736
Deposits from banks	460	443
Deposits from banks	**2,388**	**2,179**

1 *Impact on Annuity book of business.*
2 *Includes impact of Volatility Adjustment.*

38 Deposits from banks *(continued)*

Monetary Authority secured funding	2020 TFSME €m	2020 TFS €m	2020 ILTR €m	2020 Total €m	2019 TFSME €m	2019 TFS €m	2019 ILTR €m	2019 Total €m
Deposits from banks	1,446	476	6	1,928	-	1,501	235	1,736
Total	**1,446**	**476**	**6**	**1,928**	**-**	**1,501**	**235**	**1,736**

During 2020, the Group secured funding under the Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) from the Bank of England (BoE), which will be repaid in November 2024.

Drawings under the Term Funding Scheme (TFS) from the BoE will be repaid between February 2021 and February 2022.

Drawings under the Indexed Long Term Repo (ILTR) funding from the BoE will be repaid in early February 2021.

The Group's Monetary Authority funding is secured by loans and advances to customers.

39 Customer accounts

The movement in own credit risk related to the Group's customer accounts designated at FVTPL for the year is shown below.

There were no amounts (2019: €nil) presented in OCI relating to liabilities that the Group designated at FVTPL which were derecognised during the year.

The carrying amount of the customer accounts designated at FVTPL as at 31 December 2020 is €2 million higher than the contractual amount due at maturity (2019: equivalent). This is set out in note 59.

At 31 December 2020, the Group's largest 20 customer deposits amounted to 4% (2019: 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 on page 170 in the Risk Management Report.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in note 58 Liquidity risk and profile.

Term deposits and other products include €118 million (2019: €35 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Scheme) Regulations 2015, eligible deposits of up to €100,000 per depositor per credit institution are covered. Eligible deposits includes credit balances in current accounts, demand deposit accounts and term deposit accounts. The scheme is administered by the CBI and is funded by the credit institutions covered by the scheme.

	2020 €m	2019 €m
Current accounts	45,240	37,351
Demand deposits	27,169	27,736
Term deposits and other products	15,525	17,951
Customer accounts at amortised cost	**87,934**	**83,038**
Term deposits at FVTPL	703	930
Total customer accounts	**88,637**	**83,968**
Amounts include:		
Due to associates and joint ventures	44	3

Movement in own credit risk on deposits at FVTPL	2020 €m	2019 €m
Balance at beginning of the year	-	(18)
Recognised in other comprehensive income	(2)	18
Balance at end of the year	**(2)**	**-**

On 24 November 2015, the EC released a proposal, European Deposit Insurance Scheme (EDIS), designed to achieve a common European deposit protection scheme by 2024. Under the current proposal, when fully implemented, the EDIS would completely replace the national schemes and be the sole insurance scheme for deposits in the euro-area banks.

39 Customer accounts *(continued)*

Bail-in is a key resolution tool provided for in the BRRD. 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. The EU (Bank Recovery and Resolution) Regulations 2015, which transposed the BRRD into Irish Law, provides that covered deposits (i.e. eligible deposits up to €100,000) are excluded from the scope of this bail-in tool.

In addition to the deposits covered by these Regulations, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK FSCS (in respect of eligible deposits with Bank of Ireland (UK) plc).

40 Debt securities in issue

There were no repurchases or derecognition of debt securities in issue held at FVTPL in the year. In 2019, the Group repurchased and derecognised debt securities in issue held at FVTPL in the amount of €122 million. This resulted in €9 million being transferred from the liability credit reserve to retained earnings, being the cumulative gain recognised through OCI relating to these liabilities. The carrying amount of the debt securities in issue designated at FVTPL at 31 December 2020 was €36 million higher than the contractual amount due at maturity (2019: €35 million higher). This is set out in note 59 on page 320.

	2020 €m	2019 €m
Bonds and medium term notes	5,344	6,886
Other debt securities in issue	675	1,559
Debt securities in issue at amortised cost	**6,019**	**8,445**
Debt securities in issue at fair value through profit or loss	348	364
Total debt securities in issue	**6,367**	**8,809**

The movement on debt securities in issue is analysed as follows:

	2020 €m	2019 €m
Balance at beginning of the year	8,809	8,904
Issued during the year	84	1,928
Redemptions	(2,413)	(1,938)
Repurchases	-	(194)
Other movements[1]	(113)	109
Balance at end of the year	**6,367**	**8,809**

Movement in own credit risk on debt securities in issue at FVTPL	2020 €m	2019 €m
Balance at beginning of the year	3	(10)
Transferred to retained earnings	-	9
Recognised in other comprehensive income	-	4
Balance at end of the year	**3**	**3**

[1] *Other movements primarily relates to fair value hedge adjustments in respect of debt securities in issue held at amortised cost, exchange adjustments and changes in fair value of debt securities in issue held at fair value.*

41 Liabilities to customers under investment and insurance contracts

The Wealth and Insurance division writes the following life assurance contracts that contain insurance risk:

Non-unit linked life assurance contracts
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

Non-unit linked annuity contracts
These contracts provide the policyholder with an income until death (principally longevity and market risk).

Unit linked insurance contracts
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated based on recognised actuarial methods with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using a gross premium method of valuation.

The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate:
The interest rates used are based on risk free rates published by EIOPA in line with the Solvency II Directive.

Mortality and morbidity:
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.

Maintenance expenses:
Allowance is made for future policy costs and expense inflation explicitly.

Options and guarantees
The Group has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

Investment contract liabilities	2020 €m	2019 €m
Liabilities to customers under investment contracts, at fair value	**5,892**	**5,890**

The movement in gross life insurance contact liabilities is analysed as follows:

Insurance contract liabilities	2020 €m	2019 €m
At beginning of year	12,694	11,003
New business	1,632	1,524
Changes in existing business	(847)	167
At end of year	**13,479**	**12,694**

Uncertainties associated with insurance contract cash flows and risk management activities
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of insurance contract liabilities.

Credit risk
Reinsurance programmes are in place to restrict the amount of exposure on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

Capital management and available resources
The Solvency II framework came into full effect from 1 January 2016 and introduced new capital, risk management, governance and reporting requirements for all European insurance entities. Under Solvency II, insurance entities are required to hold technical provisions to meet liabilities to policyholders using best estimate assumptions plus a risk margin. In addition, entities are required to hold a risk based SCR which is calculated by considering the capital required to withstand a number of shock scenarios.

As part of the disclosure requirements, the Group's life assurance entity, NIAC, annually publishes a public document called the Solvency and Financial Condition Report setting out more detail on its solvency and capital management.

42 Other liabilities

	2020 €m	2019 €m
Notes in circulation	1,090	1,261
Sundry creditors	290	322
Accrued interest payable	125	195
Accruals and deferred income	24	52
Short position in trading securities	-	-
Other	705	583
Other liabilities	**2,234**	**2,413**
Other liabilities are analysed as follows:		
Within 1 year	2,215	2,397
After 1 year	19	16
	2,234	**2,413**

43 Leasing

Group as lessee
The principal contracts where the Group is a lessee under IFRS 16 are in relation to property leases and computer equipment. Further qualitative information on the nature of the leases is set out in the Group accounting policies (note 1) and the undiscounted contractual maturity of total lease liabilities is set out in note 58 Liquidity risk and profile.

Total cash outflows on leases amounted to €90 million in 2020 (2019: €95 million).

Amounts recognised in the balance sheet and income statement
The carrying amount of the Group's RoU assets and the movements during 2020 are set out in note 34.

The carrying amount of the lease liabilities and the movements during 2020 is set out in the tables below.

Group as lessor
Accounting for lessors is outlined in the Group accounting policies (note 1). The Group is engaged in finance lease and operating lease activities.

Finance leasing activity and a maturity analysis of the Group's net investment in finance leases are included within Loans and advances to customers (note 27) along with a gross to net reconciliation of the investment in finance leases. Associated income on finance leases is included in Interest income (note 4). Operating leases where the Group is a lessor primarily relate to the business activities of MLL. Further detail on the nature of the company's leasing activities, risks and risk management is outlined in note 34.

In addition, the Group has also entered into a small number of operating leases and operating sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

A maturity analysis of undiscounted operating lease receivables set out on an annual basis is included in note 34. Income and expense associated with the Group's operating lease activities is included in note 10.

Lease liabilities	2020 €m	2019 €m
As at 1 January	**565**	**637**
Payment of lease liability and interest	(76)	(84)
Interest expense (note 5)	14	15
Lease liability adjustment	(56)	(5)
Additions	50	3
Other movements	1	(1)
As at 31 December	**498**	**565**

43 Leasing *(continued)*

Summary of amounts recognised in the income statement under IFRS 16 'Leases'	2020 €m	2019 €m
Amounts recognised in interest expense (note 5)		
Interest expense on lease liabilities	14	15
Amounts recognised in interest income (note 4)		
Finance lease interest	171	175
Amounts recognised in other operating expense (note 13)		
Depreciation of RoU assets in property, plant and equipment	63	69
Variable lease expenses[1]	8	8
Short-term lease expenses	1	3
	72	**80**
Amounts recognised in cost of restructuring (note 14)		
Impairment of RoU assets	6	2

44 Provisions

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.

	2020				2019			
	Restructuring €m	Onerous contracts €m	Legal and other €m	Total €m	Restructuring €m	Onerous contracts €m	Legal and other €m	Total €m
Opening balance as at 1 January	**46**	**-**	**97**	**143**	**16**	**1**	**61**	**78**
Exchange adjustment	(2)	-	-	(2)	-	-	3	3
Charge to income statement	212	-	44	256	73	(1)	78	150
Utilised during the year	(100)	-	(21)	(121)	(39)	-	(40)	(79)
Unused amounts reversed during the year	(8)	-	-	(8)	(4)	-	(5)	(9)
As at 31 December	**148**	**-**	**120**	**268**	**46**	**-**	**97**	**143**

Of the €148 million (2019: €46 million) closing provision for restructuring, €132 million relates to the Voluntary Redundancy Programme (2019: €10 million related to staff exits), €9 million relates to a provision for building exit costs on vacated property in line with the Group's property strategy, €5 million relates to the disposal of the UK credit cards portfolio and €2 million relates to other costs (2019: €2 million).

[1] *Variable lease payments on RoU assets relate to computer equipment that has a varying cost dependant on usage with the contracts on which the payments arise maturing within two years.*

44 Provisions *(continued)*

	2020				2019			
Expected utilisation	**Restructuring €m**	**Onerous contracts €m**	**Legal and other €m**	**Total €m**	**Restructuring €m**	**Onerous contracts €m**	**Legal and other €m**	**Total €m**
Less than 1 year	134	-	117	251	44	-	90	134
1 to 2 years	6	-	1	7	1	-	4	5
2 to 5 years	8	-	1	9	-	-	2	2
5 to 10 years	-	-	1	1	1	-	1	2
Total	**148**	**-**	**120**	**268**	**46**	**-**	**97**	**143**

At 31 December 2020, the Group held a provision of €74 million (2019: €75 million) in respect of the ongoing industry wide Tracker Mortgage Examination. The provision represents the Group's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Group in connection with the examination.

In 2020, the Group has set aside a further €14 million provision to cover the additional redress and compensation costs for a small number of additional customers, operational costs associated with the length and nature of the review and estimated costs of closing out the Tracker Mortgage Examination review. Since 31 December 2019, €15 million of the provision has been utilised covering redress, compensation and related cost.

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 in particular, 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:

- **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 various oversight and governance processes, in particular any potential fine relating to the conclusion of the ongoing CBI administrative sanctions proceedings and the running of the appeals panel, tax liabilities that the Bank will settle on behalf of customers, data system costs and tracing agents.
- **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;

At 31 December 2020 the Group has recognised a separate customer redress provision of €25 million. The provision arises from the introduction of a new Bank Cost of Funds interest rate replacing the old Cost of Funds/EURIBOR basis in respect of certain cohorts of its business customers in November 2011. The implementation was limited to certain business customers and personal consumers were excluded. In 2013, the Group's Irish Private Banking business introduced a similar Private Banking cost of funds interest rate.

During 2020 a review of the implementation of these interest rates was carried out by the Group. The review identified that a cohort of customers incorrectly had these interest rates applied to their accounts. The Group made a total remediation provision of €25 million in order to cover the identified remediation and related costs. This will result in a €22 million charge to net interest income and €3 million charge to operating expenses.

In July 2019, the Group disposed of its UK credit card portfolio and recognised a net loss on disposal of €21 million. The net loss on disposal included a charge for a provision of €39 million related to the costs of migration and other costs associated with the disposal (see note 18).

In October 2020, the migration of the portfolio concluded and consequently the provision was adjusted to reflect the actual costs and timing of migration. This has resulted in a release of €8 million from the provision which is reflected as an adjustment to the loss on disposal during the year. As at 31 December 2020, the provision is €5 million (2019: €39 million) which is included in the restructuring provision and is based upon management's current estimates of the residual activities associated with migration.

45 Contingent liabilities and commitments

The table gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Loss allowance provisions of €99 million (2019: €30 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 46. Provisions on all other contingent liabilities are shown in note 44.

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.

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.

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.

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 Group served a robust response to the letter before claim in June 2019 but has received no response to date. Whilst the length of time that has elapsed suggests a diminishing risk, it is still not possible at this stage to state whether the claims continue to be asserted and if so, until properly particularised, whether such claims have any merit.

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 is an amount of €105 million of undrawn loan commitments to the Group's joint ventures (2019: €22 million).

	2020 €m	2019 €m
Contingent liabilities		
Guarantees and irrevocable letters of credit	468	428
Acceptances and endorsements	4	5
Other contingent liabilities	244	267
	716	**700**
Loan commitments		
Documentary credits and short-term trade related transactions	48	46
Undrawn formal standby facilities, credit lines and other commitments to lend	15,381	14,197
- Revocable or irrevocable with original maturity of 1 year or less	*10,048*	*9,315*
- Irrevocable with original maturity of over 1 year	*5,333*	*4,882*
	15,429	**14,243**

46 Loss allowance provision on loan commitments and financial guarantees

	2020		2019	
	Amount €m	Loss allowance €m	Amount €m	Loss allowance €m
Loan commitments (note 45)	15,429	94	14,243	29
Guarantees and irrevocable letters of credit (note 45)	468	5	428	1
	15,897	**99**	**14,671**	**30**

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.

At 31 December 2020, the Group held a loss allowance provision of €99 million (2019: €30 million) on loan commitments and financial guarantees, of which €36 million (2019: €18 million) are classified as Stage 1, €62 million (2019: €10 million) as Stage 2 and €1 million (2019: €2 million) as Stage 3. The increase in impairment loss allowance on loan commitments and financial guarantees reflects impairment model updates, including the change in the macroeconomic outlook due to the COVID-19 pandemic.

The following tables summarise the asset quality of loan commitments and financial guarantees by IFRS 9 twelve month PD grade which are not credit-impaired.

At 31 December 2020, credit-impaired loan commitments are €94 million (2019: €50 million) while credit-impaired guarantees and irrevocable letters of credit are €17 million (2019: €8 million). The increase in Stage 2 loan commitments and financial guarantees reflects impairment model updates, including the change in the macroeconomic outlook due to the COVID-19 pandemic.

2020	Loan commitments						Guarantees and irrevocable letters of credit					
Loan commitments and financial guarantees - Contract amount	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	4,147	33%	48	2%	4,195	27%	97	32%	-	-	97	21%
5-7	5,378	42%	1,495	56%	6,873	45%	151	50%	53	35%	204	45%
8-9	3,005	24%	562	21%	3,567	23%	42	14%	56	38%	98	22%
10-11	147	1%	553	21%	700	5%	12	4%	40	27%	52	12%
Total	**12,677**	**100%**	**2,658**	**100%**	**15,335**	**100%**	**302**	**100%**	**149**	**100%**	**451**	**100%**

2019	Loan commitments						Guarantees and irrevocable letters of credit					
Loan commitments and financial guarantees - Contract amount	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	6,097	45%	212	34%	6,309	44%	108	27%	2	8%	110	26%
5-7	5,192	38%	208	34%	5,400	38%	268	68%	1	4%	269	64%
8-9	2,116	16%	114	18%	2,230	16%	16	4%	6	23%	22	5%
10-11	168	1%	86	14%	254	2%	2	1%	17	65%	19	5%
Total	**13,573**	**100%**	**620**	**100%**	**14,193**	**100%**	**394**	**100%**	**26**	**100%**	**420**	**100%**

47 Retirement benefit obligations

The Group sponsors a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit 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 defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for c.74% of the total liabilities across all Group sponsored defined benefit schemes at 31 December 2020. The BSPF and all of the Group's other RoI and UK defined benefit schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of defined benefit and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in late 2014 and a new defined contribution scheme, RetireWell, was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

Regulatory Framework

The Group operates the defined benefit 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 defined benefit 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.

BSPF plan details at last valuation date (31 December 2018)	Number of members	Proportion of funding liability
Active members	4,535	31.9%
Deferred members	8,077	26.4%
Pensioner members	4,646	41.7%
Total	**17,258**	**100%**

The significant financial assumptions used in measuring the Group's defined benefit obligations under IAS 19 are set out in the table below.

Financial assumptions	2020 % p.a.	2019 % p.a.
Irish schemes		
Discount rate	0.80	1.30
Inflation rate	1.15	1.25
Rate of general increase in salaries[1]	1.65	1.75
Rate of increase in pensions in payment[1]	0.65	0.73
Rate of increase to deferred pensions	1.15	1.25
UK schemes		
Discount rate	1.55	2.10
Consumer Price Inflation	2.30	1.95
Retail Price Inflation	2.90	2.95
Rate of general increase in salaries[1]	3.40	3.45
Rate of increase in pensions in payment[1]	1.90	2.04
Rate of increase to deferred pensions	2.30	1.95

Actuarial Valuation of the BSPF

The last formal valuation of BSPF was carried out as at 31 December 2018.

The triennial valuation disclosed the fair value of the scheme assets represented 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions.

As a result of the valuation discussions with the Trustees, the Group agreed to pay €19.4 million per annum in contributions over the 3 years to the next triennial valuation date, plus a contribution to the annual scheme expenses. The total of these payments equated to the remaining committed contributions arising from the 2013 Group Pensions Review.

[1] *Weighted average increase across all Group schemes in the relevant jurisdiction.*

47 Retirement benefit obligations *(continued)*

In respect of future service, the actuary recommended an employer contribution of €59.5 million per annum over the period to the next valuation (decreased from €63.6 million at the last valuation).

The next formal triennial valuation of the BSPF will be carried out during 2022 based on the position at 31 December 2021.

The actuarial valuations are available for inspection by members but are not available for public inspection.

Plan details

The table on page 298 sets out details of the membership of the BSPF.

Negative Past Service Cost

A negative past service cost of €26 million was recognised in one of the Group's schemes during 2020: in addition, negative past service cost of €16 million arising from the Group's restructuring programme was recognised across a number of schemes.

Financial and Demographic assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary, with reference to market yields at the reporting date on high quality corporate bonds (AA rated or equivalent) issued in the relevant currency, with a term corresponding to the term of the benefit payments.

During 2020, the Group's actuary, Willis Towers Watson (WTW), refined its methodology used in selecting bonds in its Global RATE:Link models. This model is available to all WTW clients and consistent with prior periods, is used by the Group in the determination of the discount rate used to value sterling denominated liabilities under IAS 19. The Group also implemented the refinement to the Group's euro discount rate methodology. This reflects a change in the way Bloomberg (WTW's source of data on the bond universes) classifies information about fixed interest bonds. The euro and UK discount rates determined using this approach were 0.80% and 1.55% respectively. The euro and UK discount rates under the previous approach would have been 0.50% and 1.40% respectively, which, if used, would have increased the net pension deficit by c.€530 million at 31 December 2020.

The assumption for RoI price inflation is set by reference 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 retail price index (RPI) inflation, with an adjustment applied, as there are insufficient CPI-linked bonds from which to derive an assumption.

The salary assumption takes into account inflation, promotion and current employment markets relevant to the Group. Other financial assumptions are reviewed in line with changing market conditions to determine best estimate assumptions. Demographic assumptions are reviewed periodically in line with the actual experience of the Group's schemes.

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland mortality investigations that are considered a best fit for the Group's expected future mortality experience.

Mortality assumptions	2020 years	2019 years
Longevity at age 70 for current pensioners		
Males	18.1	18.0
Females	19.5	19.4
Longevity at age 60 for active members currently aged 60 years		
Males	27.6	27.5
Females	29.3	29.2
Longevity at age 60 for active members currently aged 40 years		
Males	29.9	29.8
Females	31.4	31.3

47 Retirement benefit obligations *(continued)*

Amounts recognised in financial statements
The table below outlines where the Group's defined benefit plans are recognised in the financial statements:

	2020			2019		
	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	(50)	(16)	(66)	(88)	(15)	(103)
Cost of restructuring programme	11	5	16	1	1	2
Statement of OCI						
Impact of remeasurement	(108)	21	(87)	54	(10)	44
Balance sheet obligations	**(203)**	**77**	**(126)**	**(171)**	**32**	**(139)**
This is shown on the balance sheet as:						
Retirement benefit obligation			(288)			(268)
Retirement benefit asset			162			129
Total net liability			**(126)**			**(139)**

[1] *The UK Pension Plans include a portion of the Bank of Ireland Staff Pension Fund which relates to UK members.*

47 Retirement benefit obligations *(continued)*

The movement in the net defined benefit obligation over the year in respect of the Group's defined benefit plans is as follows:

	2020			2019		
	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	**(8,495)**	**8,356**	**(139)**	**(7,475)**	**7,247**	**(228)**
Cost of restructuring programme						
- Negative past service cost	16	-	16	2	-	2
Other operating expenses	(194)	128	(66)	(238)	135	(103)
- Current service cost	*(100)*	*-*	*(100)*	*(100)*	*-*	*(100)*
- Negative past service cost	*26*	*-*	*26*	*-*	*-*	*-*
- Interest (expense) / income	*(120)*	*128*	*8*	*(138)*	*135*	*(3)*
- Impact of settlements	*-*	*-*	*-*	*-*	*-*	*-*
Return on plan assets not included in income statement	-	690	690	-	1,032	1,032
Change in demographic assumptions	(7)	-	(7)	1	-	1
Change in financial assumptions	(811)	-	(811)	(1,035)	-	(1,035)
Experience gains	19	-	19	65	-	65
Employer contributions	-	150	150	-	146	146
- Deficit reducing[1]	*-*	*57*	*57*	*-*	*51*	*51*
- Other	*-*	*93*	*93*	*-*	*95*	*95*
Employee contributions	(9)	9	-	(9)	9	-
Benefit payments	336	(336)	-	275	(275)	-
Changes in exchange rates	98	(76)	22	(81)	62	(19)
At 31 December	**(9,047)**	**8,921**	**(126)**	**(8,495)**	**8,356**	**(139)**
The above amounts are recognised in the financial statements as follows: (charge) / credit						
Other operating expenses	(194)	128	(66)	(238)	135	(103)
Cost of restructuring programme	16	-	16	2	-	2
Total amount recognised in income statement	**(178)**	**128**	**(50)**	**(236)**	**135**	**(101)**
Changes in financial assumptions	(811)	-	(811)	(1,035)	-	(1,035)
Return on plan assets not included in income statement	-	690	690	-	1,032	1,032
Change in demographic assumptions	(7)	-	(7)	1	-	1
Changes in exchange rates	98	(76)	22	(81)	62	(19)
Experience gains	19	-	19	65	-	65
Total remeasurements in OCI	**(701)**	**614**	**(87)**	**(1,050)**	**1,094**	**44**
Total past service cost comprises						
Cost of restructuring programme	16	-	16	2	-	2
Other operating expenses	26	-	26	-	-	-
Total	**42**	**-**	**42**	**2**	**-**	**2**

[1] *Deficit-reducing contributions consist principally of additional contributions related to the Group's Pensions Reviews.*

47 Retirement benefit obligations *(continued)*

The retirement benefit schemes' assets include BOIG plc shares amounting to €3 million (2019: €5 million) and one property occupied by Group companies to the value of €36 million (2019: €40 million).

