Company Registered Number: 25766

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

ANNUAL REPORT AND ACCOUNTS

31 December 2019

Contents

Board of directors and secretary

Chairman
Des O'Shea

Executive directors
Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer and Deputy CEO

Independent non-executive directors
Dermot Browne

William Holmes

Martin Murphy

Rosemary Quinlan

Gervaise Slowey

Board changes in 2020
Helen Grimshaw (non-executive director) resigned on 15 January 2020

Company Secretary
Andrew Nicholson

Auditors
Ernst & Young
Chartered Accountants and Statutory Auditor
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin 2
D02 YA40

Registered office and Head office
Ulster Bank Group Centre
George's Quay
Dublin 2
D02 VR98

Ulster Bank Ireland Designated Activity Company
Registered in Republic of Ireland No. 25766

Report of the directors

Presentation of information

Ulster Bank Ireland Designated Activity Company ('UBIDAC' or the 'Bank') is a wholly-owned subsidiary of NatWest Holdings Limited ('NatWest Holdings'). The ultimate holding company is The Royal Bank of Scotland Group plc ('RBSG' or the 'ultimate holding company'). The 'Group' or 'UBIDAC Group' comprises UBIDAC and its subsidiary and associated undertakings. 'RBS Group' comprises the ultimate holding company and its subsidiary and associated undertakings.

The Bank publishes its financial statements in euros ('€' or 'Euro'). The abbreviation '€m' represents millions of euros and the abbreviation '€k' represents thousands of euros. The abbreviation '£' represents 'pounds sterling' and the abbreviation '£m' represents millions of 'pounds sterling'.

The directors of UBIDAC present their report, together with audited financial statements of the Group for the financial year ended 31 December 2019. The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union (EU).

Principal activities

The Bank, operating under the Ulster Bank and Lombard brands, provides a comprehensive range of financial services through its Personal Banking and Commercial Banking divisions. Personal Banking provides loan and deposit products and other services through the Group's network of branches and direct channels, including mobile, internet and telephony. Commercial Banking provides services to business and corporate customers, including small and medium enterprises. The Bank is regulated by the Central Bank of Ireland (CBI) and the Joint Supervisory Team (JST) as part of the EU Single Supervisory Mechanism (SSM).

Business review

The Group's strategic ambition is focused on long-term financial wellbeing for customers and digital and technological innovation, delivering "effortless everyday banking that is brilliant when it matters". The Group is building a customer focused culture underpinned by 'Our Values' of 'serving customers', 'working together', 'doing the right thing' and 'thinking long term'. A culture where colleagues consistently live 'Our Values' and where effective management of risk is a natural part of how colleagues think and work is key to delivering the Group's strategic plan and building a sustainable bank.

Significant progress has been made during the financial year towards completing the customer remediation of legacy issues including the tracker mortgage examination. Remaining legacy issues are on track to be brought to an effective and timely conclusion for our customers.

The Group has also made good progress in delivering on the European Central Bank (ECB) requirement for banks to reduce their non-performing loan ratios.

The non-performing loan ratio reduced from 11.3% at 31 December 2018 to 9.7% at 31 December 2019. The sale of a portfolio of non-performing loans with a gross value of c.€800 million was agreed during the financial year. The loans remain on the Bank's balance sheet at 31 December 2019, with the transaction to be concluded in 2020.

The Group's capital and funding positions remain strong evidenced by two major credit rating agencies, Moody's and Standard & Poor's upgrading the Bank's rating during the year. In December 2019, the directors approved and paid a dividend of €500 million to NatWest Holdings.

Personal Banking generated new mortgage lending of €1.4 billion in the financial year, an increase of 23% on 2018. Lending was driven by both the continuation of the Group's 'First Five' mortgage initiative, offering a range of benefits to first time buyers, as well as the new 'Movers and Switchers' campaign. The initiative, launched in January 2019, offered market-leading four and seven year fixed rate mortgages, aimed at supporting homeowners seeking to upsize as their family grows or secure financial breathing space by switching to lower rates.

The Group continued to focus on strengthening its digital and technology offerings as part of the home buying and ownership process. In October, a new Home Buying Platform was launched. The platform enables customers to begin their home buying journey online by obtaining an agreement in principle. For existing customers, the 'Manage My Mortgage' portal, launched in 2018, had additional features introduced. The new functionality enables eligible customers to complete a product switch online, with the portal now fully optimised for mobile and tablet users.

During 2019, 70% of the Bank's personal current account customers were digitally active, with 48% of customers now using the mobile app. A number of new features were introduced to the app during the financial year including the ability for Ulster Bank MasterCard credit card customers to implement a merchant restriction on their card to block any gambling-related transactions. Ulster Bank Visa debit card customers can now also temporarily freeze their debit card if it is misplaced, a feature introduced in 2018 for Ulster Bank MasterCard credit cards.

The continued development and optimisation of the Group's digital and technology offerings were complemented by a comprehensive geographical presence to meet customers' needs across the country. The Bank expanded its mortgage broker panel, with new lending generated via the intermediary mortgage channel increasing by 35% from 2018. Each of the Bank's network of 88 branches has a 'TechXpert' available, whilst over 100 branch staff are now qualified Personal Bankers who can assist customers with a variety of products and services to suit their needs.

The fleet of five mobile banks and team of Community Bankers continue to support rural towns and communities with personal and business banking services. The Community Bankers each visit up to nine towns or communities weekly. The team host a range of events to support communities, covering topics such as fraud awareness. Community Bankers also partnered with the local branch network to deliver "digital days" covering the use of technology to make banking safer, easier and more convenient.

Commercial Banking continued to support new and existing customers with their growth and investment plans throughout 2019, lending €1.6 billion, an increase of 11% on 2018. New lending performance was particularly strong in the Large Corporate business where the Group supported customers in the healthcare, hospitality and leisure sectors, while the Commercial Real Estate team continued to support sustainable residential and commercial property development and investment within the Group's risk appetite. During 2019, the Group launched 'ClearSpend', an app developed in partnership between the RBS Group and SpendLabs. The tool enables Ulster Bank business customers to view and manage company card spending in real-time, allowing greater control and visibility of commercial card transactions.

The Lombard asset finance business continued to report strong year on year growth, with new lending increasing by 17% from 2018. This growth was driven by a 25% increase in the Group's consumer car finance business, Lombard Motor Finance. Support for Agri sector customers continued to be a key strategic priority with the Group participating in the Strategic Banking Corporation of Ireland's (SBCI) Future Loan Growth Scheme. The Group also partnered with the dairy sector's Teagasc Moorepark Open Day, where Ulster Bank sponsored the Dairy Farm Infrastructure Workbook, which highlighted the key technologies that dairy farmers should consider investing in to best position themselves for future growth.

In conjunction with the Dublin Chamber of Commerce, the Group hosted the Momentum Event Series, a forum providing entrepreneurs and SMEs with the opportunity to hear insights and advice from industry experts. The Group also continued key partnerships including with the British Irish Chamber of Commerce, hosting regional events covering the impact of Brexit on companies and how to support growth post-Brexit.

The Group recognises the impact that continued uncertainty over Brexit is having on customers. During 2019, the Group launched a comprehensive communications programme, including customer-specific outreach and questionnaires and a communications hub on the Bank's website to deal with the questions that customers might have. The Group continues to assess the possible impact of a range of Brexit outcomes for its customers and is focussed on delivering the product and relationship support they need in preparing their businesses for the future.

The Board continues to focus on improving the culture which it has defined as "*the way we do things – consistently living our values to act in the best interests of our customers, colleagues and stakeholders.*" Led by the Chief Executive Officer, the Board and the Senior Leadership Team are transforming the culture to support the delivery of the Group's strategic plan and to continue to build a sustainable bank for the long term. The Group is a founding member of the Irish Banking Culture Board, an independent body which has been established to rebuild trust and embed a customer-focused culture across the banking sector.

The Group's expected behaviours and mindsets guide our decisions and actions through living our core values of 'serving customers', 'working together', 'doing the right thing' and 'thinking long term'. Our Code sets out what we expect of each other, and what our customers and communities expect of us. The 'Yes Check' tool is part of Our Code and guides our decision-making and actions. Our Critical People Capabilities underpin the recruitment, selection and development of our colleagues, ensuring we have the right knowledge, skills and behaviours to help the bank to be successful now and in the future. We are focused on becoming a more diverse and inclusive organisation, to reflect the communities in which we operate and the needs of all our people and our customers.

The Group's risk, compliance and control frameworks, together with enhanced corporate governance processes, form essential building blocks in improving culture.

During 2019, the Group continued its focus on **learning**. 'StartUp', the Group's "intrapreneurship" programme, run as part of the ongoing partnership with Dogpatch Labs, won the Learning award at the Deloitte Financial Services Innovation Awards. The twelve week incubator programme focusses on harnessing the creativity of the Group's colleagues and helps them develop ideas into customer-focused propositions. The Group also partnered with Code Institute, an organisation providing education in tech fundamentals and software development. Over 100 colleagues completed their "Five Day Coding Challenge", with three colleagues going on to begin its university accredited Diploma in Software Development.

Over 800 of the Group's employees completed training as part of RBS Group's partnership with UK National Trading Standards and its 'Friends against Scams' initiative. Over 100 community events have been held to provide guidance to customers and the wider community to raise awareness of how consumers can best protect themselves from becoming victim of, for example, identity theft or incidents such as telephony, email or doorstep scams. The Group also hosted a Cyber Security information evening and panel discussion, in conjunction with Cybersafe Ireland, aimed at equipping parents with practical advice on how to best protect and empower their children when using technology.

The Group continued with its strong **corporate social responsibility** agenda and in 2019 was, for the third time, certified with the Business Working Responsibly Mark by Business in the Community (BITC). This is the highest level of sustainability accreditation in Ireland, recognising the Group's efforts across areas such as community engagement, responsible workplace practices and protection of the environment. As part of an ongoing commitment to recycling, the Bank was accredited with the Carbon Trust Standard for Zero Waste to Landfill.

Report of the directors

The Bank, as part of the RBS Group, is a founding signatory to the UN Environment Programme and its 'Equator Principles', a voluntary set of standards for responsible banking. The Bank is also a signatory to BITC Ireland's Low Carbon Pledge, a commitment to reduce Scope 1 & 2 greenhouse gas emission intensity by 50% by 2030.

The 'Do Good, Feel Good' initiative in the month of June gave colleagues the opportunity to provide support and arrange fundraising activities for charities of their choice. Over €90k was raised for charities across Ireland. During 2019, the 'Healthy U' programme, in partnership with Vitality, was also launched. The initiative encourages staff to become more active through participating in both individual and team challenges, with the opportunity of earning rewards, such as retail vouchers and community cashback contributions to award to their chosen charity.

Financial performance

The Group's financial performance is presented in the consolidated income statement on page 19.

The Group reported a total profit before tax for the financial year of €84 million (2018 - €99 million).

Net interest income

Net interest income decreased by 8% to €458 million reflecting lower income following the sale of a portfolio of non-performing loans, a 2018 one-off benefit from the Targeted Long Term Refinancing Operation 2 ("TLTRO 2") drawdowns as a result of meeting the 2.5% ECB net lending growth target and a 2019 IFRS 9 accounting change for interest in suspense recoveries (refer to Note 1(a)).

Non-interest income

Non-interest income decreased from €225 million in 2018 to €184 million, primarily due to a decrease in the mark-to-market income volatility of interest rate swaps through the 2019 implementation of a cash flow hedging programme.

Operating expenses

Operating expenses decreased marginally to €596 million in 2019 with a reduction in the impact of legacy issues and a one-off gain relating to the defined benefit pension scheme offset by increases in restructuring costs, the cost of services provided from RBS Group, including investment in technology, and additional depreciation and impairment charges on IFRS 16 right of use leased assets (refer to Note 21).

Impairment gain

The impairment gain of €38 million (2018 - €23 million loss) reflects observable improvements in the performance of the loan portfolio, releases in respect of loan portfolio sales, and a €24 million credit from the impact of the IFRS 9 accounting change for interest in suspense recoveries. These are partially offset by a charge for economic uncertainty.

Tax

The Group incurred a tax charge in 2019 of €80 million (2018 - €14 million) mainly driven by an impairment in the deferred tax asset on losses, primarily driven by the lower for longer interest rate environment. The 2018 tax charge relates to an increase in the deferred tax liability on pensions.

Return on assets

At the financial year end the total assets of the Group were €30,647 million (2018 - €29,538 million). Return on total assets for 2019 was 0.0% (2018 – 0.3%).

Capital ratios

The Group's capital position remained strong during 2019, as evidenced by the CET1 ratio of 26.5% at 31 December 2019 following a dividend of €500 million paid to the Bank's parent, NatWest Holdings (2018 - 27.5%). Total risk weighted assets (RWAs) reduced from €16.2 billion in 2018 to €15.0 billion at the balance sheet date.

Share capital presented as equity

Details of share capital presented as equity can be found in Note 20 to the accounts.

Outlook

The directors note that a range of indicators continue to paint a generally positive picture of the Irish economy's performance. However, after several years of very strong recovery, there are signs of moderation amid softer global growth and elevated levels of international economic uncertainty. Notably, trends in the labour market have remained very healthy. Employment rose by 2.7% year on year over the first three quarters of 2019. This follows the 2.9% average pace recorded in 2017 and 2018. Consequently the unemployment rate ended 2019 at a 12 year low below 5%, down from 5.6% in Q4 2018.

The Group remains vulnerable to risks and uncertainty in the external economic and political environment, which despite the strength of domestic economic conditions at present, remain heightened. Scenarios identified as having a potentially material negative impact on the Bank include: Brexit; persistent or more intense weakness in global economic growth; a further escalation in global trade disputes; shifts in the international tax policy environment; persistently low or lower interest rates; domestic economy overheating; global financial market volatility (including in euro area sovereign debt markets) linked to the effects of highly accommodative monetary policy settings in advanced economies; potential legislative changes; and political and geopolitical instability.

Prevailing risks regarding the terms of the UK's withdrawal from the European Union

Following the EU Referendum in June 2016, and pursuant to the exit process triggered under Article 50 of the Treaty on European Union in March 2017 and the ratification of the withdrawal agreement by the UK Parliament and the European Parliament, the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union but loses its representation in the EU's institutions and its role in EU decision-making.

The UK and EU are currently seeking to determine the terms of their future relationship by the end of the transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty. If the UK and EU do not agree a new comprehensive trade agreement by the end of the transition period and the transition period is not extended, then it is expected that the UK will fall back on the basic World Trade Organization terms, the outcome of which for the Group would be similar in certain respects to a 'no-deal' Brexit, and which may result in, amongst other things, the imposition of import duties and controls on trade between the UK and the EU and related trade disruption.

The direct and indirect effects of the UK's exit from the EU and the EEA are expected to affect many aspects of the Group's business and operating environment and may be material and/or cause a near-term impact on impairment. The longer term effects of Brexit on the Group's operating environment depend significantly on the terms of the ongoing relationship between the UK and EU and are difficult to predict. They are subject to wider global macro-economic trends and events but may significantly impact the Group and its customers and counterparties who are themselves dependent on trading with, or personnel from, the UK and may result in or be exacerbated by periodic financial volatility and slower economic growth in Northern Ireland and the wider UK, the Republic of Ireland, the rest of Europe and potentially the global economy.

The Irish economy's continued solid performance amid softer global growth provides an important buffer against possible future economic shocks, including Brexit. However, available evidence indicates that Brexit is likely to have a lasting negative impact on the Irish economy. Economic output and trade are likely to be lower than would be the case in a no-Brexit scenario, with associated knock-on adverse impacts on many areas of the economy, including labour and housing markets which present a threat to impairment losses. The extent of the impact of Brexit remains highly uncertain and will be linked to the nature and form of the UK's future relationship with the EU.

Significant uncertainty exists as to the respective legal and regulatory arrangements under which the Group will operate once the transition period has ended. The legal and political uncertainty and any actions taken as a result of this uncertainty, as well as new or amended rules, could have a significant impact on the Group's operations, including restructuring costs, level of impairments, capital requirements, regulatory environment and tax implications and as a result may adversely impact the Group's profitability, competitive position, viability, business model and product offering.

The RBS Group has obtained the requisite regulatory permissions (including third country licence branch approvals and access to TARGET2 clearing and settlement mechanisms) it currently considers are required for continuity of its, and the Group's, business as a result of the UK's departure from the EU. These are required in order to maintain the ability to clear cross border payments in euro and also manage the Group's euro-denominated central bank cash balances.

The regulatory permissions from the Dutch and German authorities are conditional in nature and will require on-going compliance with certain conditions, including maintaining minimum capital level and deposit balances as well as a defined local physical presence going forward; such conditions may be subject to change in the future. Maintaining these permissions and the Group's access to the euro payment infrastructure will be fundamental to its business going forward and further changes to the Group's business operations may be required.

The directors, cognisant of the forecast economic growth and macroeconomic and political risks, consider that the actions taken by the Group on its legacy issues and the continued focus on strength and sustainability, customer experience, simplifying the Bank, supporting growth and colleague engagement will assist in the delivery of the Group's strategic plan.

Accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of estimation uncertainty are included in Notes 1(u), 6, 8, 11, 12 and 19 to the accounts.

Risk management

The major risks associated with the Group's business are credit, market, liquidity and funding, reputational, operational, financial crime, capital adequacy, business, conduct and compliance risk. The Group has a risk management framework for managing these risks which are under continual review as the Group's business activities change in response to consumer, market, credit, product, regulatory and other developments.

The Group is also exposed to risks from its defined benefit pension schemes. The Group's policies for managing each of these risks and its exposure are detailed in Note 23 to the accounts.

Board of directors

The Board is the main decision-making forum for the Bank. It has overall responsibility for management of the business and affairs of the Group, strategy and the allocation and raising of capital, and is accountable to its shareholder for financial and operational performance.

The Board considers strategic issues and ensures the Group manages risk effectively through approving and monitoring the Group's risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group's business operations. The Board's terms of reference includes key aspects of the Bank's affairs reserved for the Board's decision and are reviewed at least annually.

There are a number of areas where the Board has delegated specific authority to management, including the Chief Executive Officer and Chief Financial Officer. These include responsibility for the operational management of the Group's businesses as well as reviewing high level strategic issues and considering risk appetite, risk policies and risk management strategies in advance of these being considered by the Board and/or its Committees. Specific delegated authorities are also in place in relation to business commitments across the Group.

The roles of Chairman and Chief Executive Officer are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive, non-executive and independent non-executive directors. The Chief Executive Officer has responsibility for all Group businesses and acts in accordance with authority delegated by the Board. The independent non-executive directors combine broad business and commercial experience with independent and objective judgement and they provide independent challenge to the executive directors and leadership team.

Board and Executive Committees with delegation from the Board include:

The Audit Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors, and assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group, the Group's systems and standards of internal controls, and monitors the Group's processes for internal audit and external audit.

The Board Risk Committee (BRC) comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Group and risk strategy. It reviews the Group's performance on risk appetite and oversees the operation of the Group Policy Framework.

The Nominations and Governance Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors and is chaired by the Chairman of the Group. It assists the Board in the selection and appointment of directors and senior management.

It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees. It also monitors the governance arrangements for UBIDAC, ensuring that these are consistent with best practice and policy.

The Performance and Remuneration Committee - comprises at least three members who are all Independent Non-Executive Directors. The committee advises the Board on remuneration matters.

The Related Party Lending Committee - comprises at least three members, with a majority of independent non-executive directors. The committee is responsible for approving lending to related parties, which is regulated under the CBI Code of Practice on Related Party Lending 2013.

The Sustainable Banking Committee - was established in February 2019 and comprises at least three members who are all independent non-executive directors. The purpose of the committee is to support the Board in overseeing, supporting and challenging actions being taken by management to run the Bank as a sustainable customer centric business, capable of generating long term value for its stakeholders.

The Board may from time to time seek to establish ad hoc committees to address key areas of focus. Two such committees were in place during 2019 – a Customer Remediation Committee, to focus on policy and remediation, and a Regulatory Oversight Committee, a sub committee of the Board Risk Committee, which was established in January 2019 to provide oversight and challenge on activities to address matters specified by the UBIDAC Board Risk Committee. Both committees comprised a mix of executive, non-executive and independent non-executive directors. The Regulatory Oversight Committee was disbanded in November 2019 and the Customer Remediation Committee was disbanded in January 2020.

The Executive Committee comprises the Group's senior executives and supports the Chief Executive Officer in managing the Group's businesses. It reviews strategic issues and initiatives, monitors financial performance and capital allocations.

The Executive Risk Committee is comprised of the directors of Risk and Compliance, the Chief Executive Officer, the Chief Financial Officer, the Chief Technology & Information Officer and the Chief Restructuring Officer. The committee supports the Chief Executive Officer in managing the Group's risk strategy, policy and risk management matters across the Group. The committee has delegated authority from the Executive Committee and reports to the Board Risk Committee.

Directors and secretary

The directors and secretary who served at any time during the financial year and up to the date of signing are listed on page 1.

In accordance with the Constitution, the directors are not required to retire by rotation.

Interests in shares or debentures

At 1 January and 31 December 2019, the directors and secretary did not have any interests in the shares or debentures of The Royal Bank of Scotland Group plc representing more than 1% of the nominal value of its issued share capital.

Colleagues

Colleague engagement

Building a culture where we act in the best interests of our colleagues is one of our core priorities. The Group values the input of its employees and actively seeks opportunities to engage with them to contribute to on-going dialogue and activities to make the Bank a better place to work. The survey of colleague opinions, known as 'Our View', provides valuable data to decision makers across the Group in support of improving employee engagement and satisfaction. This engagement is tracked through two surveys during the financial year.

The Group is committed to an ethos of life-long learning. Our Academy provides a range of workshops, self-directed learning and professional qualifications for colleagues to build their capability and manage their annual personal development plans. Our #TimeToLearn campaign in 2019 reinforced the importance of life-long learning in order to maintain professional development and better serve our customers. During 2019 over 100 colleagues completed the Institute of Banking's Professional Certificate in Consumer Protection Risk, Culture and Ethical Behaviours. Additionally, all customer facing colleagues completed the Digital Mastery programme as part of the Group's commitment to support customers. In November we launched a new Bank wide talent programme, 'Shine'.

Our community programmes focus on delivering genuine benefits that make a difference to people's lives throughout Ireland. In 2019 the Group was, for the third time, certified with Business in the Community's 'Business Working Responsibly' Mark, an independent verification of our ongoing focus on sustainable business practices.

The Group continues to invest in and promote financial education through 'MoneySense', our financial education programme for primary and secondary level students.
Our colleagues across the Group continue to widely support, financially and through volunteering, many community and other worthy causes. Such activity is encouraged by the Group through the annual "Do Good, Feel Good" campaign, and its "Give a Day" programme, which allows all colleagues to take three days of leave to volunteer with charities and community organisations of their choice. Fundraising activities are matched through our "Community Cashback" programme and many colleagues avail of payroll giving to support our Staff Charity Fund.

The Group is represented on the European Employee Council which facilitates dialogue amongst employee representatives in the European Economic Area.

Employment of people with disabilities

The Group's policy is that people with disabilities are always considered for employment and subsequent training, career development and promotion based on merit. If colleagues develop a disability, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in suitable alternative duties, making appropriate adjustments.

Diversity and inclusion

The Group has a Diversity and Inclusion Policy and values and promotes diversity in all areas of recruitment and employment. Building a working environment where all our colleagues can develop to their full potential is important to us irrespective of their age, belief, disability, ethnic or national origin, gender, gender identity, marital or civil partnership status, political opinion, race, religion or sexual orientation. In March the Group launched its employee led 'Enable' disability network. The aim of the network is to ensure that colleagues with disabilities and colleagues who care for a relative with a disability feel that the Bank is an inclusive place to work.