Sensitivity of defined benefit obligation to key assumptions

This table sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible.

While the defined benefit obligation sensitivity table shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the reasonably possible changes in defined benefit 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 defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

The table on the following page sets out the estimated sensitivity of plan assets to changes in equity markets, interest rates and inflation rates.

The sensitivity analysis is prepared by the independent actuaries calculating the defined benefit obligation under the alternative assumptions and the fair value of plan assets using alternative asset prices.

Future cash flows

The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration or average term to payment for the benefits due, weighted by liability, is c.22 years for the Irish plans and c.20 years for the UK plans.

Expected employer contributions for 2021 are €123 million in respect of future service. This excludes any additional deficit-reducing contributions. The remaining committed contributions arising from the 2013 Group Pensions Review of €38 million were paid before the end of 2020 in line with Trustee and employee agreements.

Expected employee contributions for 2021 are €8 million.

Risks and risk management

The Group's defined benefit 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 defined benefit 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 45% 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 breakdown	2020 €m	2019 €m
Liability Driven Investment (unquoted)	3,384	3,119
Corporate bonds (quoted)	1,070	561
Equities (quoted)	916	1,005
Property (unquoted)	898	810
Cash and other (quoted)	751	835
Private equities (unquoted)	425	402
Government bonds (quoted)	366	308
Senior secured loans (unquoted)	298	310
Hedge funds (unquoted)	275	300
Property and infrastructure (quoted)	271	428
Reinsurance (unquoted)	267	278
Total fair value of assets	**8,921**	**8,356**

Impact on defined benefit obligations	Increase / (decrease) 2020 €m	Increase / (decrease) 2019 €m
RoI schemes		
Discount rate		
- Increase of 0.25%	(371)	(337)
- Decrease of 0.25%	399	363
Inflation rate		
- Increase of 0.10%	99	96
- Decrease of 0.10%	(97)	(94)
Salary growth		
- Increase of 0.10%	33	33
- Decrease of 0.10%	(32)	(33)
Life expectancy		
- Increase of 1 year	250	218
- Decrease of 1 year	(248)	(216)
UK schemes		
Discount rate		
- Increase of 0.25%	(85)	(83)
- Decrease of 0.25%	91	90
RPI inflation		
- Increase of 0.10%	22	24
- Decrease of 0.10%	(22)	(21)
Salary growth		
- Increase of 0.10%	5	5
- Decrease of 0.10%	(4)	(5)
Life expectancy		
- Increase of 1 year	59	54
- Decrease of 1 year	(58)	(53)

47 Retirement benefit obligations *(continued)*

Impact on plan assets	Increase / (decrease) 2020 €m	Increase / (decrease) 2019 €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%	121	102
- Decrease of 5.00%	(121)	(102)
Sensitivity of liability-matching assets to a 25bps movement in interest rates		
- Increase of 0.25%	(380)	(325)
- Decrease of 0.25%	402	344
Sensitivity of liability-matching assets to a 10bps movement in inflation rates		
- Increase of 0.10%	99	82
- Decrease of 0.10%	(97)	(80)

Asset volatility
The defined benefit 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 defined benefit 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 defined benefit 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 defined benefit 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.

The investment in bonds is discussed further below.

Changes in bond yields
The LDI approach invests in cash, government bonds, interest rate and inflation swaps, and other financial derivatives to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. It also provides a closer match to the expected timing of cash flow / pension payments. The portfolio broadly hedges against movements in long-term interest rates although it only hedges a portion of the BSPF's interest rate risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities.

However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.

Inflation risk
The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although, in most cases, caps on the level of inflationary increases are in place to protect the plans against high inflation and the 2013 Group Pensions Review changes have further limited this exposure. The LDI portfolio broadly hedges against movements in inflation expectations although it only hedges a portion of the BSPF's inflation risks.

Furthermore, the portfolio does not protect against differences between expectations for eurozone average inflation and the fund's Irish inflation exposure.

Life expectancy
The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the Trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but are not limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, FX risk, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

48 Subordinated liabilities

		2020 €m	2019 €m
Undated loan capital			
The Governor and Company of the Bank of Ireland			
Stg£75 million 13⅜% Perpetual Subordinated Bonds	(a)	84	89
Bristol & West plc			
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	(b)	36	38
		120	**127**
Dated loan capital			
The Governor and Company of the Bank of Ireland			
€250 million 10% Fixed Rate Subordinated Notes 2022	(c)	260	263
€1,002 million 10% Fixed Rate Subordinated Notes 2020	(d)	-	207
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	(d)	-	2
Bank of Ireland Group plc			
US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	(e)	418	445
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	(e)	337	351
€300 million 2.375% Fixed Rate Reset Callable Subordinated Notes 2029	(f)	299	295
		1,314	**1,563**
Total subordinated liabilities		**1,434**	**1,690**

Subordinated liabilities in issue at 31 December 2020

Undated loan capital
The principal terms and conditions of the subordinated liabilities which were in issue by the Group at 31 December 2020 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 unsubordinated depositors 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 instruments, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves.

The table above provides a description of the dated loan capital, including:
- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue in 2020 were issued under the Group's Euro Note Programme.

48 Subordinated liabilities *(continued)*

(c) €250 million 10% Subordinated Notes 2022
On 18 December 2012, the Bank issued 10 year fixed rate notes with a coupon rate of 10% and a maturity date of December 2022. The notes rank pari passu with all other dated Bank subordinated debt.

(d) €1,002 million 10% Fixed Rate Subordinated Notes 2020 and Stg£197 million 10% Fixed Rate Subordinated Notes 2020
On 12 February 2010, the Bank issued Euro and Sterling 10 year fixed rate subordinated notes with a coupon rate of 10%. The notes matured on 12 February 2020 and were repaid during 2020.

(e) Bank of Ireland Group plc subordinated notes
On 19 September 2017, the Company completed a dual tranche issuance of Stg£300 million and US$500 million 10 year (callable at the end of year five) Tier 2 capital instruments. The sterling bond has a coupon of 3.125% and the US dollar bond has a coupon of 4.125%.

(f) On 14 October 2019, the Company issued a €300 million 10 year (callable at the end of year five) Tier 2 capital instrument. The bond carries a coupon of 2.375%.

These instruments are loss absorbing at the point of non-viability under the EU (Bank Recovery and Resolution) Regulations 2015, as amended and Noteholders acknowledge that the notes may be subject to the exercise of Irish statutory loss absorption powers by the relevant resolution authority. Redemption in whole but not in part is at the option of the Company upon (i) regulatory reasons (capital event), or (ii) tax reasons (additional amounts payable on the notes). Any redemption before the maturity date is subject to such approval by the Competent Authority, namely ECB or SRB as may be required by the CRR and / or such other laws and regulations which are applicable to the Company.

49 Share capital

Ordinary shares
All of the company's issued share capital comprising 1,078,822,872 ordinary shares of €1.00 each are listed on the Irish Stock Exchange and the London Stock Exchange.

All ordinary shares carry the same voting rights.

There were no outstanding options on ordinary shares under employee schemes as at 31 December 2020 or 2019.

As at 31 December 2020, NIAC plc held 5,076,259 ordinary shares of BOIG plc as 'treasury shares' (2019: 4,951,358).

The consideration paid for these shares amounted to €25.3 million (2019: €31 million).

Authorised	2020 €m	2019 €m
Bank of Ireland Group plc		
10 billion ordinary shares of €1.00 each	10,000	10,000
100 million preference shares of €0.10 each	10	10

Allotted and fully paid	2020 €m	2019 €m
Bank of Ireland Group plc		
1,074 billion ordinary shares of €1.00 each (2019: 1.074 billion units)	1,074	1,074
5 million treasury shares of €1.00 each (2019: 4.951 million units)	5	5
	1,079	**1,079**

	2020		2019	
Movement in ordinary and treasury shares	**Ordinary shares**	**Treasury shares**	**Ordinary shares**	**Treasury shares**
At the beginning of the year	1,073,871,514	4,951,358	1,075,515,613	3,307,259
Change in shares held for the benefit of life assurance policyholders	(124,901)	124,901	(1,644,099)	1,644,099
At end of year	**1,073,746,613**	**5,076,259**	**1,073,871,514**	**4,951,358**

50 Other equity instruments - Additional Tier 1

In May and September 2020, BOIG issued AT1 securities with a par value of €675 million and €300 million respectively at an issue price of 100%.

The principal terms of the AT1 securities are as follows:

- the securities constitute direct, unsecured, unguaranteed and subordinated obligations of BOIG, rank behind Tier 2 instruments and preference shareholders and in priority to ordinary shareholders;
- the securities have no fixed redemption date, and the security holders will have no right to require BOIG to redeem or purchase the securities at any time;
- BOIG 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 at any time from and including the first call date (19 May 2025 for the €675 million issue and 1 September 2025 for the €300 million issue) to and including the first reset date (19 November 2025 for the €675 million issue and 1 March 2026 for the €300 million issue), or semi-annually on any interest payment date thereafter;
- the €675 million securities bear a fixed rate of interest of 7.5% until the first reset date (19 November 2025), while the €300 million issue bear a fixed rate of interest of 6.0% until its first reset date (1 March 2026). After the initial reset 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;
- BOIG 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 for either set of securities;
- both sets of securities will be written down and any unpaid interest will be cancelled if BOIG's CET 1 ratio falls below 7%; and
- subsequent to any write-down event BOIG 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.

	2020 €m	2019 €m
AT1 securities issued during the period	975	-
Transaction costs	(9)	-
Balance at the end of the year	**966**	**-**

51 Non-controlling interests

Additional tier 1 securities

The Governor and Company of the Bank of Ireland (the 'Bank') issued AT1 securities in June 2015 with a par value of €750 million. These securities were not attributable to the owners of the Parent, BOIG plc, and were classified as non-controlling interests (NCI).

On 18 June 2020, the Bank redeemed these securities at par on their initial call date, having received regulatory consent to do so. The carrying value of these securities was €740 million, presented as NCI. On redemption at par value of €750 million, NCI related to these securities was reduced by €740 million, to €nil, and the excess of €10 million was deducted from retained earnings.

	2020 €m	2019 €m
Balance at the beginning of the year	808	808
Redemption of non-controlling interests - AT1	(740)	-
Profit attributable to non-controlling interest	35	62
Distribution to non-controlling interests - AT1	(28)	(55)
Dividends paid to non-controlling interests - preference stock	(7)	(7)
Balance at the end of the year	**68**	**808**

Preference stock

The preference stock and related stock premium of the Bank are classified as non-controlling interests, as they are not attributable to the owners of the parent BOIG plc.

As at 31 December 2020 and 2019, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year.

On a winding up of, or other return of capital, by the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2020 and consequently the preference stockholders were not entitled to vote at the Annual General Court (AGC) held on 19 May 2020.

52 Cash and cash equivalents

Cash and cash equivalents are classified as amortised cost financial assets. Impairment loss allowance on cash and cash equivalents is measured at amortised cost on a 12 month or lifetime ECL approach as appropriate.

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.

The Group is required to hold an average balance with the Central Bank over the published ECB reserve maintenance (six weeks) periods in order to meet its minimum reserve requirement, which at 31 December 2020 was €749 million (2019: €681 million).

Cash and cash equivalents for the Group in 2020 increased by €1,939 million during the year despite a decrease of €265 million due to the effect of foreign currency exchange translation (2019: increased by €2,977 million, including an increase of €250 million due to the effect of foreign currency translation).

There has been no significant change in the impairment loss allowance on cash and balances at central banks during the year. The composition of cash and balances at central banks by stage is included in other financial assets set out in note 28 on page 269.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2020 €m	**2019 €m**
Cash and balances at central banks	10,957	8,327
Less impairment (loss) allowance on cash and balances at central banks	(4)	(2)
Cash and balances at central banks net of impairment (loss) allowance	**10,953**	**8,325**
Loans and advances to banks (with an original maturity of less than 3 months)	2,312	3,001
Cash and cash equivalents at amortised cost	**13,265**	**11,326**

Cash and balances at central banks (net of impairment loss allowance) is made up as follows:

	2020 €m	**2019 €m**
Republic of Ireland (Central Bank of Ireland)	7,918	5,096
United Kingdom (Bank of England)	2,463	2,526
United States (Federal Reserve)	101	264
Other (cash holdings)	471	439
Total	**10,953**	**8,325**

53 Changes in liabilities arising from financing activities

	2020				2019			
	Subordinated liabilities €m	Interest on subordinated liabilities €m	Lease liabilities €m	Interest on lease liabilities €m	Subordinated liabilities €m	Interest on subordinated liabilities €m	Lease liabilities €m	Interest on lease liabilities €m
At beginning of year	1,690	52	565	-	2,104	53	637	-
Cash flows	(208)	(84)	(62)	(14)	(450)	(107)	(69)	(15)
- Proceeds from issue of subordinated liabilities	*-*	*-*	*-*	*-*	*300*	*-*	*-*	*-*
- Repayment of subordinated liabilities	*(208)*	*-*	*-*	*-*	*(750)*	*-*	*-*	*-*
- Interest paid on subordinated liabilities	*-*	*(84)*	*-*	*-*	*-*	*(107)*	*-*	*-*
- Payment of lease liability	*-*	*-*	*(62)*	*-*	*-*	*-*	*(69)*	*-*
- Interest paid on lease liabilities	*-*	*-*	*-*	*(14)*	*-*	*-*	*-*	*(15)*
Non-cash changes	(48)	74	(5)	14	36	106	(3)	15
- Charge to income statement	*-*	*74*	*-*	*14*	*-*	*106*	*-*	*15*
- Exchange adjustments	*(63)*	*-*	*(3)*	*-*	*31*	*-*	*(1)*	*-*
- Lease liability adjustment	*-*	*-*	*(56)*	*-*	*-*	*-*	*(5)*	*-*
- Additions to lease liabilities	*-*	*-*	*50*	*-*	*-*	*-*	*3*	*-*
- Fair value hedge adjustments	*14*	*-*	*-*	*-*	*3*	*-*	*-*	*-*
- Other movements	*1*	*-*	*4*	*-*	*2*	*-*	*-*	*-*
At end of year	**1,434**	**42**	**498**	**-**	**1,690**	**52**	**565**	**-**

This table sets out the changes in liabilities arising from financing activities between cash and non-cash items. For more information on subordinated liabilities, see note 48. For more information on lease liabilities, see note 43. Interest accrued on subordinated liabilities is included within other liabilities.

54 Related party transactions

Related parties in the Group include the parent company, BOIG plc, subsidiary undertakings, associated undertakings, joint arrangements, post-employment benefits, the State, KMP and connected parties. A number of banking transactions are entered into between the Company and its subsidiaries in the normal course of business. These include extending secured and unsecured loans, investing in debt securities issued by subsidiaries, taking of deposits and undertaking foreign currency transactions.

(a) Associates, joint ventures and joint operations

The Group provides to and receives from its associates, joint ventures and joint operations, certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding during 2020 are set out in notes 30 and 31.

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Group for the benefit of its employees (principally to the BSPF), which are conducted on similar terms to third party transactions. Details on the Group's contributions to the pension funds are set out in note 47.

The Group occupies one property owned by the BSPF. At 31 December 2020, the total value of this property was €36 million (2019: €40 million). In 2020, the rental income paid to BSPF was €2 million (2019: €2 million).

At 31 December 2020, BSPF assets included BOIG plc shares amounting to €3 million (2019: €5 million).

(c) Transactions with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 55.

(d) Transactions with Directors and Key Management Personnel

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, Directors means the Board of Directors and any past Directors who were Directors during the relevant period. Directors' emoluments are set out in the Remuneration Report on page 131.

54 Related party transactions *(continued)*

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%.

Companies Acts disclosure **Loans**	**Balance as at 1 January 2020[1] €'000**	**Balance as at 31 December 2020[1] €'000**	**Aggregate maximum amount outstanding during the year ended 31 December 2020[2] €'000**	**Repayments during the year ended 31 December 2020[3] €'000**
Directors at 31 December 2020				
E Bourke				
Credit card total	6	6	5	-
Current account total	-	-	-	-
Total	**6**	**6**	**5**	**-**
P Kennedy				
Credit card total	5	2	12	-
Current account total	-	-	-	-
Total	**5**	**2**	**12**	**-**
F McDonagh				
Mortgage total	953	926	952	56
Credit card total	2	4	4	-
Total	**955**	**930**	**956**	**56**
F Muldoon				
Mortgage total	82	50	82	35
Credit card total	7	6	7	-
Current account total	-	-	-	-
Total	**89**	**56**	**89**	**35**
E Fitzpatrick				
Loan total	20	15	40	26
Total	**20**	**15**	**40**	**26**
M Greene				
Mortgage total	24	17	23	7
Total	**24**	**17**	**23**	**7**
P Mulvihill				
Credit card total	-	-	-	-
Current account total	-	-	-	-
Total	**-**	**-**	**-**	**-**

M O'Grady, P Haren, G Andrews, R Goulding, I Buchanan and S Pateman had no loans from the Group in 2020. No advances were made during the year. No amounts were waived during 2020.

None of the loans were credit-impaired as at 31 December 2020 or at 31 December 2019. There is no interest which having fallen due on the above loans has not been paid in 2020 (2019: €nil).

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*

54 Related party transactions *(continued)*

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 312.

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.

Companies Acts disclosure Loans	Balance as at 1 January 2019[1] €'000	Balance as at 31 December 2019[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2019[2] €'000	Repayments during the year ended 31 December 2019[3] €'000
Directors at 31 December 2019				
E Bourke				
Credit card total	3	6	5	-
Current account total	-	-	-	-
Total	**3**	**6**	**5**	**-**
P Kennedy				
Credit card total	2	5	5	-
Current account total	-	-	-	-
Total	**2**	**5**	**5**	**-**
F McDonagh				
Mortgage total	981	953	980	56
Credit card total	-	2	4	-
Total	**981**	**955**	**984**	**56**
F Muldoon				
Mortgage total	103	82	103	24
Credit card total	4	7	8	-
Current account total	-	-	-	-
Total	**107**	**89**	**111**	**24**
E Fitzpatrick				
Loan total	28	20	28	8
Total	**28**	**20**	**28**	**8**
M Greene				
Mortgage total	29	24	29	7
Total	**29**	**24**	**29**	**7**
P Mulvihill				
Credit card total	-	-	-	-
Current account total	-	-	-	-
Total	**-**	**-**	**-**	**-**
Directors no longer in service at 31 December 2019				
A Keating				
Credit card total[4]	2	5	12	-
Total	**2**	**5**	**12**	**-**

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

54 Related party transactions *(continued)*

(ii) Loans to connected persons on favourable terms

2020 Loans to connected persons[1] on favourable terms[2]	Balance as at 31 December 2020[3] €'000	Maximum amounts outstanding during 2020[4] €'000	Number of persons as at 31 December 2020	Maximum number of persons during 2020
E Bourke	1	4	2	2

2019 Loans to connected persons[1] on favourable terms[2]	Balance as at 31 December 2019[3] €'000	Maximum amounts outstanding during 2019[4] €'000	Number of persons as at 31 December 2019	Maximum number of persons during 2019
E Bourke	2	6	2	2

(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.

2020 Connected persons[1] of the following Directors	Balance as at 31 December 2020[3] €'000	Maximum amounts outstanding during 2020[4] €'000	Number of persons as at 31 December 2020	Maximum number of persons during 2020
Persons connected to P Kennedy	2,150	2,259	1	1

2019 Connected persons[1] of the following Directors	Balance as at 31 December 2019[3] €'000	Maximum amounts outstanding during 2019[4] €'000	Number of persons as at 31 December 2019	Maximum number of persons during 2019
Persons connected to P Kennedy	2,256	3,531	1	1
Persons connected to E Bourke[5]	-	355	2	2

1 *Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*
2 *On terms, including interest rates and collateral, similar to those available to staff generally.*
3 *Balances include 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 only.*
5 *All loans to person connected to E Bourke were below disclosure thresholds.*

54 Related party transactions *(continued)*

(iv) Key management personnel - loans and deposits (IAS 24)
For the purposes of IAS 24 'Related party disclosures', the Group has 24 KMP (2019: 30) which comprise the Directors, the members of the GEC and any past KMP who was a KMP during the relevant period. In addition to Executive Directors, the GEC comprises the Group Secretary, Chief of Staff and Head of Group Corporate Affairs, Chief Executive Markets and Treasury[1], Chief Executive - Retail (UK), Chief Marketing Officer, Chief People Officer, Chief Executive - Corporate Banking, Chief Executive - Retail Ireland, Group CRO, Chief Operating Officer, Chief Strategy Officer. KMP, 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 KMP 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.

IAS 24 Disclosures 2020 Key management personnel	Balance as at 1 January 2020[2,3] €'000	Balance as at 31 December 2020[2] €'000	Maximum amounts outstanding during 2020[4] €'000	Total number of relevant KMP as at 1 January 2020	Total number of relevant KMP as at 31 December 2020
Loans	3,381	3,139	3,515	21	17
Deposits	6,736	14,060	20,111	27	23

IAS 24 Disclosures 2019 Key management personnel	Balance as at 1 January 2019[2,3] €'000	Balance as at 31 December 2019[2] €'000	Maximum amounts outstanding during 2019[4] €'000	Total number of relevant KMP as at 1 January 2019	Total number of relevant KMP as at 31 December 2019
Loans	4,635	3,381	3,963	21	21
Deposits	11,479	6,736	11,027	28	27

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 2020 or 31 December 2019.

Included in the above IAS 24 loan disclosure figures are loans to KMP and close family members of KMP on preferential staff rates, amounting to €5,003 (2019: €24,938).

None of the loans were credit-impaired as at 31 December 2020 or at 31 December 2019. There is no interest which having fallen due on the above loans has not been paid in 2020 (2019: €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 KMP of the Bank.

(v) Compensation of KMP
Details of compensation paid to KMP are provided below:

Remuneration	2020 €'000	2019 €'000
Salaries and other short-term benefits[5]	9,431	8,275
Post employment benefits[6]	766	796
Termination benefits[7]	536	596
Total	**10,733**	**9,667**
Number of KMP	24	30

1 Left Group on 31 December 2020.
2 Balance includes principal and interest.
3 The opening balance includes balances and transactions with key management personnel who retired during 2019 and are not related parties during 2020. Therefore these key management personnel are not included in the maximum amounts outstanding.
4 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 €25,000 (2019: €25,400). 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 €1 million during 2020 (2019: €3.5 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.
5 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.
6 This comprises Employer contributions paid to pension funds.
7 These include, inter alia, contractual payments due in lieu of notice periods.

55 Summary of relations with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

(a) Ordinary shares

At 31 December 2020, the State held through the ISIF 13.95% of the ordinary shares of the Company (31 December 2019: 13.95%).