We work to avoid limiting colleagues' potential through bias, prejudice or discrimination. The Group recognises the beneficial contribution of a diverse mix of uniquely talented individuals for the delivery of great service to our diverse customer base. Key principles of our Diversity and Inclusion Policy include that we attract, motivate and retain the best talent. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code, which sets out the Group's expected behaviours and standards of conduct, to build and develop an inclusive workforce in order to understand and respond to our diverse customer base.

Safety, health and wellbeing

The Group recognises that people are key to the success of its business. The Group is committed to the safety, health and wellbeing of colleagues. Benchmarking, industry leading expertise, innovative events and resources are combined to ensure a comprehensive 'Wellbeing Plan' continues to be developed and delivered. Feedback on effectiveness of this plan is facilitated through the 'Our View' survey results, cross divisional colleague focus groups, the Financial Services Union and HR Business Partners.

The Group holds the 'KeepWell Mark', the Irish Business and Employers Confederation's workplace wellness national accreditation programme. We believe that investing in the 'KeepWell Mark' demonstrates our commitment to focus on and improve the wellbeing of our colleagues.

The 'Wellbeing Plan' for 2019 included a focus on four key pillars: Mental health, Physical health, Financial and Social wellbeing. We continue to support our colleagues who are experiencing challenges or change, either at work or in their personal life. The Group's Employee Assistance Programme, facilitated through third party provider, ComPsych, provides free and confidential help to colleagues. In April the 'Healthy U' wellbeing programme was launched. The programme was designed to help colleagues to better understand and improve their physical and mental health.

Charitable contributions

During the financial year the Group made charitable and community investment donations in the Republic of Ireland totalling €138,866 (2018 - €262,308).

Political donations
During the financial year the Group did not make any political donations (2018 - nil).

Branches outside the Republic of Ireland
The Bank and Group has a branch (as defined by Council Directive 89/666/EEC) in Northern Ireland. The banking activities of the branch ceased on 31 December 2018.

Corporate Governance Code for Credit Institutions
The Corporate Governance Requirements for Credit Institutions 2015 ("the Code") imposes minimum core standards upon all credit institutions licensed or authorised by the CBI with additional requirements upon credit institutions which are designated as High Impact. The Bank has been designated as a High Impact credit institution and is therefore subject to the additional requirements for High Impact designation credit institutions included within Appendix 1 of the Code.

Corporate Governance Statement under Section 1373(2) of the Companies Act 2014
The Group operates internal control processes over financial reporting to support the preparation of the consolidated financial statements and manage risk in relation to financial statements preparation. The main components of this framework are as follows:

- a comprehensive set of accounting policies are in place to facilitate preparation of the annual financial statements in accordance with International Financial Reporting Standards as adopted by the EU;
- a control process is in place involving the appropriate level of management review of significant account line items and disclosures to ensure that the financial information required for the financial statements is presented fairly and disclosed appropriately;
- the financial statements are subject to detailed review and approval by senior management and executive personnel within Finance and Risk with other specialists consulted as appropriate;
- a Disclosure Committee operates as a sub-committee of the Bank's Executive Committee to oversee, evaluate and review accounting issues and developments and recommendations on key accounting judgements including impairment provisions and valuations prior to presentation to the Bank's Audit Committee and Board;
- detailed papers are prepared for review and approval by the Bank's Audit Committee and Board setting out significant judgemental and technical accounting issues and any significant presentation and disclosure considerations;
- user access to financial reporting systems is restricted to those individuals that require it to fulfil their assigned roles and responsibilities; and
- Internal Audit, as the Bank's third Line of Defence, and in accordance with the Institute of Internal Auditors International Professional Practices Framework, provides independent assurance to the Board and executive management on the quality and effectiveness of governance, risk management and internal controls to monitor manage and mitigate key risks to achieving the Bank's objectives. Further detail on the Three Lines of Defence model is included in Note 23.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the business review on pages 2 to 4.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. Notes 11, 23 and 33 to the accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risks.

The Group's liquidity position remained strong during 2019, evidenced by the Liquidity Coverage Ratio of 181% at 31 December 2019 (2018 - 191%). The Group avails of a number of sources of liquidity including retail and commercial deposits, the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO 2) and debt securities in issue. Furthermore, the Group's assets as at 31 December 2019 contain €7.2 billion of high quality liquid assets (2018 - €6.4 billion).

The Group's capital position remained strong during 2019, as evidenced by the CET1 ratio of 26.5% at 31 December 2019 (2018 – 27.5%).

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group and the Bank will continue in operational existence for the foreseeable future. Accordingly, the financial statements of the Group and the Bank have been prepared on a going concern basis.

Accounting records
The measures taken by the directors to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office at Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98.

Investments in Group undertakings
Details of the Bank's investments in Group undertakings are shown in Notes 14 and 29. All of the Group undertakings are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December except two which have an accounting reference date of 30 June.

Country-by-country reporting
The Bank has opted to publish the information required under Section 77 of Statutory Instrument No.158 of 2014 on its website: www.ulsterbank.ie.

European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017

The Bank complies with the disclosure of the non-financial elements of the above regulations by publishing the required disclosures in its Strategic Report. This document is made available on the Bank's website (www.ulsterbank.ie) within six months of the Bank's financial year end date. No part of the Bank's website or its contents are deemed to be incorporated by reference in these financial statements unless specifically stated otherwise.

Directors' compliance statement

In accordance with the provisions of Section 225 of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Bank's compliance with the relevant obligations, as defined by the Act. The directors confirm that:

- a compliance statement has been drawn up setting out the Group's policies in relation to complying with the relevant obligations;
- appropriate measures are in place that are designed to ensure material compliance with the relevant obligations; and
- the directors have carried out a review of these measures during the financial year.

Dividends

The Board approved and paid an interim dividend of €500 million during the financial year (2018 - €1.5 billion). The directors do not recommend the payment of a final dividend (2018 - nil).

Post balance sheet events

There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Auditors

The auditors, Ernst & Young, Chartered Accountants and Statutory Audit Firm, were appointed on 20 April 2016 and will continue in office in accordance with the Companies Act 2014.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and

(b) the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330(1) of the Companies Act 2014.

On behalf of the Board:

Des O'Shea	Jane Howard
Chairman	Chief Executive Officer

12 February 2020

Statement of directors’ responsibilities

The directors are responsible for preparing the directors’ report and the financial statements in accordance with the Companies Act 2014 and applicable regulations.

Irish company law requires the directors to prepare the financial statements for each financial year. Under company law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (“relevant financial reporting framework”). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Bank as at the financial year end date and of the profit or loss of the Group and Bank for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements the directors are required to:

- select suitable accounting policies for the Bank and the Group financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The directors are responsible for ensuring that the Group and Bank keep or cause to be kept adequate accounting records which correctly explain and record the transactions of the Group and Bank, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Bank to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website.

By order of the Board:

Des O’Shea Chairman	Jane Howard Chief Executive Officer	Paul Stanley Chief Financial Officer and Deputy CEO

12 February 2020

Board of directors

Chairman	**Executive directors**	**Non-executive directors**
Des O’Shea	Jane Howard	Dermot Browne
	Paul Stanley	William Holmes
		Martin Murphy
		Gervaise Slowey
		Rosemary Quinlan

Opinion

We have audited the financial statements of Ulster Bank Ireland Designated Activity Company ('the Company') and its subsidiaries (all together, 'the Group') for the year ended 31 December 2019, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and notes to the financial statements, including the summary of significant accounting policies set out in Note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards ('IFRS') as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.
In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the group as at 31 December 2019 and of its profit for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2019;
- 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 IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

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 for the Audit of the Financial Statements section of our report. We are independent of the Group and Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Impairment provision on loans and advances to customers • Remediation and associated programme costs provisions • Recoverability of deferred tax assets • IT systems and controls
Materiality	• Group materiality of €44m which represents 1% of Equity

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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.

Risk	Our response to the risk
Impairment provision on loans to customers under IFRS 9 At 31 December 2019 the Group reported total gross loans to customers of €26,119m (2018: €24,993m) and €911 m (2018: €1,071m) of expected credit loss provisions (ECL). Key judgements and estimates in respect of the timing and measurement of ECL include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple economic scenarios; • Completeness and valuation of post model adjustments; and • Measurements of individually assessed provisions including the assessment of multiple scenarios. Refer to the Accounting policies and Notes 12 and 23 of the Consolidated Financial Statements.	Tested the design and operating effectiveness of key controls across the processes relevant to the ECL, including the key judgements and estimates noted involving specialists where appropriate. This included the allocation of assets into stages including management's monitoring of stage effectiveness, model monitoring, model validation, data accuracy and completeness, credit monitoring, multiple economic scenarios, post model adjustments, individual provisions and production of journal entries and disclosures. In obtaining sufficient audit evidence we: • Attended the key executive finance and risk committees where the inputs, assumptions and adjustments to the ECL were discussed and approved. • Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Company's portfolio, risk profile, credit risk management practices and the macroeconomic environment. Considered trends in the economy and industries to which the Group is exposed. • Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. Tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL. • Involved modelling specialists to test the assumptions, inputs and formula used in a sample of ECL models. This included assessing the appropriateness of model design and formulas used, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models. • Tested the data used in the ECL calculation by agreeing data points to source systems to verify data quality and assessed the risk ratings for a sample of performing loans to test credit monitoring. • With the support of our internal economic specialists, assessed the base case and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts and assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment, interest rates and House Price Index. With the support of our modelling specialists, challenged the correlation and impact of the macroeconomic factors to the ECL including how non-linearity was captured. • Assessed the completeness and appropriateness of post model adjustments and recalculated a sample. Based on current economic conditions and market circumstances, considered the need for sector or systemic adjustments. Assessed the appropriateness of the scenarios used and calculation of the overlay in response to economic uncertainty. • With the support of our internal valuation specialists, recalculated a sample of individually assessed provisions including the alternative scenarios and challenging probability weights assigned. • Assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards and the process and controls management had in place to create and approve the disclosures. Our planned audit procedures were completed without material exception.

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
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Remediation and associated programme cost provisions

The continued heightened regulatory scrutiny gives rise to a high level of judgement in determining appropriate provisions and disclosures. At the year end the Group reported €170m (2018: €287m) of Provisions for liabilities and other charges of which €105m (2018: €225m) related to remediation and associated programme cost provisions.

Management judgement is needed to determine whether an obligation exists and a provision should be recorded at 31 December 2019 in accordance with the accounting criteria set under IAS 37. This includes determining if:

- It is likely that an economic outflow such as a payment will occur; and
- The amount of the payment (or other economic outflow) can be estimated reliably.

The measurement of the provision is based on the best estimate of the expenditure to settle the present obligation.

The most significant areas of judgement are:

- Completeness of provisions recognised; Judgement in the determination of whether an outflow in respect of identified material matters are probable or can be estimated reliably;
- Measurement of provisions recognised; Integrity and completeness of data, and the appropriateness of assumptions and judgements used in the estimation of material provisions;
- Adequacy of disclosures of provision for liabilities and contingent liabilities.

Refer to the Accounting policies and Notes 19 and 24 of the Consolidated Financial Statements.

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Tested the design and operating effectiveness of key controls over the identification, estimation and monitoring of provisions considering the potential for management override of controls. The controls tested include those designed and implemented to identify whether an obligation exists, to assess the completeness and accuracy of data used to estimate provisions and to check the accuracy and completeness of disclosures made in accordance with accounting standards.

In obtaining sufficient audit evidence we:

- Understood, assessed, and challenged the provisioning methodology. Where appropriate, we involved our conduct risk specialists to review the methodology.
- With the support of our conduct risk specialists, challenged the assumptions used in the determination of the provisions recorded.
- Tested the underlying data used in the determination of the provisions recorded.
- Considered regulatory correspondence, legal advice and notifiable events as appropriate.
- Reviewed the provision including programme costs to determine if the provision met the requirements of IAS 37. In addition, for matters where a provision was not recognised, we considered whether the outcome was probable and reliably estimable in accordance with the accounting criteria.
- Attended meetings with key management and reviewed the minutes of meetings of those charged with governance to conclude on the appropriateness of the conclusions reached.
- Tested the disclosures provided on provisions for liabilities and contingent liabilities to determine whether it complied with accounting standards. Given the inherent estimation uncertainty and the judgemental nature of these provisions, we evaluated the appropriateness of the disclosure made in the financial statements.

Our planned audit procedures were completed without material exception.

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<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td>

Recoverability of deferred tax assets

At 31 December 2019, the Group had reported deferred tax assets of €184m (2018: €271m).

The recognition and carrying value of deferred tax assets are based on estimates of future profitability which require significant management judgement.

Key judgements and estimates include:

- Revenue and cost forecasts
- Macroeconomic assumptions including Brexit and other political developments over an extended period.
- Growth rates assumed in the calculation

Refer to the Accounting policies and Note 8 of the Consolidated Financial Statements.

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Tested the design and operating effectiveness of key controls over the preparation and review of budgets and forecasts supporting the deferred tax assessment and profitability projections. The controls tested include those over the macroeconomic assumptions including appropriate governance procedures and management challenge.

In obtaining sufficient audit evidence we:

- Tested whether key macroeconomic assumptions used in the Group's forecasting process were reasonable. Given the recent developments on Brexit and the continued uncertainty relating to the macro-economic environment and its consequential impact on the forecasts, we considered the need for additional disclosures in the financial statements.
- Assessed the reasonableness of revenue forecasts by challenging the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth.
- Reviewed management's cost forecasts and challenged the strategy to achieve these targets.
- Evaluated how the long-term growth rates used by management compared to EY reasonable ranges which were informed by external market data and calculations performed by our valuation specialists and by peer practice. Tested how previous management forecasts and cost reduction programmes compared to actual results to evaluate the accuracy of the forecasting process.
- Evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain key assumptions.
- With the support of our taxation specialists, assessed the estimate of future taxable profits used to calculate the level of deferred tax assets recognised, including an assessment of the time horizon for the recoverability of losses and other temporary differences.

Our planned audit procedures were completed without material exception.

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Risk	Our response to the risk

IT systems and controls
 	
The Group has a substantial dependency on RBS Technology and other external outsourcing arrangements to provide the information technology (IT) environment that support the Group's key operations.
 	
The Group are also required to comply with the EBA Outsourcing guidelines to ensure appropriate governance, oversight and risk over critical or important outsourced arrangements, which includes the outsourcing of IT.
 	
The RBS IT environment is complex and pervasive to the Group's operations due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. Such controls contribute to mitigating the risk of operational impact, potential fraud or errors as a result of changes to applications and data.
 	
The Group's IT environment is predominantly outsourced to RBS. Reliance on these IT systems is performed at an RBS group level. Our audit approach relies upon IT applications and the related control environment including:
• User access management across application, database and operating systems;
• Changes to the IT environment, including transformation that changes the IT landscape including the general ledger and human resource system migrations;
• IT operational controls;
• IT application or IT dependent controls; and
• Evaluation of IT control environment at third party service providers.
	Tested IT General Controls over automated business controls, testing over key transformations and third-party arrangements, including user access management, changes to the IT environment and IT operations for applications relied on by the Group. Performed procedures over automated business controls, such as key interfaces, reconciliations and calculations, and performed testing over information produced by IT used in operating the Group's controls, or in our own audit analysis.
	
	In obtaining sufficient audit evidence we:
	
	• Tested the design of IT access controls over in-scope systems including a number of centralised access management processes as well as those not yet consolidated onto strategic tools and processes.
	• Provided challenge around the precision of regular user access reviews, the segregation of duties and access roles within standalone RBS teams. Tested key strategic access tools (IIQ, SLX, and RBAM) and the completeness and accuracy of data feeding these systems.
	• Tested technology transformations (including further outsourcing to third party providers) relevant to our audit approach, such as Walker (ledger prior to RGL) retirement, and FRC OACs (Ledger reporting tool) and Workday (human capital system) go live. For each transformation, performed the following:
	    ○ Understood the 2019 timetable and proposed changes to functionality within systems which would impact our audit approach.
	    ○ Prior to any decommissioning, walked through and tested in-scope system and business controls relevant to our 2019 audit.
	    ○ Walked through and tested new processes and controls implemented in relation to new systems.
	    ○ Where relevant identified and tested new third-party provider controls where services had been outsourced (including assessment of third-party Service Organisation Control (SOC) reports where relevant).
	• Where control deficiencies were identified, assessed where necessary to mitigate any residual risk and tested remediation activities performed by management and compensating controls in place.
	• Regularly communicated with and enquired of management, specifically those responsible for the Group's IT environment to understand the governance and controls around the oversight of RBS activities and the management and compliance with outsourcing requirements and regulations.
	
	Our planned audit procedures were completed without material exception.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be €44m (2018: €48m), which equates to 1% of Equity (2018: 1%). We believe that Equity provides us with the most appropriate basis for materiality having considered the expectation of the users of the financial statements, the ultimate parent entity and the overall business environment.

Performance materiality

Performance materiality is the threshold for application of materiality at the individual account or balance level. Performance materiality is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement was that performance materiality should be set at 50% (2018: 75%) of our planning materiality, namely €22m (2018: €36m). We have set performance materiality at this percentage having considered our prior year experience of the risk of misstatements, both corrected and uncorrected.

Reporting threshold

The reporting threshold is set as the amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €2.2m (2018: €2.4m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Our reporting threshold amount is designated at an amount below which misstatements would not be accumulated because we expect that the accumulation of such amounts clearly would not have a material effect on the financial statements.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

There have been no significant changes in scoping from that applied in our prior year audit as all subsidiaries are included in full scope population and all audit work performed for the purposes of these financial statements was undertaken by the Group audit team.

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- 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.

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

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position is in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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. We have nothing to report in this regard.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements and understood how the Group is complying with those frameworks by reviewing policy framework, holding discussions with the Group's general counsel, internal audit, amongst others.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Group Audit Committee Chairman. We also reviewed the Group's fraud-related policies and mandates of different governance forums assessing fraud.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reviewing the correspondence exchanged with the Regulator.

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

This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the board of Ulster Bank Ireland Designated Activity Company on 20 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The current period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group and we remain independent of the Group in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

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 this report, or for the opinions we have formed.

Martina Keane
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm

Office: Dublin

Date: 12 February 2020

Consolidated income statement for the financial year ended 31 December 2019

	Note	2019 €m	2018 €m
Interest receivable		511	558
Interest payable		(53)	(58)
Net interest income	2	458	500
Fees and commissions receivable		138	113
Fees and commissions payable		(13)	(8)
Other operating income		59	120
Non-interest income	3	184	225
Total income		642	725
Staff costs		(222)	(200)
Premises and equipment		(26)	(44)
Other administrative expenses		(323)	(351)
Depreciation, impairment and amortisation		(25)	(8)
Operating expenses	4	(596)	(603)
Profit before impairment releases/(losses)		46	122
Impairment releases/(losses)	12	38	(23)
Operating profit before tax		84	99
Tax charge	8	(80)	(14)
Profit for the financial year		4	85
Attributable to:			
Ordinary shareholders		4	85

Consolidated statement of comprehensive income for the financial year ended 31 December 2019

	2019 €m	2018 €m
Profit for the financial year	4	85
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	41	9
Fair value through comprehensive income (FVOCI) financial assets	(2)	(1)
Tax	(5)	(1)
	34	7
Items that do qualify for reclassification		
FVOCI financial assets	(1)	2
Cash flow hedges	41	-
Other comprehensive income after tax	74	9
Total comprehensive income for the financial year	78	94
Attributable to:		
Ordinary shareholders	78	94

The accompanying notes form an integral part of these financial statements.

Balance sheet as at 31 December 2019

		Group		Bank	
		2019	2018	2019	2018
	Note	€m	€m	€m	€m
Assets					
Cash and balances at central banks	11	537	287	537	287
Derivatives	10	205	210	205	210
Loans to banks - amortised cost	11	3,905	3,065	3,721	2,817
Loans to customers - amortised cost	11	21,362	21,016	21,362	21,016
Amounts due from holding companies and fellow subsidiaries	11	850	1,458	3,147	3,993
Other financial assets	13	3,250	2,949	3,250	2,949
Investments in Group undertakings	14	-	-	5	7
Other assets	15	537	553	535	551
Total assets		30,646	29,538	32,762	31,830
Liabilities					
Bank deposits - amortised cost	11	1,975	1,983	1,975	1,983
Customer deposits - amortised cost	11	21,716	20,085	21,716	20,085
Other financial liabilities	17	550	1,045	-	176
Amounts due to holding companies and fellow subsidiaries	11	1,356	869	4,063	4,061
Derivatives	10	121	131	121	131
Subordinated liabilities	18	86	86	86	86
Other liabilities	19	373	436	373	436
Total liabilities		26,177	24,635	28,334	26,958
Owners' equity		4,469	4,903	4,428	4,872
Total liabilities and equity		30,646	29,538	32,762	31,830

The accompanying notes form an integral part of these financial statements. As detailed in Note 9 the Bank's loss after tax for the financial year ended 31 December 2019 was €6 million (2018 – €141 million).

The financial statements were approved by the Board of Directors on 12 February 2020 and signed on its behalf by:

Des O'Shea	Jane Howard	Paul Stanley	Andrew Nicholson
Chairman	Chief Executive Officer	Chief Financial Officer and Deputy CEO	Company Secretary

Statement of changes in equity for the financial year ended 31 December 2019

	Group		Bank	
	2019	2018	2019	2018
	€m	€m	€m	€m
Called up share capital - at 1 January	3,592	3,592	3,592	3,592
Reduction of capital (Note 20)	(213)	-	(213)	-
At 31 December	3,379	3,592	3,379	3,592
Share premium - at 1 January	1,144	1,142	1,144	1,142
Arising on business transfer during the financial year	-	2	-	2
Reduction of capital (Note 20)	(287)	-	(287)	-
At 31 December	857	1,144	857	1,144
FVOCI reserve - at 1 January	1	-	1	-
(Loss)/gain in the financial year	(3)	1	(3)	1
At 31 December	(2)	1	(2)	1
Cash flow hedging reserve - at 1 January	-	-	-	-
Amount recognised in equity	41	-	41	-
At 31 December	41	-	41	-
Retained earnings - at 1 January	166	1,669	135	1,872
Implementation of IFRS 9 on 1 January 2018	-	(96)	-	(104)
Implementation of IFRS 16 on 1 January 2019 (Note 21)	(12)	-	(12)	-
Gain on remeasurement of retirement benefit schemes	41	9	41	9
Tax	(5)	(1)	(5)	(1)
Reduction of capital (Note 20)	500	-	500	-
Profit/(loss) attributable to ordinary shareholders	4	85	(6)	(141)
Dividends paid	(500)	(1,500)	(500)	(1,500)
At 31 December	194	166	153	135
Owners' equity at 31 December	4,469	4,903	4,428	4,872

Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable as follows:

Ordinary shareholders	78	94	68	(132)

The accompanying notes form an integral part of these financial statements.