(b) Guarantee schemes

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009

Although the Group no longer has any guaranteed liabilities under the Eligible Liabilities Guarantee (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 2020 (2019: €nil).

European Communities (Deposit Guarantee Scheme) Regulations 2015

Details of the deposits protected by these schemes are set out in note 39.

Strategic Banking Corporation of Ireland Scheme

Through its participation in the Strategic Banking Corporation of Ireland (SBCI) Support loan Schemes (the 'Schemes') the Group benefits from an 80% Government guarantee related to amounts advanced under the Schemes. At 31 December 2020, c.€300 million has been advanced across the following individual Schemes: Future Growth Loan Scheme (€185 million), Brexit / COVID-19 Working Capital Loan Scheme (€71 million) and the COVID-19 Credit Guarantee Scheme (€46 million), which is a government credit guarantee scheme, operated through the SBCI Scheme whereby an 80% government guarantee is attached to loans.

(c) National Asset Management Agency Investment DAC

The Group, through its wholly-owned subsidiary NIAC, held 17 million B shares in National Asset Management Agency Investment DAC (NAMAID), corresponding to one-third of the 51 million B shares issued by NAMAID, acquired at a cost of €17 million. NAMAID also issued 49 million A shares to NAMA. As a result the Group held 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.

The shareholders' agreement referenced a call option that entitled NAMAID to purchase the B Shares in the Company.

NAMAID exercised this call option and the Group received €19 million on 26 May 2020. The shareholders' agreement was terminated on that day. On a winding up the return on the B shares was capped at 110% of the amount invested.

A discretionary non-cumulative dividend on the capital invested was paid on an annual basis and was limited to the yield on ten year State bonds. Total dividends of €5 million were received by the Group over the life of the investment.

(d) Other transactions with the State and entities under its control or joint control

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. This includes transactions with AIB, Permanent TSB Group Holdings plc, Government departments, local authorities, county councils, embassies and the 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 2020 and 2019 in respect of these transactions, which are considered individually significant, are set out below.

The National Asset Management Agency (NAMA) redeemed all of its remaining subordinated bonds in full with a nominal value of €70 million at par during the year ended 31 December 2020 (2019: €nil).

55 Summary of relations with the State *(continued)*

	2020 €m	2019 €m
Assets		
Unguaranteed senior bonds issued by AIB	151	196
Unguaranteed subordinated bonds issued by AIB	-	11
NAMA subordinated bonds (note 22)	-	73
Bonds issued by the State	7,595	5,790
Other financial assets at fair value through the profit and loss		
Bonds issued by the State	285	263
Loans and advances to banks		
AIB	3	3
Liabilities		
Customer Accounts		
State (including agencies & entities under its control or joint control)	726	932
Debt securities in issue		
State (including agencies & entities under its control or joint control)	25	25

(e) Irish bank levy

The Finance Act (No 2) 2013 introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The annual levy paid by the Group in October 2020 was €35 million (October 2019: €35 million) which was based on 170% of each financial institution's Deposit Interest Retention Tax (DIRT) payments made in 2017. The Finance Act 2020, enacted in December 2020, revised the basis on which the levy would be calculated for 2021 to be based on 308% of the DIRT payments made in 2019.

56 Principal undertakings

The Parent company of the Group is Bank of Ireland Group plc. The principal Group undertakings for 2020 were:

Name	Principal activity	Registered office	Country of incorporation	Statutory year end
The Governor and Company of the Bank of Ireland[1]	Banking and financial services	40 Mespil Road, Dublin 4	Ireland	31 December
Bank of Ireland (UK) plc[2]	Retail financial services	Bow Bells House, 1 Bread Street, London, EC4M 9BE	England and Wales	31 December
New Ireland Assurance Company plc	Life assurance business	5-9 Frederick Street South, Dublin 2	Ireland	31 December
Bank of Ireland Mortgage Bank[2]	Mortgage lending and mortgage covered securities	40 Mespil Road, Dublin 4	Ireland	31 December
First Rate Exchange Services Limited[3]	Foreign exchange	Great West House, Great West Road, Brentford, London, TW8 9DF	England and Wales	31 March
N.I.I.B. Group Limited	Personal finance and leasing	1 Donegall Square South, Belfast, BT1 5LR	Northern Ireland	31 December

All the Group undertakings are included in the consolidated financial statements. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Company will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

Bank of Ireland Mortgage Bank

BoIMB'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 2020, the total amount outstanding in respect of mortgage covered securities issued was €6.1 billion (2019: €7.4 billion).

[1] Direct subsidiary of BOIG plc.
[2] Direct subsidiary of The Governor and Company of the Bank of Ireland.
[3] This entity is a subsidiary of First Rate Exchange Services Holdings Limited, a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.

56 Principal undertakings *(continued)*

In 2020, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €12.6 billion (2019: €11.5 billion).

BoIMB issues other debt securities under BoIMB's obligation to the CBI within the terms of the Special Mortgage Backed Promissory Note programme. At 31 December 2020, BoIMB had no such debt securities in issue (2019: €nil).

57 Interests in other entities

(a) General

The Group holds ordinary shares and voting rights in a significant number of entities. Management has assessed its involvement in all such entities in accordance with the definitions and guidance in:

- IFRS 10 'Consolidated financial statements';
- IFRS 11 'Joint arrangements';
- IAS 28 'Investments in associates and joint ventures'; and
- IFRS 12 'Disclosure of interests in other entities'.

See Group accounting policies on pages 213 and 214

(b) Significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group

Regulated banking and insurance subsidiaries are required to maintain minimum regulatory liquidity and solvency ratios and are subject to other regulatory restrictions that may impact on transactions between these subsidiaries and the Company, including on the subsidiaries' ability to make distributions.

Certain transactions between Bank of Ireland (UK) plc and the Group are subject to regulatory limits and approvals agreed with the PRA. Total assets of Bank of Ireland (UK) plc at 31 December 2020 were €29.4 billion (2019: €31.7 billion) and liabilities were €27.4 billion (2019: €29.3 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 2020 were €20.3 billion (2019: €19.8 billion) and liabilities were €18.7 billion (2019: €18.3 billion).

The Group's life assurance entity, NIAC, is required to hold shareholder equity that exceeds a solvency capital requirement: see note 41 for details. In addition, the Group's Isle of Man insurance entity is required to hold shareholder equity that exceeds the solvency requirements specified by the Isle of Man Financial Services Authority.

Under Section 357 (1)(b) of the Companies Act 2014, the Bank has given an irrevocable guarantee to meet the liabilities, commitments and contingent liabilities entered into by certain Group undertakings. At 31 December 2020, the commitments of these undertakings amounted to €105 million (2019: €62 million).

(c) Consolidated 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 generally considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In each case the Group generally considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, even though the Group normally owns less than half of the voting rights of those entities.

The Group does not consider it controls an investee when:

- the Group's only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

In the case of some venture capital investments, 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.

The Group holds interests in a number of structured entities (Brunel Residential Mortgage Securitisation No. 1 plc and Bowbell No 2 plc) whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. Brunel Residential Mortgage Securitisation No. 1 plc redeemed all of its outstanding debt securities in July 2020. Bowbell No 2 plc issued new debt securities in June 2019. All of the assets and liabilities of these entities are restricted. Total assets amounted to €1.6 billion (2019: €3.5 billion) and liabilities amounted to €1.6 billion (2019: €3.5 billion), Brunel Residential Mortgage Securitisation redemption being the main driver for the decrease in the year.

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). The Group delivered notice of its intention to call the transaction in December 2019 and the transaction was terminated in January 2020.

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). During 2019, the Group transferred an additional portion of the credit risk on the portfolio to Mespil.

In 2019, the Group entered into a credit protection deed (CPD) transaction transferring a portion of the credit risk on a reference portfolio of performing loans originated by the Group's Corporate Banking team to Vale Securities Finance DAC (Vale).

57 Interests in other entities *(continued)*

No assets or liabilities were transferred to Grattan, Mespil or Vale as part of the transactions. Grattan, Mespil and Vale each cash collateralised their exposure under the respective transactions through the issue of credit linked notes to third party investors. The protection provided by Grattan matured in 2020, while that provided by Mespil matures in 2025 and by Vale in 2029.

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In 2020 and 2019 the Group did not provide financial or other support, nor does it expect or intend to do so.

All of these entities are consolidated in the Group's financial statements.

(d) Treatment of changes in control of a subsidiary during the reporting period

From time to time, the Group may wind up a wholly owned company. During this process, the Group voluntarily appoints a liquidator to manage the winding up of relevant entities. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and accounts for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative FX gains / losses relating to these companies from the FX reserve to the income statement. In 2020, €5 million of a gain was transferred (2019: €4 million loss) (note 18).

(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 2020.

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 2020 or cumulatively in respect of these entities. Other than disclosed in note 45, the Group does not have any further commitments or contingent liabilities in respect of these entities other than its investment to date.

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 Post Office relationship
Enterprise 2000 Fund Limited	50%	Joint venture	Ireland	Investment in venture capital companies

(f) Associates

An associated undertaking is an entity for 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 2020 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

Unconsolidated collective investment vehicles

The company holds investments in unconsolidated structured entities arising from investments in collective investment undertakings, carried at fair value of €11,108 million (2019: €10,176 million). The value included in assets held to cover unit linked policyholder liabilities is €10,889 million (2019: €10,029 million) and €219 million (2019: €147 million) is held for non-unit linked liabilities (note 22). At 31 December 2020, the total asset value of these unconsolidated structured entities, including the portion in which the Group has no interest, was €47.1 billion (2019: €56.7 billion).

The Group's maximum exposure to loss is equal to the carrying value of the investment. However, the Group's investments in these entities are primarily held to match policyholder liabilities in the Group's life assurance business and the majority of the risk from a change in the value of the Group's investment is matched by a change in policyholder liabilities. The collective investment vehicles are primarily financed by investments from investors in the vehicles.

During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any financial or other support. The Group does not sponsor any of these unconsolidated structured entities.

Mulcair Securities DAC

In April 2019, the Group entered into a securitisation arrangement for a portfolio of residential mortgage NPEs, through an unconsolidated special purpose vehicle, Mulcair

57 Interests in other entities *(continued)*

Securities DAC (Mulcair). The portfolio transferred had a gross carrying value of €370 million (before ECL allowance) and a net carrying value of €326 million (after ECL allowance). The Group transferred the beneficial interest in the loans to Mulcair which in turn issued notes backed by these loans. The Group considers that it sponsors this company as it continues to be involved with it as Servicer of the transferred assets and as it is in receipt of income from the provision of these services. At 31 December 2020, the current volume of the loans under management is €310 million.

The Group holds 5% of each class of notes issued by Mulcair as a retained issuance; these notes are held as debt securities at amortised cost with the exception of notes with a nominal value of €1 million which are held as at FVTPL.

Mulcair is not consolidated but the associated income in relation to the services provided to the company is recognised in the Group's financial statements as follows:

	2020 €m	2019 €m
Trading income	-	1
Fee and commission income	1	1
Total income related to Mulcair	**1**	**2**

The carrying amount of assets and liabilities in relation to this entity are listed as:

	2020 €m	2019 €m
Debt securities at amortised cost	14	15
Other financial assets held at fair value through profit or (loss)	2	2
Total carrying value of assets held related to Mulcair	**16**	**17**

The Group's maximum exposure to loss in respect of Mulcair is equal to the carrying value of the retained issuance which is €16 million at 31 December 2020 (2019: €17 million). There are no contractual arrangements that require the Group to provide financial support to Mulcair.

Investment companies

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 2020, there were three entities (2019: three). At 31 December 2020, the total gross asset value of these entities was €1.4 million (2019: €16 million).

With regard to the above unconsolidated structured entities, they are infrastructure fund managers whose principal activity is managing property investments. In 2020 and 2019, the Group did not receive asset management fees from these entities.

The structured entities are not consolidated; the associated fee and commission income in relation to these entities was €nil for 2020 (2019: €nil). The carrying amount of assets and liabilities in relation to these entities in the Group's financial statements is €nil (2019: €nil).

The Group's maximum exposure to loss in respect of these unconsolidated entities is €nil (2019: €nil).

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support.

(h) Coterminous year end dates

The Group consolidates certain entities where the entity does not have the same year end reporting date as the Group. This is to ensure the reporting dates of these Group entities are kept consistent with the principal legal agreements used to engage in their 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.

58 Liquidity risk and profile

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in the Wealth and Insurance division) at 31 December 2020 and 2019 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 Group's approach to the liquid risk management is set out in sections 3.2 of the Risk Management Report.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,892 million and €13,479 million respectively (2019: €5,890 million and €12,694 million respectively) are excluded from this analysis as their repayment is linked to the financial assets backing these contracts.

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

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

58 Liquidity risk and profile *(continued)*

2020 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	97	363	-	-	-	460
Monetary Authorities secured funding	-	117	280	1,550	-	1,947
Customer accounts	77,555	6,049	3,224	1,432	52	88,312
Debt securities in issue	-	776	104	4,831	1,017	6,728
Subordinated liabilities	-	8	61	451	1,253	1,773
Lease liabilities	-	15	43	213	347	618
Contingent liabilities	454	12	62	169	19	716
Commitments	14,403	25	956	45	-	15,429
Total	**92,509**	**7,365**	**4,730**	**8,691**	**2,688**	**115,983**

2019 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	94	349	-	-	-	443
Monetary Authorities secured funding	-	4	1,131	623	-	1,758
Customer accounts	70,018	6,715	4,710	2,307	87	83,837
Debt securities in issue	-	1,036	982	4,330	3,220	9,568
Subordinated liabilities	-	238	63	487	1,362	2,150
Lease liabilities	-	20	57	213	390	680
Contingent liabilities	444	17	109	115	15	700
Commitments	13,008	47	1,118	70	-	14,243
Total	**83,564**	**8,426**	**8,170**	**8,145**	**5,074**	**113,379**

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 Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting.

The following tables summarise the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

2020 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	-	2,255	2,808	3,467	86	8,616
Gross settled derivative liabilities - inflows	-	(2,250)	(2,813)	(3,396)	(82)	(8,541)
Gross settled derivative liabilities - net flows	-	**5**	**(5)**	**71**	**4**	**75**
Net settled derivative liabilities	-	116	293	920	267	1,596
Total derivatives held with hedging intent	-	**121**	**288**	**991**	**271**	**1,671**
Derivative liabilities held with trading intent	625	-	-	-	-	625
Total derivative cash flows	**625**	**121**	**288**	**991**	**271**	**2,296**

58 Liquidity risk and profile *(continued)*

2019 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	-	3,331	5,096	4,310	-	12,737
Gross settled derivative liabilities - inflows	-	(3,286)	(4,833)	(4,078)	-	(12,197)
Gross settled derivative liabilities - net flows	**-**	**45**	**263**	**232**	**-**	**540**
Net settled derivative liabilities	-	91	262	836	278	1,467
Total derivatives held with hedging intent	**-**	**136**	**525**	**1,068**	**278**	**2,007**
Derivative liabilities held with trading intent	626	-	-	-	-	626
Total derivative cash flows	**626**	**136**	**525**	**1,068**	**278**	**2,633**

59 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

2020	At fair value through profit or (loss) Mandatorily €m	 Designated €m	Debt instruments at fair value through other comprehensive income €m	Held at amortised cost €m	Derivatives designated as hedging instruments €m	Insurance contracts €m	Total €m
Financial assets							
Cash and balances at central banks	-	-	-	10,953	-	-	10,953
Items in the course of collection from other banks	-	-	-	166	-	-	166
Trading securities	-	-	-	-	-	-	-
Derivative financial instruments	1,427	-	-	-	790	-	2,217
Other financial assets at FVTPL	17,392	-	-	-	-	-	17,392
Loans and advances to banks	227	-	-	2,226	-	-	2,453
Debt securities at amortised cost	-	-	-	6,266	-	-	6,266
Financial assets at FVOCI	-	-	10,942	-	-	-	10,942
Assets classified as held for sale	5	-	-	-	-	-	5
Loans and advances to customers	361	-	-	76,220	-	-	76,581
Interest in associates	-	54	-	-	-	-	54
Other financial assets	-	-	-	259	-	-	259
Total financial assets	**19,412**	**54**	**10,942**	**96,090**	**790**	**-**	**127,288**
Financial liabilities							
Deposits from banks	-	-	-	2,388	-	-	2,388
Customer accounts	-	703	-	87,934	-	-	88,637
Items in the course of transmission to other banks	-	-	-	216	-	-	216
Derivative financial instruments	1,520	-	-	-	737	-	2,257
Debt securities in issue	-	348	-	6,019	-	-	6,367
Liabilities to customers under investment contracts	-	5,892	-	-	-	-	5,892
Insurance contract liabilities	-	-	-	-	-	13,479	13,479
Other financial liabilities	-	-	-	2,234	-	-	2,234
Lease liabilities	-	-	-	498	-	-	498
(Loss) allowance provision on loan commitments and financial guarantees	-	-	-	99	-	-	99
Subordinated liabilities	-	-	-	1,434	-	-	1,434
Total financial liabilities	**1,520**	**6,943**	**-**	**100,822**	**737**	**13,479**	**123,501**

59 Measurement basis of financial assets and financial liabilities *(continued)*

2019	At fair value through profit or (loss) Mandatorily €m	Designated €m	Debt instruments at fair value through other comprehensive income €m	Held at amortised cost €m	Derivatives designated as hedging instruments €m	Insurance contracts €m	Total €m
Financial assets							
Cash and balances at central banks	-	-	-	8,325	-	-	8,325
Items in the course of collection from other banks	-	-	-	223	-	-	223
Trading securities	32	-	-	-	-	-	32
Derivative financial instruments	1,398	-	-	-	601	-	1,999
Other financial assets at FVTPL	16,453	-	-	-	-	-	16,453
Loans and advances to banks	306	-	-	3,022	-	-	3,328
Debt securities at amortised cost	-	-	-	4,511	-	-	4,511
Financial assets at FVOCI	-	-	10,797	-	-	-	10,797
Assets classified as held for sale	-	-	-	-	-	-	-
Loans and advances to customers	252	-	-	79,235	-	-	79,487
Interest in associates	-	56	-	-	-	-	56
Other financial assets	-	-	-	280	-	-	280
Total financial assets	**18,441**	**56**	**10,797**	**95,596**	**601**	**-**	**125,491**
Financial liabilities							
Deposits from banks	-	-	-	2,179	-	-	2,179
Customer accounts	-	930	-	83,038	-	-	83,968
Items in the course of transmission to other banks	-	-	-	219	-	-	219
Derivative financial instruments	1,566	-		-	912	-	2,478
Debt securities in issue	-	364	-	8,445	-	-	8,809
Liabilities to customers under investment contracts	-	5,890	-	-	-	-	5,890
Insurance contract liabilities	-	-	-	-	-	12,694	12,694
Other financial liabilities	-	-	-	2,413	-	-	2,413
Lease liabilities	-	-	-	565	-	-	565
Loss allowance provision on loan commitments and financial guarantees	-	-	-	30	-	-	30
Subordinated liabilities	-	-	-	1,690	-	-	1,690
Total financial liabilities	**1,566**	**7,184**	**-**	**98,579**	**912**	**12,694**	**120,935**

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.

	2020 Fair values €m	2020 Contractual amount due on maturity €m	2019 Fair values €m	2019 Contractual amount due on maturity €m
Customer accounts	703	701	930	930
Liabilities to customers under investment contracts	5,892	5,892	5,890	5,890
Debt securities in issue	348	312	364	329
Financial liabilities designated at fair value through profit or loss	**6,943**	**6,905**	**7,184**	**7,149**

For financial assets and financial liabilities which are measured at FVTPL or through OCI, a description of the methods and assumptions used to calculate those fair values is set out in note 60.

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 securities in issue held at fair value.

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, of which €239 million are '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). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. €122 million of loans and advances to customers held at fair value relate to syndicated corporate facilities. These assets are valued by applying a discount based on a secondary market loan index and the Group's ECL models (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

Loans and advances to banks held at fair value

These consist of assets mandatorily measured at FVTPL, and include 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

Financial assets at FVOCI predominantly consist of government bonds and listed 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 base models may not fully capture all factors relevant to the valuation of the Group's financial instruments such as credit risk, own credit and / or funding costs.

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 (DVA)). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment (FVA)). The funding cost is derived from observable market data; however the model may perform numerical procedures in the 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.

60 Fair values of assets and liabilities *(continued)*

Credit valuation adjustment (CVA) represents an estimate of the adjustment to fair value that market participants would make to incorporate the counterparty credit risk inherent in derivative exposures. 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 as at 31 December 2020 is immaterial. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

Other financial assets at fair value through profit or loss

These consist of assets 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 and discounted equity value method, which incorporate unobservable inputs (level 3). Certain private equity funds, which predominantly invest in properties, are valued with reference to the underlying property value which in itself incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

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. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

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 spreads when valuing these instruments. The Group sources own credit spreads from independent brokers (level 3 inputs) as observable own credit spreads are not available. Where the impact of unobservable inputs is material to the valuation of a customer account, that account is categorised as level 3 on the fair value hierarchy.

A small number of customer accounts are valued using additional unobservable 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 unobservable inputs.

Liabilities to customers under insurance and investment contracts

In line with the accounting policy set out on page 220, 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 €348 million (2019: €364 million) are measured at FVTPL, in order to reduce an accounting mismatch which would otherwise arise from hedging derivatives. Their fair value is typically 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 sources own credit spreads from independent brokers (level 3 inputs) as observable own credit spreads are not available. Where the impact of unobservable inputs is material to the valuation of a debt security in issue, that issuance is categorised as level 3 on the fair value hierarchy.

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

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

The fair value of both fixed and variable rate loans and advances to customers held at amortised cost is estimated

60 Fair values of assets and liabilities *(continued)*

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).

Debt securities at amortised cost
For debt securities at amortised cost for which an active market exists, fair value has been determined directly from observable market prices (level 1 inputs). Debt securities at amortised cost consist mainly of government bonds, asset backed securities and other debt securities.

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. For the estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices, 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).

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 (the 'Surveyors') appropriate to the properties held. The Surveyors arrive at their opinion of fair value by using their professional judgement in applying comparable current trends in the property market such as rental yields in the retail, office and industrial property sectors, to both the existing rental income stream and also to the future estimate of rental income (ERV). Other inputs taken into consideration include occupancy forecasts, rent free periods that may need to be granted to new incoming tenants, capital expenditure and fees. As these inputs are unobservable, the valuation is deemed to be based on level 3 inputs. All properties are valued based on highest and best use.

In the early part of the year, COVID-19 impacted the property market, causing the number of transactions to decline. As a response, Surveyors attached less weight to previous market evidence, and all valuations were prepared on a 'material valuation uncertainty' basis. Since then, and as at 31 December 2020, such uncertainty has been removed for all investment properties with the exception of retail properties located in the Republic of Ireland (€101 million of investment properties).

Therefore, to ensure transparency, the Surveyors attached less weight to previous market evidence for comparison purposes such that valuations of these retail properties are subject to a 'material valuation uncertainty' clause in line with the RICS (Royal Institute of Chartered Surveyors) Valuation – Global Standards. All other investment properties were not subject to the material valuation uncertainty clause.