Cash flow statement for the financial year ended 31 December 2019

		Group		Bank	
		2019	2018[1]	2019	2018[1]
	Note	€m	€m	€m	€m
Cash flows from operating activities					
Operating profit/(loss) before tax		84	99	74	(127)
Depreciation, impairment and amortisation of property, plant and equipment		25	8	25	8
Interest on subordinated liabilities		5	5	5	5
Dividends received		(1)	(3)	(2)	(5)
Defined benefit pension schemes		(20)	(104)	(20)	(104)
Impairment (release)/losses on loans to banks and customers		(38)	23	(41)	19
Loans written-off		(97)	(421)	(97)	(421)
Impairment of investment in group undertakings		-	-	-	1
Elimination of foreign exchange differences		(14)	(6)	(14)	(6)
Provisions: expenditure in excess of charges		42	87	42	87
Other non-cash items		30	(15)	32	(17)
Net cash flows from trading activities		16	(327)	4	(560)
(Increase)/decrease in loans to banks and customers		(187)	1,029	(184)	1,029
Decrease in amounts due from holding companies and fellow subsidiaries		70	173	307	3,328
Decrease/(increase) in other financial assets		100	(3)	100	(3)
Increase in other assets		(28)	(9)	(28)	(9)
(Decrease)/increase in derivative assets and liabilities		(5)	64	(5)	271
Increase in bank and customer deposits		1,447	468	1,447	468
(Decrease)/increase in other financial liabilities		(319)	869	-	-
Decrease in amounts due to holding companies and fellow subsidiaries		(113)	(197)	(598)	(2,709)
Decrease in other liabilities		(103)	(126)	(103)	(124)
Changes in operating assets and liabilities		862	2,268	936	2,251
Income taxes received		2	-	2	1
Net cash flows from operating activities[2]		880	1,941	942	1,692
Cash flows from investing activities					
Sale and maturity of securities		1,154	1,311	1,154	1,311
Purchase of debt securities		(1,484)	(2,224)	(1,484)	(2,224)
Sale of property, plant and equipment		1	5	1	4
Purchase of property, plant and equipment		(9)	(9)	(9)	(9)
Acquisition of subsidiary undertakings		-	(4)	-	(4)
Disposal of subsidiary undertakings		-	4	-	4
Dividends received		1	3	2	5
Net cash flows used in investing activities		(337)	(914)	(336)	(913)
Cash flows from financing activities					
Issue of debt securities		600	-	600	-
Interest on subordinated liabilities		(5)	(5)	(5)	(5)
Dividends paid		(500)	(1,500)	(500)	(1,500)
Net cash flows from/(used in) financing activities		95	(1,505)	95	(1,505)
Effect of exchange rate changes on cash and cash equivalents		14	6	14	6
Net increase/(decrease) in cash and cash equivalents		652	(472)	715	(720)
Cash and cash equivalents 1 January	26	4,741	5,213	4,493	5,213
Cash and cash equivalents 31 December	26	5,393	4,741	5,208	4,493

Note:
(1) 2018 data has been restated to:
- Remove debt securities with an original maturity of greater than three months (1 January 2018 - €295 million, 31 December 2018 - €447 million) from cash and cash equivalents.
- Include items in the course of collection (1 January 2018 - €37 million, 31 December 2018 - €36 million) as cash and cash equivalents.
- Reflect the reclassification of €869 million of cash flows from the external issuance of debt securities by the Group's SPEs from financing activities to operating activities.

(2) Includes interest received of: Group €507 million (2018 - €560 million); Bank €542 million (2018 - €567 million) and interest paid of: Group €64 million (2018 - €115 million); Bank €123 million (2018 - €355 million).

The accompanying notes form an integral part of these financial statements.

1. Accounting policies

a) Presentation of accounts
The accounts, set out on pages 19 to 105 including these accounting policies on pages 23 to 29 and the risk management section on pages 61 to 98, are prepared on a going concern basis (see the Report of the directors, page 8) and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and interpretations as issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and adopted by the EU (together IFRS). The significant accounting policies and related judgments are set out below.

The Bank is incorporated as a designated activity company and registered in the Republic of Ireland (Registration number - 25766). The Bank's registered and head office is Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98. The Group and Bank's accounts are presented in accordance with the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015.

The accounts are presented in the functional currency, euro.

With the exception of certain financial instruments as described in accounting policies (k) and (r) the accounts are presented on a historical cost basis.

Adoption of IFRS 16
Refer to Accounting policy (h) and Note 21 for details of the adoption of IFRS 16.

Other amendments to IFRS
IAS 12 'Income taxes' was revised with effect from 1 January 2019. The income statement now includes any tax relief on the servicing cost of instruments classified as equity. There is no impact of this amendment on the Group.

IAS 19 'Employee Benefits' was amended by the IASB in February 2018 to clarify the need to update assumptions whenever there is a plan amendment, curtailment or settlement. This amendment has not affected the accounts.

Presentation of interest in suspense
In March 2019 the IFRS Interpretations Committee (IFRIC) issued an agenda decision on the presentation of unrecognised interest when a credit-impaired financial asset (commonly referred to as a 'Stage 3' financial asset) is subsequently paid in full or is no longer credit-impaired. This concluded that the difference arising from the additional interest recovered must be recognised as a reversal of impairment rather than within interest revenue. This affects both recognition and the reversal of the expected credit loss (ECL) allowance.

Until 1 January 2019, interest in suspense recoveries were presented as a component of interest receivable within net interest income in the income statement. From 1 January 2019 interest in suspense recoveries are presented within impairment losses and amounted to €24 million for the year ended 31 December 2019. Income statement comparatives have not been restated on the grounds of materiality.

The Bank changed its accounting policy in line with the IFRIC decision. Hence, the gross carrying amount of the financial assets on the balance sheet within the scope of the provisions of the decision, as well as the associated ECL allowance on the balance sheet, have been adjusted by €191 million and the comparative period restated by €187 million with no effect on income statement or equity. The coverage ratio for the current and comparative periods have been adjusted and restated accordingly.

IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' - In September 2019, the IASB published amendments to address the issues arising from the replacement of existing IBOR based interest rate benchmarks with alternative nearly risk free interest rates (ANRFRs) in the context of hedge accounting. These amendments allow hedging relationships affected by the IBOR reform to be accounted for as continuing hedges. The Group has early adopted these amendments for the annual reporting period ending on 31 December 2019.

The amendments provide relief on key areas of hedge accounting most notably the hedge effectiveness assessment and the ability to identify LIBOR and EURIBOR-based cash flows for the purpose of designation (re-designation) during the period of the reform. Additional disclosures are shown in note 10.

b) Basis of consolidation
The consolidated accounts incorporate the financial statements of the Bank and entities (including certain structured entities) that are controlled by the Group. The Group controls another entity (a subsidiary) when it is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the other entity. Power generally arises from holding a majority of voting rights. On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. A subsidiary is included in the consolidated financial statements from the date it is controlled by the Group until the date the Group ceases to control it through a sale or a significant change in circumstances.

Changes in the Group's interest in a subsidiary that do not result in the Group ceasing to control that subsidiary are accounted for as equity transactions.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared under uniform accounting policies.

c) Revenue recognition
Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through other comprehensive income (OCI) using the effective interest rate method. The effective part of any related accounting hedging instruments and finance lease income are recognised at a constant periodic rate of return before tax on the net investment.

Negative effective interest accruing to financial assets is presented in interest payable. Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

d) Employee benefits
Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by the Group or by RBSG plc shares. The Group operates a number of share-based compensation schemes under which it awards RBSG plc shares and share options to its employees. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to profit or loss on a straight-line basis over the vesting period, taking account of forfeiture and clawback criteria.

Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis. Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise.

The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to the Group in the form of refunds from the plan or reduced contributions to it.

The charge to profit or loss for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

e) Intangible assets
Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss over the assets' estimated useful economic lives.

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years

f) Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, these are accounted for separately.

Depreciation is charged to profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated.

The estimated useful lives of the Group's property, plant and equipment are:

Freehold buildings	50 years
Long leasehold property (leases with more than 50 years to run)	50 years
Short leaseholds	Unexpired period of the lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

g) Impairment of intangible assets, right of use assets and property, plant and equipment
At each balance sheet date, the Group assesses whether there is any indication that its intangible assets, right of use assets or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss, if any.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows.

An impairment loss is recognised if the recoverable amount of an intangible or tangible asset is less than its carrying value. The carrying value of the asset reduced by the amount of the loss and a charge recognised in profit or loss. A reversal of an impairment loss on intangible assets or property, plant and equipment can be recognised when an increase in service potential arises provided the increased carrying value is not greater than it would have been, had no impairment loss been recognised.

h) Leases

The Group has adopted IFRS 16 'Leases' with effect from 1 January 2019, replacing IAS 17 'Leases'. The Group has applied IFRS 16 on a modified retrospective basis without restating prior years.

As lessor

Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Loans to customers include finance lease receivables measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Interest receivable includes finance lease income recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in other operating income on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

As lessee

On entering a new lease contract, the Group recognises a right of use asset and a lease liability to pay future rentals.

The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

i) Provisions and contingent liabilities

The Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when the Group has a constructive obligation to restructure. An obligation exists when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

If the Group has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the Group's contractual obligations exceed the expected economic benefits. When the Group vacates a leasehold property, the right of use asset would be tested for impairment and a provision may be recognised for the ancillary occupancy costs, such as rates.

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

j) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income. The tax consequences of servicing equity instruments are recognised in the income statement.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in profit or loss, other comprehensive income or equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual Group company or on Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgemental and carries a degree of uncertainty because the tax law is subject to interpretation, which might be questioned by the relevant tax authority. The Group recognises the most likely current and deferred tax liability or asset assessed for uncertainty using consistent judgements and estimates.

Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

k) Financial instruments

Financial instruments are classified either by product, by business model or by reference to the IFRS default classification.

Classification by product relies on specific designation criteria which are applicable to certain classes of financial assets or circumstances where accounting mismatches would otherwise arise. Classification by business model reflects how the Bank manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). Financial assets may also be irrevocably designated at fair value through profit or loss upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets.

Regular way purchases of financial assets classified as amortised cost, are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio.

Most financial assets are within 'held to collect' business models and have contractual cash flows that comprise solely payments of principal and interest and therefore are measured at amortised cost.

Certain financial assets are managed under a business model of both 'held to collect and sell' and have contractual cash flows comprising solely of payments of principal and interest, and are measured at FVOCI.

The contractual terms of a facility; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest; are considered in determining whether cash flows comprise solely payments of principal and interest.

All financial instruments are measured at fair value on initial recognition.

All liabilities not subsequently measured at fair value are measured at amortised cost.

l) Impairment: expected credit losses

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and expected credit losses are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios – mainly in Invoice Financing and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk – IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring a financial asset without causing derecognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where the Group's interest in equity shares following the exchange is such that the Group controls an entity, that entity is consolidated. The costs of loss allowances on assets held at amortised cost, fair value through comprehensive income (excluding equity shares), and in respect of financial guarantees and loan commitments are presented as impairments in the income statement.

Impaired loans are written off when the Group concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan. For loans that are individually assessed for impairment, the timing of the write off is determined on a case by case basis. Such loans are reviewed regularly and write off will be prompted by bankruptcy, insolvency, renegotiation and similar events.

The typical time frames from initial impairment to write off for the Group's collectively-assessed portfolios are:

- Retail mortgages: Write off generally occurs once a property in possession has been sold and there is a residual balance remaining outstanding which has been deemed irrecoverable.
- Credit cards: the irrecoverable amount is written off after 12 months; three years later any remaining amounts outstanding are written off.
- Overdrafts and other unsecured loans: write off occurs within six years.
- Commercial loans: write offs are determined in the light of individual circumstances; generally within five years.
- Business loans are generally written off within five years.

Provision is made for expected credit loss on loan commitments, other than those classified as held-for-trading (HFT).

m) Financial guarantee contracts

Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with accounting policy (k).

Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

n) De-recognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which the Group retains substantially all the risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred, the Group does not derecognise an asset over which it has retained control but limits its recognition to the extent of its continuing involvement. A financial liability is removed from the balance sheet when the obligation is discharged, or is cancelled, or expires.

Cancellation includes the issuance of a substitute instrument on substantially different terms.

o) Securitisation of residential mortgages

In accordance with the requirements of IFRS 10, the Group consolidates securitisation entities in which it does not hold voting rights but where it does retain the majority of the residual ownership risks and rewards in respect of interests in mortgages initially originated by the Bank or First Active Limited where the beneficial interest in the mortgage has been transferred to the relevant securitisation entity.

The transaction involves the issuance of debt securities by the securitisation entity to fund the purchase price of the mortgage pool and provision of a subordinated loan by the Bank to the securitisation entity to fund reserves. Excess returns generated by the mortgage pool are paid to the Bank via a coupon on the most junior tranche of debt securities, which is retained by the Bank.

The Bank retains the risks and rewards of ownership of the mortgages through ownership of the junior debt securities and provisions of the subordinated loan. Therefore the mortgages are not derecognised from the balance sheet of the Bank. When the Bank has an asset to which it is contractually entitled under the terms of the transaction or a contractual liability these are recognised in full in the balance sheet of the Bank. Income and costs are recognised in profit or loss on an accruals basis.

Senior and junior debt securities and assets in respect of the subordinated debt are recognised in the Bank balance sheet as Amounts due from holding companies and fellow subsidiaries. Liabilities due to the securitisation entities in respect of the cash flows from the underlying mortgages are recognised as Amounts due to holding companies and fellow subsidiaries in the Bank balance sheet.

As the securitisation entities are included in the Group's financial position under IFRS 10 all transactions and balances between the Bank and securitisation entities are fully eliminated on consolidation in the Group financial statements.

p) Sale and repurchase transactions

Securities subject to a sale and repurchase agreement under which substantially all the risks and rewards of ownership are retained by the Group continue to be shown on the balance sheet and the sale proceeds recorded as a financial liability. Securities acquired in a reverse sale and repurchase transaction under which the Group is not exposed to substantially all the risks and rewards of ownership are not recognised on the balance sheet and the consideration paid is recorded as a financial asset. Sale and repurchase transactions that are not accounted for at fair value through profit or loss are measured at amortised cost. The difference between the consideration paid or received and the repurchase or resale price is treated as interest and recognised in interest income (or interest expense) over the life of the transaction.

q) Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented gross.

r) Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The Group's approach to determining the fair value of financial instruments is set out in the section of Critical accounting policies and key sources of estimation uncertainty entitled Fair value - financial instruments; further details are given in Note 11 on the accounts.

A derivative embedded in a financial liability contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the host is a financial asset or the entire contract is measured at fair value with changes in fair value recognised in profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income. The Group enters into two types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or unrecognised firm commitment (fair value hedges) and hedges of the variability in cash flows from a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 Financial instruments-Recognition and measurement. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge.

If the hedge is not highly effective in offsetting changes in fair values attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the Group revokes the designation of a hedge relationship.

Fair value hedge - in a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to profit or loss over the life of the hedged item using a recalculated effective interest rate.

Cash flow hedge - in a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in profit or loss. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to profit or loss in the same periods in which the hedged forecast cash flows affect profit or loss. Otherwise the cumulative gain or loss is removed from equity and recognised in profit or loss at the same time as the hedged transaction. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss is reclassified from equity to profit or loss when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect profit or loss. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

s) Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and deposits with banks with an original maturity of less than three months together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

t) Investments in Group undertakings

The Bank's investments in its subsidiaries are stated at cost less any impairment losses.

u) Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Irish company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'.

The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Critical accounting policy	Note
Pensions	6
Deferred tax	8
Fair value: financial instruments	11
Loan impairment provisions	12
Provisions for liabilities and charges	19

v) Accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2019 that would affect the Group from 1 January 2020 or later:

- The amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policy, Changes in Accounting Estimates and Errors' on the definition of material were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments are aimed at improving the understanding of the existing requirements rather than to significantly impact 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.
- The amendments to IFRS 3 'Business Combinations' which clarify the definition of a Business were issued in October 2018, are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively with earlier application permitted. They clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

The Group is assessing the effect of adopting these standards on its financial statements.

2. Net interest income

	Group	
	2019	2018
	€m	€m
Interest receivable on assets:		
Loans to customers - amortised cost	502	540
Amounts due from holding company and fellow subsidiaries	1	-
Interest receivable on liabilities:		
Bank deposits - amortised cost	8	18
Total Interest receivable	511	558
Interest payable on liabilities:		
Customer deposits: demand - amortised cost	(12)	(14)
Customer deposits: savings - amortised cost	(1)	(1)
Customer deposits: other time - amortised cost	(6)	(5)
Other liabilities	(2)	-
Subordinated liabilities	(5)	(5)
Amounts due to holding company and fellow subsidiaries	-	(9)
Interest payable on assets:		
Loans to banks - amortised cost	(14)	(11)
Other financial assets	(13)	(13)
Total interest payable	(53)	(58)
Net interest income	458	500

Interest income on financial instruments measured at amortised cost and debt instruments classified as fair value through OCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Finance lease income was recognised at a constant periodic rate of return before tax on the net investment. Included in interest receivable was finance lease income of €5 million (2018: €5 million).

3. Non-interest income

	Group	
	2019	2018
	€m	€m
Net fees and commissions (Note 5)	125	105
Other operating income:		
Profit on disposal or settlement of loans	4	9
Economic hedged and designated hedged ineffectiveness		
- Foreign exchange	4	11
- Interest rate	45	88
Other income	6	12
	59	120
Non-interest income	184	225

4. Operating expenses

	Group 2019 €m	Group 2018 €m
Wages, salaries and other staff costs	158	152
Temporary and contractor costs[1]	10	9
Social security costs	17	17
Pension costs		
- defined benefit schemes (Note 6)	6	24
- defined contribution schemes	5	2
Restructure costs	26	(4)
Staff costs	222	200
Premises and equipment	26	44
Depreciation, impairment and amortisation (Note 16)	25	8
Other administrative expenses[1][2]	323	351
Administrative expenses	374	403
	596	603

Notes:
(1) During the year the Group reclassified temporary and contractor costs from other administrative expenses to staff costs. Comparatives have been restated.
(2) Included within administrative expenses is €18 million (2018 - €74 million) in respect of customer remediation provisions. Further details are provided in Note 19.

The average number of persons employed by the Group during the year, excluding temporary staff, was 2,325 (2018 - 2,368). The average number of temporary employees during 2019 was 236 (2018 - 247). The number of persons employed by the Group at 31 December, excluding temporary staff, was as follows:

	Group 2019 Number	Group 2018 Number
Personal Banking	841	838
Commercial Banking	411	433
Other	985	1,072
	2,237	2,343

Business Direct transferred from Personal Banking to Commercial Banking with effect from 1 January 2019. Refer to Note 5 for further details. Comparative employee numbers have been restated.

Amounts paid to the auditors for the statutory audit and other services are set out below:

	Group 2019 €k	Group 2018 €k
Fees payable for the audit of the Bank's individual and Group accounts	1,635	1,595
Fees payable to the auditor for other assurance services	350	65
Fees payable to the auditor for the audit of the Bank's subsidiaries	88	88
Total audit and audit related assurance service fees	2,073	1,748

Other than the amounts disclosed above, no remuneration was payable in respect of tax advisory services and other non-audit services. The figures in the auditor’s remuneration table relate to fees payable to the statutory auditor, exclusive of VAT.

5. Segmental analysis

The Group operates in the financial services industry in the Republic of Ireland. The directors manage the Group primarily by class of business and present the segmental analysis on that basis. Funding charges between divisions are determined by Group Treasury, having regard to commercial demands.

Effective from 1 January 2019, Business Direct was transferred from Personal Banking to Commercial Banking, as the nature of the business, including distributions channels, products and customers was more closely aligned to the Commercial Banking business. Comparatives have been restated.

5. Segmental analysis continued

Reportable operating segments

The reportable operating segments are as follows:

Personal Banking: Personal Banking provides loan and deposit products through a network of branches and direct channels.

Commercial Banking: Commercial Banking, including Business Direct, provides services to business and corporate customers, including small and medium enterprises.

Other: Other represents central functions comprising Group and corporate functions such as Treasury, Finance, Risk, Legal, Customer Debt Solutions, Communications and Human Resources which support the Personal Banking and Commercial Banking divisions.

Class of Business	Group 2019				Group 2018*			
	Personal Banking €m	Commercial Banking €m	Other €m	Total €m	Personal Banking €m	Commercial Banking €m	Other €m	Total €m
Net interest income	310	155	(7)	458	351	156	(7)	500
Net fees and commissions	60	64	1	125	51	51	3	105
Other operating income	43	20	(4)	59	47	33	40	120
Total Income	413	239	(10)	642	449	240	36	725
Operating profit/(loss) before tax	337	216	(469)	84	318	196	(415)	99
Total assets	16,154	5,834	8,658	30,646	16,071	5,357	8,110	29,538
Total liabilities	(10,097)	(12,097)	(3,983)	(26,177)	(9,556)	(11,209)	(3,870)	(24,635)
Net assets/(liabilities)	6,057	(6,263)	4,675	4,469	6,515	(5,852)	4,240	4,903

*2018 data has been restated for the business re-segmentation completed in the first quarter of 2019.

Class of Business	Group 2019				Group 2018*			
	Personal Banking €m	Commercial Banking €m	Other €m	Total €m	Personal Banking €m	Commercial Banking €m	Other €m	Total €m
Fees and commissions receivable								
- Payment Services	29	40	1	70	25	30	3	58
- Credit and debit card fees	26	6	-	32	19	6	-	25
- Lending (credit facilities)	2	14	-	16	2	14	-	16
- Brokerage	9	-	-	9	7	-	-	7
- Trade finance	-	2	-	2	-	2	-	2
- Investment management	4	-	-	4	5	-	-	5
- Other	-	5	-	5	-	-	-	-
Total	70	67	1	138	58	52	3	113
Fees and commissions payable	(10)	(3)	-	(13)	(7)	(1)	-	(8)
Net fees and commissions	60	64	1	125	51	51	3	105

*2018 data has been restated for the business re-segmentation completed in the first quarter of 2019.

6. Pensions

Defined contribution schemes

The Group makes contributions to a small number of RBS Group pension schemes, the costs of which are accounted for as defined contributions, which new employees are offered the opportunity to join.

Defined benefit schemes

The Group operates the following defined benefit pension schemes, the assets of which are independent of the Group's finances:

Name of schemes

Ulster Bank Pension Scheme (Republic of Ireland) ("main scheme")
First Active Pension Scheme ("FA scheme")
Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan ("Lombard scheme")

The Group's main scheme operates under Irish trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, scheme rules and Irish legislation (principally the Pensions Act 1990).

6. Pensions continued

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants beyond 2010, although current members continue to build up additional pension benefits, generally subject to 2% maximum annual salary inflation, while they remain employed by the Group.

The corporate trustee of the main scheme is Ulster Bank Pension Trustees (RI) Limited ("UBPTRIL"), a wholly owned subsidiary of the Bank.

UBPTRIL is the legal owner of the scheme assets which are held separately from the assets of the Group. The board of UBPTRIL comprises two trustee directors nominated by the unions and seven appointed by the Group. Under Irish legislation a defined benefit pension scheme is required to build up and maintain enough funds to pay members their pension entitlements should the scheme be wound up.

Investment strategy

The assets of the schemes are invested in a diversified portfolio as shown below.

The schemes employ derivative instruments to achieve a desired asset class exposure and to reduce the schemes' interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

	2019			2018		
Major classes of plan assets as a percentage of total plan assets of the schemes	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	12	1	13	19	2	21
Index linked bonds	1	-	1	-	-	-
Government bonds	7	-	7	9	-	9
Corporate and other bonds	36	-	36	29	2	31
Hedge funds	-	3	3	-	3	3
Real estate	-	3	3	-	3	3
Derivatives	-	17	17	-	5	5
Cash and other assets	-	20	20	-	28	28
	56	44	100	57	43	100

	Group and Bank		
Changes in value of net pension asset	Fair value of plan assets €m	Present value of defined benefit obligations €m	Net pension surplus €m
At 1 January 2018	1,623	(1,572)	51
Income statement	36	(60)	(24)
Statement of comprehensive income	(47)	56	9
Contributions by employer	128	-	128
Contributions by plan participants	2	(2)	-
Benefits paid	(49)	49	-
At 1 January 2019	1,693	(1,529)	164
Income statement	(49)	43	(6)
Net interest cost	36	(33)	3
Current service cost	-	(21)	(21)
Expenses	-	(2)	(2)
Settlements (1)	(85)	99	14
Statement of comprehensive income	240	(199)	41
Return on plan assets above recognised interest income	240	-	240
Experience gains and losses	-	8	8
Effect of changes in actuarial financial assumptions	-	(207)	(207)
Contributions by employer (2)	26	-	26
Contributions by plan participants	2	(2)	-
Benefits paid	(47)	47	-
At 31 December 2019	1,865	(1,640)	225

Notes:
(1) Settlements represent the impact of an Enhanced Transfer Value (ETV) offer to a cohort of members as part of a de-risking strategy. See page 96 for further details on pension risk.
(2) The Group expects to contribute €28 million to its defined benefit pension scheme in 2020.

6. **Pensions** continued

Amounts recognised on the balance sheet	All schemes 2019 €m	2018 €m
Fund assets at fair value	1,865	1,693
Present value of fund liabilities	(1,640)	(1,529)
Retirement benefit asset	225	164

Net pension surplus comprises	Group and Bank 2019 €m	2018 €m
Net assets of schemes in surplus (other assets)	225	165
Net liabilities of schemes in deficit (other liabilities)	-	(1)
	225	164

Amounts recognised in the income statement	Group and Bank 2019 €m	2018 €m
Operating expenses	6	24

Funding and contributions by the Group

In the Republic of Ireland, the Trustees of defined benefit pension schemes are required to perform funding valuations every three years. The Trustees and the Company, with the support of the scheme actuary, agreed the assumptions used to value the liabilities and where required a Schedule of Contributions to eliminate any funding deficit. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme.

The latest funding valuation of the main scheme was at 31 December 2018, and was agreed in September 2019. Following the special contribution of €100 million paid in December 2018, no further deficit contributions are required following the completion of the funding valuation. The funding plan for the FA scheme remains in place for €6.8 million p.a. until 2020 (increasing in line with inflation each year). For both schemes contingent asset arrangements have been put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

The latest funding valuation for the Lombard scheme was at 1 April 2019, and was agreed in December 2019. The funding plan agreed in 2016 which requires contributions of €1.65 million p.a. until 2025 remains in place.

Critical accounting policy: Pensions

The assets of defined benefit schemes are measured at their fair value at the balance sheet date.

Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at an interest rate based on the yields of high-quality corporate bonds of appropriate duration, with high-quality almost universally understood to mean AA-rated.

The choice of discount rate is a source of estimation uncertainty, due to a lack of appropriate Euro-denominated AA-rated bonds of equivalent duration to the pension schemes' liabilities.

The approach used is to fit a yield curve to an appropriate dataset of AA bonds, and derive the discount rate from that curve.

To increase the number of reference bonds available at the end of the reporting period, equivalent AA yields were extrapolated for longer dated A and AAA rated bonds by applying a credit spread adjustment to their actual yields. These were then included in the dataset used to create the yield curve.

Assumptions

Placing a value on the Group's defined benefit pension schemes' liabilities requires the Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations to the Group will depend upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

6. Pensions continued

A year-end valuation of the Group's pension schemes was prepared to 31 December 2019 by independent actuaries, using the following assumptions:

	Principal IAS 19 actuarial assumptions 2019 %	2018 %	Principal assumptions of 2018 triennial valuation 2018 %
Discount rate	1.60	2.30	Fixed interest Euro swap yield curve plus margin of 0.7%
Inflation assumption (CPI)	1.35	1.55	CPI Euro swap yield curve
Rate of increase in salaries	1.25	1.35	CPI curve with an allowance for the 0% per annum floor and 2% per annum cap
Rate of increase in deferred pensions	1.50	1.65	CPI curve with an appropriate cap and floor
Rate of increase in pensions in payment	0.00-1.50	0.00-1.65	0.00% per annum
Proportion of pension converted to a cash lump sum at retirement	12.00	12.00	12.00
Longevity:	years	years	years
Current pensioners, aged 70 years			
Males	18.0	17.9	18.7
Females	19.4	19.3	19.9
Future pensioners, currently aged 63 years			
Males	24.5	24.4	25.4
Females	26.2	26.1	26.8

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

Discount rate

The IAS 19 valuation uses a single discount rate by reference to the yield on a basket of 'high quality' sterling corporate bonds. For the triennial valuation discounting is by reference to a yield curve.

The weighted average duration of the Group's defined benefit obligation at 31 December 2019 is 23 years (2018 - 21 years).

Significant judgement is required when setting the criteria for bonds to be included in IAS 19's basket of bonds that is used to determine the discount rate used in the valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed.

The table below sets out the sensitivities of the pension cost for the financial year and the present value of defined benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	Group and Bank			
	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2019 €m	2018 €m	2019 €m	2018 €m
0.25% increase in the discount rate	(4)	(4)	(86)	(79)
0.25% increase in inflation	1	1	29	27
Longevity increase of one year	2	2	49	43
0.25% additional rate of increase in pensions in payment	1	1	18	18
0.25% additional rate of increase in deferred pensions	-	-	22	18
0.25% additional rate of increase in salaries	1	2	18	17

The defined benefit obligation is attributable to the different classes of scheme members in the following proportions:

Membership category	2019 %	2018 %
Active	28.3	29.4
Deferred	38.2	40.1
Pensioners and dependents	33.5	30.5
	100.0	100.0

6. Pensions continued

The experience history of the scheme is shown below:

	Group and Bank				
	2019	2018	2017	2016	2015
History of defined benefit scheme	€m	€m	€m	€m	€m
Fair value of plan assets	1,865	1,693	1,623	1,354	1,069
Present value of defined benefit obligations	(1,640)	(1,529)	(1,572)	(1,598)	(1,456)
Net surplus/(deficit)	225	164	51	(244)	(387)
Experience gains on plan liabilities	8	11	18	48	15
Experience gains/(losses) on plan assets	240	(47)	48	79	(26)
Actual return on plan assets	276	(11)	78	111	(2)
Actual return on plan assets	16.3%	(0.7%)	5.8%	10.4%	(0.2%)

7. Emoluments of directors

	2019	2018
	€	€
Emoluments for the provision of directors' services	2,018,062	1,783,425
Contributions and allowances in respect of pension schemes	107,567	73,270
Emoluments relating to long-term incentive schemes	130,516	139,525
Total emoluments received	2,256,145	1,996,220

Retirement benefits were accruing to one director under defined contribution schemes as at 31 December 2019 (2018 - two). No retirement benefits were accruing to directors under defined benefit schemes as at 31 December 2019 or 31 December 2018.

No share options were exercised during the year that resulted in gains to directors (2018 - none).

Performance related bonuses are awarded to executive directors on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.

During the financial year there were no emoluments in respect of compensation payments for loss of office (2018 - nil).

During the year the highest paid director received emoluments of €937,218 (2018 - €637,269).

The executive directors may also participate in the RBS executive share option and Sharesave schemes.

There were no amounts paid or payable to third parties during the financial year or the preceding financial year in respect of making available the services of any person as a director of the Bank or any of its subsidiaries or otherwise in connection with the management of the Group's affairs.

8. Tax

	2019	2018
	€m	€m
Corporation Tax at 12.5% (2018 - 12.5%)		
Charge for the financial year	-	(1)
Over provision in respect of prior periods	2	-
	2	(1)
Deferred tax		
Charge for the financial year	(3)	(13)
Decrease in deferred tax asset in respect of previously recognised losses	(79)	-
Tax charge for the financial year	(80)	(14)

8. Tax continued

The actual tax charge differs from the expected tax charge computed by applying the standard rate of Irish Corporation Tax of 12.5% (2018 - 12.5%) as follows:

	2019 €m	2018 €m
Expected tax charge	(10)	(12)
Tax arising at rates other than the standard rate of tax	(1)	(28)
Temporary differences	10	1
Non-deductible items	(7)	(3)
Non-taxable income	3	57
Deferred tax not recognised on current year losses	-	(29)
Losses brought forward and utilised	2	-
Decrease in deferred tax asset in respect of previously recognised losses	(79)	-
Adjustments in respect of prior periods	2	-
Actual tax charge for the financial year	(80)	(14)

Deferred tax

Net deferred tax asset comprised:

	Group and Bank			
	Pension €m	Accelerated capital allowances €m	Tax losses €m	Total €m
At 1 January 2018	(6)	(1)	292	285
Charge to income statement	(13)	-	-	(13)
Charge to other comprehensive income	(1)	-	-	(1)
At 1 January 2019	(20)	(1)	292	271
Charge to income statement	(3)	-	(79)	(82)
Charge to other comprehensive income	(5)	-	-	(5)
At 31 December 2019	(28)	(1)	213	184

Critical accounting policy: Deferred tax

The net deferred tax assets of €184 million as at 31 December 2019 (2018 - €271 million) principally comprise deferred tax assets on tax losses and deferred tax liabilities on temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Tax losses

Deferred tax has been recognised on tax losses of €1,701 million (2018 - €2,333 million) which arose principally from significant impairment losses incurred during a time of weak economic conditions in the Republic of Ireland.

Judgement - The Group has considered the carrying value of deferred tax assets on these losses and is of the view that based on management's estimates of future performance and profitability, sufficient taxable profits will be generated in future years to recover a recognised deferred tax asset of €213 million (2018 - €292 million). Therefore, €79 million of the deferred tax asset on losses carried at 1 January 2019 was derecognised during the financial year.

Estimate - Management's estimates are partly based on forecast performance beyond the horizon for management's detailed plans.

Management has carefully assessed the time period over which it expects to be able to recover the deferred tax assets taking into account existing and expected economic conditions.

As the Group operates in a small, open economy subject to short term volatility and extended non-performing loan realisation periods management expects in assessing its deferred tax assets on tax losses that they will be consumed by future taxable profits by the end of 2028. Set out below is the impact of some of the material sensitivities considered:

	Sensitivity	
Assumptions	Change in assumption	Consequential change in deferred tax assets €m
Outlook period	+/- 1 year	40
Profit outlook	+/- 5%	11

Unrecognised deferred tax

Deferred tax assets of €1,012 million (2018 - €945 million) have not been recognised in respect of tax losses carried forward of €8,094 million (2018 - €7,557 million). Under Republic of Ireland tax rules, tax losses can be carried forward indefinitely.

9. Loss dealt with in the financial statements of the Bank

In accordance with the exemption contained within Section 304 of the Companies Act 2014 the primary financial statements of the Bank do not include an income statement or statement of comprehensive income. The Bank's loss after tax for the year ended 31 December 2019 was €6 million (2018 – €141 million).

10. Derivatives

Companies in the Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk.

The following table shows the notional amount and fair value of the Group and the Bank's derivatives.

	Group & Bank					
	2019			2018		
	Notional amounts	Assets	Liabilities	Notional amounts*	Assets	Liabilities
	€m	€m	€m	€m	€m	€m
Over-the-counter derivatives						
Exchange rate contracts	945	59	56	900	53	54
Interest rate contracts	19,559	146	65	19,809	127	77
Equity contracts	-	-	-	162	30	-
	20,504	205	121	20,871	210	131
Amounts above include:						
Due from/to fellow subsidiaries	19,842	185	65	19,977	170	76

*Derivative notional amounts for exchange traded derivatives were overstated by €900 million in 2018. These have been restated.

The Group applies hedge accounting to manage interest rate risk. The Group's interest rate hedging relates to the non-trading structural interest rate risk caused by the mismatch between fixed interest rates and floating interest rates. The Group manages this risk within approved limits. Residual risk positions are hedged with derivatives principally interest rate swaps.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of the Group. This risk component comprises the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating.

The hedged risk is the risk of changes in the hedged items' fair value attributable to changes in the benchmark interest rate embedded in the hedged item. The significant embedded benchmark are LIBOR and EURIBOR. This risk component is identified using the risk management systems of the Group. This risk component comprises the majority of the hedged items fair value risk.

For all cash flow hedging and fair value hedge relationships the Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows / fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is measured on a cumulative basis over a time period management determines to be appropriate. The Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting.

A number of the current cash flow and fair value hedges of interest rate risk will be directly affected by interest rate benchmark reform. As at 31 December 2019 the exact transition dates of affected hedge accounting relationships is not known.

10. Derivatives continued

Included in the tables are derivatives held for hedge accounting purposes as follows:

	Group & Bank					
	2019			2018		
	Notional amounts €m	Assets €m	Liabilities €m	Notional amounts €m	Assets €m	Liabilities €m
Fair value hedging						
Interest rate contracts	786	-	6	163	-	3
Cash flow hedging						
Interest rate contracts	1,835	41	-	-	-	-

The following table shows the period in which the hedging contract ends:

	Group & Bank				
2019	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m	Total €m
Fair value hedging					
Hedging assets -interest rate risk	70	38	13	65	186
Hedging liabilities -interest rate risk	-	-	600	-	600
Cash flow hedging					
Hedging assets -interest rate risk	-	375	1,460	-	1,835
Average fixed interest rate (%)	-	(0.14)	0.32	-	0.22

The following risk exposures will be affected by interest rate benchmark reform (notional, fair value):

2019	Notional €m	Hedged adjustment €m
Fair value hedging		
-LIBOR	72	1
-EURIBOR	647	5
Cash flow hedging		
-EURIBOR	1,685	(42)
-ECB refinancing rate	150	1

The table below analyses assets and liabilities subject to hedging derivatives:

	Group & Bank		
2019	Carrying value (CV) of hedged assets and liabilities €m	Impact on hedged items included in CV €m	Change in fair value used as a basis to determine ineffectiveness €m
Fair value hedging - interest rate			
Loans and advances to customers - amortised cost	191	4	(2)
Other financial liabilities - debt securities in issue	602	(2)	2
Cash flow hedging - interest rate			
Loans and advances to customers - amortised cost	1,794	-	41
2018			
Fair value hedging - interest rate			
Loans and advances to customers - amortised cost	193	3	-

10. Derivatives continued

The following shows an analysis of the cash flow reserve:

	Cash flow reserve €m
Interest rate risk	
Amount recognised in equity	49
Amount transferred from equity to net interest income	(8)
Total	41

There were no balances re-classified from the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

Hedge ineffectiveness recognised in other operating income comprised:

	2019 €m	2018 €m
Fair value hedging		
Gains on the hedged items attributable to the hedged risk	4	-
Losses on the hedging instruments	(4)	-
Fair value hedging ineffectiveness	-	-
Cash flow hedging		
Cash flow hedging ineffectiveness - interest rate risk	(1)	-

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- The effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate (fair value hedge).
- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge).
- Upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

11. Financial instruments – classification

The following tables analyse the Group's financial assets and financial liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets/liabilities.

	Group						
2019	MFVTPL €m	Held-for-trading €m	FVOCI €m	DFV €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets							
Cash and balances at central banks	-	-	-	-	537	-	537
Derivatives	205	-	-	-	-	-	205
Loans to banks - amortised cost[1]	-	-	-	-	3,905	-	3,905
Loans to customers - amortised cost[2]	-	-	-	-	21,362	-	21,362
Amounts due from holding companies and fellow subsidiaries[3]	-	-	-	-	850	-	850
Other financial assets	-	-	3,250	-	-	-	3,250
Other assets	-	-	-	-	-	537	537
	205	-	3,250	-	26,654	537	30,646
Liabilities							
Bank deposits - amortised cost	-	-	-	-	1,975	-	1,975
Customer deposits - amortised cost	-	-	-	-	21,716	-	21,716
Other financial liabilities[4]	-	-	-	-	550	-	550
Amounts due to holding companies and fellow subsidiaries	-	-	-	-	1,356	-	1,356
Derivatives	-	121	-	-	-	-	121
Subordinated liabilities	-	-	-	-	86	-	86
Other liabilities	-	-	-	-	-	373	373
	-	121	-	-	25,683	373	26,177

For notes relating to this table refer to page 41.

11. Financial instruments – classification continued

2018	MFVTPL €m	Held-for-trading €m	FVOCI €m	DFV €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
	Group						
Assets							
Cash and balances at central banks	-	-	-	-	287	-	287
Derivatives	210	-	-	-	-	-	210
Loans to banks - amortised cost(1)	-	-	-	-	3,065	-	3,065
Loans to customers - amortised cost(2)	-	-	-	-	21,016	-	21,016
Amounts due from holding companies and fellow subsidiaries(3)	-	-	-	-	1,458	-	1,458
Other financial assets	-	-	2,949	-	-	-	2,949
Other assets	-	-	-	-	-	553	553
	210	-	2,949	-	25,826	553	29,538
Liabilities	.						
Bank deposits - amortised cost	-	-	-	-	1,983	-	1,983
Customer deposits - amortised cost	-	-	-	-	20,085	-	20,085
Other financial liabilities(4)	-	5	-	171	869	-	1,045
Amounts due to holding companies and fellow subsidiaries	-	-	-	-	869	-	869
Derivatives	-	131	-	-	-	-	131
Subordinated liabilities	-	-	-	-	86	-	86
Other liabilities	-	-	-	-	-	436	436
	-	136	-	171	23,892	436	24,635

Notes:
(1) Includes items in the course of collection from other banks of €20 million (2018 - €36 million).
(2) The Group has advances secured on residential property subject to non-recourse funding. Under IFRS 9, these mortgages qualify for full recognition on the balance sheet and are included in loans to customers. As at 31 December 2019 €4,373 million (2018 - €5,236 million) is included in loans to customers.
(3) The Group had no reverse repurchase agreements in 2019 (2018 - €611 million).
(4) The Group does not hold any cash and securities received as collateral in respect of derivative assets (2018 - €5 million). There are no other financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreement that are not set off in accordance with IAS 32. The carrying amount of other customer accounts designated at fair value through profit or loss was €28 million higher than the principal amount in 2018. No amounts have been recognised in profit or loss for changes in credit risk associated with these liabilities.

Amounts due from/to holding companies and fellow subsidiaries comprise:

	Group 2019 €m	2018 €m
Amounts due from holding companies and fellow subsidiaries		
Loans to banks - amortised cost	850	1,433
Loans to customers - amortised cost	-	25
	850	1,458
Amounts due to holding companies and fellow subsidiaries		
Bank deposits - amortised cost	216	275
Customer deposits - amortised cost	12	64
Debt securities in issue	598	-
Subordinated liabilities	530	530
	1,356	869

11. Financial instruments – classification continued

The following tables analyse the Bank's financial assets and financial liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets/liabilities.

	Bank						
2019	MFVTPL €m	Held-for-trading €m	FVOCI €m	DFV €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets							
Cash and balances at central banks	-	-	-	-	537	-	537
Derivatives	205	-	-	-	-	-	205
Loans to banks - amortised cost[(1)]	-	-	-	-	3,721	-	3,721
Loans to customers - amortised cost[(2)]	-	-	-	-	21,362	-	21,362
Amounts due from holding companies and fellow subsidiaries[(3)]	710	-	-	-	2,437	-	3,147
Other financial assets[(4)]	-	-	3,250	-	-	-	3,250
Investments in group undertakings	-	-	-	-	-	5	5
Other assets	-	-	-	-	-	535	535
	915	-	3,250	-	28,057	540	32,762
Liabilities							
Bank deposits - amortised cost	-	-	-	-	1,975	-	1,975
Customer deposits - amortised cost	-	-	-	-	21,716	-	21,716
Other financial liabilities[(5)]	-	-	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	-	-	-	710	3,353	-	4,063
Derivatives	-	121	-	-	-	-	121
Subordinated liabilities	-	-	-	-	86	-	86
Other liabilities	-	-	-	-	-	373	373
	-	121	-	710	27,130	373	28,334

	Bank						
2018	MFVTPL €m	Held-for-trading €m	FVOCI €m	DFV €m	Amortised cost €m	Other assets/ liabilities €m	Total €m
Assets							
Cash and balances at central banks	-	-	-	-	287	-	287
Derivatives	210	-	-	-	-	-	210
Loans to banks - amortised cost[(1)]	-	-	-	-	2,817	-	2,817
Loans to customers - amortised cost[(2)]	-	-	-	-	21,016	-	21,016
Amounts due from holding companies and fellow subsidiaries[(3)]	707	-	-	-	3,286	-	3,993
Other financial assets[(4)]	-	-	2,949	-	-	-	2,949
Investments in group undertakings	-	-	-	-	-	7	7
Other assets	-	-	-	-	-	551	551
	917	-	2,949	-	27,406	558	31,830
Liabilities							
Bank deposits - amortised cost	-	-	-	-	1,983	-	1,983
Customer deposits - amortised cost	-	-	-	-	20,085	-	20,085
Other financial liabilities[(5)]	-	5	-	171	-	-	176
Amounts due to holding companies and fellow subsidiaries	-	-	-	707	3,354	-	4,061
Derivatives	-	131	-	-	-	-	131
Subordinated liabilities	-	-	-	-	86	-	86
Other liabilities	-	-	-	-	-	436	436
	-	136	-	878	25,508	436	26,958

Notes:
(1) Includes items in the course of collection from other banks of €20 million (2018 - €36 million).
(2) The Bank has advances secured on residential property subject to non-recourse funding. Under IFRS 9, these mortgages qualify for full recognition on the balance sheet and are included in loans to customers. As at 31 December 2019 €4,373 million (2018 - €5,236 million) is included in loans to customers.
(3) The Bank had no reverse repurchase agreements in 2019 (2018 - €611 million).
(4) Of the debt securities balance included in other financial assets €20 million (2018 - €20 million) was pledged as collateral to the Ulster Bank Pension Scheme and €17 million (2018 - €17 million) as trustees of the First Active Pension Scheme under contingent asset arrangements put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework. The debt securities classified as loans in the Bank have been issued by limited recourse entities that are controlled by the Bank. The securities are collateralised on the cash flows of residential mortgages held by the Bank, are long term in nature and generate variable interest, typically at mark-ups over Euro Interbank Offer Rates. The carrying value of the instruments is not considered to be impaired as at 31 December 2019 and 31 December 2018 and represents the full extent of the credit risk on the instruments.
(5) The Bank does not hold any cash and securities received as collateral in respect of derivative assets (2018 - €5 million). There are no other financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreements that are not set off in accordance with IAS 32. The carrying amount of other customer accounts designated at fair value through profit or loss was €28 million higher than the principal amount in 2018. No amounts have been recognised in profit or loss for changes in credit risk associated with these liabilities.

11. Financial instruments – classification continued

Amounts due from/to holding companies and fellow subsidiaries comprise:

	Bank	
	2019	2018
	€m	€m
Amounts due from holding companies and fellow subsidiaries		
Loans to banks - amortised cost	850	1,428
Loans to customers - amortised cost	115	76
Other financial assets		
- Debt securities	2,182	2,489
	3,147	3,993
Amounts due to holding companies and fellow subsidiaries		
Bank deposits - amortised cost	216	274
Customer deposits - amortised cost	2,719	3,257
Debt securities in issue	598	-
Subordinated liabilities	530	530
	4,063	4,061

Critical accounting policy: Fair value - financial instruments

In accordance with accounting policies (k) and (r) financial instruments classified at fair value through profit or loss and financial assets classified as fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

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. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability.

In determining fair value the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where the Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, it measures the fair value of a group of financial assets and financial liabilities on the basis of the price that it would receive to sell a net long position (i.e. an asset) for a particular risk exposure or to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction at the measurement date under current market conditions.

Credit valuation adjustments are made when valuing derivative financial assets to incorporate counterparty credit risk. Adjustments are also made when valuing financial liabilities measured at fair value to reflect the Group's own credit standing.

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Further details about the valuation methodologies and the sensitivity to reasonably possible alternative assumptions of the fair value of financial instruments valued using techniques where at least one significant input is unobservable are given below.

Valuation of financial instruments carried at fair value

Fair Value Hierarchy

Financial instruments carried at fair value have been classified under the IFRS fair value hierarchy as follows.

Level 1 – instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.

Level 2 - instruments valued using valuation techniques that have observable inputs. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including collateralised loan obligations (CLO), most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, and certain money market securities and loan commitments and most over-the-counter (OTC) derivatives.

Level 3 - instruments valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable model inputs.