Property
A revaluation of Group property was carried out as at 31 December 2020. All freehold and long leasehold commercial properties were valued by Lisney Ltd (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. The valuations have been carried out in accordance with the RICS Valuation – Global Standards. The valuers arrive at their valuation by using their professional judgement in applying market comparable methods of valuation such as the utilisation of comparable market rental values and rental yields. Other considerations taken into account include the individual property profile, lot size, layout and presentation of accommodation. As these inputs are unobservable, the valuation is deemed to be based on level 3 inputs. All properties are valued based on highest and best use.

As the Irish property market continues to be affected by COVID-19 uncertainty, valuations of retail branches located in the Republic of Ireland (€87 million) are subject to a 'material valuation uncertainty' clause, in line with the RICS Valuation - Global Standards. All other properties were not subject to the material valuation uncertainty clause.

60 Fair values of assets and liabilities *(continued)*

The following table sets out the level of the fair value hierarchy for assets and liabilities held at fair value. Information is also given for items carried at amortised cost where the fair value is disclosed.

	2020				2019			
	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	-	-	-	-	32	-	-	32
Derivative financial instruments	-	2,210	7	2,217	-	1,996	3	1,999
Other financial assets at FVTPL	16,757	483	152	17,392	15,725	592	136	16,453
Loans and advances to banks	-	227	-	227	-	306	-	306
Financial assets at FVOCI	10,942	-	-	10,942	10,797	-	-	10,797
Loans and advances to customers	-	-	361	361	-	-	252	252
Interest in associates	-	-	54	54	-	-	56	56
Non-financial assets held at fair value								
Investment property	-	-	843	843	-	-	999	999
Property held at fair value	-	-	180	180	-	-	196	196
	27,699	**2,920**	**1,597**	**32,216**	**26,554**	**2,894**	**1,642**	**31,090**
Financial liabilities held at fair value								
Customer accounts	-	698	5	703	-	916	14	930
Derivative financial instruments	-	2,249	8	2,257	-	2,474	4	2,478
Debt securities in issue	-	348	-	348	-	362	2	364
Liabilities to customers under investment contracts	-	5,892	-	5,892	-	5,890	-	5,890
Insurance contract liabilities	-	13,479	-	13,479	-	12,694	-	12,694
	-	**22,666**	**13**	**22,679**	**-**	**22,336**	**20**	**22,356**
Fair value of financial assets held at amortised cost								
Loans and advances to banks	1	2,225	-	2,226	2	3,020	-	3,022
Debt securities at amortised cost	6,318	21	9	6,348	4,496	29	11	4,536
Loans and advances to customers	-	-	74,050	74,050	-	-	76,487	76,487
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	2,388	-	2,388	-	2,179	-	2,179
Customer accounts	-	87,983	-	87,983	-	83,062	-	83,062
Debt securities in issue	5,370	188	498	6,056	6,894	838	718	8,450
Subordinated liabilities	49	1,358	106	1,513	51	1,650	107	1,808

60 Fair values of assets and liabilities *(continued)*

Movements in level 3 assets 2020	Loans advances customers at FVTPL €m	Other financial assets at FVTPL €m	Derivative financial instruments €m	Interest in associates €m	Investment property €m	Property held at fair value €m	Total €m
Opening balance	**252**	**136**	**3**	**56**	**999**	**196**	**1,642**
Exchange adjustment	-	(1)	-	-	(8)	(3)	(12)
Total gains or losses in:							
Profit or loss							
- Interest income	18	-	-	-	-	-	18
- Net trading income / (expense)	(1)	(13)	9	-	-	-	(5)
- Share of results of associates	-	-	-	(3)	-	-	(3)
- Revaluation	-	-	-	-	(77)	(4)	(81)
- Life assurance investment income & gains	-	2	-	-	-	-	2
Other comprehensive income	-	-	-	-	-	(9)	(9)
Additions	224	7	-	5	-	-	236
Disposals	(108)	(23)	-	(4)	(71)	-	(206)
Redemptions	(24)	(2)	-	-	-	-	(26)
Reclassifications	-	-	-	-	-	-	-
Transfers out of level 3							
- from level 3 to level 2	-	(33)	(9)	-	-	-	(42)
Transfers into level 3							
- from level 2 to level 3	-	79	4	-	-	-	83
Closing balance	**361**	**152**	**7**	**54**	**843**	**180**	**1,597**
Total unrealised gains / (losses) for the year included in profit or loss for level 3 assets at the end of the year	**10**	**(11)**	**3**	**(3)**	**(85)**	**-**	**(86)**
- Net trading income / (expense)	*10*	*(13)*	*3*	*-*	*-*	*-*	*-*
- Life assurance investment income and gains	*-*	*2*	*-*	*-*	*(62)*	*-*	*(60)*
- Share of results of associates	*-*	*-*	*-*	*(3)*	*-*	*-*	*(3)*
- Other operating income	*-*	*-*	*-*	*-*	*(23)*	*-*	*(23)*

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2020. The transfer from level 2 to level 3 arose as a result of certain material inputs becoming unobservable.

There were no transfers between level 1 and 2.

60 Fair values of assets and liabilities *(continued)*

Movements in level 3 assets *Restated[1]* 2019	Loans advances customers €m	Other financial assets at FVTPL €m	Derivative financial instruments €m	Interest in associates €m	Investment property €m	Property held at fair value €m	Total €m
Opening balance	**261**	**123**	**18**	**53**	**1,037**	**170**	**1,662**
Exchange adjustment	-	-	1	-	14	2	17
Total gains or losses in:							
Profit or loss							
- Interest income	13	-	-	-	-	-	13
- Net trading income / (expense)	(2)	42	7	-	-	-	47
- Revaluation	-	-	-	-	(3)	-	(3)
- Share of results of associates	-	-	-	5	-	-	5
Other comprehensive income	-	-	-	-	-	3	3
Additions	6	11	-	8	11	-	36
Disposals	-	(10)	(7)	(10)	(39)	-	(66)
Redemptions	(26)	(9)	-	-	-	-	(35)
Reclassifications	-	-	-	-	(21)	21	-
Transfers out of level 3							
- from level 3 to level 2	-	(21)	(16)	-	-	-	(37)
Transfers into level 3							
- from level 2 to level 3	-	-	-	-	-	-	-
Closing balance	**252**	**136**	**3**	**56**	**999**	**196**	**1,642**
Total unrealised gains / (losses) for the year included in profit or loss for level 3 assets at the end of the year	**10**	**33**	**-**	**5**	**10**	**-**	**58**
- Net trading income	*10*	*33*	-	-	-	-	*43*
- Life assurance investment income and gains	-	-	-	-	*7*	-	*7*
- Share of results of associates	-	-	-	*5*	-	-	*5*
- Other operating income	-	-	-	-	*3*	-	*3*
- Reversal of impairment charges	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2019.

There were no transfers between level 1 and 2.

[1] As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.

60 Fair values of assets and liabilities *(continued)*

Movements in level 3 liabilities	2020				2019			
	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	**14**	**4**	**2**	**20**	**27**	**7**	**2**	**36**
Total gains or losses in:								
Profit or loss								
- Net trading (income) / expense	(2)	15	(1)	12	5	-	-	5
Other comprehensive income	-	-	-	-	-	-	-	-
Additions	6	-	-	6	23	-	-	23
Disposals	-	(1)	-	(1)	-	(3)	-	(3)
Redemptions	-	-	(1)	(1)	-	-	-	-
Transfers out of level 3								
- from level 3 to level 2	(13)	(10)	-	(23)	(41)	-	-	(41)
Transfers into level 3								
- from level 2 to level 3	-	-	-	-	-	-	-	-
Closing balance	**5**	**8**	**-**	**13**	**14**	**4**	**2**	**20**
Total unrealised (gains) / losses for the year included in profit or loss for level 3 liabilities at the end of the year								
- Net trading (income) / expense	(2)	8	-	6	1	(1)	-	-

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2 or from level 2 to level 3.

60 Fair values of assets and liabilities *(continued)*

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets	Valuation technique	Unobservable input	Fair value 2020 €m	Fair value 2019 €m	Range 2020 %	Range 2019 %
Loans and advances to customers	Discounted cash flow	Discount on market rate[1]	239	246	2.75%-4.50%	2.75%-4.50%
		Collateral charges			3.00%-5.80%	0.50%-5.80%
	Par value less discount	Discount	122	6	0.0%-3.3%	0.0%
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount rate[1]	152	136	15%	15%
	Equity Value less discount	Discount			0-50%	0%-50%
	Market comparable property transactions[2]	Yields			2.86%-7.01%	2.99% - 6.62%
Derivative financial instruments	Discounted cash flow Option pricing model	Counterparty credit spread[3]	7	3	0%-1.8%	0.0%-0.3%
Interest in associates[4]	Market comparable companies	Price of recent investment	54	56	-	-
		Earnings multiple[5]				
		Revenue multiple[5]				
Investment property	Market comparable property transactions	Yields	843	999	2.86% – 7.01%	2.99% - 6.62%
Property held at fair value	Market comparable property transactions	Yields	180	196	5.25% – 12.50%	4.75% – 12.50%

1 The discount rate represents a range of discount rates that market participants would use in valuing these investments.
2 These assets represent holdings in real estate property funds.
3 The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.
4 Given the wide range of diverse investments and the correspondingly large differences in prices, the Group does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.
5 The Group's multiples represent multiples that market participants would use in valuing these investments.

Note: 100 basis points = 1%

60 Fair values of assets and liabilities *(continued)*

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (continued)

Level 3 liabilities	Valuation technique	Unobservable input	Fair value 2020 €m	Fair value 2019 €m	Range 2020 %	Range 2019 %
Customer accounts	Discounted cash flow Option pricing model	Own credit spread[1]	5	14	0.6%-0.7%	0.6%-0.9%
Derivative financial instruments	Discounted cash flow Option pricing model	Counterparty credit spread[1]	8	4	0.0% - 1.8%	0.0%-0.3%
Debt securities in issue	Discounted cash flow	Own credit spread[1]	-	2	n/a	0.0%-0.2%

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

Financial instruments	2020 Carrying amount €m	2020 Fair values €m	2019 Carrying amount €m	2019 Fair values €m
Assets				
Loans and advances to banks	2,226	2,226	3,022	3,022
Debt securities at amortised cost	6,266	6,348	4,511	4,536
Loans and advances to customers (including assets held for sale)	76,220	74,050	79,235	76,487
Liabilities				
Deposits from banks	2,388	2,388	2,179	2,179
Customer accounts	87,934	87,983	83,038	83,062
Debt securities in issue	6,019	6,056	8,445	8,450
Subordinated liabilities	1,434	1,513	1,690	1,808

[1] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*

Note: 100 basis points = 1%

61 Transferred financial assets

	Carrying amount of transferred assets €m	Carrying amount of associated liabilities[1] €m	Fair value of transferred assets €m	Fair value of associated liabilities[1] €m	Net fair value position €m
2020					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2,3]	-	-	-	-	-
Residential mortgages book[2] (Bowbell II SPE)	256	235	262	236	26
Sale and repurchase / similar products[4]					
Debt securities at amortised cost	98	100	99	100	(1)
Financial assets at FVOCI	24	23	24	23	1
2019					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2]	486	547	448	535	(87)
Residential mortgages book[2] (Bowbell II SPE)	402	361	411	363	48
Sale and repurchase / similar products[4]					
Debt securities at amortised cost	18	18	18	18	-
Financial assets at FVOCI	17	17	17	17	-

The Group has transferred certain financial assets that are not derecognised from the Group's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets other than assets transferred to Mulcair Securities (note 57).

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation special purpose entity, 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] *Per note 57, Brunel Residential Mortgage Securitisation No. 1 plc redeemed all of its outstanding debt securities in July 2020.*
[4] *Assets sold or transferred subject to repurchase agreements or similar products are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

62 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group's financial position. This includes the effect or potential effect of rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

Assets	Gross amounts of recognised financial assets €m	Gross amounts of recognised financial liabilities set off in the balance sheet €m	Net amounts of financial assets presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral received €m	Net amount €m
2020						
Derivative financial assets	2,206	-	2,206	(1,667)	(156)	383
Loans and advances to customers	239	(239)	-	-	-	-
Total	**2,445**	**(239)**	**2,206**	**(1,667)**	**(156)**	**383**
2019						
Derivative financial assets	1,994	-	1,994	(1,550)	(155)	289
Loans and advances to customers	313	(313)	-	-	-	-
Total	**2,307**	**(313)**	**1,994**	**(1,550)**	**(155)**	**289**

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

Liabilities	Gross amounts of recognised financial liabilities €m	Gross amounts of recognised financial assets set off in the balance sheet €m	Net amounts of financial liabilities presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[3] instruments €m	Related amounts not set off in the balance sheet: Cash[4] collateral pledged €m	Net amount €m
2020						
Derivative financial liabilities	2,251	-	2,251	(1,667)	(314)	270
Customer deposits	239	(239)	-	-	-	-
Total	**2,490**	**(239)**	**2,251**	**(1,667)**	**(314)**	**270**
2019						
Derivative financial liabilities	2,469	-	2,469	(1,550)	(821)	98
Customer deposits	313	(313)	-	-	-	-
Total	**2,782**	**(313)**	**2,469**	**(1,550)**	**(821)**	**98**

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements such as an International Swaps and Derivatives Association (ISDA) Master agreement. The agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis: however each party to the master netting agreement has the option to settle all such amounts on a net basis in the event of default of the other party.

[1] *Amounts of €1,667 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria (2019: €1,550 million).*
[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (note 38).*
[3] *Amounts of €1,667 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria (2019: €1,550 million).*
[4] *Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

63 Dividend per ordinary share

On 21 February 2020, the Board recommended a dividend of 17.5 cent per share, in respect of the year ended 31 December 2019. In light of the evolving COVID-19 pandemic and following the recommendation of the European Central Bank (ECB) of 27 March 2020 on dividend distributions for all significant institutions during the COVID-19 pandemic, the Group announced on 30 March 2020 that it withdrew its proposed dividend for the year ended 31 December 2019.

On 15 December 2020, the ECB extended its dividend recommendation that banks exercise extreme prudence on dividends and share buybacks and introduced a limit on distributions until 30 September 2021, of 15% of cumulated profit for 2019-20 and not higher than 20bps of the CET1 ratio, whichever is lower. In line with the revised ECB recommendation, the Group is not proposing a dividend in respect of the year ended 31 December 2020.

	2020		2019	
	Cent per share	€m	Cent per share	€m
Final dividend paid in respect of the years ended 31 December 2020 and 2019	-	-	16.0	173

64 Impact of voluntary change in interest income and expense accounting policy

As outlined in the Group accounting policies note 1, 'Voluntary change in accounting policy' on page 208, the Group has voluntarily changed its accounting policy for the presentation of interest income and interest expense on certain financial instruments.

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

Impact of the restatement on the relevant financial statement line items:

	2020			2019		
Consolidated income statement (selected lines)[1]	**Before change in accounting policy €m**	**Impact of change in accounting policy €m**	**Total €m**	**Published €m**	**Impact of change in accounting policy €m**	**Total €m**
Interest income calculated using the effective interest method	2,183	-	2,183	2,350	-	2,350
Other interest income	171	216	387	175	233	408
Interest income	**2,354**	**216**	**2,570**	**2,525**	**233**	**2,758**
Interest expense	(245)	(236)	(481)	(370)	(216)	(586)
Net interest income	**2,109**	**(20)**	**2,089**	**2,155**	**17**	**2,172**
Net trading income	6	20	26	138	(17)	121
Total operating income	**4,335**	**-**	**4,335**	**5,557**	**-**	**5,557**
(Loss) / profit before tax	**(760)**	**-**	**(760)**	**645**	**-**	**645**
(Loss) / profit for the year	**(707)**	**-**	**(707)**	**448**	**-**	**448**
Earnings per share	(72.4c)	-	(72.4c)	35.9c	-	35.9c
Diluted earnings per ordinary share	(72.4c)	-	(72.4c)	35.9c	-	35.9c

[1] *The note only includes the selected lines which have been impacted by the change in accounting policy.*

65 Post balance sheet events

On 20 January 2021, the Board recommended the closure of 103 branches across the island of Ireland. 82 branches are freehold properties owned by the Group and are held at fair value of c.€17 million at 31 December 2020. 21 branches are leasehold properties with a carrying value of c.€13 million at 31 December 2020.

66 Approval of financial statements

The Board of Directors approved the consolidated and Company financial statements on 26 February 2021.

Company balance sheet *(as at 31 December 2020)*

	Note	2020 €m	2019 €m
Assets			
Loans and advances to banks	b	4,197	3,612
Shares in Group undertakings	c	7,962	7,035
Other assets	d	54	641
Total assets		**12,213**	**11,288**
Equity and liabilities			
Debt securities in issue	f	2,479	2,435
Subordinated liabilities	e	1,038	1,092
Other liabilities	g	18	19
Current tax liability		2	-
Total liabilities		**3,537**	**3,546**
Equity			
Share capital	h	1,079	1,079
Share premium account		456	456
Retained earnings		6,175	6,207
Shareholder' equity		**7,710**	**7,742**
Other equity instruments	i	966	-
Total equity		**8,676**	**-**
Total equity and liabilities		**12,213**	**11,288**

The Company recorded a loss after tax of €7 million for the year ended 31 December 2020 (2019: profit of €4 million).

Patrick Kennedy	***Richard Goulding***	***Francesca McDonagh***	***Sarah McLaughlin***
Chairman	*Deputy Chairman*	*Group Chief Executive*	*Group Secretary*

Company statement of changes in equity *(for the year ended 31 December 2020)*

	2020					2019				
	Share capital €m	Share premium account €m	Retained earnings €m	Other equity instru-ments €m	Total €m	Share capital €m	Share premium account €m	Retained earnings €m	Other equity instru-ments €m	Total €m
Balance at 1 January	**1,079**	**456**	**6,207**	**-**	**7,742**	**1,079**	**456**	**6,376**	**-**	**7,911**
(Loss) / profit for the year	-	-	(7)	-	(7)	-	-	4	-	4
Total comprehensive income for the year	**-**	**-**	**(7)**	**-**	**(7)**	-	**-**	**4**	**-**	**4**
Transactions with owners										
- AT1 securities issued during the year, net of expenses (note i)	-	-	-	966	966	-	-	-	-	-
- Distribution on other equity instruments AT1 coupon	-	-	(25)	-	(25)		-	-	-	-
- Dividends on ordinary shares	-	-	-	-	-	-	-	(173)	-	(173)
Total transactions with owners	**-**	**-**	**(25)**	**966**	**941**	-	-	**(173)**	**-**	**(173)**
Balance at 31 December	**1,079**	**456**	**6,175**	**966**	**8,676**	**1,079**	**456**	**6,207**	**-**	**7,742**

a Accounting policies and critical accounting estimates and judgements

The Company financial statements have been prepared in accordance with FRS 101 'Reduced disclosure framework' and in accordance with Section 290 (1) of the Companies Act 2014.

These financial statements are financial statements of the Company only and do not consolidate the results of any subsidiaries.

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

- statement of Cash Flows;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- certain requirements of IAS 1 'Presentation of financial statements';
- disclosures required by IFRS 7 'Financial Instruments: disclosures';
- disclosures required by IFRS 13 'Fair value measurement'; and
- the effects of new but not yet effective IFRSs.

The financial statements are presented in euro millions except where otherwise indicated. They have been prepared under the historical cost convention. The accounting policies of the Company are the same as those of the Group which are set out in the Group accounting policies section of the Annual Report on pages 207 to 222, where applicable. The Company's investment in its subsidiary is stated at cost less any impairment.

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

Shares in Group undertakings

Cost

The cost of the Company's investment in the ordinary stock of its subsidiary undertaking, the Bank, was measured at the Company's share of the carrying value of the equity items reflected in the separate financial statements of the Bank at 7 July 2017, the date on which the Company became the Parent entity of the Bank. The Company's share of these equity items, as holder of 100% of the ordinary stock of the Bank, was assessed in accordance with the rights attaching to other equity instruments, comprising preference stock and an AT1 instrument, and measured on a relative fair value basis.

Impairment review

The Company carries its investment in its subsidiary undertaking at cost and reviews for impairment at each reporting date. Impairment testing involves the comparison of the carrying value of the investment with its recoverable amount. The recoverable amount is the higher of the investment's fair value 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.

The subsidiary's fair value is calculated as the market capitalisation of the BOI Group plc less its net assets, excluding the investment in the Bank. At 31 December 2020, the market capitalisation of BOIG plc less its investment in the subsidiary was €2.9 billion. This was below the carrying amount of its investment and therefore BOIG plc considered this an impairment indicator and performed an impairment assessment which compared the carrying amount with the estimated recoverable amount as determined by a VIU calculation. There are a large number of factors driven by market conditions that lead to the market capitalisation being lower than the carrying value of the investment, which includes but are not limited to, uncertainties relating to Brexit and the Covid-19 pandemic.

The Company uses a discounted cash flow model to derive VIU. The key inputs into the model are (i) projected future cash flows (ii) the discount rate and (iii) growth rates.

VIU was determined to be €7.96 billion which was lower than the carrying amount of €8.01 billion but higher than fair value. As a result impairment of €0.05 billion was recognised at 31 December 2020.

Judgement

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 and growth 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.

Sources of estimation uncertainty

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. The initial five years' cash flows are consistent with approved plans for each business.

The cash flow forecasts involved significant judgements which were subject to review and validation at a number of levels of governance and are the current best estimate of the expected cash flows over the planning period.

The discounted cash flow model is most sensitive to cash flow changes at the 5 year point as these are projected forward using the growth rate. An increase / decrease in year 5 cash flows by €100 million would lead to an increase / decrease in VIU of €711 million.

Growth rates

Growth rates beyond five years are determined by reference to local economic growth rates. The assumed long term growth rate for the purpose of the impairment assessment is 2%.

An increase of 1% to the growth rate would lead to an increase in VIU of €581 million; a decrease of 1% would result in a decrease of €510 million.

Discount rate

The discount rate applied is the pre-tax weighted average cost of capital for the Group which is 10.5% at 31 December 2020 (31 December 2019: 12%).

A decrease of 0.5% in the WACC would lead to an increase in VIU of €436 million; an increase of 0.5% would result in a decrease of €402 million.

See note c for further information.

b Loans and advances to banks

Loans and advances to banks are classified as financial assets at amortised cost with the associated impairment loss allowance measured on a 12 month and lifetime ECL approach.

The impairment loss allowance on loans and advances to banks is all held against Stage 1 (not credit-impaired assets) with a PD 1-4.

	2020 €m	2019 €m
Placements with banks	4,199	3,615
Less impairment loss allowance on loans and advances to banks	(2)	(3)
Loans and advances to banks at amortised cost	**4,197**	**3,612**
Amounts include:		
Due from Group undertakings	**4,197**	**3,612**

c Shares in Group undertakings

The Company's investment in the Bank is reviewed for impairment if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of the investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount. In 2020, COVID-19 resulted in challenging market and economic conditions and materially impacted the Group's financial performance and outlook. In addition, the carrying value of the investment exceeded the market capitalisation of BOIG. Both of these factors indicated that impairment may be present and the consequent review resulted in an impairment charge of €48 million recognised in 2020 (2019: €nil).

The recoverable amount of the investment is the higher of its fair value less costs to sell and its VIU. The VIU is the present value of the future cash flows expected to be derived from the investment, based upon a VIU calculation that discounts expected pre-tax cash flows at a rate appropriate to the investment. The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement. The VIU was calculated as €7.96 billion which was higher than the fair value but lower than the carrying value. Accordingly an impairment of €48 million was recognised by the Company.