11. Financial instruments - valuation

The following tables show the financial instruments carried at fair value by valuation method:

	Group							
	2019				2018			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Other financial assets (Note 13)								
- Debt securities	1,887	1,362	-	3,249	2,002	943	-	2,945
- Equity shares	-	-	1	1	-	-	4	4
Derivatives	-	205	-	205	-	177	33	210
Total	1,887	1,567	1	3,455	2,002	1,120	37	3,159
Liabilities								
Other financial liabilities (Note 17)								
- Bank deposits	-	-	-	-	-	5	-	5
- Customer deposits	-	-	-	-	-	171	-	171
Derivatives	-	121	-	121	-	123	8	131
Total	-	121	-	121	-	299	8	307

	Bank							
	2019				2018			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Amounts due from holding companies and fellow subsidiaries	-	-	710	710	-	-	707	707
Other financial assets (Note 13)								
- Debt securities	1,887	1,362	-	3,249	2,002	943	-	2,945
- Equity shares	-	-	1	1	-	-	4	4
Derivatives	-	205	-	205	-	177	33	210
Total	1,887	1,567	711	4,165	2,002	1,120	744	3,866
Liabilities								
Amounts due to holding companies and fellow subsidiaries	-	-	710	710	-	-	707	707
Other financial liabilities (Note 17)								
- Bank deposits	-	-	-	-	-	5	-	5
- Customer deposits	-	-	-	-	-	171	-	171
Derivatives	-	121	-	121	-	123	8	131
Total	-	121	710	831	-	299	715	1,014

Level 3 Portfolio movement tables

	Group					
	Other financial assets		Derivative assets		Derivative liabilities	
	2019 €m	2018 €m	2019 €m	2018 €m	2019 €m	2018 €m
At 1 January	4	5	33	279	(8)	(270)
Charge to other comprehensive income	(2)	(1)	-	-	-	-
(Charge)/credit to income statement	(1)	-	(33)	(246)	8	262
At 31 December	1	4	-	33	-	(8)

11. Financial instruments: carried at fair value - valuation hierarchy continued

	Bank									
	Other financial assets		Derivative assets		Derivative liabilities		Amounts due from holding companies and fellow subsidiaries		Amounts due to holding companies and fellow subsidiaries	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January	4	5	33	251	(8)	(35)	707	-	(707)	-
Additions	-	-	-	-	-	-	-	707	-	(707)
Charge to other comprehensive income	(2)	(1)	-	-	-	-	-	-	-	-
(Charge)/credit to income statement	(1)	-	(33)	(218)	8	27	3	-	(3)	-
At 31 December	1	4	-	33	-	(8)	710	707	(710)	(707)

The Group places reliance on the oversight of the *Ring Fence Bank Valuation Committee* on the *Independent Price Verification (IPV)* process and the Group eliminates its market risk on its portfolios by entering into back to back positions with National Westminster Bank plc.

Valuation Techniques
The fair value of instruments are derived differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input typically on a position by position basis. Examples include equities and most debt securities.

Products that are priced using models range in complexity from comparatively vanilla such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model.

Inputs to valuation models
Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are as follows:

Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.

Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from 3rd party benchmarking services. For counterparty credit spreads, adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters).

Interest rates - these are principally benchmark interest rates such as the London Interbank Offered Rate (LIBOR), European Interbank Offered Rate (EURIBOR), Overnight Index Swaps (OIS) rate and other quoted interest rates in the swap, bond and futures markets.

Foreign currency exchange rates - there generally are observable prices both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree to which two or more prices or other variables are observed to move together.

Prepayment rates - the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing pre-payable instruments that are not quoted in active markets, Group considers the value of the prepayment option.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

Valuation Control
The Group's control environment for the determination of the fair value of financial instruments includes formalised protocols for the review and validation of fair values independent of the businesses entering into the transactions.

IPV is a key element of the control environment. Such valuations may be directly from available prices, or may be derived using a model and variable model inputs. These valuations are reviewed by a team independent of those trading the financial instruments, in the light of available pricing evidence.

11. Financial instruments: carried at fair value - valuation hierarchy continued

Where measurement differences are identified through the *IPV* process these are grouped by fair value level and quality of data. If the size of the difference exceeds defined thresholds adjustment are made to the books and records to reflect the *IPV* valuation.

IPV takes place at least each month, for all fair value positions. The *IPV* control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

Valuation committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The *Ring Fenced Bank Valuation Committee* meets monthly to address key material and subjective valuation issues, to review items escalated by valuation committees and to discuss other relevant matters including prudential valuation. *UBIDAC Model Committee* is responsible for approving model documentation, validation reports and performance monitoring for all models used by UBIDAC and monitoring compliance with the Model Risk policy standards.

Initial classification of a financial instrument is carried out following the principles in IFRS 13. These initial classifications are subject to senior management review. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. The sources of independent data are reviewed for quality and are applied in the *IPV* processes using a formalised input quality hierarchy. These adjustments reflect the assessment of factors that market participants would consider in setting a price.

Active and inactive markets

A key input in the decision making process for the allocation of assets to a particular level is market activity. In general, the degree of valuation uncertainty depends on the degree of liquidity of an input.

Where markets are liquid, little judgement is required. However, when the information regarding the liquidity in a particular market is not clear, a judgement may need to be made. This can be more difficult as assessing the liquidity of a market is not always straightforward. For an equity traded on an exchange, daily volumes of trading can be seen, but for an OTC derivative assessing the liquidity of the market with no central exchange is more difficult.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this change is considered to be temporary, the classification is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been considered to be liquid, the instrument will continue to be classified in the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly.

The breadth and depth of the *IPV* data allows for a rules based quality assessment to be made of market activity, liquidity and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as Level 3.

Modelled products

For modelled products the market convention is to quote these trades through the model inputs or parameters as opposed to a cash price equivalent. A valuation is derived from the use of the independent market inputs calculated using the Group’s model.

The decision to classify a modelled instrument as Level 2 or 3 will be dependent upon the product/model combination, the currency, the maturity, the observability and quality of input parameters and other factors. All these must be assessed to classify the asset. If an input fails the observability or quality tests then the instrument is considered to be in Level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

The majority of derivative instruments, for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives, are classified as Level 2 as they are vanilla products valued using observable inputs. The valuation uncertainty on these is considered to be low and both input and output testing may be available.

Non-modelled products

Non-modelled products are generally quoted on a price basis and can therefore be considered for each of the three levels. This is determined by the market activity, liquidity and valuation uncertainty of the instruments which is in turn measured from the availability of independent data used by the *IPV* process to allocate positions to *IPV* quality levels.

The availability and quality of independent pricing information are considered during the classification process. An assessment is made regarding the quality of the independent information. If the depth of contributors falls below a set hurdle rate, the instrument is considered to be Level 3. This hurdle rate is that used in the *IPV* process to determine the *IPV* quality rating. However, where an instrument is generally considered to be illiquid, but regular quotes from market participants exist, these instruments may be classified as Level 2 depending on frequency of quotes, other available pricing and whether the quotes are used as part of the *IPV* process or not.

11. Financial instruments: carried at fair value - valuation hierarchy continued

For some instruments with a wide number of available price sources, there may be differing quality of available information and there may be a wide range of prices from different sources. In these situations the highest quality source is used to determine the classification of the asset.

Valuation

Valuation of financial instruments in the banking books are made to the mid-price.

Credit valuation adjustments

Credit valuation adjustments (CVA) represent an estimate of the adjustment to fair value that a market participant would make to incorporate the counterparty credit risk inherent in derivative exposures. CVA at 31 December 2019 was nil (2018 - €1 million).

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Where a positive exposure exists to a counterparty that is considered to be close to default, the CVA is calculated by applying expected losses to the current level of exposure. Otherwise, expected losses are applied to estimated potential future positive exposures which are modelled to reflect the volatility of the market factors which drive the exposures and the correlation between those factors.

Expected losses are determined from market implied probabilities of default and internally assessed recovery levels. The probability of default is calculated with reference to observable credit spreads and observable recovery levels. For counterparties where observable data do not exist, the probability of default is determined from the credit spreads and recovery levels of similarly rated entities.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where the Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Debt valuation adjustments

The fair value of the Group's derivative financial liabilities is adjusted to reflect the Group's own credit risk through debt valuation adjustments (DVA). Expected gains are applied to estimated potential future negative exposures, the modelling of which is consistent with the approach used in the calculation of CVA. Expected gains are determined from market implied probabilities of default and recovery levels. Funding valuation adjustment (FVA) is considered the primary adjustment applied to derivative liabilities. The extent to which DVA and FVA overlap is eliminated from DVA.

Fair value of Financial Instruments not carried at fair value

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of cash and balances at central banks and €2,234 million (2018 - €2,509 million) of loans to banks carried at amortised cost have been determined using procedures consistent with the requirements of level 2 valuation methodologies. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	Group			
	2019	2019	2018	2018
	Carrying value	Fair value	Carrying value	Fair value
	€m	€m	€m	€m
Financial assets				
Cash & balances at central banks	537	537	287	287
Loans to banks - amortised cost	3,905	3,905	3,065	3,065
Loans to customers - amortised cost	21,362	20,504	21,016	20,398
Amounts due from holding companies and fellow subsidiaries	-			
- Loans to banks	850	850	1,433	1,433
- Loans to customers	-	-	25	25
Financial liabilities				
Bank deposits - amortised cost	1,975	1,999	1,983	1,991
Customer deposits - amortised cost	21,716	21,719	20,085	20,088
Other financial liabilities	550	550	869	865
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	216	216	275	275
- Customer deposits	12	12	64	64
- Subordinated liabilities	530	518	530	513
- Debt securities in issue	598	598	-	-
Subordinated liabilities	86	76	86	73

11. Financial instruments: not carried at fair value continued

	Bank			
	2019 Carrying value	2019 Fair value	2018 Carrying value	2018 Fair value
	€m	€m	€m	€m
Financial assets				
Cash & balances at central banks	537	537	287	287
Loans to banks - amortised cost	3,721	3,721	2,817	2,817
Loans to customers - amortised cost	21,362	20,504	21,016	20,398
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	850	850	1,428	1,428
- Loans to customers	100	100	28	28
- Debt securities	1,487	1,487	1,830	1,830
Financial liabilities				
Bank deposits - amortised cost	1,975	1,999	1,983	1,991
Customer deposits - amortised cost	21,716	21,719	20,085	20,088
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	216	216	274	274
- Customer deposits	2,009	2,009	2,550	2,550
- Subordinated liabilities	530	518	530	513
- Debt securities in issue	598	598	-	-
Subordinated liabilities	86	76	86	73

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments
For certain loans to bank and short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, fair value approximates to carrying value.

Loans to banks and customers
In estimating the fair value of loans to banks and customers measured at amortised cost, the Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. The principal method used to estimate fair value in the Group is to discount expected cash flows at the current offer rate for the same or similar products.

For certain portfolios where there are very few or no recent transactions bespoke approaches are utilised.

Debt securities
The majority of debt securities are valued using quoted prices in active markets, or using quoted prices for similar assets in active markets. Fair values of the rest are estimated using discounted cash flow valuation techniques.

Bank and customer deposits
Fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and Subordinated liabilities
Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

11. Financial instruments – maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	Group					
	2019			2018		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	€m	€m	€m	€m	€m	€m
Assets						
Cash and balances at central banks	537	-	537	287	-	287
Derivatives	23	182	205	45	165	210
Loans to banks - amortised cost	3,905	-	3,905	3,065	-	3,065
Loans to customers - amortised cost	1,907	19,455	21,362	1,745	19,271	21,016
Amounts due from holding companies and fellow subsidiaries	850	-	850	1,414	44	1,458
Other financial assets	1,187	2,063	3,250	1,153	1,796	2,949
Liabilities						
Bank deposits - amortised cost	1,481	494	1,975	-	1,983	1,983
Customer deposits - amortised cost	21,290	426	21,716	19,899	186	20,085
Other financial liabilities	-	550	550	176	869	1,045
Amounts due to holding companies and fellow subsidiaries	229	1,127	1,356	269	600	869
Derivatives	11	110	121	10	121	131
Subordinated liabilities	-	86	86	-	86	86

	Bank					
	2019			2018		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	€m	€m	€m	€m	€m	€m
Assets						
Cash and balances at central banks	537	-	537	287	-	287
Derivatives	23	182	205	45	165	210
Loans to banks - amortised cost	3,721	-	3,721	2,817	-	2,817
Loans to customers - amortised cost	1,907	19,455	21,362	1,745	19,271	21,016
Amounts due from holding companies and fellow subsidiaries	3,147	-	3,147	3,949	44	3,993
Other financial assets	1,187	2,063	3,250	1,153	1,796	2,949
Liabilities						
Bank deposits - amortised cost	1,481	494	1,975	-	1,983	1,983
Customer deposits - amortised cost	21,290	426	21,716	19,899	186	20,085
Other financial liabilities	-	-	-	176	-	176
Amounts due to holding companies and fellow subsidiaries	2,936	1,127	4,063	3,461	600	4,061
Derivatives	11	110	121	10	121	131
Subordinated liabilities	-	86	86	-	86	86

11. Financial instruments – maturity analysis continued

On balance sheet liabilities

The following table shows, by contractual maturity, the undiscounted cash flows payable from the balance sheet date, including future payments of interest. The balances in the table below do not agree directly to the Group or Bank balance sheets, as the table include all cash flows relating to principal and future coupon payments presented on an undiscounted basis.

	Group						
2019	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m	>20 years €m
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	1,476	492	-	-	-	-
Customer deposits - amortised cost	19,730	1,562	408	19	-	-	-
Other financial liabilities	-	-	-	-	-	-	550
Amounts due to holding companies and fellow subsidiaries	229	-	530	-	598	-	-
Lease liabilities	3	7	14	12	14	6	-
Derivatives held for hedge accounting	-	3	1	4	(2)	-	-
Subordinated liabilities	-	6	10	10	26	88	3
	19,962	3,054	1,455	45	636	94	553
Guarantees and commitments notional amount							
Guarantees(1)	157	-	-	-	-	-	-
Commitments(2)	3,665	-	-	-	-	-	-
	3,822	-	-	-	-	-	-
2018							
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	-	1,969	-	-	-	-
Customer deposits - amortised cost	18,083	1,819	177	11	-	-	-
Other financial liabilities	53	123	-	-	-	-	869
Amounts due to holding companies and fellow subsidiaries	268	1	-	530	70	-	-
Derivatives held for hedge accounting	-	1	2	-	-	-	-
Subordinated liabilities	-	6	10	10	25	93	2
	18,404	1,950	2,158	551	95	93	871
Guarantees and commitments notional amount							
Guarantees(1)	208	-	-	-	-	-	-
Commitments(2)	3,655	-	-	-	-	-	-
	3,863	-	-	-	-	-	-

For notes relating to this table refer to page 51.

11. Financial instruments – maturity analysis continued

2019	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m	>20 years €m
	Bank						
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	1,476	492	-	-	-	-
Customer deposits - amortised cost	19,730	1,562	408	19	-	-	-
Other financial liabilities	-	-	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	2,934	-	-	530	598	-	-
Lease liabilities	3	7	14	12	14	6	-
Derivatives held for hedge accounting	-	3	1	4	(2)	-	-
Subordinated liabilities	-	6	10	10	26	88	3
	22,667	3,054	925	575	636	94	3
Guarantees and commitments notional amount							
Guarantees[1]	157	-	-	-	-	-	-
Commitments[2]	3,665	-	-	-	-	-	-
	3,822	-	-	-	-	-	-
2018							
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	-	1,969	-	-	-	-
Customer deposits - amortised cost	18,083	1,819	177	11	-	-	-
Other financial liabilities	53	123	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	3,460	1	-	530	70	-	-
Derivatives held for hedge accounting	-	1	2	-	-	-	-
Subordinated liabilities	-	6	10	10	25	93	2
	21,596	1,950	2,158	551	95	93	2
Guarantees and commitments notional amount							
Guarantees[1]	208	-	-	-	-	-	-
Commitments[2]	3,655	-	-	-	-	-	-
	3,863	-	-	-	-	-	-

Notes:
(1) The Bank is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Bank expects most guarantees it provides to expire unused.
(2) The Bank has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Bank does not expect all facilities to be drawn, and some may lapse before drawdown.

The tables above show the timing of cash outflows to settle financial liabilities. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end.

12. Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures on an IFRS 9 basis.

	Group	
	2019	2018*
	€m	€m
Loans - amortised cost [1]		
Stage 1	21,795	19,904
Stage 2	1,930	2,323
Stage 3	2,394	2,766
Inter-Group [2]	851	1,458
Total	26,970	26,451
Loan impairment provisions		
ECL provisions [3]		
Stage 1	34	40
Stage 2	63	128
Stage 3	814	903
Total	911	1,071
ECL provision coverage [4,5]		
Stage 1 (%)	0.2	0.2
Stage 2 (%)	3.3	5.5
Stage 3 (%)	34.0	32.6
Total	3.4	4.0
ECL (credit)/charge		
Stage 1	(42)	(7)
Stage 2	(40)	(2)
Stage 3	44	32
Third party	(38)	23
Total	(38)	23
ECL loss rate - annualised (%)	(0.2)	0.1
Amounts written off	97	421
Risk profile of loans to customers - non performing loans [6]		
Credit-impaired	2,394	2,579
Not credit-impaired	112	218
Total	2,506	2,797

* 2018 data has been restated for a change to presentation of unrecognised interest; refer to Note 1(a) for further details.

Notes:
(1) Refer to Note 11 for balance sheet analysis of financial assets that are classified as AC and FVOCI, the starting point for IFRS 9 ECL framework assessment. The above table relates to gross loans only and excludes amounts that are outside the scope of the ECL framework, primarily related to charge cards where the underlying risk of loss is captured within the customer's linked current account and non-credit risk assets.
(2) Amounts due from holding companies and fellow subsidiaries (Inter-Group) are all considered as Stage 1.
(3) Includes €1 million (2018 - €1 million) related to assets at FVOCI.
(4) ECL provisions coverage is ECL provisions divided by loans - amortised cost.
(5) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(6) Non-performing as per the European Banking Authority definition.

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as security, refer to risk management - credit risk on page 71.

Critical accounting estimates

The Group's loan impairment provisions have been established in accordance with IFRS 9. Accounting policy (l) in Note 1 sets out how the expected loss approach is applied. At 31 December 2019, customer loan impairment provisions amounted to €911 million (2018: €1,071 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced.

Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement; significant reduction in the value of any security; breach of limits or covenants; and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements for ECL estimation, probability of default (PD), loss given default (LGD) and exposure at default (EAD) used in the calculations must be:

- Unbiased - conservatism has been removed to produce unbiased model estimates.
- Point-in-time - recognise current economic conditions.
- Forward-looking - incorporated into PD estimates and, where appropriate, EAD and LGD estimates.

12. Loan impairment provisions continued

IFRS 9 ECL model design principles continued

- For the life of the loan - all models produce a term structure to allow a lifetime calculation for assets in Stage 2 and Stage 3.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

The general approach for the IFRS 9 LGD models has been to build bespoke models or leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates, i.e. use of effective interest rate as the discount rate and the removal of: downturn calibration, indirect costs, other conservatism and regulatory floors.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. Further details are given in Note 23 to the accounts.

13. Other financial assets

	Group and Bank				
	Debt securities			Equity shares	
	Other central and local government	Other	Total	Unlisted	Total
2019	€m	€m	€m	€m	€m
Fair value through other comprehensive income	1,887	1,362	3,249	1	3,250
2018					
Fair value through other comprehensive income	2,002	943	2,945	4	2,949

A net unrealised loss of €3 million (2018 - €1 million gain) was recorded during the financial year.

The Group made an irrevocable election at initial recognition to measure the equity shares at fair value through other comprehensive income.

14. Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the year were as follows:

	Bank	
	2019	2018
	€m	€m
At 1 January	7	5
Acquisitions	-	4
Disposal	-	(1)
Dissolution	(2)	-
Impairment	-	(1)
At 31 December	5	7

All of the Group undertakings, as detailed in Note 29, are consolidated in the Group's financial statements. All have an accounting reference date of 31 December except Norgay Property Limited and Walter Property Limited which have an accounting reference date of 30 June.

15. Other assets

	Group 2019 €m	Group 2018 €m	Bank 2019 €m	Bank 2018 €m
Prepayments	8	9	6	7
Accrued income	5	7	5	7
Retirement benefit assets (Note 6)	225	165	225	165
Deferred tax (Note 8)	184	271	184	271
Property, plant and equipment (Note 16)	92	68	92	68
Intangible assets	1	1	1	1
Asset held for sale	-	1	-	1
Other assets	22	31	22	31
	537	553	535	551

16. Property, plant and equipment

Group	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of 50 years or less unexpired	Computer and other equipment	Right of use property (1)	Total
2019	€m	€m	€m	€m	€m	€m
Cost or valuation:						
At 1 January	65	8	59	47	-	179
Implementation of IFRS16	-	-	-	-	176	176
Reclassifications	-	(8)	8	-	-	-
Additions	-	-	4	5	-	9
Disposals and write-off of fully depreciated assets	-	-	(1)	-	-	(1)
At 31 December	65	-	70	52	176	363
Accumulated depreciation, impairment and amortisation:						
At 1 January	27	4	42	38	-	111
Implementation of IFRS16	-	-	-	-	135	135
Reclassifications	-	(4)	4	-	-	-
Charge for the financial year	2	-	3	2	18	25
At 31 December	29	-	49	40	153	271
Net book value at 31 December	36	-	21	12	23	92
2018						
Cost or valuation:						
At 1 January	63	14	63	55	-	195
Additions	3	-	3	3	-	9
Transfer to assets held for sale	-	-	(2)	-	-	(2)
Disposals and write-off of fully depreciated assets	(1)	(6)	(5)	(11)	-	(23)
At 31 December	65	8	59	47	-	179
Accumulated depreciation, impairment and amortisation:						
At 1 January	25	10	44	44	-	123
Transfer to assets held for sale	-	-	(1)	-	-	(1)
Disposals and write-off of fully depreciated assets	-	(6)	(5)	(8)	-	(19)
Charge for the financial year	2	-	4	2	-	8
At 31 December	27	4	42	38	-	111
Net book value at 31 December	38	4	17	9	-	68

For notes relating to this table refer to page 55.

16. Property, plant and equipment continued

2019	Freehold land and buildings €m	Leases of 50 years or more unexpired €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	Right of use property [1] €m	Total €m
	Bank					
Cost or valuation:						
At 1 January	65	8	59	47	-	179
Implementation of IFRS16	-	-	-	-	176	176
Reclassifications	-	(8)	8	-	-	-
Additions	-	-	4	5	-	9
Disposals and write-off of fully depreciated assets	-	-	(1)	-	-	(1)
At 31 December	65	-	70	52	176	363
Accumulated depreciation, impairment and amortisation:						
At 1 January	27	4	42	38	-	111
Implementation of IFRS16	-	-	-	-	135	135
Reclassifications	-	(4)	4	-	-	-
Charge for the financial year	2	-	3	2	18	25
At 31 December	29	-	49	40	153	271
Net book value at 31 December	36	-	21	12	23	92
2018						
Cost or valuation:						
At 1 January	63	8	63	51	-	185
Additions	3	-	3	3	-	9
Transfer to assets held for sale	-	-	(2)	-	-	(2)
Disposals and write-off of fully depreciated assets	(1)	-	(5)	(7)	-	(13)
At 31 December	65	8	59	47	-	179
Accumulated depreciation, impairment and amortisation:						
At 1 January	25	4	44	41	-	114
Transfer to assets held for sale	-	-	(1)	-	-	(1)
Disposals and write-off of fully depreciated assets	-	-	(5)	(5)	-	(10)
Charge for the financial year	2	-	4	2	-	8
At 31 December	27	4	42	38	-	111
Net book value at 31 December	38	4	17	9	-	68

The Group and Bank recognised nil profit on disposal of freehold land and buildings during the financial year (2018: €1 million).