The recoverable amount calculation performed is sensitive to changes in the following key assumptions:

Cash flow forecasts

Cash flow forecasts are based on financial projections which are being used to support the Group's ICAAP plan for a period of up to five years, after which a long-term growth rate appropriate for the business is applied (see below). The financial projections are subjected to considerable internal governance at a divisional and Group level and are reviewed and approved by Executive management and the Board.

	2020 €m	2019 €m
Balance at beginning and end of the year	7,035	7,035
Investment in Bank (AT1 Issuance)	975	-
Impairment	(48)	-
Total	**7,962**	**7035**
Group undertakings of which:		
Credit Institutions	7,962	7,035

Growth rates

Growth rates beyond five years are determined by reference to long term economic growth rates. A growth rate of 2% is used in the calculation of the VIU and cash flows have been projected forward for a period of 30 years.

Discount rate

The discount rate used is the pre-tax weighted average cost of capital for the Company of 10.5%. The equivalent post-tax rate is 9.2%.

See note a for further information.

d Other assets

In 2017, the Bank declared and approved a €1 billion dividend payment to BOIG plc. The Bank paid €600 million of this dividend in 2020 (2019: €173 million). A total of €973 million has been paid to date, the balance remains outstanding and payable on demand by the company. As the declaration and approval of the dividend is an irrevocable commitment by the Bank, the full amount of the dividend has been accounted for by the Company.

	2020 €m	2019 €m
Dividend receivable from the Bank[1]	27	627
Other assets	27	14
Total	**54**	**641**
Amounts include:		
Due from Group undertakings	54	641
Other assets are analysed as follows:		
Within 1 year	54	641

e Subordinated liabilities

	2020 €m	2019 €m
Dated loan capital		
US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	406	443
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	333	350
€300 million 2.375% Fixed Rate Reset Callable Subordinated Notes 2029	299	299
Total subordinated liabilities	**1,038**	**1,092**

Further details on subordinated liabilities are contained in note 48 to the consolidated financial statements.

f Debt securities in issue

	2020 €m	2019 €m
Bonds and medium term notes	2,479	2,435
Debt securities in issue at amortised cost	**2,479**	**2,435**
Debt securities are analysed as follows:		
After 1 year	2,479	2,435
	2,479	**2,435**

The movement on debt securities in issue is analysed as follows:

	2020 €m	2019 €m
Opening balance	2,435	1,182
Issued during the year	83	1,250
Other movements	(39)	3
Closing balance	**2,479**	**2,435**

[1] *Dividend receivable is subject to 12-month expected credit losses impairment loss allowance of €1,125 at 31 December 2020 (2019: €55,385).*

g Other liabilities

	2020 €m	2019 €m
Accrued interest payable	18	19
Other liabilities	**18**	**19**
Other liabilities are analysed as follows:		
Within 1 year	18	19
	18	**19**

h Share capital

Ordinary shares

All ordinary shares carry the same voting rights.

There were no outstanding options on ordinary shares under employee schemes as at 31 December 2020 or 2019.

Authorised	2020 €m	2019 €m
10 billion ordinary shares of €1.00 each	10,000	10,000
100 million preference shares of €0.10 each	10	10
Total	**10,010**	**10,010**

Allotted and fully paid	2020 €m	2019 €m
1.079 billion ordinary shares of €1.00 each	**1,079**	**1,079**

i Other equity instruments - Additional Tier 1

Further details on other equity instruments are contained in note 50 to the consolidated financial statements.

	2020 €m	2019 €m
AT1 securities issued during the period	975	-
Transaction costs	(9)	-
Balance at the end of the period	**966**	**-**

j Dividend per ordinary share

On 21 February 2020, the Board recommended a dividend of 17.5 cent per share, in respect of the year ended 31 December 2019. In light of the evolving COVID-19 pandemic and following the recommendation of the European Central Bank (ECB) of 27 March 2020 on dividend distributions for all significant institutions during the COVID-19 pandemic, the Group announced on 30 March 2020 that it withdrew its proposed dividend for the year ended 31 December 2019.

On 15 December 2020, the ECB extended its dividend recommendation that banks exercise extreme prudence on dividends and share buybacks and introduced a limit on distributions until 30 September 2021 of 15% of cumulated profit for 2019-20 and not higher than 20 basis points of the CET1 ratio, whichever is lower. In line with the revised ECB recommendation, the Group is not proposing a dividend in respect of the year ended 31 December 2020.

	2020		2019	
	Cent per share	€m	Cent per share	€m
Final dividend paid in respect of the years ended 31 December 2020 and 2019	-	-	16.0	173

k Other

(i) BOIG plc is incorporated in Ireland as a public limited company with registration number 593672. Its registered office is situated at 40 Mespil Road, Dublin 4.

(ii) The Company is domiciled in Ireland.

(iii) Company income statement:
In accordance with Section 304 of the Companies Act, the Company is availing of the exemption to not present its individual income statement to the AGM and from filing it with the Registrar of Companies. The Company's loss after tax for the year ended 31 December 2020 determined in accordance with FRS 101 is €7 million (2019: €4 million profit).

(iv) Information in relation to the Company's principal subsidiaries is contained in note 56 to the consolidated financial statements.

(v) Auditor's Remuneration:
In accordance with Section 322 of the Companies Act, the fees paid in the year to the statutory Auditor for work engaged by the Company comprised audit fees of €nil (2019: €nil) and other assurance services of €nil (2019: €nil).

(vi) BOIG plc had no employees at any time during the year (2019: no employees).

(vii) Post balance sheet events are shown in note 65 to the consolidated financial statements.

l Directors and secretary

Directors
Patrick Kennedy
Evelyn Bourke
Ian Buchanan
Eileen Fitzpatrick
Michele Greene
Richard Goulding
Patrick Haren *(retired 31 December 2020)*
Francesca McDonagh
Fiona Muldoon
Patrick Mulvihill *(retired 31 December 2020)*
Steve Pateman
Myles O'Grady *(appointed 15 January 2020)*
Giles Andrews *(appointed 17 November 2020)*

Company Secretary
Sarah McLaughlin

The names of the persons who were Directors or Company Secretary of the Company at any time during the year ended 31 December 2020 and up to the date of the approval of the financial statements are set out in this note.

Other Information

Contents

Group exposures to selected countries

The information in Group exposures to selected countries forms an integral part of the audited financial statements as described in the Basis of preparation on page 207.

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items at 31 December 2020. These include exposures to Ireland, the UK, the US and those other countries that have a S&Ps credit rating of AA or below where the Group has an exposure of over €470 million.

2020 **Assets**	**Ireland** **€m**	**United Kingdom** **€m**	**United States** **€m**	**Spain** **€m**	**France** **€m**	**Belgium** **€m**	**Other[1]** **€m**	**Total** **€m**
Cash and balances at central banks	7,917	2,487	101	-	-	-	448	10,953
Trading securities	-	-	-	-	-	-	-	-
Derivative financial instruments[2] (net)	88	246	86	12	1	7	97	537
Other financial assets at FVTPL[3]	702	236	350	16	438	143	610	2,495
Loans and advances to banks[4]	90	1,730	12	-	244	-	177	2,253
Financial assets at FVOCI	2,536	198	1	1,141	1,991	986	4,089[5]	10,942
- Government bonds	*2,385*	*-*	*1*	*1,035*	*873*	*753*	*832*	*5,879*
- Other	*151*	*198*	*-*	*106*	*1,118*	*233*	*3,257*	*5,063*
Debt securities at amortised cost	5,224	554	4	10	-	-	474[6]	6,266
- Government bonds	*5,209*	*285*	*-*	*-*	*-*	*-*	*-*	*5,494*
- Asset backed securities	*15*	*7*	*4*	*10*	*-*	*-*	*-*	*36*
- Other	*-*	*262*	*-*	*-*	*-*	*-*	*474*	*736*
Total	**16,557**	**5,451**	**554**	**1,179**	**2,674**	**1,136**	**5,895**	**33,446**

2019 **Assets**	**Ireland** **€m**	**United Kingdom** **€m**	**United States** **€m**	**Spain** **€m**	**France** **€m**	**Belgium** **€m**	**Other[7]** **€m**	**Total** **€m**
Cash and balances at central banks	5,095	2,570	264	-	-	-	396	8,325
Trading securities	-	-	-	-	-	-	32	32
Derivative financial instruments[2] (net)	62	164	16	1	5	-	40	288
Other financial assets at FVTPL[3]	714	129	322	16	418	120	561	2,280
Loans and advances to banks[4]	256	2,055	19	16	511	27	246	3,130
Financial assets at FVOCI	2,534	251	1	1,304	1,760	818	4,129[8]	10,797
- Government bonds	*2,327*	*-*	*1*	*1,233*	*715*	*623*	*950*	*5,849*
- Other	*207*	*251*	*-*	*71*	*1,045*	*195*	*3,179*	*4,948*
Debt securities at amortised cost	3,475	593	5	13	-	-	425[9]	4,511
- Government bonds	*3,460*	*307*	*-*	*-*	*-*	*-*	*-*	*3,767*
- Asset backed securities	*15*	*25*	*5*	*13*	*-*	*-*	*-*	*58*
- Other	*-*	*261*	*-*	*-*	*-*	*-*	*425*	*686*
Total	**12,136**	**5,762**	**627**	**1,350**	**2,694**	**965**	**5,829**	**29,363**

[1] *In 2020, Other is primarily made up of exposures to the following countries: Sweden: €0.8 billion, Netherlands: €0.6 billion, Portugal: €0.5 billion, Germany: €0.5 billion, Norway €0.4 billion, Austria €0.3 billion, Denmark €0.2 billion, Finland €0.2 billion, Slovenia €0.1 billion, Canada €0.1 billion, Italy €0.1 billion, Rest of world: €1.1 billion and Supranational institutions: €1.1 billion. Also included in other is the Group's euro cash holding in branches.*

[2] *Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.*

[3] *This excludes €15.2 billion of assets held by the Group's life assurance business which are linked to policyholder liabilities (2019: €14.4 billion) and includes loans and advances to customers held at fair value through profit or loss of €0.4 billion (2019: €0.3 billion).*

[4] *This excludes €200 million of assets held by the Group's life assurance business which are linked to policyholder liabilities (2019: €198 million) .*

[5] *In 2020, Other financial assets at fair value through other comprehensive income is primarily made up of exposures to the following countries: Sweden: €0.7 billion, Netherlands: €0.5 billion, Portugal: €0.5 billion, Norway: €0.4 billion, Rest of world: €2.0 billion.*

[6] *In 2020, Debt securities at amortised cost Other category is made up of exposures to Germany: €0.1 billion and the Rest of world: €0.4 billion.*

[7] *In 2019, other is primarily made up of exposures to the following countries: Sweden: €0.9 billion, Netherlands: €0.5 billion, Portugal: €0.5 billion, Germany: €0.4 billion, Italy €0.4 billion, Norway: €0.3 billion, Austria: €0.3 billion, Denmark: €0.3 billion, Canada: €0.2 billion, Finland: €0.1 billion, Rest of world: €0.9 billion and Supranational institutions: €1.1 billion. Also included in other is the Group's euro cash holding in branches.*

[8] *In 2019, Other financial assets at fair value through other comprehensive income is primarily made up of exposures to the following countries: Sweden: €0.8 billion, Netherlands: €0.4 billion, Portugal: €0.4 billion, Italy: €0.4 billion, Norway: €0.3 billion, Rest of world: €1.8 billion.*

[9] *In 2019, Debt securities at amortised cost Other category is made up of exposures to Germany: €0.1 billion and the Rest of world: €0.3 billion.*

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2020 by asset class.

2020 Derivative financial instruments	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Other[1] €m	Total €m
Gross derivative assets								
Financial institutions	-	104	38	17	71	-	126	356
Corporate	96	1,111	85	-	533	-	36	1,861
Total	**96**	**1,215**	**123**	**17**	**604**	**-**	**162**	**2,217**
Net Derivative Assets[2]								
Financial institutions	-	56	21	12	-	7	64	160
Corporate	88	190	65	-	1	-	33	377
Total	**88**	**246**	**86**	**12**	**1**	**7**	**97**	**537**

2019 Derivative financial instruments	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Other[3] €m	Total €m
Gross derivative assets								
Financial institutions	1	232	23	3	97	7	178	541
Corporate	100	1,280	47	1	5	-	25	1,458
Total	**101**	**1,512**	**70**	**4**	**102**	**7**	**203**	**1,999**
Net Derivative Assets[2]								
Financial institutions	1	-	-	-	-	-	16	17
Corporate	61	164	16	1	5	-	24	271
Total	**62**	**164**	**16**	**1**	**5**	**-**	**40**	**288**

1 *In 2020, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Germany: €55 million, Canada: €19 million, Switzerland €9 million, Luxembourg: €9 million, Jersey €3 million and Other: €3 million.*
2 *Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
3 *In 2019, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Germany: €80 million, Canada: €16 million, Switzerland €9 million, Luxembourg: €5 million, Jersey €2 million, Netherlands: €1 million and Other: €1 million.*

Supplementary asset quality and forbearance disclosures

The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the basis of preparation on page 207. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.

Retail Ireland mortgages

The following disclosures relate to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process including evidence of key borrower information such as independent valuations of relevant security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

Lending criteria for the Retail Ireland mortgage portfolio include:
- repayment capacity of the borrower;
- LTV limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Unless otherwise indicated, excluded from the following tables are €0.2 billion of loans and advances to customers mandatorily held at FVTPL at 31 December 2020 (2019: €0.2 billion) which are not subject to impairment under IFRS 9 (note 27).

Book composition

Loan volumes

The tables below summarise the composition and risk profile of the Retail Ireland mortgage loan book. The following tables reflect the Retail Ireland mortgages at amortised cost at 31 December 2020. The tables include details of accounts that were granted a payment break in 2020 as a result of the COVID-19 pandemic, where the account is still subject to a payment break at 31 December 2020.

Table: 1a	2020				2019	
	Total Retail Ireland mortgages		Of which subject to COVID-19 payment break		Total Retail Ireland mortgages	
Retail Ireland mortgages - Volumes (before impairment loss allowance) by interest rate type[1]	€m	%	€m	%	€m	%
Tracker	7,911	34%	52	39%	8,709	38%
Variable rates	2,856	12%	14	10%	3,173	14%
Fixed rates	12,175	54%	68	51%	11,153	48%
Total Retail Ireland mortgages	**22,942**	**100%**	**134**	**100%**	**23,035**	**100%**

[1] The above table excludes undrawn loan commitments relating to Retail Ireland mortgages of €1,056 million at 31 December 2020 (2019: €895 million) that are subject to impairment under IFRS 9.

Book composition *(continued)*

Loan volumes *(continued)*

Table: 1b

2020 **Retail Ireland mortgages - Volumes (before impairment loss allowance) by product type[1]**	**Stage 1 (not credit-impaired) €m**	**Stage 2 (not credit-impaired) €m**	**Subtotal (not credit-impaired) €m**	**Stage 3 (credit-impaired) €m**	**Purchased or originated credit-impaired[2] €m**	**Total €m**
Owner occupied mortgages	17,943	1,732	19,675	1,026	2	20,703
Buy to let mortgages	1,609	148	1,757	482	-	2,239
Total Retail Ireland mortgages	**19,552**	**1,880**	**21,432**	**1,508**	**2**	**22,942**
Of which subject to COVID-19 payment break						
Owner occupied mortgages	94	16	110	9	-	119
Buy to let mortgages	9	3	12	3	-	15
Total Retail Ireland mortgages subject to a COVID-19 payment break	**103**	**19**	**122**	**12**	**-**	**134**

Table: 1b

2019 **Retail Ireland mortgages - Volumes (before impairment loss allowance) by product type[1]**	**Stage 1 (not credit-impaired) €m**	**Stage 2 (not credit-impaired) €m**	**Subtotal (not credit-impaired) €m**	**Stage 3 (credit-impaired) €m**	**Purchased or originated credit-impaired[2] €m**	**Total €m**
Owner occupied mortgages	18,763	872	19,635	874	2	20,511
Buy to let mortgages	1,847	261	2,108	415	1	2,524
Total Retail Ireland mortgages	**20,610**	**1,133**	**21,743**	**1,289**	**3**	**23,035**

At 31 December 2020, Retail Ireland mortgages were €22.9 billion (2019: €23.0 billion), a decrease of €0.1 billion or 0.4%. There was a 0.8 billion decrease in the tracker portfolio, a €0.3 billion decrease in the variable rate portfolio and an increase of €1 billion in the fixed rate portfolio. This increase in the fixed rate portfolio reflects the strong take up of fixed interest rate mortgages by both existing and new customers. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments and resolution activity.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'[3] repayment basis at 31 December 2020 was 97% (2019: 97%) with the balance of 3% on an 'interest only'[4] repayment basis (2019: 3%). Of the Owner occupied mortgages of €20.7 billion, 98% were on a 'full principal and interest' repayment basis (2019: 98%), while 91% of the BTL mortgages of €2.2 billion were on a 'full principal and interest' repayment basis (2019: 90%). It is the Group's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

[1] *The above tables exclude undrawn loan commitments relating to Retail Ireland mortgages of €1,056 million at 31 December 2020 (2019: €895 million) that are subject to impairment under IFRS 9.*

[2] *At 31 December 2020, Purchased or Originated Credit-impaired loans included €2 million (2019: €2 million) of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvements in credit risk. These loans will remain classified as Purchased or Originated Credit-impaired until derecognition.*

[3] *'Full principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.*

[4] *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. Interest only periods on Retail Ireland mortgages typically range between three and five years.*

Book composition *(continued)*

Origination profile

Table: 2	2020								2019			
	Total Retail Ireland mortgage loan book		of which subject to COVID-19 payment break		Non-performing exposures		of which subject to COVID-19 payment break		Total Retail Ireland mortgage loan book		Non-performing exposures	
Origination[1] of Retail Ireland mortgage loan book (before impairment loss allowance)	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	115	4,055	1	17	24	605	-	5	143	5,879	22	559
2001	103	3,270	1	13	14	281	-	3	126	3,604	14	221
2002	224	4,810	2	18	36	400	-	4	266	5,283	36	342
2003	464	7,488	3	28	65	712	-	3	535	7,998	64	613
2004	872	10,766	4	40	115	1,005	1	6	986	11,491	111	885
2005	1,512	14,683	10	63	219	1,442	3	11	1,685	16,057	206	1,284
2006	2,389	19,675	15	92	377	2,250	3	14	2,633	20,643	367	2,025
2007	2,151	16,699	15	79	320	1,862	3	13	2,370	17,475	337	1,729
2008	1,541	12,093	12	49	201	1,200	2	8	1,688	12,704	196	1,085
2009	822	7,107	5	30	60	488	-	2	915	7,591	57	431
2010	604	4,872	3	17	14	126	-	1	673	5,316	12	102
2011	540	4,486	2	17	8	64	-	-	597	4,769	7	55
2012	476	4,051	4	25	6	40	-	-	530	4,318	3	23
2013	445	3,589	2	10	4	29	-	-	497	3,835	3	20
2014	693	4,997	3	15	4	31	-	1	787	5,414	1	10
2015	974	8,457	5	32	10	139	-	-	1,115	9,274	6	76
2016	1,140	7,911	5	35	19	170	-	2	1,269	8,460	12	90
2017	1,622	8,498	13	48	6	49	-	-	1,829	9,105	3	23
2018	2,080	9,648	12	49	3	16	-	-	2,214	9,993	-	3
2019	2,122	9,601	12	48	3	18	-	-	2,177	9,870	-	-
2020	2,053	9,148	5	18	-	4	-	-	-	-	-	-
Total	**22,942**	**175,904**	**134**	**743**	**1,508**	**10,931**	**12**	**73**	**23,035**	**179,079**	**1,457**	**9,576**

This table illustrates that at 31 December 2020, €3.3 billion or 14% of the Retail Ireland mortgage loan book originated before 2006, €6.1 billion or 27% between 2006 and 2008 and €13.6 billion or 59% in the years since 2008. At 31 December 2020, total non- performing exposures were €1.5 billion (31 December 2019: €1.5 billion) or 7% of the Retail Ireland mortgage loan book (31 December 2019: 6%), of which, €0.9 billion or 4% originated between 2006 and 2008. There has been an increase in total NPEs in 2020 reflecting a change to the definition of default which was implemented in 2020.

[1] *The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

Book composition *(continued)*

Arrears profile

Table: 3a *(unaudited)*

Mortgage arrears[1] Greater than 90 days past due	**December 2020 %**	**September 2020 %**	**June 2020 %**	**December 2019 %**
Number of accounts				
Retail Ireland[2] Owner occupied mortgages	1.9%	1.9%	1.9%	1.9%
Industry[3] Owner occupied (number of accounts)	n/a	6.4%	6.6%	6.7%
Retail Ireland[2] Buy to let mortgages	4.1%	4.1%	3.9%	3.7%
Industry[3] Buy to let (number of accounts)	n/a	16.0%	16.0%	15.9%
Value				
Retail Ireland[2] Owner occupied mortgages	2.3%	2.4%	2.4%	2.5%
Industry[3] Owner occupied (value)	n/a	9.2%	9.4%	9.6%
Retail Ireland[2] Buy to let mortgages	10.4%	10.2%	9.9%	9.3%
Industry[3] Buy to let (value)	n/a	23.9%	23.6%	23.4%

Table: 3a-(i) *(unaudited)*

Mortgage arrears[1] 720 days past due	**December 2020 %**	**September 2020 %**	**June 2020 %**	**December 2019 %**
Number of accounts				
Retail Ireland[2] Owner occupied mortgages	1.0%	1.0%	1.0%	1.0%
Industry[3] Owner occupied (number of accounts)	n/a	4.2%	4.3%	4.4%
Retail Ireland[2] Buy to let mortgages	2.3%	2.2%	2.2%	2.1%
Industry[3] Buy to let (number of accounts)	n/a	12.0%	12.2%	12.0%
Value				
Retail Ireland[2] Owner occupied mortgages	1.5%	1.5%	1.5%	1.6%
Industry[3] Owner occupied (value)	n/a	6.8%	6.9%	7.0%
Retail Ireland[2] Buy to let mortgages	7.1%	6.7%	6.7%	5.9%
Industry[3] Buy to let (value)	n/a	19.0%	19.2%	19.0%

The latest information published by the CBI is for the quarter ended 30 September 2020.

This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (30% of industry average) and BTL (26% of industry average) mortgages. At 30 September 2020, 1.9% and 4.1% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 6.4%[3] and 16.0%[3] respectively for the industry.

This information also indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (24% of industry average) and BTL (18% of industry average) mortgages. At 30 September 2020, 1.0% and 2.2% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than 720 days past due compared to 4.2%[3] and 12.0%[3] respectively for the industry.