Note:
(1) For more details of right of use property refer to Note 21

17. Other financial liabilities

	Group 2019 €m	Group 2018 €m	Bank 2019 €m	Bank 2018 €m
Bank deposits - HFT	-	5	-	5
Customer deposits - DFV	-	171	-	171
Debt securities in issue - amortised cost	550	869	-	-
Total	550	1,045	-	176

18. Subordinated liabilities

	Group and Bank	
	2019	2018
Undated loan capital	€m	€m
€31 million 11.375% perpetual tier two capital	55	55
£11 million 11.75% perpetual tier two capital	30	30
£1.1 million perpetual floating rate tier two capital (6 month sterling LIBOR plus 2.55%)	1	1
	86	86

Claims in respect of the Bank's loan capital are subordinate to the claims of other creditors. None of the loan capital is secured.

19. Other liabilities

	Group and Bank	
	2019	2018
	€m	€m
Accruals	40	61
Deferred income	8	6
Provisions for liabilities and charges	170	287
Retirement benefit liabilities	-	1
Other liabilities	99	81
Lease liabilities (Note 21)	56	-
	373	436

The following amounts are included within provisions for liabilities and charges:

	Group and Bank							
	Tracker mortgage examination	Other customer remediation	Litigation	Global Restructuring Group	Property	Restructuring	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2018	223	97	16	6	18	1	9	370
Implementation of IFRS 9 on 1 January 2018	-	-	-	-	-	-	7	7
Transfer from accruals	-	-	-	-	-	6	-	6
Arising on acquisition	-	2	-	-	-	-	-	2
Reclassification	5	(5)	-	-	-	-	-	-
Charge to income statement	-	74	6	9	10	1	2	102
Utilised in the year	(133)	(42)	-	(2)	(6)	(2)	-	(185)
Release to income statement	(9)	-	(1)	-	(3)	-	(2)	(15)
At 1 January 2019	86	126	21	13	19	6	16	287
Implementation of IFRS 16 on 1 January 2019	-	-	-	-	(11)	-	-	(11)
Charge to income statement	15	-	3	3	-	25	(4)	42
Utilised in the year	(58)	(70)	(1)	(10)	-	(6)	(3)	(148)
Provisions as at 31 December 2019	43	56	23	6	8	25	9	170

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

19. Other liabilities continued

Critical accounting policy: Provisions for liabilities

Judgement is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount, and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

Tracker mortgage examination

In December 2015, the CBI announced that it had written to a number of lenders requiring them to put in place a robust plan and framework to review the treatment of customers who have been sold mortgages with a tracker interest rate or with a tracker interest rate entitlement. The CBI stated that the intended purpose of the review was to identify any cases where customers' contractual rights under the terms of their mortgage agreements were not fully honoured, or where lenders did not fully comply with various regulatory requirements and standards regarding disclosure and transparency for customers. During the financial year the Group continued to progress customer remediation.

At 31 December 2019 the Group has a provision of €43 million in respect of remediation and other associated costs (2018 - €86 million). The Group expects that the majority of this provision will be utilised within 12 months. Due to the scale and complexity of the review a number of assumptions are inherent in the calculation of the provision which represents management's best estimate of expected remediation and associated costs.

Other customer remediation

As part of an internal review of the wider personal and commercial loan portfolios, extending from the tracker mortgage examination programme, the Group identified further legacy business issues. A programme is ongoing to identify and remediate impacted customers. Any issues relating to the tracker mortgage examination are included in the tracker mortgage examination provision as outlined above.

At 31 December 2019 the Group has a provision of €56 million (2018 - €126 million) based on management's best estimate of expected remediation and project costs relating to the above internal review. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Customer remediation across these issues has progressed in 2019. The Group expects the majority of this provision to be utilised within the next 12 months.

Global Restructuring Group (GRG)

The Group holds a provision of €6 million (2018 - €13 million) in respect of the FCA review of the treatment of SME customers, relating to the automatic refund of complex fees for SME customers that were in GRG between 2008 and 2013, additional redress costs arising from a new complaints process and the associated operational costs. Background information in relation to the FCA review of SME customers is given in Note 24. The Group expects the majority of this provision to be utilised within the next 12 months.

Property

The property provisions principally comprise provisions relating to property closures. The timing for such payments is uncertain.

Restructuring

The restructuring provisions principally comprise redundancy costs. The Group expects the majority of these provisions to be utilised within the next 12 months.

20. Share capital presented as equity

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	2019	2018	2019	2018
	€m	€m	€m	€m
Equity shares:				
Ordinary B shares of €1.27	1,612	1,825	2,223	2,223
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of £1	22	22	34	33
Total share capital	3,379	3,592	4,657	4,656

	Allotted, called up and fully paid		Authorised	
	2019	2018	2019	2018
Number of shares	Millions	Millions	Millions	Millions
Equity shares:				
Ordinary B shares of €1.27	1,268	1,437	1,750	1,750
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of £1	15	15	25	25
Total share capital	3,028	3,197	4,175	4,175

20. Share capital presented as equity continued

All share classes rank pari passu in all respects.

On 12 December 2019 the Bank carried out a reduction of company capital under Section 84 of the Companies Act 2014. 168,110,236 issued and fully paid ordinary shares of €1.27 and share premium of €286,500,000 were cancelled and the reserve of €500 million arising was transferred to retained earnings.

The Bank paid an interim dividend of €0.17 (2018 - €0.47) per ordinary share during the financial year, totalling €500 million (2018 - €1.5 billion).

21. Leases

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives as permitted under the transition provisions of the standard. The impact on the Group and Bank's balance sheet and retained earnings is shown below:

	Group €m	Bank €m
Retained earnings at 1 January 2019	166	135
Other assets - Net right of use assets	38	38
- Recognition of lease liabilities	(61)	(61)
- Provision for onerous leases	11	11
Other liabilities	(50)	(50)
Net impact on retained earnings	(12)	(12)
Retained earnings at 1 January 2019	154	123

On adoption of IFRS 16, the Group recognised right of use assets and lease liabilities in relation to leases which had been previously classified as operating leases under IAS 17 Leases subject to certain practical expedients as allowed by the standard.

The following practical expedients permitted by the standard were used:

- A single rate discount rate has been applied to a portfolio of leases with reasonably similar characteristics.
- Not applying IFRS 16 to operating leases with a remaining lease term of less than 12 months or low volume leases (non-property leases).
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application.
- Reliance on the assessment of whether the lease contract is onerous under IAS 37 Provisions, Contingent liabilities and Contingent assets at 31 December 2018 as an alternative to performing an impairment review of right of use assets created on 1 January 2019.
- The use of hindsight where contracts contain options to extend or terminate the lease in determining the lease term.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.1%.

	Group and Bank 2019 €m
Operating lease commitments as at 31 December 2018	68
Adjustments as a result of a different treatment of extension and termination options	19
Discounted using the incremental borrowing rate	(24)
Other	(2)
Lease liability recognised as at 1 January 2019 on adoption of IFRS 16	61

Lessees

	Group and Bank 2019 €m
Amounts recognised in income statement	
Interest payable	2
Depreciation and impairment[1]	18

Rental expense in respect of operating leases in 2018 was €12 million.

21. Leases continued

	Group and Bank 2019 €m
Amounts recognised on Balance Sheet	
Right of use assets included in property, plant and equipment[2]	23
Lease liabilities (Note 19)	(56)

The total cash outflows in respect of leases for the financial year ended 31 December 2019 was €10 million.

Notes:
(1) Depreciation includes impairment of right of use assets of €11 million.
(2) Includes right of use asset for plant and equipment of €176 million and depreciation of €153 million.

	Group and Bank 2018 €m
Operating leases	
Minimum rentals payable under non-cancellable leases[1]	
-within 1 year	(10)
-after 1 year but within 5 years	(25)
-after 5 years	(26)

Note:
(1) Predominantly property leases.

Lessor

Acting as a lessor the Group provides asset finance to its customers. It purchases plant, equipment and intellectual property, renting them to customers under lease arrangements that, depending on their terms, qualify as either operating or finance leases.

Amounts included in income statement	Group and Bank 2019 €m
Finance leases	
Finance income on the net investment in leases	(11)

Amount receivable under finance leases – IFRS16

	Group and Bank 2019 €m
Within 1 year	154
1 to 2 years	104
2 to 3 years	76
4 to 5 years	61
After 5 years	4
Lease payments total	399
Unearned income	(23)
Present value of lease payments	376

Minimum amount receivable under non-cancellable leases – IAS 17

	Group and Bank		
	Finance lease contracts and hire purchase agreements		
2018	Gross amounts	Present value adjustments	Present value
Year in which receipt will occur:	€m	€m	€m
Within 1 year	141	(10)	131
1 to 5 years	196	(18)	178
After 5 years	2	-	2
Total	339	(28)	311

22. Collateral and securitisations

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice. Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level.

Under standard terms for repurchase transactions in the Republic of Ireland, the recipient of the collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

There were no securities transferred under repurchase transactions included within debt securities on the balance sheet at 31 December 2019 and 31 December 2018.

There were no securities received as collateral under reverse repurchase agreements at 31 December 2019 (2018 - €611 million).

Securitisations and other asset transfers

The Group undertakes securitisations to fund specific portfolios of assets. In a securitisation, assets, or interests in a pool of assets, are transferred generally to a special purpose entity (SPE) which then issues liabilities to third party investors. SPEs are vehicles established for a specific, limited purpose, usually do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions.

It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements.

Assets pledged as collateral

The Group pledges other collateral with its counterparties in respect of:

	Group		Bank	
	2019	2018	2019	2018
Group assets charged as security for liabilities	€m	€m	€m	€m
Loans to customers	4,373	5,236	4,373	5,236

	Group		Bank	
	2019	2018	2019	2018
Liabilities secured by charges on assets	€m	€m	€m	€m
Other financial liabilities				
- debt securities in issue(1)	2,803	3,370	-	-
- bank deposits - HFT	-	5	-	5
	2,803	3,375	-	5

Note:
(1) At 31 December 2019, €2,253 million (2018 - €2,501 million) of the debt securities in issue from the Group were held as assets by the Bank and consolidated in the Group accounts.

The following table sets out the asset categories together with carrying amounts for those assets that have been pledged as collateral and continue to be recognised on the balance sheet.

	Group and Bank	
	2019	2018
	€m	€m
Residential mortgages		
- securitisations	2,610	3,146
- central bank secured borrowing	1,763	2,090
	4,373	5,236

The securitisation assets relate to two SPEs formed during 2018, Ardmore Securities No. 1 Designated Activity Company and Dunmore Securities No. 1 Designated Activity Company. These limited recourse entities were controlled by the Group and included in the consolidated financial statements on that basis.

At 31 December 2019, €20 million (2018 - €20 million) of UBIDAC bonds were pledged as collateral to Ulster Bank Pension Scheme and €17 million (2018 - €17 million) of UBIDAC bonds were pledged as collateral to the trustees of the First Active Pension Scheme under contingent asset arrangements put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

23. Risk management

Risk Management Framework

A strong culture, including a risk culture, in the Group helps the achievement of strategic goals with the right behaviours, supported by a sustainable Risk Management Framework (RMF).

The RMF is one of four Board approved Frameworks that form the pillars of the Group's approach to risk management and controls, the other three being the Policy Management Framework (PMF), the Compliance Risk Framework (CRF) and the Risk Appetite Framework (RAF) (together the "Frameworks").

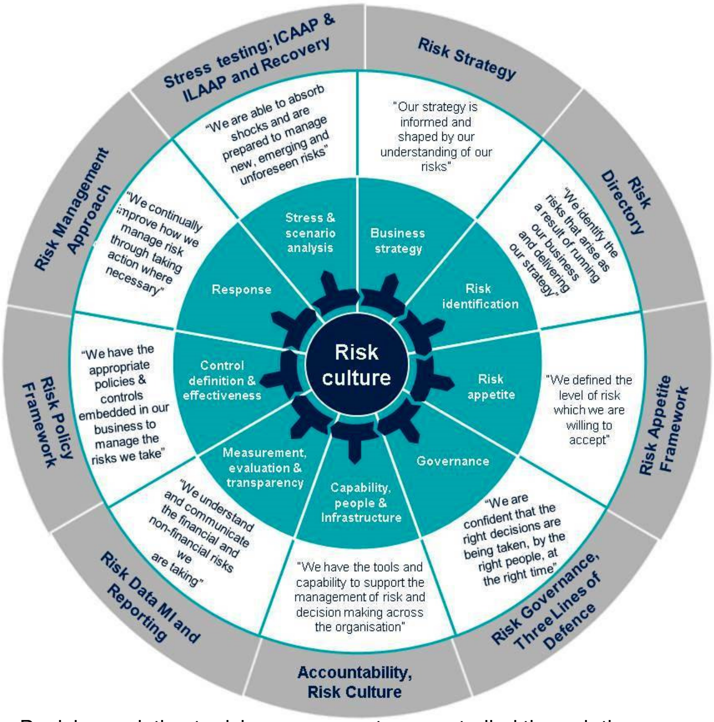
The Frameworks set out a structured approach to governance, risk management and compliance, the purpose of which is to support and inform the strategic objectives of the Group. The RMF facilitates an understanding of the risks the Group faces both strategically and in its day to day business activities and explains how these are identified, measured, managed and reported to enable decision-making through all levels of the Group, in line with the Group's vision and goals.

The scope of these Frameworks extends across all business areas, including internal control functions, and across all relevant financial and non-financial risks, to enable the Board and Executive Management to make fully informed decisions on risk taking. Effective use of the Frameworks contributes to, and is a strong indicator of, a robust risk culture.

The Frameworks set out the risk strategy of the Group, how the Group sets risk appetite, the policies, processes, limits and controls. This ensures adequate, timely and continuous identification, measurement, monitoring, management and reporting of risks at the business level and overall.

Risk Management Framework components

The RMF works as a continuum, where all components are intrinsically linked to the other components and the processes and practices which underpin the RMF are consistent and iterative. For simplicity, each component of the RMF is outlined in the following diagram.



Decisions relating to risk management are controlled through the governance structure of the Group. This includes the structure of Board and Executive committees, their roles and responsibilities for risk and compliance management, and governance.

The Group uses the Three Lines of Defence model to discharge accountabilities and responsibilities for managing risk across the Group, in line with industry practice. The Three Lines of Defence model is made up of:

- Three Lines of Defence Principles;
- Three Lines of Defence Roles and Responsibilities.

The Group's business strategy is informed and shaped by an understanding of the risk landscape in which the Group operates. It is built around being an Irish retail and commercial bank with low risk appetite, in support of which the Group articulates a risk strategy to ensure that the business strategy can be delivered in a safe and controlled manner.

The top-down risk identification process is informed by elements of the RMF including horizon scanning and stress and scenario analysis. Risks identified at a Group-wide level are considered for inclusion in the Risk Directory.

The Risk Directory sets out the 'taxonomy' which describes in common language the risk types the Group could face in running its day to day business activities. The Risk Directory is refreshed on an annual basis where the material risks for the Group (financial and non-financial) are identified and assessed. The Group does this through a process called the Material Risk Assessment and assesses materiality through financial, customer and reputational lenses. The Group determines through Risk Appetite Statements and Limits, the level of risk the Group is willing to accept in order to achieve its strategic objectives. The Risk Appetite Framework sets out how the Group does this.

23. Risk management – Risk Management Framework continued

The Group regularly (at least quarterly) reviews and reports the risk profile against agreed risk appetite metrics. This ensures that management focus is brought to bear on all material risks and emerging risk issues. Reporting to the Board is by means of Risk and Compliance Reports which outline the risk profile against Board approved appetite for each of the material risks. Board Risk Measures ("BRMs") and Key Risk Measures ("KRMs") are reported to Executive committees with breaches escalated to the Board in line with Framework requirements. For each risk type the Group determines how the risk is managed by reference to the overarching risk management approach. The way the Group identifies, assesses, measures, manages and reports actual risks in the business varies according to the specific nature of the risk. In addition, the Group adopts a top-down and pan-Group approach to the identification and management of scenarios that are of greatest strategic concern or that could threaten the viability of the Group through the Top and Emerging Risks process.

These scenarios are used to inform strategic objectives and corporate planning, as well as stress scenarios, capital planning and recovery planning.

Effective internal control requires that risk decisions are informed by robust Risk management information (MI) and reporting. Setting standards for the relevant data and for the structure of risk reports ensures that decision-makers can understand the risk profile of the Group across all risk types and make decisions which are consistent with the Group's risk appetite and strategy. Risk reporting practices have been enhanced during 2018 and 2019 and the suite of MI and reporting provided to Board and Executive Risk Committees has been streamlined to focus on the material risks faced by the Group and on improving the accuracy and consistency of risk reporting.

Stress testing is a key risk management tool through which the Group undertakes both solvency and liquidity stress tests to measure balance sheet resilience. Specific stress testing is also undertaken to create a forward-looking view of interest rate risk and counterparty credit risk.

By understanding the risk profile of the Group, the Group is then able to determine how much capital it is required to maintain and the liquidity requirements of the Group, as reflected in Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) submissions which are key components of the recovery plans. These set out the information and processes through which the Group monitors any deterioration in its capital and liquidity position as well as the Group's recovery options in the event of any deterioration.

Successful implementation of the RMF and its component parts depends on colleagues understanding their accountabilities and discharging their risk management responsibilities in line with the RMF's requirements and their role in the Three Lines of Defence. The Group's Remuneration Policy sets out expectations of colleagues and how they are rewarded for managing risk well, in line with the behaviours the Group expects. These behaviours are communicated to colleagues through the Critical People Capabilities. The EBA Guidelines on Internal Governance require banks to promote sound and effective risk management through their remuneration policies and practices.

Risk and compliance culture

A sound risk and compliance culture underpins the Group's ambitions. The Group is embedding a strong risk culture which encompasses risk awareness, behaviours and judgements.

All colleagues are responsible for the management of risk. The Group requires colleagues to exhibit behaviours that support a sound culture, including risk culture, where risk is part of the way colleagues behave and think. The behaviours supporting culture are based strongly on tone from the Board and Senior Leadership Team through Tone from the Top, Effective Communication & Challenge, Accountability and Motivation. These behaviours are aligned to the values of 'serving customers', 'working together', 'doing the right thing' and 'thinking long term'.

The components of the RMF flow through the Group's governance in an annual cycle which ensures that agreed risk appetite is taken into account in setting business strategy, allowing for the types of risk the Group is likely to face

Management oversight of risk: Three Lines of Defence

Effective risk management requires that the entire Group to applies a common approach to ownership, management and supervision of risks, proactively escalating and resolving the issues the Group finds. In line with industry practice, the EBA Guidelines on Internal Governance, the Group adopts the Three Lines of Defence model to ensure roles and responsibilities for risk management are clear across the Group and that all lines of defence work collaboratively to create an effective control environment.

Mandatory wording for inclusion in all role profiles provides clarity on the standard accountabilities for risk management across all lines of defence. The annual Risk Management Plan sets out how the Risk division operates in order to ensure risk is managed effectively and in line with the overall Risk Strategy.

23. Risk management – Risk Management Framework continued

The RMF includes the following key principles for the operation of the Three Lines of Defence model.

First line of defence (1LOD) – management and supervision
The 1LOD encompasses most roles in the Group, including those roles which serve customers, and consciously engage in risk taking to generate profit or directly support those that do. This creates risk in the Group and they have responsibility for the ownership, management and the supervision of risk, including any consequential risks which arise as a result of risk taking activities e.g. operational risk. Accountabilities include:

- Development of business and function strategy aligned to, and informed by, financial objectives, customer outcomes, available resources and Board approved Appetite
- Proposing risk appetite measures, in line with the Board approved Risk Appetite Framework and statements
- Supporting the development of policies in collaboration with the Second Line of Defence (2LOD) and adhering to these through the development, maintenance and implementation of robust operational procedures
- The identification, assessment and management of risks in business delivery, utilising the Board Approved Frameworks to exercise informed judgement when considering risk in decision making
- Designing, implementing and maintaining effective processes, procedures, and controls to mitigate risks within Risk Appetite and reporting these in line with the Board Approved Frameworks
- Processing manual credit approvals, self sanction transactions in line with the relevant Credit Risk Policy and otherwise recommend for 2LOD review
- Demonstrating active management of risk through comprehensive monitoring processes, including the adequacy and effectiveness of controls and appropriate management action where residual risk is outside of agreed appetite

Second line of defence (2LOD) – oversight and control
The 2LOD comprises the Risk and Compliance functions and is independent from 1LOD.

Second Line Risk and Compliance Functions design, maintain and implement the Board Approved Frameworks and have unrestricted access to all businesses throughout the Bank and to the Board. They undertake proactive risk and compliance oversight and continuous monitoring activities to confirm that the Bank engages in permissible and sustainable risk taking activities, utilising the approved Frameworks, policies and mandatory controls within the 1LOD to manage risks within appetite and within the letter and spirit of all legal and regulatory requirements.

Accountabilities include:

- Reviewing and, where appropriate, challenging the 1LOD strategy, financial objectives, customer outcomes and available resources, using stress model validation and assessment where appropriate
- Facilitating, overseeing and proposing to BRC, Risk Appetite statements and measures for approval by the Board
- Developing, maintaining and implementing Risk and Compliance Policies approved through appropriate governance
- Providing sound, insightful, proportionate guidance to support consideration of risk in sustainable decision making
- Conducting oversight and challenge of risk management in the 1LOD, including operating a management assurance programme that covers thematic reviews, control testing and re-performance of first line testing.

Third line of defence (3LOD) – Internal Audit
The 3LOD is Internal Audit. They provide the Board and senior management with independent assurance on the appropriateness of the design and operational effectiveness of governance, risk management, compliance and internal controls to monitor, manage and mitigate the Group's material risks.

Risk appetite
The Group's strategy is informed and shaped by an understanding of the risk landscape, including a range of significant risks and uncertainties in the external economic, political and regulatory environment. Identifying these risks and understanding how they affect the Group informs risk appetite and risk management practice.

Risk appetite, which is supported by a robust set of principles, policies and practices, defines levels of tolerance for a variety of risks. It is a key element of the risk management framework and culture, providing a structured approach to risk-taking within agreed boundaries. Risk appetite is defined by the type and level of risk the Group is willing to accept in pursuing its strategic objectives and business plans.

The Group's Risk Appetite Framework and Risk Appetite Statements are reviewed and approved at a minimum on an annual basis by the Board. Risk Appetite Statements are set in line with the Group's strategic objectives, and set over a short, medium and long-term horizon as required under the CBI Corporate Governance Requirements for Credit Institutions 2015.

The Group continues to work with each business to enhance the management information linked to their Risk Appetite Statements. This is required to help ensure appropriate customer outcomes are delivered and that management information is compliant with the Basel Committee on Banking Supervision's principles for effective risk data aggregation and risk reporting.

Risk appetite and strategic planning
The risk appetite mandatory procedures require that the annual process of reviewing risk appetite must be completed by the Risk Appetite Statement (RAS) owner alongside the business and financial planning process to ensure risk appetite remains appropriate given the levels of risk expected across the planning horizon. The following scenarios can arise

23. Risk management – Risk Management Framework continued

- If the business plan takes the Group's risk profile outside of approved risk appetite, then the RAS owner must consider if a change in strategy or a change in risk appetite is appropriate (subject to Board approval); this is also considered against the Group's risk capacity
- If the business plan takes the Group's risk profile to significantly within approved risk appetite, then the RAS owner must decide whether more risk should be taken or if a change in risk appetite is appropriate.

Model risk

Model risk is the risk that a model is specified incorrectly (not achieving the objective for which it is designed), implemented incorrectly (an error in translating the model specification into the version actually used), or being used incorrectly (correctly specified but applied inappropriately).

The Group uses a variety of models as part of its risk management process and activities. Key examples include the use of model outputs to support risk assessments in the credit approval process, ongoing credit risk management, monitoring and reporting, as well as the calculation of risk-weighted assets. Other examples include the use of models to measure market risk exposures and calculate associated capital requirements, as well as for the valuation of positions. The models used for stress-testing purposes also play a key role in ensuring the Group holds sufficient capital, even in stressed market scenarios.

Model Risk Management

Model Risk Management monitors adherence to model risk standards, ensuring that models are developed and implemented appropriately and that their operational environment is fit for purpose.

Model Risk Management performs reviews of relevant models in two instances: (i) for new models or amendments to existing models and (ii) as part of its ongoing programme to assess the performance of these models.

Model Risk Management reviews may test and challenge the logic and conceptual soundness of the methodology, or the assumptions underlying a model. Reviews may also test whether or not all appropriate risks have been sufficiently captured as well as checking the accuracy and robustness of calculations.

Based on the review and findings from Model Risk Management and dependent on model type, the RBS Group and UBIDAC Group Risk Models Committees or RBS Group and UBIDAC Group Treasury Models Committees consider whether a model can be approved for use. Models used for regulatory reporting may additionally require regulatory approval before implementation.

Model Risk Management reassesses the appropriateness of approved risk models on a periodic basis. Each periodic review begins with an initial assessment. Based on the initial assessment, an internal model governance committee will decide to re-ratify a model or to carry out additional work. In the initial assessment, Model Risk Management assesses factors such as a change in the size or composition of the portfolio, market changes, the performance of – or any amendments to – the model and the status of any outstanding issues or scheduled activities carried over from previous reviews. All models undergo periodic revalidation in accordance with Group Model Risk Policy.

Model Risk Management also monitors the performance of the Group's portfolio of models to ensure they appropriately capture underlying business rationale.

Capital adequacy risk

Definition

Capital consists of financial resources and instruments issued that are available to the Group, that have a degree of permanency and are capable of absorbing losses. A number of strict conditions set by regulators must be satisfied to be eligible to count as capital.

Capital adequacy risk is the risk of being unable to conduct business in base or stress conditions due to insufficient qualifying capital as well as the failure to assess, monitor, plan and manage capital adequacy requirements.

Capital management is the process by which the Group manages its capital risk and is a key focus of its risk management activities.

Constituents of capital

The determination of what instruments and financial resources are eligible to be counted as capital is laid down in applicable regulation.

Capital is categorised by applicable regulation under two tiers (1 and 2) according to the ability to absorb losses, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:

- Common Equity Tier 1 (CET1) capital CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings. CET1 capital absorbs losses before other types of capital and any loss absorbing instruments
- Additional Tier 1 (AT1) capital AT1 capital is the second form of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when a pre-specified CET1 ratio is reached. Coupons on AT1 issuances are discretionary and may be cancelled at the discretion of the issuer at any time. AT1 capital must have a minimum maturity of five years

23. Risk management - Capital adequacy risk continued

- Tier 2 capital. Tier 2 capital is the Group's supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

Minimum Requirement for Own Funds and Eligible Liabilities
Under the Bank Recovery & Resolution Directive (BRRD), UBIDAC is required to hold additional eligible liabilities over and above that required for minimum Own Funds set under the Capital Requirements Directive (CRD). This additional requirement is referred to as the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and can be satisfied by the issuance of Bail in Debt (BiD).

Where an institution is considered to be "failing or likely to fail" the resolution authorities can request the re-capitalisation of the entity through write down or conversion into equity of its eligible liabilities (MREL debt). The Single Resolution Board (SRB) is the resolution authority for UBIDAC, while the Bank of England (BoE) is the resolution authority for RBS Group.

UBIDAC issues internal MREL debt via its immediate parent holding company (NatWest Holdings). During 2019 UBIDAC issued €600m of internal MREL debt with a maturity in 2026.

Capital adequacy ratios
The Group has to hold a minimum amount and quality of capital to satisfy regulatory capital adequacy requirements.

Risk-weighted assets
Capital adequacy ratios compare the amount of capital held to risk-weighted assets (RWAs). RWAs are a measure of the Group's assets and off-balance sheet positions that capture both the size and risks inherent in those positions.

In line with the first pillar of the Capital Requirements Regulation, RWAs are grouped into four Pillar 1 categories:

Risk	Description
Credit	Risk of loss from a borrower failing to repay amounts due by the due date.
Counterparty credit	Risk of loss from a counterparty not meeting its contractual obligations. Also included is the risk of loss from changes in the fair value of derivative instruments.
Market	Risk of loss arising from fluctuations in market prices.
Operational	Risk of loss from inadequate or failed internal processes, people and systems or from external events.

Minimum percentage
Regulation defines a minimum percentage of capital compared to RWAs. There are two broad categories of capital requirements:

Category	Description
Minimum capital adequacy ratio	Represents the minimum amount of capital that all banks must hold at all times.
Capital buffers	Capital to be held by banks that may be used in periods of stress.

The Group may be required to hold capital over and above the minimum requirements under Pillar 2. Pillar 2 looks at capital that may need to be held by the Group against specific risks that are not fully captured or not captured under minimum Pillar 1 requirements.

Minimum requirements
Capital adequacy ratios

Type	CET1	Total Tier 1	Total capital
Pillar I Minimum Capital Requirement	4.5%	6.0%	8.0%
Pillar 2 Requirement	3.5%	3.5%	3.5%
Capital Conservation Buffer	2.5%	2.5%	2.5%
Countercyclical Capital Buffer (1)	1.0%	1.0%	1.0%
Other Systematically Important Institution Buffer(2)	0.5%	0.5%	0.5%
Total (3)	12.0%	13.5%	15.5%

Notes:
1. The institution specific Countercyclical Capital Buffer requirement is determined on a weighted average basis of country specific buffers applied to exposures. The 1% buffer reflects UBIDAC primary asset exposure being to the Republic of Ireland.
2. The Other Systematically Important Institution Buffer is calculated by the Central Bank of Ireland and is based on a score accounting for a bank's size, interconnectedness, importance and complexity.
3. All ratios are presented on a fully loaded basis without recognition of the transition period permitted. UBIDAC does not disclose its Pillar 2 Guidance in line with ECB expectations.

23. Risk management - Capital adequacy risk continued

Leverage ratios

The Group has to hold a minimum amount and quality of capital to satisfy the leverage ratio regulatory requirements. Unlike capital adequacy ratios, leverage ratio requirements do not consider the riskiness of the Group's positions.

The leverage exposure is broadly aligned to the accounting value of the Group's on and off-balance sheet exposures but subject to certain adjustments for repurchase agreements and off-balance sheet exposures. In common with capital adequacy ratios, the leverage ratio requirement for the Group consists of a minimum requirement and a leverage ratio buffer.

Capital management

Capital management is the process by which the Group ensures that it has sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within the Board approved Group risk appetite, maintaining its credit rating and supporting its strategic goals.

In the management of capital resources, the Group is governed by the Group policies which are to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business.

In carrying out these policies the Group has regard to and has complied with the capital supervisory requirements of the ECB and CBI throughout the financial year.

Capital management is critical in supporting the Group's business and is enacted through a Group-wide end to end approach. The key elements of the Group capital management approach are set out below.

Risk appetite

Capital adequacy risk appetite is set by the Board, reflecting the Group's strategic objectives, current and future prudential regulatory requirements and market expectations. It is expressed as a set of target ratios for CET1, total capital and leverage under both normal and stress financial conditions. Performance against risk appetite is regularly monitored.

Capital planning

Capital planning is integrated into the Group's wider annual budgeting process and is one of the tools that the Group uses to monitor and manage the risk of excessive leverage.

Capital resources and leverage are monitored on a monthly basis to ensure all regulatory and internal risk appetite requirements are met. Measurement covers both a historical and forward looking view with key outputs reported to the Asset and Liability Committee (ALCO).

Stress testing

Stress testing is a key risk management tool used by the Group and is a fundamental component of the Group's approach to capital management. Stress testing is used to quantify, evaluate and understand the potential impact on the financial strength of the Group, including its capital position, given specified changes to risk factors.

Stress testing includes:

- *Scenario testing*: to examine the impact of a hypothetical future state of the world to define changes in risk factors and capital leverage affecting the Group; and
- *Sensitivity testing*: to examine the impact on expected capital and leverage of an incremental change to one or more risk factors.

Specific areas that involve capital management include:

- Strategic financial and capital planning: through assessing the impact of sensitivities and scenarios on the capital plan and capital ratios;
- Risk appetite: through gaining a better understanding of the drivers of and the underlying risks associated with risk appetite;
- Risk identification: through a better understanding of the risks that could potentially impact the Group's financial strength and capital position; and
- Risk mitigation: through identifying actions that can be taken to mitigate risks or could be taken in the event of adverse changes to the business or economic environment. Risk mitigation is substantially supplemented through the Group's recovery plan.

Internal assessment of capital adequacy

The ICAAP is an annual internal assessment conducted by the Group to assess its material risks and evaluate how much capital is required to cover these risks. The ICAAP is approved by the Board and submitted to regulators. The ICAAP consists of a point in time capital assessment of the Group's exposures and risks at the financial year end and a forward looking stress capital assessment.

The ICAAP is used by the Group to form a view of capital adequacy separately to the regulatory minimum requirements under both normative and economic internal perspectives. The ICAAP is used by the CBI and ECB to make an assessment of bank-specific capital requirements through the Supervisory Review and Evaluation Process (SREP).

Governance

Capital management is subject to substantial review and governance across the Group including the Risk Management Framework and capital management policies that are approved by ALCO and/or BRC. The Board approves the Group's capital plans.

23. Risk management - Capital adequacy risk continued

Risk management - recovery planning

The Group maintains a Recovery Planning process that sets out credible recovery options that could be implemented in the event of a severe stress to restore its business to a stable and sustainable condition. Elements of this Recovery Plan are subsequently incorporated into the RBS Group Recovery Plan.

The UBIDAC Recovery Plan outlines a range of triggers that activate the Recovery Plan and a playbook that sets out its operational implementation. The UBIDAC Recovery Plan is a key component of the overall risk management of the Group and is approved by the Board annually. The Group submitted a legal entity Recovery Plan to the JST in 2019.

Liquidity and funding risk

Definition

Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due.

Sources of liquidity and funding

Liquidity and funding risk arises through the maturity transformation role that banks perform, lending long-term but obtaining funding predominantly through short-term liabilities such as customer deposits.
It is dependent on Group specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity portfolio as well as broader market factors, such as wholesale market conditions alongside depositor and investor behaviour.

The Group's primary funding sources are as follows:

Type	Description
Customer deposits	Personal, Commercial, Corporate and Non-Bank Financial Institution deposits.
Term debt	Issuance of long-term (more than 1 year) unsecured and secured debt securities.

The Group may access various funding facilities offered by central banks from time to time. The use of such facilities can be both part of a wider strategic objective to support initiatives to help stimulate economic growth or as part of the broader liquidity management and funding strategy. Usage and repayment of available central bank facilities will fit within the overall liquidity risk appetite and concentration limits.

Policy, risk appetite and governance

The key elements of the Group's liquidity and funding management are as follows:

Type	Description
Risk appetite	Meeting regulatory and set internal risk limits for liquidity and funding.
Policies	Managing liquidity and funding across the Group.
Governance	Management oversight and three lines of defence.

Internal liquidity and funding policies are designed to ensure that the Group:

- *Has a clearly stated liquidity and funding risk tolerance*: the appetite for liquidity risk is set by the Board as a percentage of Regulatory Liquidity Coverage. The Board also sets the appetite for funding risk to ensure that stable sources of funding are used to fund the Group's assets. The Group monitors its liquidity and funding positions against these risk tolerances on a daily basis. In setting risk limits the Board considers the nature of the Group's activities, overall risk appetite, market best practice, stress factors and regulatory compliance.
- *Has in place strategies, policies and practices to ensure that the Group maintains sufficient liquidity*: the risk management framework determines the sources of liquidity risks and the steps that can be taken when these risks exceed certain actively monitored limits. These actions include when and how to use the liquid asset portfolio, and what other adjustments to the balance sheet should be undertaken to manage these risks within the Group's risk appetite.
- *Incorporates liquidity costs, benefits and risks in product pricing and performance management*: the Group uses internal funds transfer pricing to ensure that these costs are reflected in the measurement of business performance and to correctly incentivise businesses to source the most appropriate mix of funding.

The liquidity and funding risk tolerance forms part of the Group's risk appetite statement, which is overseen by BRC and then approved by the Board. The risk appetite statement defines key metrics, risk trigger levels and capacity for liquidity and funding management within the Group.

ALCO oversees the implementation of liquidity and funding management across the Group in accordance with set risk appetite.

Regulatory oversight

The key regulatory metrics are:

Ratio	Exposure type	Description
Liquidity coverage ratio	Liquidity profile	Coverage of 30 day net cash outflows in stress.
Net stable funding ratio	Structural funding profile	Required and available stable funding sources less than and greater than 1 year timeline.

Liquidity risk regulation for the Group is driven by the quantitative and qualitative requirements of the CBI with financial supervision now joint with the ECB under the Single Supervisory Mechanism (SSM).

23. Risk management – Liquidity and funding risk continued

Activity	Description
ILAAP	An annual process undertaken in compliance with regulatory guidance to formalise the Group's approach to understanding its liquidity risk profile and the processes and systems it needs to have in place to assess, quantify and monitor these risks.
SREP	One of the pillars of the SSM's SREP process is to review liquidity and funding of the Group. This involves a comprehensive review of the Group ILAAP, liquidity policies and risk management framework.

Measurement, monitoring and contingency planning

A suite of tools is used to monitor, limit and stress test the liquidity and funding risks within the balance sheet. The limits control the amount and composition of funding sources, asset and liability mismatches and funding concentrations, in addition to the level of liquidity risk.

Liquidity risks are reviewed daily, with performance reported to ALCO at least monthly. Any breach of internal metric limits will set in motion a series of actions and escalations outlined under the UBIDAC Contingency & Recovery Framework and legal entity Recovery Plan. This framework sets out credible recovery options that could be implemented in the event of severe stress to restore the business to a stable and sustainable position, focussing on addressing the Group's capital and liquidity position.

Stress testing

The Group carries out a regular assessment of net stressed liquidity outflows. The Group considers a range of severe but plausible stress scenarios on cash flows, liquidity resources, profitability, solvency, asset encumbrance and survival horizon.

Type	Description
Idiosyncratic scenario	The market perceives the Group to be suffering from a severe stress event which results in an immediate assumption of increased credit risk or concerns over solvency.
Market-wide scenario	A market stress event affecting all participants in a market through contagion, counterparty failure and other market risks. The Group is impacted under this scenario but no more severely than any other participant with equivalent exposure.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once. The combined scenario reflects the contingency that a severe name-specific event occurs at the Group in conjunction with a broader market stress, causing wider damage to the market and financial sector and severely impacting funding markets and assets.

The Group uses the most severe of the three outcomes above to set the internal stress testing view. The results of this enable the Group to set its internal liquidity risk appetite to complement the regulatory Liquidity Coverage Ratio requirement.

As part of the ILAAP, the Group maintains a further internal assessment relevant scenario, in addition to the other internal liquidity stress tests.

Liquidity portfolio

The Group's balance sheet composition is a function of the broad array of product offerings and diverse markets served. The structural composition of the balance sheet is enhanced as needed through active management of both asset and liability portfolios. The objective of these activities is to optimise liquidity transformation in normal business environments, while ensuring adequate coverage of all cash requirements under extreme stress conditions. The Group holds an adequate stock of unencumbered high-quality liquid assets that can be converted easily into cash to meet liquidity needs in a stress scenario.

23. Risk management – Liquidity and funding risk continued

Contractual maturity

The table shows the residual maturity of third party financial instruments, based on contractual date of maturity. MFVTPL and HFT assets and liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below. Loans are shown gross of impairment provisions.

Group	Other than MFVTPL and HFT											
2019	Less than 1 month €m	1-3 months €m	3-6 months €m	6 months - 1 year €m	Subtotal €m	1-3 years €m	3-5 years €m	More than 5 years €m	Total excluding MFVTPL and HFT €m	MFVTPL and HFT €m	Customer ECL provisions* €m	Total €m
Cash and balances at central banks	537	-	-	-	537	-	-	-	537	-	-	537
Derivatives	-	-	-	-	-	-	-	-	-	205	-	205
Loans to banks	3,905	-	-	-	3,905	-	-	-	3,905	-	-	3,905
Loans to customers	669	532	520	1,097	2,818	3,673	3,819	11,963	22,273	-	(911)	21,362
Personal	198	198	290	564	1,250	2,193	1,933	10,961	16,337	-	-	16,337
Commercial	392	334	229	532	1,487	1,466	1,863	995	5,811	-	-	5,811
Financial institutions (excluding banks)	79	-	1	1	81	14	23	7	125	-	-	125
Other financial assets	66	370	267	484	1,187	1,019	1,043	1	3,250	-	-	3,250
Total financial assets	5,177	902	787	1,581	8,447	4,692	4,862	11,964	29,965	205	(911)	29,259
2018												
Total financial assets*	4,301	846	791	1,239	7,177	5,333	3,593	12,285	28,388	210	(1,071)	27,527
Bank deposits	-	-	-	1,481	1,481	494	-	-	1,975	-	-	1,975
Customer deposits	18,505	1,073	744	968	21,290	407	19	-	21,716	-	-	21,716
Personal	8,974	149	240	330	9,693	17	-	-	9,710	-	-	9,710
Commercial	7,673	613	364	110	8,760	58	-	-	8,818	-	-	8,818
Financial institutions (excluding banks)	1,858	311	140	528	2,837	332	19	-	3,188	-	-	3,188
Derivatives	-	-	-	-	-	-	-	-	-	121	-	121
Other financial liabilities	-	-	-	-	-	-	-	550	550	-	-	550
Subordinated liabilities	-	-	-	-	-	-	-	86	86	-	-	86
Total financial liabilities	18,505	1,073	744	2,449	22,771	901	19	636	24,327	121	-	24,448
2018												
Total financial liabilities	16,886	1,243	1,215	726	20,070	2,158	11	955	23,194	136	-	23,330

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

23. Risk management – Liquidity and funding risk continued

Contractual maturity continued

Bank

	Other than MFVTPL and HFT											
2019	Less than 1 month €m	1-3 months €m	3-6 months €m	6 months - 1 year €m	Subtotal €m	1-3 years €m	3-5 years €m	More than 5 years €m	Total excluding MFVTPL and HFT €m	MFVTPL and HFT €m	Customer ECL provisions* €m	Total €m
Cash and balances at central banks	537	-	-	-	537	-	-	-	537	-	-	537
Derivatives	-	-	-	-	-	-	-	-	-	205	-	205
Loans to banks	3,721	-	-	-	3,721	-	-	-	3,721	-	-	3,721
Loans to customers	669	532	520	1,097	2,818	3,672	3,819	11,964	22,273	-	(911)	21,362
Personal	198	198	290	564	1,250	2,193	1,933	10,962	16,338	-	-	16,338
Commercial	392	334	229	532	1,487	1,465	1,863	995	5,810	-	-	5,810
Financial institutions (excluding banks)	79	-	1	1	81	14	23	7	125	-	-	125
Other financial assets	66	370	267	484	1,187	1,019	1,043	1	3,250	-	-	3,250
Total financial assets	4,993	902	787	1,581	8,263	4,691	4,862	11,965	29,781	205	(911)	29,075
2018												
Total financial assets*	4,052	846	791	1,239	6,928	5,333	3,593	12,286	28,140	210	(1,071)	27,279
Bank deposits	-	-	-	1,481	1,481	494	-	-	1,975	-	-	1,975
Customer deposits	18,505	1,073	744	968	21,290	407	19	-	21,716	-	-	21,716
Personal	8,974	149	240	330	9,693	17	-	-	9,710	-	-	9,710
Commercial	7,673	613	364	110	8,760	58	-	-	8,818	-	-	8,818
Financial institutions (excluding banks)	1,858	311	140	528	2,837	332	19	-	3,188	-	-	3,188
Derivatives	-	-	-	-	-	-	-	-	-	121	-	121
Subordinated liabilities	-	-	-	-	-	-	-	86	86	-	-	86
Total financial liabilities	18,505	1,073	744	2,449	22,771	901	19	86	23,777	121	-	23,898
2018												
Total financial liabilities	16,886	1,243	1,215	726	20,070	2,158	11	86	22,325	136	-	22,461

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

The contractual maturity of balance sheet assets and liabilities reflects the maturity transformation role banks perform. In practice, the behavioural profiles of many liabilities generally exhibit greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, despite being repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of stress. To assess and manage asset and liability maturity gaps the Group determines the expected customer behaviour through qualitative and quantitative techniques, incorporating observed customer behaviours over long periods of time. Procedures for determining expected behaviour are subject to regulatory and internal requirements and are stressed according to these requirements.

The policy and key inputs for managing maturity and behavioural analysis are subject to governance through ALCO. Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the Group. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met.

23. Risk management continued

Credit risk

Definition
Credit risk is the risk of financial loss due to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts.

Sources of credit risk
The principal sources of credit risk for the Group are as follows:

Lending - the Group offers a number of lending products that involve an obligation to provide credit facilities to customers. To mitigate the risk of loss, security may be obtained in the form of physical collateral (such as commercial real estate assets and residential property) or financial collateral (such as cash and bonds). Exposures arising from leasing activities are also included.

Derivatives and securities financing - the Group enters into derivatives contracts and securities financing transactions. These result in counterparty credit risk, which is the risk of financial loss arising from the failure of counterparty to meet obligations. To mitigate the risk of loss, collateral and netting are used along with the additional legal rights provided under the terms of over-the-counter contracts.

Debt securities - the Group holds some debt securities for liquidity management purposes and is exposed to credit risk as a result.

Off-balance sheet products - the Group provides trade finance and guarantees for customers, as well as committed but undrawn lending facilities, and is exposed to credit risk as a result.

Other activities - the Group is exposed to settlement risk through its activities in foreign exchange, trade finance and payments.

Credit risk management function

Governance
As is standard practice in the industry, credit risk management activities are organised along two separate lines, Commercial and Personal, reflecting the distinction between business types and consequent drivers of credit risk. Commercial focuses on activities with institutional, corporate, SME and small business customers. Personal covers personal customers as well as personal lending activities in private banking. Nonetheless, many activities remain common to both business lines.

The activities of the Group's credit risk management function, which is led by the Head of Credit for Personal and Head of Credit for Commercial, include:
- approving credit for customers in both Personal and Commercial;
- ensuring that credit risk is within the risk appetite set by the Board;
- managing concentration risk and credit risk control processes;
- developing and ensuring compliance with credit risk policies and mandatory procedures; and
- conducting assessments of provision adequacy.

Risk appetite
Risk appetite across all risk types is set by the Group's Board using qualitative statements of risk appetite and specific quantitative targets under stress, including earnings volatility and capital adequacy. The credit risk processes take into account concentrations and sector/product limits at Bank-wide level and have been designed to reflect factors that influence the ability to meet those targets. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the credit risk appetite processes and risk appetite targets. The processes are supported by a suite of policies/mandatory procedures and transaction acceptance standards that set out the risk parameters within which businesses must operate.