[1] *Accounts availing of a COVID-19 payment break that were not in arrears prior to the payment break are not considered to be in arrears for the duration of the payment break. Accounts availing of a COVID-19 payment break that were in arrears prior to the payment break will continue to be in arrears for the duration of the payment break but will not accrue any further arrears during this period.*

[2] *The table above includes €0.2 billion (2019: €0.2 billion) of loans mandatorily held at fair value through the profit or loss at 31 December 2020 which are not subject to impairment under IFRS 9.*

[3] *Industry source: CBI Mortgage Arrears Statistics Report, September 2020 - adjusted to exclude Bank of Ireland.*

Book composition *(continued)*

Loan to value profiles - total loans

Table: 3b	Owner occupied			Buy to let			Total		
2020 **Loan to value ratio of total Retail Ireland mortgages**[1]	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**
Less than 50%	7,165	231	7,396	916	55	971	8,081	286	8,367
51% to 70%	6,218	194	6,412	546	67	613	6,764	261	7,025
71% to 80%	2,993	96	3,089	97	32	129	3,090	128	3,218
81% to 90%	2,920	107	3,027	106	72	178	3,026	179	3,205
91% to 100%	307	78	385	24	31	55	331	109	440
Subtotal	**19,603**	**706**	**20,309**	**1,689**	**257**	**1,946**	**21,292**	**963**	**22,255**
101% to 120%	33	116	149	30	51	81	63	167	230
121% to 150%	21	78	99	15	39	54	36	117	153
Greater than 151%	18	126	144	23	135	158	41	261	302
Subtotal	**72**	**320**	**392**	**68**	**225**	**293**	**140**	**545**	**685**
Total	**19,675**	**1,026**	**20,701**	**1,757**	**482**	**2,239**	**21,432**	**1,508**	**22,940**
Of which subject to COVID-19 payment break									
Less than 50%	30	1	31	3	2	5	33	3	36
51% to 70%	32	2	34	3	1	4	35	3	38
71% to 80%	26	2	28	1	-	1	27	2	29
81% to 90%	14	1	15	4	-	4	18	1	19
91% to 100%	4	1	5	1	-	1	5	1	6
Subtotal	**106**	**7**	**113**	**12**	**3**	**15**	**118**	**10**	**128**
101% to 120%	1	1	2	-	-	-	1	1	2
121% to 150%	3	1	4	-	-	-	3	1	4
Greater than 151%	-	-	-	-	-	-	-	-	-
Subtotal	**4**	**2**	**6**	**-**	**-**	**-**	**4**	**2**	**6**
Total	**110**	**9**	**119**	**12**	**3**	**15**	**122**	**12**	**134**
Retail Ireland mortgages weighted average LTV[2]									
Stock of Retail Ireland mortgages at period end			59%			66%			60%
New Retail Ireland mortgages during the period			75%			57%			75%

[1] *Excluded from the above table are Purchased or Originated Credit-impaired loans of €2 million (2019: €3 million), €1 million (2019: €2 million) of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit-impaired until derecognition.*

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

Book composition *(continued)*

Loan to value profiles - total loans *(continued)*

Table: 3b	Owner occupied			Buy to let			Total		
2019 **Loan to value ratio of total Retail Ireland mortgages[1]**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**
Less than 50%	7,362	148	7,510	997	30	1,027	8,359	178	8,537
51% to 70%	6,486	149	6,635	682	42	724	7,168	191	7,359
71% to 80%	2,913	80	2,993	148	29	177	3,061	109	3,170
81% to 90%	2,367	83	2,450	146	71	217	2,513	154	2,667
91% to 100%	406	80	486	36	32	68	442	112	554
Subtotal	**19,534**	**540**	**20,074**	**2,009**	**204**	**2,213**	**21,543**	**744**	**22,287**
101% to 120%	60	113	173	49	39	88	109	152	261
121% to 150%	18	87	105	20	45	65	38	132	170
Greater than 151%	23	134	157	30	127	157	53	261	314
Subtotal	**101**	**334**	**435**	**99**	**211**	**310**	**200**	**545**	**745**
Total	**19,635**	**874**	**20,509**	**2,108**	**415**	**2,523**	**21,743**	**1,289**	**23,032**
Weighted average LTV[2]:									
Stock of Retail Ireland mortgages at year end			58%			66%			59%
New Retail Ireland mortgages during the year			74%			54%			74%

The tables on the previous page set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book during 2020 and was on average, 60% at 31 December 2020, 59% for Owner occupied mortgages and 66% for BTL mortgages. The weighted average indexed LTV for new Residential mortgages written during 2020 was 75%, being 75% for Owner occupied mortgages and 57% for BTL mortgages.

Property values are determined by reference to the property valuations held, indexed to the CSO RPPI. The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3b is based on the CSO RPPI at October 2020.

The RPPI for October 2020 reported that average national residential property prices were 17.2% below peak (October 2019: 16.9% below peak), with Dublin residential prices and outside of Dublin residential prices 22.3% and 19.6% below peak respectively (October 2019: 21.3% and 20.1% below peak respectively). In the 10 months to October 2020, residential property prices at a national level increased by 0.8%.

At 31 December 2020, €22.3 billion or 97% of Retail Ireland mortgages were classified as being in positive equity, 98% for Owner occupied mortgages and 87% for BTL mortgages.

1 *Excluded from the above table are Purchased or Originated Credit-impaired loans of 2019. €3 million, €2 million of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit-impaired until derecognition.*
2 *Weighted average loan to value ratios are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition *(continued)*

Risk profile

The table below provides an analysis of the Retail Ireland mortgages at amortised cost by IFRS 9 twelve month PD grade.

Table: 3c 2020 Risk profile of Retail Ireland mortgage loan book (before impairment loss allowance) - PD Grade[1]	Owner occupied Performing €m	Owner occupied Non-performing €m	Of which subject to COVID-19 payment break Performing €m	Of which subject to COVID-19 payment break Non-performing €m	Buy to let Performing €m	Buy to let Non-performing €m	Of which subject to COVID-19 payment break Performing €m	Of which subject to COVID-19 payment break Non-performing €m	Total Performing €m	Total Non-performing €m	Of which subject to COVID-19 payment break Performing €m	Of which subject to COVID-19 payment break Non-performing €m
Not credit-impaired												
Stage 1												
1-4	160	-	-	-	9	-	-	-	169	-	-	-
5-7	5,535	-	12	-	348	-	-	-	5,883	-	12	-
8-9	9,768	-	58	-	689	-	2	-	10,457	-	60	-
10-11	2,480	-	24	-	563	-	7	-	3,043	-	31	-
Total Stage 1	**17,943**	**-**	**94**	**-**	**1,609**	**-**	**9**	**-**	**19,552**	**-**	**103**	**-**
Stage 2												
1-4	-	-	-	-	-	-	-	-	-	-	-	-
5-7	88	-	1	-	1	-	-	-	89	-	1	-
8-9	812	-	8	-	7	-	-	-	819	-	8	-
10-11	832	-	7	-	140	-	3	-	972	-	10	-
Total Stage 2	**1,732**	**-**	**16**	**-**	**148**	**-**	**3**	**-**	**1,880**	**-**	**19**	**-**
Not credit-impaired (Stage 1 & Stage 2)												
1-4	160	-	-	-	9	-	-	-	169	-	-	-
5-7	5,623	-	13	-	349	-	-	-	5,972	-	13	-
8-9	10,580	-	66	-	696	-	2	-	11,276	-	68	-
10-11	3,312	-	31	-	703	-	10	-	4,015	-	41	-
Subtotal - not credit-impaired	**19,675**	**-**	**110**	**-**	**1,757**	**-**	**12**	**-**	**21,432**	**-**	**122**	**-**
Credit-impaired (Stage 3)												
12	-	1,026	-	9	-	482	-	3	-	1,508	-	12
Subtotal - credit-impaired	**-**	**1,026**	**-**	**9**	**-**	**482**	**-**	**3**	**-**	**1,508**	**-**	**12**
Total	**19,675**	**1,026**	**110**	**9**	**1,757**	**482**	**12**	**3**	**21,432**	**1,508**	**122**	**12**

[1] *Excluded from the above table are Purchased or originated credit-impaired loans of €2 million, €1 million of which were no longer credit-impaired at the reporting date. These loans will remain classified as Purchased or originated credit-impaired loans until derecognition.*

Book composition *(continued)*

Risk profile *(continued)*

Table: 3c

2019 Risk profile of Retail Ireland mortgage loan book (before impairment loss allowance) - PD Grade[1]	Owner occupied Performing €m	Owner occupied Non-performing €m	Buy to let Performing €m	Buy to let Non-performing €m	Total Performing €m	Total Non-performing €m
Not credit-impaired						
Stage 1						
1-4	15,719	-	385	-	16,104	-
5-7	2,477	-	1,191	-	3,668	-
8-9	413	-	167	-	580	-
10-11	154	-	104	-	258	-
Total Stage 1	**18,763**	**-**	**1,847**	**-**	**20,610**	**-**
Stage 2						
1-4	68	1	1	-	69	1
5-7	108	4	18	2	126	6
8-9	193	31	41	3	234	34
10-11	395	72	141	55	536	127
Total Stage 2	**764**	**108**	**201**	**60**	**965**	**168**
Not credit-impaired (Stage 1 & Stage 2)						
1-4	15,787	1	386	-	16,173	1
5-7	2,585	4	1,209	2	3,794	6
8-9	606	31	208	3	814	34
10-11	549	72	245	55	794	127
Subtotal - not credit-impaired	**19,527**	**108**	**2,048**	**60**	**21,575**	**168**
Credit-impaired (Stage 3)						
12	-	874	-	415	-	1,289
Subtotal - credit-impaired	**-**	**874**	**-**	**415**	**-**	**1,289**
Total	**19,527**	**982**	**2,048**	**475**	**21,575**	**1,457**

Increased credit impaired stock reflects the implementation of the revised definition of default in 2020.

[1] *Excluded from the above table are Purchased or originated credit-impaired loans of €3 million, €2 million of which were no longer credit-impaired at the reporting date. These loans will remain classified as Purchased or originated credit-impaired loans until derecognition.*

Asset quality

Composition and impairment

The table below summarises the composition of NPEs and impairment loss allowance for the Retail Ireland mortgage portfolio.

Table: 4 2020 Retail Ireland mortgages[1]	Advances (before impairment loss allowance) €m	Non-performing exposures €m	Non-performing exposures as % of advances %	Impairment loss allowance €m	Impairment loss allowance as % of non-performing exposures %	Impairment loss allowance as % of advances %
Stage 1 not credit-impaired						
Owner occupied mortgages	17,943	-	-	35	-	-
Buy to let mortgages	1,609	-	-	9	-	1%
Total	**19,552**	**-**	**-**	**44**	**-**	**-**
Stage 2 not credit-impaired						
Owner occupied mortgages	1,732	-	-	15	-	1%
Buy to let mortgages	148	-	-	5	-	3%
Total	**1,880**	**-**	**-**	**20**	**-**	**1%**
Stage 3 credit-impaired						
Owner occupied mortgages	1,026	1,026	100%	192	19%	19%
Buy to let mortgages	482	482	100%	137	28%	28%
Total	**1,508**	**1,508**	**100%**	**329**	**22%**	**22%**
Total						
Owner occupied mortgages	20,701	1,026	5%	242	24%	1%
Buy to let mortgages	2,239	482	22%	151	31%	7%
Total	**22,940**	**1,508**	**7%**	**393**	**26%**	**2%**

Table: 4 2019 Retail Ireland mortgages[1]	Advances (before impairment loss allowance) €m	Non-performing exposures €m	Non-performing exposures as % of advances %	Impairment loss allowance €m	Impairment loss allowance as % of non-performing exposures %	Impairment loss allowance as % of advances %
Stage 1 not credit-impaired						
Owner occupied mortgages	18,763	-	-	5	-	-
Buy to let mortgages	1,847	-	-	2	-	-
Total	**20,610**	**-**	**-**	**7**	**-**	**-**
Stage 2 not credit-impaired						
Owner occupied mortgages	872	108	12%	14	13%	2%
Buy to let mortgages	261	60	23%	8	13%	3%
Total	**1,133**	**168**	**15%**	**22**	**13%**	**2%**
Stage 3 credit-impaired						
Owner occupied mortgages	874	874	100%	206	24%	24%
Buy to let mortgages	415	415	100%	134	32%	32%
Total	**1,289**	**1,289**	**100%**	**340**	**26%**	**26%**
Total						
Owner occupied mortgages	20,509	982	5%	225	23%	1%
Buy to let mortgages	2,523	475	19%	144	30%	6%
Total	**23,032**	**1,457**	**6%**	**369**	**25%**	**2%**

[1] *Excluded from the above table are Purchased or Originated Credit-impaired loans of €2 million (2019: €3 million), €1 million (2019: €2 million) of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit-impaired until derecognition.*

Asset quality *(continued)*

Composition and impairment *(continued)*

Total NPEs of €1,508 million were €51 million higher than at 31 December 2019

Owner occupied NPEs of €1,026 million were €44 million higher than 2019 (31 December 2019: €982 million) and BTL NPEs were €482 million, €7 million higher than 2019 (31 December 2019: €475 million)

The increase in NPEs reflects the change to the definition of default which was implemented in 2020.

Retail UK mortgages

The following disclosures relate to the Retail UK mortgage loan book. These provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail UK mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

Lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- LTV limits;
- LTI limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

The tables below summarise the composition and risk profile of the Retail UK mortgage loan book and include details of accounts that were granted a payment break in 2020 as a result of the COVID-19 pandemic, where the account is still subject to a payment break at 31 December 2020.

Table: 1a	**31 December 2020**				**31 December 2019**	
	Total Retail UK mortgages		**Of which subject to COVID-19 payment break**		**Total Retail UK mortgages**	
Retail UK mortgages - Volumes (before impairment loss allowance) by interest rate type[1]	**£m**	**%**	**£m**	**%**	**£m**	**%**
Tracker	5,098	26%	36	19%	5,607	28%
Variable rates	2,060	11%	48	25%	2,245	12%
Fixed rates	12,441	63%	108	56%	11,917	60%
Total Retail UK mortgages	**19,599**	**100%**	**192**	**100%**	**19,769**	**100%**

At 31 December 2020, Retail UK mortgages were £19.6 billion (31 December 2019: £19.8 billion). The decrease of £170 million or 0.9% reflects new business generation offset by redemptions in the book.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through distribution arrangements with other selected strategic partners and the Group's branch network in NI.

Tracker mortgages were £5.1 billion or 26% of the Retail UK mortgages compared to £5.6 billion or 28% at 31 December 2019, a decrease of £0.5 billion. Variable rate mortgages were £2.1 billion or 11% of the Retail UK mortgages compared to £2.2 billion or 12% at 31 December 2019, a decrease of £0.1 billion.

Fixed rate mortgages were £12.4 billion or 63% of the Retail UK mortgages compared to £11.9 billion or 60% at 31 December 2019, an increase of £0.5 billion.

[1] *The above table excludes loan commitments relating to Retail UK mortgages of £670 million at 31 December 2020 (31 December 2019: £951 million) that are subject to impairment.*

Book composition *(continued)*

Loan volumes *(continued)*

The tables below summarise the composition and risk profile of the Retail UK mortgage loan book.

Table: 1b

2020 **Retail UK mortgages - Volumes (before impairment loss allowance) by product type[1]**	**Stage 1 (not credit-impaired) £m**	**Stage 2 (not credit-impaired) £m**	**Subtotal (not credit-impaired) £m**	**Stage 3 (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Standard mortgages	10,511	270	10,781	226	-	11,007
Buy to let mortgages	6,775	251	7,026	170	-	7,196
Self certified mortgages	1,111	62	1,173	223	-	1,396
Total Retail UK mortgages	**18,397**	**583**	**18,980**	**619**	**-**	**19,599**
Of which subject to COVID-19 payment break						
Standard mortgages	96	7	103	17	-	120
Buy to let mortgages	27	3	30	7	-	37
Self certified mortgages	17	2	19	16	-	35
Total Retail UK mortgages subject to a COVID-19 payment break	**140**	**12**	**152**	**40**	**-**	**192**

Table: 1b

2019 **Retail UK mortgages - Volumes (before impairment loss allowance) by product type[1]**	**Stage 1 (not credit-impaired) £m**	**Stage 2 (not credit-impaired) £m**	**Subtotal (not credit-impaired) £m**	**Stage 3 (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Standard mortgages	10,531	173	10,704	121	-	10,825
Buy to let mortgages	7,135	166	7,301	93	-	7,394
Self certified mortgages	1,297	124	1,421	129	-	1,550
Total Retail UK mortgages	**18,963**	**463**	**19,426**	**343**	**-**	**19,769**

[1] *The above table excludes loan commitments relating to Retail UK mortgages of £670 million at 31 December 2020 (31 December 2019: £951 million) that are subject to impairment.*

Book composition *(continued)*

Origination profile

Table: 2	2020								2019			
	Total Retail UK mortgage loan book		of which subject to COVID-19 payment break		Non-performing exposures		of which subject to COVID-19 payment break		Total Retail UK mortgage loan book		Non-performing exposures	
Origination[1] of Retail UK mortgage loan book (before impairment loss allowance)	Balance £m	Number of accounts[2]	Balance £m	Number of accounts[2]	Balance £m	Number of accounts[2]	Balance £m	Number of accounts[2]	Balance £m	Number of accounts[2]	Balance £m	Number of accounts[2]
2000 and before	75	2,438	-	11	9	211	-	8	98	3,146	7	175
2001	72	1,284	-	5	5	62	-	-	83	1,455	5	38
2002	95	1,496	1	10	5	53	1	7	109	1,695	2	24
2003	225	2,879	2	16	19	181	2	8	252	3,196	15	125
2004	269	3,290	4	36	24	222	1	16	300	3,632	17	155
2005	793	7,971	9	73	69	580	4	35	888	8,878	39	340
2006	1,178	11,473	12	102	92	737	5	42	1,307	12,579	67	514
2007	1,859	17,193	24	184	137	1,079	7	56	2,044	18,776	94	736
2008	2,573	22,999	34	234	179	1,331	12	78	2,818	24,982	128	990
2009	234	2,514	1	12	11	107	1	4	271	2,849	10	96
2010	165	1,673	2	12	5	37	-	1	197	1,941	4	28
2011	108	1,104	1	9	2	23	-	-	128	1,260	2	16
2012	107	1,023	1	11	2	17	-	1	129	1,175	1	8
2013	139	1,231	2	14	1	9	-	-	169	1,422	1	6
2014	296	2,551	3	21	6	34	-	1	362	2,962	1	12
2015	615	4,894	5	31	7	47	-	3	1,046	7,426	4	31
2016	903	6,791	11	61	7	45	1	8	1,092	7,844	3	18
2017	1,653	12,780	16	104	12	90	1	6	1,970	14,687	4	31
2018	1,994	15,776	20	133	12	90	2	12	2,988	21,959	2	15
2019	3,258	23,203	28	156	12	63	2	10	3,518	24,325	1	5
2020	2,988	17,230	16	77	3	26	1	7	-	-	-	-
Total	**19,599**	**161,793**	**192**	**1,312**	**619**	**5,044**	**40**	**303**	**19,769**	**166,189**	**407**	**3,363**

The table above illustrates that at 31 December 2020, £1.5 billion or 8% of the Retail UK mortgage loan book originated before 2006, £5.6 billion or 29% between 2006 and 2008 and £12.5 billion or 64% in the years since.

Non-performing Retail UK mortgages were £0.6 billion or 3.2% (31 December 2019: £0.4 billion or 2.1%) of the Retail UK mortgage loan book at 31 December 2020, of which £0.4 billion or 2.1% originated between 2006 and 2008 (31 December 2019: £0.3 billion or 1.5%).

Increase in NPE stock primarily reflects the change of the Group definition of default implemented in 2020 and an increase in 90 days past due stock.

1 *The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.*
2 *The number of accounts does not equate to the number of customers or the number of properties.*

Book composition *(continued)*

Arrears profile

Table: 3a *(unaudited)* **Mortgage arrears[1]** **Greater than 90 days past due**	**December 2020** **%**	**June 2020** **%**	**December 2019** **%**
Number of accounts			
Standard mortgages	0.85%	0.85%	0.76%
Buy to let mortgages	0.94%	0.91%	0.84%
Self certified mortgages	4.78%	4.30%	3.98%
Value			
Standard mortgages	0.69%	0.72%	0.63%
Buy to let mortgages	0.94%	0.94%	0.86%
Self certified mortgages	5.90%	5.36%	5.05%

Loan to value profiles - total loans

Table: 3b **2020**	**Standard**		**Buy to let**		**Self certified**		**Total**		
Loan to value ratio of total Retail UK mortgages	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**
Less than 50%	2,342	64	2,492	52	493	54	5,327	170	5,497
51% to 70%	3,202	83	3,587	69	508	104	7,297	256	7,553
71% to 80%	2,565	32	791	33	113	32	3,469	97	3,566
81% to 90%	2,559	27	142	11	46	21	2,747	59	2,806
91% to 100%	89	11	9	4	7	5	105	20	125
Subtotal	**10,757**	**217**	**7,021**	**169**	**1,167**	**216**	**18,945**	**602**	**19,547**
101% to 120%	13	5	4	1	3	4	20	10	30
121% to 150%	10	2	1	-	3	2	14	4	18
Greater than 150%	1	2	-	-	-	1	1	3	4
Subtotal	**24**	**9**	**5**	**1**	**6**	**7**	**35**	**17**	**52**
Total	**10,781**	**226**	**7,026**	**170**	**1,173**	**223**	**18,980**	**619**	**19,599**
Weighted average LTV[2]:									
Stock of Retail UK mortgages at year end	65%	63%	55%	59%	53%	62%	60%	62%	60%
New Retail UK mortgages during year	75%	71%	58%	54%	51%	-	72%	66%	72%

[1] *Accounts availing of a COVID-19 payment break that were not in arrears prior to the payment break are not considered to be in arrears for the duration of the payment break. Accounts availing of a COVID-19 payment break that were in arrears prior to the payment break will continue to be in arrears for the duration of the payment break but will not accrue any further arrears during this period.*

[2] *Weighted average loan to value ratios are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Book composition *(continued)*

Loan to value profiles - total loans *(continued)*

Table: 3b 2020 Of which subject to COVID-19 payment break	Standard Not credit-impaired £m	Standard Credit-impaired £m	Buy to let Not credit-impaired £m	Buy to let Credit-impaired £m	Self certified Not credit-impaired £m	Self certified Credit-impaired £m	Total Not credit-impaired £m	Total Credit-impaired £m	Total Total £m
Less than 50%	14	4	11	2	7	4	32	10	42
51% to 70%	35	7	14	4	8	8	57	19	76
71% to 80%	29	3	3	1	2	2	34	6	40
81% to 90%	24	2	2	-	1	2	27	4	31
91% to 100%	1	1	-	-	1	-	2	1	3
Subtotal	**103**	**17**	**30**	**7**	**19**	**16**	**152**	**40**	**192**
101% to 120%	-	-	-	-	-	-	-	-	-
121% to 150%	-	-	-	-	-	-	-	-	-
Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**103**	**17**	**30**	**7**	**19**	**16**	**152**	**40**	**192**

Table: 3b 2019 Loan to value ratio of total Retail UK mortgages	Standard Not credit-impaired £m	Standard Credit-impaired £m	Buy to let Not credit-impaired £m	Buy to let Credit-impaired £m	Self certified Not credit-impaired £m	Self certified Credit-impaired £m	Total Not credit-impaired £m	Total Credit-impaired £m	Total Total £m
Less than 50%	2,132	28	2,090	20	484	26	4,706	74	4,780
51% to 70%	3,033	40	3,521	33	608	50	7,162	123	7,285
71% to 80%	2,080	19	1,270	19	192	23	3,542	61	3,603
81% to 90%	2,598	14	383	14	110	18	3,091	46	3,137
91% to 100%	815	11	27	5	15	6	857	22	879
Subtotal	**10,658**	**112**	**7,291**	**91**	**1,409**	**123**	**19,358**	**326**	**19,684**
101% to 120%	27	4	8	2	7	2	42	8	50
121% to 150%	16	3	2	-	5	3	23	6	29
Greater than 150%	3	2	-	-	-	1	3	3	6
Subtotal	**46**	**9**	**10**	**2**	**12**	**6**	**68**	**17**	**85**
Total	**10,704**	**121**	**7,301**	**93**	**1,421**	**129**	**19,426**	**343**	**19,769**
Weighted average LTV[1]:									
Stock of Retail UK mortgages at year end	67%	67%	58%	65%	57%	67%	63%	67%	63%
New Retail UK mortgages during year	76%	87%	61%	53%	n/a	n/a	73%	68%	73%

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 60% at 31 December 2020. The weighted average LTV for new Residential mortgages written during 2020 was 72%, 75% for Standard mortgages and 58% for BTL mortgages.

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

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

Book composition *(continued)*

Loan to value profiles - total loans *(continued)*

At 31 December 2020, £19.5 billion or 99.7% of the Retail UK mortgage book was in positive equity (2019: £19.7 billion or 99.6%), comprising £11.0 billion or 99.7% of Standard mortgages (2019: £10.8 billion or 99.5%), £7.2 billion or 99.9% of BTL mortgages (2019: £7.4 billion or 99.8%) and £1.4 billion or 99.1% of Self certified mortgages (2019: £1.5 billion or 98.8%).

This slight improvement reflects the upward movement in house prices in the year with house prices increasing by 7% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

Risk profile

The table below provides an analysis of the Retail UK mortgages at amortised cost by IFRS 9 twelve month PD grade.

Table: 3c 2020 Risk profile of Retail UK mortgage loan book (before impairment loss allowance) PD Grade	Standard Performing £m	Standard Non-performing £m	Buy to let Performing £m	Buy to let Non-performing £m	Self certified Performing £m	Self certified Non-performing £m	Total Performing £m	Total Non-performing £m
Not credit-impaired								
Stage 1								
1-4	1,490	-	105	-	9	-	1,604	-
5-7	8,533	-	3,795	-	523	-	12,851	-
8-9	401	-	2,275	-	444	-	3,120	-
10-11	87	-	600	-	135	-	822	-
Total Stage 1	**10,511**	**-**	**6,775**	**-**	**1,111**	**-**	**18,397**	**-**
Stage 2								
1-4	-	-	-	-	-	-	-	-
5-7	122	-	22	-	11	-	155	-
8-9	23	-	78	-	9	-	110	-
10-11	125	-	151	-	42	-	318	-
Total Stage 2	**270**	**-**	**251**	**-**	**62**	**-**	**583**	**-**
Not credit-impaired (Stage 1 & Stage 2)								
1-4	1,490	-	105	-	9	-	1,604	-
5-7	8,655	-	3,817	-	534	-	13,006	-
8-9	424	-	2,353	-	453	-	3,230	-
10-11	212	-	751	-	177	-	1,140	-
Subtotal - not credit-impaired	**10,781**	**-**	**7,026**	**-**	**1,173**	**-**	**18,980**	**-**
Credit-impaired (Stage 3)								
12	-	226	-	170	-	223	-	619
Subtotal - credit-impaired	**-**	**226**	**-**	**170**	**-**	**223**	**-**	**619**
Total	**10,781**	**226**	**7,026**	**170**	**1,173**	**223**	**18,980**	**619**

Book composition *(continued)*

Risk profile *(continued)*

The table below provides an analysis by IFRS 9 twelve-month PD grade, of Retail UK mortgages that were granted a payment break in 2020 as a result of the COVID-19 pandemic, where the account is still subject to a payment break at 31 December 2020

Table: 3c								
31 December 2020	**Standard**		**Buy to let**		**Self certified**		**Total**	
Risk profile of Retail UK mortgages subject to a COVID-19 payment break	**Performing £m**	**Non-performing £m**	**Performing £m**	**Non-performing £m**	**Performing £m**	**Non-performing £m**	**Performing £m**	**Non-performing £m**
Not credit-impaired								
Stage 1								
1-4	3	-	-	-	-	-	3	-
5-7	75	-	10	-	7	-	92	-
8-9	14	-	14	-	7	-	35	-
10-11	4	-	3	-	3	-	10	-
Total Stage 1	**96**	**-**	**27**	**-**	**17**	**-**	**140**	**-**
Stage 2								
1-4	-	-	-	-	-	-	-	-
5-7	1	-	-	-	-	-	1	-
8-9	1	-	1	-	-	-	2	-
10-11	5	-	2	-	2	-	9	-
Total Stage 2	**7**	**-**	**3**	**-**	**2**	**-**	**12**	**-**
Not credit-impaired (Stage 1 & Stage 2)								
1-4	3	-	-	-	-	-	3	-
5-7	76	-	10	-	7	-	93	-
8-9	15	-	15	-	7	-	37	-
10-11	9	-	5	-	5	-	19	-
Subtotal - not credit-impaired	**103**	**-**	**30**	**-**	**19**	**-**	**152**	**-**
Credit-impaired (Stage 3								
12	-	17	-	7	-	16	-	40
Subtotal - credit-impaired	**-**	**17**	**-**	**7**	**-**	**16**	**-**	**40**
Total	**103**	**17**	**30**	**7**	**19**	**16**	**152**	**40**

Increase in the not credit-impaired PD grading at 31 December 2020 reflect the Group's revised forward-looking information. Increased credit-impaired stock reflects the implementation of the revised definition of default and increases to 90 days past due stock.

Book composition *(continued)*

Risk profile *(continued)*

Table: 3c *(continued)*

2019 Risk profile of Retail UK mortgage loan book (before impairment loss allowance) PD Grade	Standard Performing £m	 Non-performing £m	Buy to let Performing £m	 Non-performing £m	Self certified Performing £m	 Non-performing £m	Total Performing £m	 Non-performing £m
Not credit-impaired								
Stage 1								
1-4	6,376	-	1,105	-	11	-	7,492	-
5-7	4,037	-	5,277	-	910	-	10,224	-
8-9	44	-	547	-	270	-	861	-
10-11	74	-	205	1	106	-	385	1
Total Stage 1	**10,531**	**-**	**7,134**	**1**	**1,297**	**-**	**18,962**	**1**
Stage 2								
1-4	13	3	2	-	-	-	15	3
5-7	21	3	23	4	18	5	62	12
8-9	5	2	13	3	5	2	23	7
10-11	116	10	105	16	79	15	300	41
Total Stage 2	**155**	**18**	**143**	**23**	**102**	**22**	**400**	**63**
Not credit-impaired (Stage 1 & Stage 2)								
1-4	6,389	3	1,107	-	11	-	7,507	3
5-7	4,058	3	5,300	4	928	5	10,286	12
8-9	49	2	560	3	275	2	884	7
10-11	190	10	310	17	185	15	685	42
Subtotal - not credit-impaired	**10,686**	**18**	**7,277**	**24**	**1,399**	**22**	**19,362**	**64**
Credit-impaired (Stage 3)								
12	-	121	-	93	-	129	-	343
Subtotal - credit-impaired	**-**	**121**	**-**	**93**	**-**	**129**	**-**	**343**
Total	**10,686**	**139**	**7,277**	**117**	**1,399**	**151**	**19,362**	**407**

Asset quality

Composition and impairment

The table below summarises the composition of NPEs and impairment loss allowance for the Retail UK mortgage portfolio.

Table: 4 2020 Retail UK mortgages	Advances (before impairment loss allowance) £m	Non-performing exposures £m	Non-performing exposures as % of advances %	Impairment loss allowance £m	Impairment loss allowance as % of non-performing exposures %	Impairment loss allowance as % of advances %
Stage 1 not credit-impaired						
Standard mortgages	10,511	-	-	9	-	-
Buy to let mortgages	6,775	-	-	15	-	-
Self certified mortgages	1,111	-	-	3	-	-
Total	**18,397**	**-**	**-**	**27**	**-**	**-**
Stage 2 not credit-impaired						
Standard mortgages	270	-	-	3	-	(1%)
Buy to let mortgages	251	-	-	6	-	(2%)
Self certified mortgages	62	-	-	1	-	(2%)
Total	**583**	**-**	**-**	**10**	**-**	**(2%)**
Stage 3 credit-impaired						
Standard mortgages	226	226	100%	13	(6%)	(6%)
Buy to let mortgages	170	170	100%	17	(10%)	(10%)
Self certified mortgages	223	223	100%	10	(4%)	(4%)
Total	**619**	**619**	**100%**	**40**	**(6%)**	**(6%)**
Total						
Standard mortgages	11,007	226	2%	25	(11%)	-
Buy to let mortgages	7,196	170	2%	38	(22%)	(1%)
Self certified mortgages	1,396	223	16%	14	(6%)	(1%)
Total	**19,599**	**619**	**3%**	**77**	**(12%)**	**-**

Total NPEs of £619 million were £212 million higher than at 31 December 2019.

Owner occupied NPEs of £449 million were £159 million higher than at 31 December 2019.

BTL NPEs of £170 million were £53 million higher than at 31 December 2019.

Asset quality *(continued)*

Composition and impairment *(continued)*

The table below summarises the composition of NPEs and impairment loss allowance for the Retail UK mortgage portfolio.

Table: 4 2019 Retail UK mortgages	Advances (before impairment loss allowance) £m	Non-performing exposures £m	Non-performing exposures as % of advances %	Impairment loss allowance £m	Impairment loss allowance as % of non-performing exposures %	Impairment loss allowance as % of advances %
Stage 1 not credit-impaired						
Standard mortgages	10,531	-	-	2	-	-
Buy to let mortgages	7,135	1	-	5	n/m	-
Self certified mortgages	1,297	-	-	1	-	-
Total	**18,963**	**1**	**-**	**8**	**n/m**	**-**
Stage 2 not credit-impaired						
Standard mortgages	173	18	10%	3	17%	2%
Buy to let mortgages	166	23	14%	7	30%	4%
Self certified mortgages	124	22	18%	2	9%	2%
Total	**463**	**63**	**14%**	**12**	**19%**	**3%**
Stage 3 credit-impaired						
Standard mortgages	121	121	100%	12	10%	10%
Buy to let mortgages	93	93	100%	14	15%	15%
Self certified mortgages	129	129	100%	9	7%	7%
Total	**343**	**343**	**100%**	**35**	**10%**	**10%**
Total						
Standard mortgages	10,825	139	1%	17	12%	-
Buy to let mortgages	7,394	117	2%	26	22%	-
Self certified mortgages	1,550	151	10%	12	8%	1%
Total	**19,769**	**407**	**2%**	**55**	**14%**	**-**

Supplementary COVID-19 disclosures

Composition of COVID-19 payment breaks

The following tables analyse the number and value of customer accounts where a payment break was availed of, as a result of COVID19 and where the customer's account was still active at 31 December 2020. The analysis does not include cases where a customer cancelled their COVID-19 payment break or where the account was derecognised prior to 31 December 2020. Information is presented on an aggregate basis at the date a payment break was granted, in addition to an analysis of accounts still subject to a payment break as at 31 December 2020.

2020 **Analysis of all COVID-19 payment breaks granted**	**Residential mortgages**	**Non-property SME and corporate**	**Property and construction**	**Consumer**	**Total**
Total number of accounts granted a payment break	41,684	18,180	1,178	38,628	99,670
Total gross carrying amount of loans granted a payment break[1] - €'m	6,209	3,624	783	486	11,102
Total impairment loss allowance on loans granted a payment break[1] €'m	73	180	63	28	344

2020 **Analysis of loans and advances to customers subject to a COVID-19 payment break**	**Residential mortgages[2]**	**Non-property SME and corporate**	**Property and construction**	**Consumer**	**Total**
Total number of accounts subject to a payment break	2,055	391	27	3,324	5,797
Percentage of customer loan accounts[3]	1%	-	1%	-	-
Total gross carrying amount of loans subject to a payment break[4] - €'m	348	829	32	38	1,247
Total impairment loss allowance on loans subject to a payment break[4] - €'m	3	20	1	3	27

2020 **Risk profile of loans and advances to customers subject to a COVID-19 payment break**	**Residential mortgages[1]**	**Non-property SME and corporate**	**Property and construction**	**Consumer**	**Total**
Stage 1 - Not Credit Impaired	259	52	1	33	345
Stage 2 - Not Credit Impaired	33	772	29	3	837
Stage 3 - Credit Impaired	56	5	2	2	65
Purchased / originated credit-impaired	-	-	-	-	-
Total	**348**	**829**	**32**	**38**	**1,247**

[1] *The gross carrying amount and impairment loss allowance on loans granted a payment break relate to balances as at the date the payment break was granted.*
[2] *The COVID-19 payment break analysis of the Residential mortgages portfolio as at 31 December 2020 is further detailed within the Retail Ireland mortgage loan book disclosures on pages 346 to 355 and within the Retail UK mortgage loan book disclosures on pages 356 to 365.*
[3] *The number of accounts does not equate to the number of customers.*
[4] *The gross carrying amount and impairment loss allowance on loans subject to a payment break, relate to balances as at 31 December 2020.*

Group forbearance disclosures

Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers at amortised cost at 31 December 2020 of €78.4 billion is available in note 28 on page 271. Exposures are before impairment loss allowance.

Table: 1 2020 Loans and advances to customers at amortised cost - Composition	Stage 1 (not credit-impaired) €m	Stage 2 (not credit-impaired) €m	Stage 3 (credit-impaired) €m	Purchased / originated credit-impaired[1] €m	Total €m
Non-forborne loans and advances to customers					
Residential mortgages	40,008	2,062	920	1	42,991
- Retail Ireland	*19,544*	*1,501*	*366*	*1*	*21,412*
- Retail UK	*20,464*	*561*	*554*	*-*	*21,579*
Non-property SME and corporate	10,637	6,565	300	-	17,502
- Republic of Ireland SME	*4,155*	*1,848*	*243*	*-*	*6,246*
- UK SME	*1,064*	*520*	*57*	*-*	*1,641*
- Corporate	*5,418*	*4,197*	*-*	*-*	*9,615*
Property and construction	2,639	4,521	44	1	7,205
- Investment	*2,357*	*3,886*	*36*	*1*	*6,280*
- Land and development	*282*	*635*	*8*	*-*	*925*
Consumer	4,961	164	138	-	5,263
Total non-forborne loans and advances to customers	**58,245**	**13,312**	**1,402**	**2**	**72,961**
Forborne loans and advances to customers					
Residential mortgages	8	466	1,276	1	1,751
- Retail Ireland	*8*	*379*	*1,142*	*1*	*1,530*
- Retail UK	*-*	*87*	*134*	*-*	*221*
Non-property SME and corporate	-	1,616	714	26	2,356
- Republic of Ireland SME	*-*	*398*	*429*	*-*	*827*
- UK SME	*-*	*92*	*57*	*-*	*149*
- Corporate	*-*	*1,126*	*228*	*26*	*1,380*
Property and construction	-	348	977	61	1,386
- Investment	*-*	*341*	*951*	*61*	*1,353*
- Land and development	*-*	*7*	*26*	*-*	*33*
Consumer	-	1	7	-	8
Total forborne loans and advances to customers	**8**	**2,431**	**2,974**	**88**	**5,501**

[1] *At 31 December 2020, forborne Purchased or Originated Credit-impaired loans included €1 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.*

Risk profile of forborne loans and advances to customers *(continued)*

Table: 1

2019 **Loans and advances to customers at amortised cost - Composition**	**Stage 1 (not credit-impaired) €m**	**Stage 2 (not credit-impaired) €m**	**Stage 3 (credit-impaired) €m**	**Purchased / originated credit-impaired[1] €m**	**Total €m**
Non-forborne loans and advances to customers					
Residential mortgages	42,884	822	560	2	44,268
- Retail Ireland	*20,598*	*413*	*251*	*2*	*21,264*
- Retail UK	*22,286*	*409*	*309*	-	*23,004*
Non-property SME and corporate	17,473	1,121	172	-	18,766
- Republic of Ireland SME	*5,798*	*597*	*164*	-	*6,559*
- UK SME	*1,382*	*133*	*8*	-	*1,523*
- Corporate	*10,293*	*391*	-	-	*10,684*
Property and construction	5,985	818	10	-	6,813
- Investment	*5,418*	*572*	*9*	-	*5,999*
- Land and development	*567*	*246*	*1*	-	*814*
Consumer	5,421	202	88	-	5,711
Total non-forborne loans and advances to customers	**71,763**	**2,963**	**830**	**2**	**75,558**
Forborne loans and advances to customers					
Residential mortgages	14	855	1,133	1	2,003
- Retail Ireland	*12*	*720*	*1,038*	*1*	*1,771*
- Retail UK	*2*	*135*	*95*	-	*232*
Non-property SME and corporate	1	1,054	585	27	1,667
- Republic of Ireland SME	*1*	*414*	*331*	-	*746*
- UK SME	-	*92*	*70*	*2*	*164*
- Corporate	-	*548*	*184*	*25*	*757*
Property and construction	-	695	539	65	1,299
- Investment	-	*679*	*510*	*65*	*1,254*
- Land and development	-	*16*	*29*	-	*45*
Consumer	-	4	12	-	16
Total forborne loans and advances to customers	**15**	**2,608**	**2,269**	**93**	**4,985**

Table: 2

2020 **Risk profile of loans and advances to customers at amortised cost - non-performing exposures[2]**	**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	912	300	44	138	1,394
Not credit-impaired	7	13	6	-	26
Total non-forborne loans and advances to customers	**919**	**313**	**50**	**138**	**1,420**
Forborne loans and advances to customers					
Credit-impaired	1,278	740	1,039	7	3,064
Not credit-impaired	-	6	6	-	12
Total forborne loans and advances to customers	**1,278**	**746**	**1,045**	**7**	**3,076**

[1] *At 31 December 2019, forborne Purchased or Originated Credit-impaired loans included €65 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 (POCI) loans until derecognition.*
[2] *Table 2 excludes loans at FVTPL and includes POCI.*

Risk profile of forborne loans and advances to customers *(continued)*

Table: 2 2019 Risk profile of loans and advances to customers at amortised cost - non-performing exposures	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Credit-impaired	560	172	10	88	830
Not credit-impaired	47	28	4	-	79
Total non-forborne loans and advances to customers	**607**	**200**	**14**	**88**	**909**
Forborne loans and advances to customers					
Credit-impaired	1,134	612	539	12	2,297
Not credit-impaired	198	76	39	-	313
Total forborne loans and advances to customers	**1,332**	**688**	**578**	**12**	**2,610**

Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for 2020 and 2019. The calculations of average balances can be based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's NIM is outlined on page 48.

	2020			*Restated*[1] 2019		
	Average Balance[2] €m	Interest[3,4] €m	Rate %	Average Balance[2] €m	Interest[3,4] €m	Rate %
Assets						
Loans and advances to banks	11,250	-	-	7,042	25	0.36%
Loans and advances to customers at amortised cost[5,6]	78,187	2,448	3.13%	77,942	2,536	3.25%
Debt securities at amortised cost, financial assets at FVOCI and FVTPL	16,318	12	0.07%	16,510	43	0.26%
Total interest earning assets	**105,755**	**2,460**	**2.33%**	**101,494**	**2,604**	**2.57%**
Non interest earning assets	25,499	-	-	25,432	-	-
Total assets	**131,254**	**2,460**	**1.87%**	**126,926**	**2,604**	**2.05%**
Liabilities and shareholders' equity						
Deposits from banks	2,429	8	0.33%	2,541	16	0.63%
Customer accounts	43,463	158	0.36%	44,458	233	0.52%
Debt securities in issue	7,265	84	1.16%	8,019	100	1.25%
Subordinated liabilities	1,446	63	4.36%	1,751	90	5.14%
Lease liabilities	525	14	2.67%	603	15	2.49%
Total interest bearing liabilities	**55,128**	**327**	**0.59%**	**57,249**	**454**	**0.79%**
Current accounts	41,697	(21)	(0.05%)	35,517	(9)	(0.03%)
Total interest bearing liabilities and current accounts	**96,825**	**306**	**0.32%**	**92,766**	**445**	**0.48%**
Other interest expense	-	5	-	-	-	-
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	-	34	-	-	8	-
Non interest bearing liabilities	24,263	-	-	24,002	-	-
Shareholders' equity and non-controlling interests	10,166	-	-	10,158	-	-
Total liabilities and shareholders' equity	**131,254**	**345**	**0.26%**	**126,926**	**453**	**0.36%**
Euro and sterling reference rates (average)						
ECB base rate			-			-
3 month Euribor rate			(0.40%)			(0.35%)
Bank of England base rate			0.23%			0.75%
3 month Libor rate			0.21%			0.81%

1 As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.

2 Average balances are presented on an underlying basis excluding non-core items, see page 52 for further details.

3 Represents underlying interest income or underlying interest expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. €26 million (2019:€10 million) of a charge to interest income relating to customer redress charges are excluded as non-core items.

4 Interest expense of €10 million (2019: €7 million) arising from assets subject to negative interest rates has been reclassified to interest income, whereas in the consolidated income statement it is presented as interest expense. Interest income of €33 million (2019: €19 million) arising from liabilities subject to negative interest rates has been reclassified to interest expense, whereas in the consolidated income statement it is presented as interest income.

5 Average loans and advances to customers volumes are presented net of Stage 3 impairment loss allowances.

6 The Group has availed of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement' as adopted by the EU. In order that yields on products are presented on a consistent basis year on year and are not impacted by the resulting change in hedge accounting designations, net interest flows of €104 million on all derivatives designated as fair value hedges of current accounts continue to be presented together with gross interest income on 'Loans and advances to customers' and is not included in 'Customer accounts'.

Shareholder information
Holders of ordinary shares

Listings
BOIG plc is a public limited company incorporated in Ireland in 2016. Its ordinary shares, of nominal value €1.00 per share, have a primary listing on the Irish Stock Exchange t/a Euronext Dublin and a premium listing on the London Stock Exchange.

Registrar
The Company's Registrar is:
Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82
Telephone: + 353 1 247 5414
Facsimile: + 353 1 447 5571
or
Contact via website: www.computershare.com/ie/contact-us

Shareholders may view their shareholding on Computershare's website at: www.investorcentre.com/ie by registering their details with Computershare. Once registered, shareholders will be sent a Computershare activation code and will then be able to view and amend their account details using the above link.

Amalgamating your shareholdings
If you receive more than one copy of a shareholder mailing with similar details on your accounts, it may be because the Company has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future and to reduce the cost and waste associated with this, please have all your shareholdings amalgamated into one account by contacting the Company's Registrar (joint accounts cannot be merged with sole accounts or vice versa).

Shareholder profile	2020 % by value	2019 % by value
Ireland	16%	15%
UK	31%	27%
North America	25%	33%
Europe / other	15%	13%
Retail	13%	12%
Total	**100%**	**100%**

Shareholder enquiries
All enquiries concerning shareholdings should be addressed to the Company's Registrar.

Communication
It is the policy of the Company to communicate with shareholders by electronic means or through the www.bankofireland.com website in the interest of protecting the environment. Those shareholders who do not wish to receive documents or information by electronic means may request to receive the relevant information in paper form.

Bank of Ireland website
Further information about the Bank of Ireland Group can be obtained from the internet at www.bankofireland.com

	2020				2019			
Shareholding range - units of shares	Number of shareholders	% of total holders	Shares held units	% of total shares	Number of shareholders	% of total holders	Shares held units	% of total shares
Up to 500	75,415	79.72%	8,003,686	0.74%	76,830	79.05%	8,212,090	0.76%
501 to 1,000	7,758	8.20%	5,609,070	0.52%	8,096	8.33%	5,853,741	0.55%
1,001 to 5,000	8,745	9.24%	18,578,134	1.73%	9,285	9.56%	19,829,050	1.85%
5,001 to 10,000	1,256	1.33%	8,976,741	0.84%	1,315	1.35%	9,358,588	0.87%
10,001 to 50,000	925	0.98%	18,500,821	1.72%	1,020	1.05%	21,063,979	1.96%
50,001 to 100,000	123	0.13%	8,494,291	0.79%	168	0.17%	12,063,398	1.12%
100,001 to 500,000	198	0.21%	44,517,858	4.15%	270	0.28%	59,798,353	5.57%
Over 500,000[1]	179	0.19%	961,066,012	89.51%	204	0.21%	937,692,315	87.32%
Total	**94,599**	**100.00%**	**1,073,746,613**	**100.00%**	**97,188**	**100.00%**	**1,073,871,514**	**100.00%**

[1] *Excludes shareholdings held by New Ireland Assurance Company plc.*

Forward looking statement

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

Examples of forward-looking statements include, among others: statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, LDRs, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, UK, European and other regulators and plans and objectives for future operations, and the impact of the COVID-19 pandemic particularly on certain of the above issues and generally on the global and domestic economies. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Such risks and uncertainties include, but are not limited to, those as set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 135.

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

For further information please contact:
Myles O'Grady, Group Chief Financial Officer
Tel: +353 1 250 8900 ext. 43291

Darach O'Leary, Director of Group Investor Relations
Tel: +353 1 250 8900 ext. 44711

Damien Garvey, Head of Group External Communications and Public Affairs
Tel: +353 1 250 8900 ext. 46716

Other disclosures

TARGET 2

1. On 15 February 2008 a first floating charge (the Floating Charge) was placed in favour of the CBI over all The Governor and Company of the Bank of Ireland's right, title, interest and benefit, present and future, in and to (i) the balances now or at any time standing to the credit of The Governor and Company of the Bank of Ireland's account held as a TARGET 2 participant with the CBI; and (ii) certain segregated securities listed in an Eligible Securities Schedule kept by The Governor and Company of the Bank of Ireland for purposes of participating in TARGET 2((i) and (ii) together the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

   This Floating Charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:

   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

   On 14 September 2018, The Governor and Company of the Bank of Ireland entered into an Agreement in respect of Continued Participation in Target 2 Ireland with the CBI to restate and modify the terms and conditions applicable to The Governor and Company of the Bank of Ireland's existing participation in TARGET 2 with effect from 14 September 2018. This Agreement provided that The Governor and Company of the Bank of Ireland would continue to participate in TARGET 2 in accordance with the Agreement and the TARGET 2 Ireland terms and conditions as published on the CBI's website and that the Floating Charge would continue in full force and effect with respect to such continued and amended participation in TARGET 2.

Alternative performance measures

This section contains further information related to certain measures referred to in the Strategic Report, Financial Review and Financial Statements.

The Financial Review is prepared using IFRS and non-IFRS measures to analyse the Group's performance, providing comparability year on year. These performance measures are consistent with those presented to the Board and Group Executive Committee and include alternative performance measures as set out below. These performance measures may not be uniformly defined by all companies and accordingly they may not be directly comparable with similarly titled measures and disclosures by other companies. These measures should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 190.

'Annual Premium Equivalent' is a common metric used by insurance companies. The approach taken by insurance companies is to take 100% of regular premiums, being the annual premiums received for a policy, and 10% of single premiums. This assumes that an average life insurance policy lasts 10 years and therefore taking 10% of single premiums annualises the single lump sum payment received over the 10 year duration.

Average cost of funds represents the underlying interest expense recognised on interest bearing liabilities, net of interest on derivatives which are in a hedge relationship with the relevant liability. See pages 48 and 370 for further information.

Calculation	Source	2020 €m	*Restated*[1] 2019 €m
Interest expense	Income statement	481	586
Exclude interest on non-trading derivatives (not in hedge accounting relationships)	Note 5	(231)	(207)
Exclude negative interest on financial assets	Note 5	(10)	(7)
Include negative interest on financial liabilities	Note 4	(33)	(19)
Exclude other interest expense	Note 5	(5)	-
Exclude impact of FV hedges of current accounts	Average balance sheet	104	97
Exclude interest expense related to portfolio divestments	Non-core items (OFR)	-	(5)
Underlying interest expense		**306**	**445**
Average interest bearing liabilities	Average balance sheet	96,825	92,766
Average cost of funds %		**(0.32%)**	**(0.48%)**

Business income is net other income before other gains and other valuation items. See page 49 for further details.

Constant currency: To enable a better understanding of performance, certain variances are calculated on a constant currency basis by adjusting for the impact of movements in exchange rates during the 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.

Growth in customer deposits on a constant currency basis

The Group calculates growth in customer deposits on a constant currency basis. For this calculation the Group applies the prior year end rate in both years so that the impact of movements in FX rates are eliminated.

Calculation	Source	2020 €m	2019 €m
Customer deposits	Note 39	88,637	83,968
Impact of foreign exchange movements		1,375	(1,168)
Customer deposits on a constant currency basis		**90,012**	**82,800**
Growth in customer deposits		**7,212**	

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

Alternative performance measures *(continued)*

Growth in new lending on a constant currency basis

The Group calculates growth in new lending on a constant currency basis. For this calculation the Group applies the current year average in year interest rate to Retail UK lending flows in both years so that the impact of movements in FX rates are eliminated.

Calculation	Source	2020 €m	2019 €m
New lending in the year	Balance sheet (OFR)	14,070	16,501
Impact of foreign exchange movements		2	(19)
New lending on a constant currency basis		**14,072**	**16,482**
Growth in new lending (%)		**(14.62%)**	

Gross new lending volumes represent loans and advances to customers drawn down during the period and portfolio acquisitions.

Gross yield represents the underlying interest income recognised on interest earning assets, net of interest on derivatives which are in a hedge relationship with the relevant asset. See pages 48 and 370 for further information.

Calculation	Source	2020 €m	*Restated*[1] 2019 €m
Interest income	Income statement	2,570	2,758
Exclude interest on non-trading derivatives (not in hedge accounting relationships)	Note 4	(197)	(215)
Exclude negative interest on financial liabilities	Note 4	(33)	(19)
Include negative interest on financial assets	Note 5	(10)	(7)
Exclude customer redress charges	Note 4	26	10
Include impact of FV hedges of current accounts	Average balance sheet	104	97
Exclude interest income related to portfolio divestments	Average balance sheet	-	(20)
Other		-	-
Underlying interest income		**2,460**	**2,604**
Average interest earning assets	Average balance sheet	105,755	101,494
Average gross yield %		**2.33%**	**2.57%**

Gross yield - customer lending

Calculation	Source	2020 €m	*Restated*[1] 2019 €m
Interest income on loans and advances to customers	Note 4	2,147	2,274
Interest income on finance leases and hire purchase receivables	Note 4	171	175
Exclude customer redress charges	Note 4	26	10
Include impact of FV hedges of current accounts	Average balance sheet	104	97
Exclude interest income related to portfolio divestments	Non-core items (OFR)	-	(20)
Underlying interest income on customer lending		**2,448**	**2,536**
Average customer lending assets	Average balance sheet	78,187	77,942
Average gross yield on customer lending %		**3.13%**	**3.25%**

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

Alternative performance measures *(continued)*

Gross yield- liquid assets

Calculation	Source	2020 €m	*Restated*[1] 2019 €m
Interest income on loans and advances to banks	Note 4	10	31
Interest income on debt securities at amortised cost	Note 4	2	9
Interest income on debt securities at FVOCI	Note 4	9	30
Include negative interest on financial assets	Note 5	(10)	(7)
Interest on other financial assets at FVTPL	Note 4	1	5
Underlying interest income on liquid assets		**12**	**68**
Loans and advances to banks	Average balance sheet	11,250	7,042
Debt securities at amortised cost, financial assets at FVOCI and FVTPL	Average balance sheet	16,318	16,510
Average interest earning liquid assets		**27,568**	**23,552**
Average gross yield on liquid assets %		**0.04%**	**0.29%**

Liquid assets are comprised of cash and balances at central banks, loans and advances to banks, debt securities at amortised cost, financial assets at FVOCI and certain financial assets at FVTPL (excluding balances in Wealth and Insurance). See page 56 for further details.

Liquid asset spread is calculated as gross yield on interest bearing liquid assets less the average cost of funds. See page 48 for further detail.

Loan asset spread is calculated as gross yield on loans and advances to customers less the average cost of funds. See page 48 for further detail.

Loan to deposit ratio is calculated as being net loans and advances to customers divided by customer deposits.

Calculation	Source	2020 €m	2019 €m
Loans and advances to customers	Balance sheet	76,581	79,487
Customer deposits	Balance sheet	88,637	83,968
Loan to Deposit ratio %		**86%**	**95%**

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

Alternative performance measures *(continued)*

Net interest margin (NIM) is stated on an underlying basis. See page 48 for further details.

Calculation	Source	2020 €m	*Restated*[1] 2019 €m
Net interest income	Income statement	2,089	2,172
Exclude customer redress charges	Note 4	26	10
Exclude net interest income related to portfolio divestments	Non-core items (OFR)	-	(15)
Underlying net interest income		**2,115**	**2,167**
Average interest earning assets	Average balance sheet	**105,755**	**101,494**
Net interest margin %		**2.00%**	**2.14%**

Net Impairment losses on loans and advances to customers at amortised cost (basis points) is the net impairment loss on loans and advances to customers at amortised cost divided by average gross loans and advances to customers at amortised cost.

Calculation	Source	2020 €m	2019 €m
Net impairment losses on loans & advances to customers at amortised cost	Impairment (OFR)	(1,061)	(210)
Average gross loans and advances to customers		79,403	79,269
Net Impairment losses on loans and advances to customers at amortised cost (bps)		**(134)**	**(26)**

Net new lending volumes represent loans and advances to customers drawn down during the year (including revolving credit facility activity) and portfolio acquisitions, net of repayments and redemptions.

'Non-performing exposures'
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, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and
(ii) other loans meeting NPE criteria as aligned with regulatory requirements.

Non-performing exposures 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.

Calculation	Source	2020 €m	2019 €m
Non-performing exposures	Asset quality (OFR)	4,503	3,519
Loans and advances to customers at amortised cost	Note 27	78,462	80,543
Loans and advances to customers at FVTPL	Note 27	361	252
Total loans and advances to customers		**78,823**	**80,795**
NPE ratio %		**5.7%**	**4.4%**

[1] *As outlined in the Group accounting policies on page 208, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 64 for additional information.*

Alternative performance measures *(continued)*

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 loss / profit (being loss / profit after tax) divided by total assets, in line with the requirement in the EU (Capital Requirements) Regulations 2014.

Calculation	Source	2020 €m	2019 €m
(Loss) / profit for the year	Income statement	(707)	448
Total assets	Balance sheet	133,754	131,883
Return on assets (bps)		**(53)**	**34**

Return on Tangible Equity (RoTE) is calculated as being profit attributable to ordinary shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Return on Tangible Equity (adjusted) is calculated by adjusting the RoTE to exclude other gains and other valuation items (net of tax) and to adjust the impairment gain or loss on financial instruments (net of tax) to a more 'normalised' impairment level of impairment loss, net of tax. The average shareholders tangible equity is adjusted to a maximum CET1 ratio of 13.0%, reflecting the Group target CET1 ratio.

	Reported		Adjusted	
	2020 €m	**2019 €m**	**2020 €m**	**2019 €m**
(Loss) / profit for the year attributable to shareholders	(742)	386	(742)	386
Non-core items, including tax	363	177	363	177
Distribution on other equity instruments - AT1 coupon	(25)	-	(25)	-
Redemption of NCI - AT1 securities	(10)	-	(10)	-
Other gains and other valuation items, net of tax	-	-	48	(3)
Adjusted (loss) / profit after tax	**(414)**	**563**	**(366)**	**560**
Shareholders' equity	**8,587**	**9,625**	**8,587**	**9,625**
Intangible assets and goodwill	(751)	(838)	(751)	(838)
Shareholders' tangible equity	**7,836**	**8,787**	**7,836**	**8,787**
Average shareholders' tangible equity	**8,481**	**8,528**	**8,481**	**8,528**
Adjustment for CET1 ratio at 13.0%	-	-	(144)	(235)
Adjusted Average shareholders tangible equity	**8,481**	**8,528**	**8,337**	**8,293**
Return on Tangible Equity	**(4.9%)**	**6.6%**	**(4.4%)**	**6.8%**

Alternative performance measures *(continued)*

Statutory cost income ratio is calculated as other operating expenses and cost of restructuring divided by total operating income, net of insurance claims.

Calculation	Source	2020 €m	2019 €m
Other operating expenses	Income statement	1,888	2,006
Impairment of intangible assets	Income statement	139	-
Impairment of goodwill	Income statement	9	-
Cost of restructuring programme	Income statement	245	59
Costs		**2,281**	**2,065**
Operating income net of insurance claims	Income statement	2,645	2,910
Total operating income		**2,645**	**2,910**
Statutory cost / income ratio %		**86%**	**71%**

Sustainable earnings is calculated as loss / profit for the year attributable to shareholders adjusted for non-core items, other gains and other valuation items and impairment.

Tangible Net Asset Value per share is calculated as shareholder equity less intangible assets and goodwill divided by the number of ordinary shares in issue, adjusted for treasury shares held for the benefit of life assurance policyholders.

Calculation	Source	2020 €m	2019 €m
Shareholder equity	Balance sheet	8,587	9,625
Less - intangible assets	Note 32	(726)	(802)
Less - goodwill	Note 32	(25)	(36)
Adjust for own shares held for the benefit of life assurance policyholders	Balance sheet	25	30
Tangible net asset value		**7,861**	**8,817**
Number of ordinary shares in issue	Note 49	1,079	1,079
Treasury shares held for the benefit of life assurance policyholders	Note 49	(5)	(5)
		1,074	**1,074**
Tangible net asset value per share (cent)		**732**	**821**

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 52 for further information.

Underlying divisional contribution reflects the underlying financial contribution of each division towards the consolidated Group underlying profit or loss, before tax, excluding non-core items which obscure the underlying performance of the business.

The Group has decided to apply the term 'underlying divisional contribution' to divisional results to more clearly reflect the fact that certain unallocated costs are presented in Group Centre, and are not reflected in the results of the other divisions. Comparative amounts for 2019 have not been restated, as the measurement of divisional results is unchanged, with 'underlying divisional contribution' measured on the same basis as the previously presented 'underlying profit or loss by division'.

Alternative performance measures *(continued)*

Underlying cost income ratio is calculated on an underlying basis (excluding non-core items), as operating expenses excluding levies and regulatory charges divided by operating income (net of insurance claims), excluding other gains and other valuation items.

Calculation	Source	2020 €m	2019 €m
Other operating expenses	Income statement	1,888	2,006
Impairment of intangible assets	Income Statement	139	-
Cost of restructuring programme	Income statement	245	59
Impairment of goodwill	Income statement	9	-
		2,281	**2,065**
Exclude:			
- cost of restructuring programme	Non-core items (OFR)	(245)	(59)
- customer redress charges	Note 13	(13)	(64)
- portfolio divestments	Non-core items (OFR)	(30)	40
- impairment of intangible assets	Income statement	(139)	-
- impairment of goodwill	Income statement	(9)	-
- levies and regulatory charges	Note 13	(125)	(117)
Underlying costs		**1,720**	**1,785**
Operating income net of insurance claims	Income statement	2,645	2,910
Exclude:			
- customer redress charges	Note 4	26	10
- Portfolio divestments	Non-core items (OFR)	(35)	(51)
- gross up of policyholder tax in the W&I business	Non-core items (OFR)	(7)	(35)
- investment return on treasury stock held for policyholders	Non-core items (OFR)	(9)	2
- transfers from reserves on asset disposal	Note 11	(7)	(3)
- net gain on disposal and revaluation of investments	Other income (OFR)	3	(4)
- gain on disposal and revaluation of investment properties	Other income (OFR)	(1)	1
- financial instrument valuation adjustments (CVA, DVA, FVA) and other	Other income (OFR)	25	37
- unit-linked investment variance - Wealth and Insurance	Other income (OFR)	14	(30)
- Interest rate movements - Wealth and Insurance	Other income (OFR)	22	(5)
Underlying income		**2,676**	**2,832**
Underlying cost / income ratio %		**64%**	**63%**

Underlying earnings per share is calculated as loss / profit attributable to shareholders adjusted for non-core items, divided by the weighted average number of ordinary shares in issue, adjusted for average treasury shares held for the benefit of life assurance policyholders.

Calculation	Source	2020 €m	2019 €m
(Loss) / profit attributable to shareholders	Income statement	(742)	386
Non-core items, including tax	Non-core items (OFR)	363	177
Distribution on other equity instruments - AT1 coupon	Note 20	(25)	-
Redemption of NCI - AT1 securities	Note 51	(10)	-
Underlying (loss) / profit attributable to shareholders		**(414)**	**563**
Weighted average number of ordinary shares in issue		1,079	1,079
Average shares held for the benefit of life assurance policyholders		(6)	(4)
Weighted average number of shares in issue excluding treasury shares	Note 20	**1,073**	**1,075**
Underlying earnings per share (cent)		**(38.6)**	**52.4**

Wholesale funding is comprised of deposits by banks (including collateral received) and debt securities in issue.

Abbreviations

AA	Automobile Association
AGC	Annual General Court
AGM	Annual General Meeting
AIB	Allied Irish Banks Group plc and subsidiaries
ALCO	Group Asset and Liability Committee
AML	Anti-Money Laundering
APE	Annual Premium Equivalent
APIs	Application Programming Interfaces
AT1	Additional tier 1
ATM	Automated Teller Machine
AWOW	Agile Ways of Working
Bank	The Governor and Company of the Bank of Ireland
BCBS	Basel Committee on Banking Supervision
BITCI	Business In The Community Ireland
BoE	Bank of England
BOIG plc	Bank of Ireland Group plc
BoIGM	Bank of Ireland Global Markets
BoIMB	Bank of Ireland Mortgage Bank
bps	Basis points
BRC	Board Risk Committee
BRRD	Bank Recovery and Resolution Directive
BSPF	Bank of Ireland Staff Pensions Fund
BTL	Buy to let
CBI	Central Bank of Ireland
CCB	Capital Conservation Buffer
CCyB	Countercyclical capital buffer
CDEAs	Cleared Derivatives Execution Agreements
CDS	Credit default swap
CEO	Chief Executive Officer
CET1	Common equity tier 1
CFO	Chief Financial Officer
CGU	Cash generating units
CPI	Consumer Price Index
CR	Credit Review
CRD	Capital Requirements Directive (EU)
CRMF	Conduct Risk Management Framework
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSAs	Credit Support Annexes
CSO	Central Statistics Office
CVA	Credit Valuation Adjustment
DAC	Designated Activity Company
DCF	Discounted Cash Flow
DGS	Deposit Guarantee Scheme
DIRT	Deposit Interest Retention Tax
DRP	Director's Remuneration Policy
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 losses
EDIS	European Deposit Insurance Scheme
EGM	Extraordinary General Meeting
EIOPA	European Insurance and Occupational Pensions Authority
ELG	Eligible Liabilities Guarantee
ESG	Environmental, Social and Corporate Governance
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro Inter Bank Offered Rate
FCA	Financial Conduct Authority
FCC	Financial Crime Compliance
FIRB	Foundation Internal Rating Based
FLI	Forward looking information
FPC	Financial Policy Committee
FRES	First Rate Exchange Services Limited
FRS	Financial Reporting Standards
FSCS	Financial Services Compensation Scheme
FVA	Funding Valuation Adjustment
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign exchange
GAC	Group Audit Committee
GB	Great Britain
GCC	Group Credit Committee
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GEC	Group Executive Committee
GIA	Group Internal Audit
GN&GC	Group Nomination and Governance Committee
GM&LR	Group Market and Liquidity Risk
GORC	Group Operational Risk Committee
GRC	Group Remuneration Committee
GRCRC	Group Regulatory and Conduct Risk Committee
GRPC	Group Risk Policy Committee
GTOC	Group Transformation Oversight Committee
HMRC	HM Revenue & Customs
I&D	Inclusion and Diversity
IAASA	Irish Auditing Accounting Supervisory Authority
IAS	International Accounting Standard
IBOR	Inter Bank Offered Rate
IBR	Incremental borrowing rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Indexed Long Term Repo
IMF	International Monetary Fund
IPO	Initial Public Offering
IRB	Internal Rating Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
ISIF	Ireland Strategic Investment Fund

Abbreviations *(continued)*

KMP	Key management personnel
KPIs	Key performance indicators
LCR	Liquidity Coverage Ratio
LDI	Liability Driven Investment
LDR	Loan to deposit ratio
LGD	Loss Given Default
LIBOR	London Inter Bank Offered Rate
LTI	Loan to income
LTV	Loan to Value
MCEV	Market Consistent Embedded Value
MFS	Minimum Funding Standard
MLL	Marshall Leasing Limited
MREL	Minimum Requirement for own Funds and Eligible Liabilities
MRT	Material Risk Taker
NAMA	National Asset Management Agency
NAMAID	National Asset Management Agency Investment DAC
NED	Non-Executive Director
NGO	Non-governmental organisation
NGRB	Group Nomination, Governance and Responsible Business Committee
NI	Northern Ireland
NIAC	New Ireland Assurance Company plc
NIM	Net interest margin
NPEs	Non-performing exposures
NSFR	Net Stable Funding Ratio
NTMA	National Treasury Management Agency
OCI	Other Comprehensive Income
ORSA	Own Risk and Solvency Assessment
O-SII	Other Systemically Important Institutions
OTC	Over the Counter
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
PD	Probability of Default
POCI	Purchased or Originated Credit-impaired financial asset
PRA	Prudential Regulation Authority
PRC	Portfolio Review Committee
RAROC	Risk Adjusted Return on Capital
RCF	Revolving Credit Facility
RCSA	Risk and Control Self Assessment
RMC	Risk Measurement Committee
RoI	Republic of Ireland
RoTE	Return on Tangible Equity
RoU	Right of Use
RoW	Rest of World
RPI	Retail Price Index
RPPI	Residential Property Price Index
RSB	Responsible and Sustainable Business
RSBF	Responsible and Sustainable Business Forum
RWAs	Risk weighted assets
SCR	Solvency Capital Requirement
SID	Senior Independent Director
SIP	Stock Incentive Plan
SME	Small and Medium Enterprise
SPE	Special purpose entity
SREP	Supervisory Review & Evaluation Process
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
S&P	Standard and Poor's
TCFD	Task Force for Climate-related Financial Disclosure
TFS	Term Funding Scheme
TLTRO	Targeted Longer Term Refinancing Operation
TSA	The Standardised Approach
TtC	Through-the-Cycle
UK	United Kingdom
UN	United Nations
US	United States
VA	Volatility Adjustment
VaR	Value at Risk
VCU	Vulnerable Customers Unit
ViF	Value of in Force
VIU	Value in Use

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