23. Risk management - Credit risk continued

Risk models

The Group uses the output of credit risk models in the credit approval process - as well as for ongoing credit risk assessment, monitoring, accounting and reporting - to inform credit risk appetite decisions. These models are divided into different categories:

Model	Calculation method	Commercial	Personal
Probability of Default	Individual counterparty	Each customer is assigned a probability of default (PD) rating and corresponding grade. PD is calculated using a combination of quantitative inputs, such as recent financial performance, and qualitative inputs such as management performance and sector outlook.	Each customer account is scored and models are used to assign a PD rating. Inputs vary across portfolios and include both internal account and customer level data, as well as Application Score which includes data from the Irish Credit Bureau.
Loss Given Default	Individual counterparty	Loss given default (LGD) models estimate the amount that would not be recovered in the event of a customer default. When estimating LGD, the Group's models assess both borrower and facility characteristics, as well as any credit risk mitigants. The cost of collections and a time-discount factor for the delay in cash recovery are also incorporated.	
Exposure At Default	Individual counterparty	Exposure at default (EAD) models provide estimates of credit facility utilisation at the time of a customer default, recognising that customers may make further drawings on unused credit facilities prior to default or that exposures may increase due to market movements. Regulatory requirements stipulate that EAD must always be equal to or higher than current utilisation, though exposures can be reduced by a legally enforceable netting agreement.	
Economic Capital	Portfolio level	The credit economic capital model is a model that allows for the calculation of portfolio credit loss distributions and associated metrics over a given risk horizon for a variety of business purposes. The model takes into account migration risk (the risk that credit assets will deteriorate in credit quality across multiple years), factor correlation (the assumption that groups of obligors share a common factor) and contagion risk (for example, the risk that the weakening of the sovereign's credit worthiness has a significant impact on the creditworthiness of a business operating in that country).	

Impact of credit model changes
The Group reviews and updates models on an ongoing basis in order to reflect the impact of more recent data, changes to products and portfolios, and new regulatory requirements.

Model changes affect year-on-year comparisons of risk measures in certain disclosures. Where meaningful, in commentary, differentiations are made between instances where movements in risk measures reflect the impact of model changes and those where such movements reflect changes in the size of underlying credit portfolios or their credit quality.

A credit model sensitivity analysis is presented on page 81.

Risk mitigation
Risk mitigation techniques are used in the management of credit portfolios across the Group, typically to mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools applied can include: structuring a security interest in a physical or financial asset; use of credit derivatives, including credit default swaps, credit-linked debt instruments and securitisation structures; and use of guarantees and similar instruments (for example, credit insurance) from related and third parties.

When seeking to mitigate risk, at a minimum the Group considers the following:
- the suitability of the proposed risk mitigation, particularly if restrictions apply;
- the means by which legal certainty is to be established including required documentation, supportive legal opinions and the steps needed to establish legal rights;
- the acceptability of the methodologies to be used for initial and subsequent valuation of collateral, the frequency of valuations and the advance rates given;
- the actions which can be taken if the value of collateral or other mitigants is less than needed;
- the risk that the value of mitigants and counterparty credit quality may deteriorate simultaneously;
- the need to manage concentration risks arising from collateral types; and
- the need to ensure that any risk mitigation remains legally effective and enforceable.

For further information, refer to the sub-sections on commercial credit risk mitigation and personal credit risk mitigation.

23. Risk management - Credit risk continued

Counterparty credit risk

The Group mitigates counterparty credit risk arising from both derivatives transactions and repurchase agreements through the use of market standard documentation, enabling netting, and through collateralisation.

Amounts owed by the Group to a counterparty are netted against amounts the counterparty owes the Group, in accordance with relevant regulatory and internal policies. However, generally, this is only done if a netting agreement is in place. A legal opinion, to the effect that the agreement is enforceable in the relevant jurisdictions, is also required.

Collateral may consist of either cash or securities. Additional collateral may be called should the net value of the obligations to the Group rise or should the value of the collateral itself fall. The majority of agreements are subject to daily collateral calls with collateral valued using internal valuation methodologies.

The Group restricts counterparty credit exposures by setting limits that take into account the potential adverse movement of an exposure after adjusting for the impact of netting and collateral (where applicable).

Risk assessment and monitoring

Practices for credit stewardship - including credit assessment, approval and monitoring as well as the identification and management of problem debts - differ between the commercial and personal portfolios. A key aspect of credit risk stewardship is ensuring that, when signs of impairment are identified, appropriate impairment provisions are recognised.

Commercial risk assessment

Before credit facilities are made available to customers, a credit assessment is undertaken with approval obtained through either auto-decisioning or by a manual sanctioning process. This process is applied across the Group for the setting, use and monitoring of the application of credit authorities.

Credit authority is delegated relative to the individual's level of experience, knowledge and qualifications and must be supported by a clear business need. Only a small number of senior executives hold the highest authority provided under the process. Both business and credit approvers are accountable for the quality of each decision taken but the credit risk approver holds ultimate sanctioning authority. Credit approval levels are determined by considering the aggregate borrowing of the customer and their credit quality. For example, a larger facility from a weaker customer would require a more experienced sanctioner to approve the proposal.

Auto-decisioning is used for larger volume/lower value applications. The quality of the auto-decisions is kept under review to determine if adjustments need to be made to thresholds.

The commercial credit approval process is governed by a policy and a related mandatory procedure. These detail:

- the rules of delegation of authority;
- specific types of sanctioning and the approval rules associated with them; and
- monitoring requirements.

It is the Group's policy that an oversight programme is in place where a selection of sanctioner approvals are reviewed by line managers to ensure that a consistent standard of decision making exists. All authorities are also reviewed by the heads of the credit sanctioning teams on an annual basis to ensure that the authority has been appropriately used and examines whether the level should be reviewed, based on the individual performance, for the following year.

When assessing credit risk the following must be considered at a minimum:

- the amount, terms, tenor, structure, conditions, purpose and appropriateness of all credit facilities;
- compliance with relevant credit policies, mandatory procedures and transaction acceptance standards;
- the customer's ability to meet obligations, based on an analysis of financial information;
- a review of payment and covenant compliance history;
- the customer's risk profile, including sector, sensitivity to economic and market developments and management capability;
- legal capacity of the customer to engage in the transaction;
- credit risk mitigation including requirements for valuation and revaluation. The customer's credit grade and the loss given default estimate for the facilities, including any expected changes;
- the requirement for the provision of financial information, covenants and/or monitoring formulae to monitor the customer's financial performance;
- refinancing risk - the risk of loss arising from the failure of a customer to settle an obligation on expiry of a facility through the drawdown of another credit facility provided by the Group or by another lender;
- environmental and sustainability concerns;
- consideration of other risks such as social and ethical, regulatory and reputational risks; and
- the portfolio impact of the transaction, including the impact on any credit risk concentration limits or agreed business risk appetite.

Where the customer is part of a group, the credit assessment considers aggregated credit risk limits for the customer group as well as the nature of the relationship with the broader group (e.g. parental support) and its impact on credit risk. Credit relationships are reviewed and credit grades (PD and LGD) re-approved annually.

The review process addresses borrower performance, including reconfirmation or adjustment of risk parameter estimates, the adequacy of security, compliance with terms and conditions, and refinancing risk.

23. Risk management - Credit risk continued

Commercial credit risk mitigation
The Group mitigates credit risk relating to commercial customers through the use of netting, collateral and market standard documentation, depending on the nature of the counterparty and its assets. The most common types of mitigation are:

- Commercial real estate.
- Other physical assets - including stock, plant, equipment, machinery, vehicles, ships and aircraft. Such assets are suitable collateral only if the Group can identify, locate, and segregate them from other assets on which it does not have a claim. The Group values physical assets in a variety of ways, depending on the type of asset and may rely on balance sheet valuations in certain cases.
- Receivables - these are amounts owed to the Group's counterparties by their own customers. The Group values them after taking into account the quality of its counterparty's receivable management processes and excluding any that are past due.

All collateral is assessed case by case to ensure that it will retain its value independently of the provider. The Group monitors the value of the collateral and, if there is a shortfall, will seek additional collateral.

Commercial real estate valuations
The Group has a panel of chartered surveying firms that cover the spectrum of geography and property sectors in which the Group takes collateral. The Group has a programme that identifies suitable valuers for particular assets, all of whom must be registered valuers and members or fellows of the Institute of Chartered Surveyors (MRICS, FRICS) or Society of Chartered Surveyors Ireland (MSCSI, FSCSI). They are contracted through a single service agreement to ensure consistency of quality and advice. Valuations are commissioned when an asset is taken as security, a material increase in a facility is requested, or an event of default is anticipated or has occurred. Valuations are conducted in accordance with current regulatory requirements.

Commercial problem debt management

Early problem identification
Each lending segment has defined early warning indicators (EWIs) to identify customers experiencing financial difficulty, and to increase monitoring if needed. EWIs may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If EWIs show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty they may decide to classify the customer within Risk of Credit Loss.

Risk of Credit Loss
This process focuses on commercial customers whose credit profiles have deteriorated since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to the Group.

There are two classifications which apply to non-defaulted customers - Heightened Monitoring and Risk of Credit Loss. The process also applies to those customers that have met the Group's default criteria.

Heightened Monitoring customers are performing customers who possess certain characteristics which have led to material credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities. Sector-specific characteristics also exist. Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within the Group's current risk appetite prior to maturity.

Risk of Credit Loss customers are performing customers who have met the criteria for Heightened Monitoring and also pose a risk of credit loss to the Group in the next twelve months, should mitigating action not be taken or not be successful.

Concentration risk management
Four formal processes are used to manage commercial credit concentration risk. These are Product/Asset Class, Sector, Single Name and Country concentration risks. These risks and the limits set associated with them are assessed for appropriateness on a regular basis.

Product/asset class concentration - the Group manages certain lines of business where the nature of credit risk assumed could result in a concentration or a heightened risk in some other form. This will include specific credit risk types such as asset finance, settlement risk, sponsor owned corporates and products such as long-dated derivatives. Typically specific limits and thresholds are deployed to manage the credit risk inherent in these areas, which are subject to regular review.

Sector concentration - sector concentration risk arises from the potential for excessive exposure to exist to any one or combination of correlated industry sectors that could behave similarly under stressed conditions. Risk appetite and portfolio strategies are set at sector or sub-sector level in order to mitigate this potential risk where historic experience or trends in external factors or portfolio performance give cause for concern. Concentration thresholds are set and approved by the Board and monitored via the Commercial Credit Risk Appetite Statement.

Single-name concentration - single name concentration addresses the risk of outsized exposure to a borrower or borrower group. The process includes elevated approval authority, additional reporting and monitoring and the requirement for plans to address excessive exposures. Appetite thresholds are set and approved by the Board and monitored via the Commercial Credit Risk Appetite Statement.

23. Risk management - Credit risk continued

Country concentration - is the risk of losses occurring as a result of either a country event or unfavourable country operating conditions. As country events may simultaneously affect all or many individual exposures to a country, country event risk is a concentration risk. It arises from possible economic or political events in each country to which the Group has exposure and from unfavourable conditions affecting daily operations in a country. The Group's risk exposure is predominantly in the Republic of Ireland, in line with its strategic focus on core customer markets and lack of international lending activity.

The Group actively manages its concentrations and aligns its appetite for future business to the scale of its activities. Sectors and Product/asset classes that the Group has a material concentration in are reviewed at a minimum annually to ensure that the business strategy, sector limit and transaction acceptance standards remain appropriate. Single-name concentration is reviewed annually for appropriateness including:

- simplifying the process to ensure it remains fit for purpose; and
- sizing limits appropriately for the Group's core customer base and future strategy.

Personal credit risk management
Personal credit risk management within the Group is conducted in line with the common policies and procedures that apply across the RBS Group.

Risk appetite
The Group uses a credit risk appetite framework to control credit risk for its Personal business. The framework sets limits that measure and control the quality of both existing and new business. The actual performance of each portfolio is tracked relative to these limits and action taken where necessary. These limits apply to a range of credit risk-related measures including expected loss of the portfolio, the expected loss in a given stress scenario, projected credit default rates and the LTV of Personal mortgage portfolios. Appetite thresholds are set and approved by the Board and monitored via the Personal Credit Risk Appetite Statement.

Personal credit risk assessment
Personal lending generally entails making a large number of small-value loans. To ensure that these lending decisions are made consistently, the Group analyses credit information, including the historical debt servicing behaviour of customers with respect to both the Group and their other lenders. The Group then sets its lending rules accordingly, developing different rules for different products. The process is somewhat automated, with customers receiving a credit score that reflects a comparison of their credit profile with the rule set. For relatively high-value, complex personal loans, including all residential mortgage lending, specialist credit managers make the final lending decision, having considered the application in totality. Underwriting standards are monitored on an ongoing basis to ensure they remain appropriate.

Personal credit risk mitigation
The Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages and home equity lending. The Group values residential property during the loan underwriting process by appraising properties individually. Collateral is valued based on management's expectation regarding ability to collect. The Group updates residential property values monthly using the Central Statistics Office residential property price index.

Personal problem debt management
The approach adopted in the management of Personal mortgage customers in financial difficulty has been developed considering the Code of Conduct on Mortgage Arrears ("CCMA") requirements and the steps outlined in the Mortgage Arrears Resolution Process ("MARP") ensuring that:

- Each customer's individual circumstances are taken account of while treating them in a consistent manner.
- The reason for financial difficulty is established and a long term sustainable solution for the mortgage is sought.

Only customers who co-operate fully with the Group can be considered and assessed for forbearance.

The range of forbearance solutions made available to customers in financial difficulty are designed to provide the customer with a long term sustainable solution.

It is the Group's preference to keep people in their home where this can be achieved with a long term sustainable solution.

Where that outcome is not affordable to the customer, the Group will seek to provide options for co-operating customers with unsustainable mortgages to exit their home in a way that minimises the impact to them.

Identification of long term solutions
Customers who contact the Group because of financial difficulties, or who are already in payment arrears, and who co-operate fully with the Group will be considered for a long term sustainable solution.

These long term sustainable solutions include:

- Capitalisation of arrears - the customer repays the arrears over the remaining term of the mortgage and returns to an up-to-date position.
- Term extensions - the maturity date of the loan is extended.
- Modified Mortgage - A Modified Mortgage will be considered where a customer can afford a mortgage but income is not sufficient to fully support the current mortgage. The existing mortgage is split into two parts: Part One being the sustainable element, which is repaid on the basis of principal and interest, and Part Two being the unsustainable element which is written off in full subject to a period of performance.
- Payment Concession – the customer is offered a discounted interest rate that involves the forgiveness of some interest.

23. Risk management - Credit risk continued

- Assisted Surrender – An Assisted Surrender solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to surrendering the property. This solution may include an element of debt write-off.

For unsecured portfolios, payment plans can be arranged for customers in difficulty. Arrangements to facilitate the repayment of excesses or loan arrears are generally agreed dependent on affordability.

The incidence of the main types of Personal forbearance on the balance sheet as at 31 December, presented using the gross carrying value is analysed below. Definitions are based on those used within the CBI forbearance guidelines.

	2019 €m	2018* €m
Term extensions – capital repayment and interest only	234	243
Interest only conversions	76	113
Payment concessions/holidays	1,489	1,982
Capitalisation of arrears	810	765
Other	11	1
Total	2,620	3,104

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

In the Personal portfolio, loans are considered forborne until they meet the exit criteria set out by the European Banking Authority. These include being classified as performing for two years since the last forbearance event, making regular repayments and the debtor being less than 30 days past due.

Recoveries

- If a customer refuses to cooperate with the Group in the resolution of financial difficulties or refuses to accept a sustainable solution offered, recoveries activity, including litigation, may be taken by the Group.
- The recoveries activity seeks to minimise the Group's loss by maximising cash recovery while treating customers fairly.

Impairment, provisioning and write-offs

In the overall assessment of credit risk impairment, provisioning and write-offs are used as key indicators of credit quality. The Group's IFRS 9 provisioning models, which used existing capital models as a starting point, incorporate term structures and forward-looking information.

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to their application:

- Model build:
  - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing mechanisms)
  - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.
- Model application:
  - The assessment of the significant increase in credit risk and the formation of a framework capable of consistent application
  - The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience)
  - The determination of a base case (or central) economic scenario which has the most material impact of all forward-looking scenarios on the measurement of loss (RBS Group uses consensus forecasts to remove management bias).

Economic loss drivers

Introduction

The most material economic loss drivers for Personal portfolios include unemployment rate, house price index, and ECB base rate. In addition to some of these loss drivers, world GDP is a primary loss driver for Commercial portfolios.

Central base case economic scenario

The internal base case scenario is the primary forward-looking economic information driving the calculation of ECL. The same base case scenario is used for financial planning. The key elements of the current economic base case, which includes forecasts over a five year forecast horizon, are summarised below.

The economy is expected to continue on its positive trajectory with growth expected to revert closer to long run averages in the medium term. Job growth is expected to moderate with unemployment remaining around 5%. House price growth continues to moderate to a low single-digit pace. As always, a small open economy such as Ireland remains very sensitive to the global economic environment and expectations can change at short notice.

Use of the central base case in Personal

In Personal the internal base case is directly used as the central scenario for the ECL calculations by feeding the forecasted economic loss drivers into the respective PD and LGD models.

Use of the central base case in Commercial

As in Personal, the primary input is the central base case scenario but a further adjustment is applied to the aggregate credit cycle conditions arising from the base case to explicitly enforce a gradual reversion to long run average conditions starting from the first projected year onwards.

The application of the mean reversion adjustment is based on two empirical observations. Firstly, historic credit loss rates in Commercial portfolios show pronounced mean reversion behaviour and secondly, the accuracy of economic forecasts tends to drop significantly for horizons beyond one or two years.

23. Risk management - Credit risk continued

Approach for multiple economic scenarios (MES)

The response of portfolio loss rates to changes in economic conditions is typically non-linear and asymmetric. Therefore, in order to appropriately take account of the uncertainty in economic forecasts a range of economic scenarios is considered when calculating ECL.

- Personal – In addition to the central base case a further four bespoke scenarios are taken into account – a moderate case upside and downside – and an additional more extreme upside and downside. The overall MES ECL is calculated as a probability weighted average across all five scenarios (refer to the Probability weightings of scenarios section). The ECL impact on the most material Personal portfolio, the mortgage portfolio arising from the application of MES over the single, central base case is relatively low at 1% (2018 – 0.5%). Following review by the Provisions Committee, overlays were agreed to ensure the expected effect of non-linearity of losses was appropriately recognised. As at 31 December 2019, the value of the overlays was €29 million (2018 – €30 million).
- Commercial – the approach to MES is a Monte Carlo method that involves simulating a large number of alternative scenarios around the central scenario (adjusted for mean reversion) and averaging the losses and PD values for each individual scenario into unbiased expectations of losses (ECL) and PD.

The simulation of alternative scenarios does not occur on the level of the individual economic loss drivers but operates on the aggregate Credit Cycle Indices (CCI) that underpin the Commercial credit models.

The Monte Carlo MES approach increases Commercial ECL for Stage 1 and Stage 2 by approximately 7% (2018 – 3%) above the single, central scenario outcomes. No additional MES overlay was applied for Commercial.

For Commercial and Personal unsecured exposures the impact from MES is factored into account level PDs through scalars. These MES-adjusted PDs are used to assess whether a significant increase in credit risk has occurred.

Key economic loss drivers

The tables and commentary below provide an update on the base case economics used at 31 December 2019, and also the MES used for Personal portfolios. The average over the five year horizon (2020 to 2024) for the central base case and two upside and downside scenarios used for ECL modelling, are set out below. It is compared with the five year average (2019 to 2023) of the 2018 scenarios. The 2019 base case GDP growth and interest rate assumptions are pessimistic compared to 2018 as consensus outlook and market implied interest rate projections worsened over the year.

	2019					2018				
	Upside 2	Upside 1	Base case	Downside 1	Downside 2	Upside2	Upside1	Base case	Downside 1	Downside 2
Republic of Ireland	%	%	%	%	%	%	%	%	%	%
GDP - change	3.9	3.6	2.8	2.5	1.9	4.3	3.6	3.0	3.1	2.8
Unemployment	3.9	4.3	4.8	5.7	6.9	4.2	4.6	5.2	6.0	6.8
House Price Inflation - change	5.3	4.7	2.9	2.2	1.0	9.2	6.8	4.0	3.2	0.8
European Central Bank base rate	1.6	0.9	-	-	-	1.3	0.8	0.3	-	-

	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Republic of Ireland GDP - annual growth	%	%	%	%	%
2019	4.1	4.1	3.9	3.8	3.7
2020	6.3	5.9	3.4	1.7	(0.1)
2021	5.1	4.5	2.8	2.2	0.5
2022	3.3	2.9	2.7	3.2	3.1
2023	2.4	2.4	2.6	2.6	3.2
2024	2.2	2.2	2.4	2.4	2.7

	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Republic of Ireland unemployment rate	%	%	%	%	%
Q4 2019	4.6	4.7	4.9	5.1	5.3
Q4 2020	3.8	4.0	4.8	5.8	7.0
Q4 2021	3.6	4.0	4.8	5.8	7.3
Q4 2022	3.8	4.2	4.8	5.5	6.9
Q4 2023	4.3	4.6	4.9	5.7	6.9
Q4 2024	4.5	4.9	5.0	5.8	6.9

23. Risk management - Credit risk continued

Republic of Ireland House Price Inflation - annual growth	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
2019	3.8	3.9	3.5	3.3	3.1
2020	9.3	8.3	2.9	(0.8)	(4.7)
2021	6.3	4.9	1.5	0.1	(3.8)
2022	4.5	3.8	3.2	4.4	4.2
2023	3.1	3.0	3.4	3.5	5.0
2024	3.1	3.2	3.7	3.6	4.4

	Best points				Worst points			
	H2 2019		H1 2019		H2 2019		H1 2019	
	Upside 2	Upside 1	Upside 2	Upside 1	Downside 2	Downside 1	Downside 2	Downside 1
Republic of Ireland	%	%	%	%	%	%	%	%
GDP (year-on-year)	6.6	6.3	14.0	10.2	0.5	(2.1)	(0.2)	(3.0)
Unemployment	3.6	4.0	3.6	4.1	7.3	5.8	6.5	7.8
House Price Inflation (year-on-year)	10.3	9.1	22.0	16.3	(2.6)	(8.4)	(2.5)	(8.2)

Probability weightings of scenarios

The Bank's approach to IFRS 9 MES in Personal involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights to those scenarios. This has the following basic steps:

- Scenario selection – Two upside and two downside scenarios are chosen from an inventory of scenarios provided by our external advisor Moody's. The aim is to obtain downside scenarios that are not as severe as stress tests, so typically they have a severity of around one in ten and one in five of approximate likelihood, along with corresponding upsides.
- Severity assessment – Having selected the most appropriate scenarios their severity is then assessed based on the behaviour of GDP by calculating a variety of measures such as average growth, deviation from baseline and peak to trough falls. These measures are compared against a set of 1,000 model runs following which, a percentile in the distribution is attributed which most closely corresponds to the scenario.
- Probability assignment – having established the relevant percentile points, probability weights are assigned to ensure that the scenarios produce an unbiased result. If the severity assessment step shows the scenarios to be broadly symmetric, then this will result in a symmetric probability weight (same probability weight above and below the base case). However, if the downsides are not as extreme as the upsides, then a higher probability weight is allocated to the downsides to ensure the unbiasedness requirement is satisfied. This adjustment is made purely to restore unbiasedness, not to address any relative skew in the distribution of risks in the economic outlook.

Economic uncertainty

The Group's approach is designed to capture the historic variability and distribution of economic risks. However, it does not capture a wider or a skewed distribution of risks. The Group's approach to capturing these forward-looking risks is to apply an overlay to ECL. Information is used from the earnings volatility scenario that is part of the 2019 planning process and credit risk appetite setting.

Credit risk modelling

IFRS 9 ECLs are calculated using a combination of:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

In addition, lifetime PDs (as at reporting date and at date of initial recognition) are used in the assessment of the significant increase in credit risk (SICR) criteria.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements, PD, LGD and EAD used in ECL calculations must be:

- Unbiased - conservatism has been removed to produce unbiased model estimates;
- Point-in-time - recognise current economic conditions;
- Forward-looking - incorporated into PD estimates and, where appropriate, EAD and LGD estimates; and
- For the life of the loan - all models produce a term structure to allow a lifetime calculation for assets in Stage 2 and Stage 3.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current life time PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition. For assets originated before IFRS 9 was introduced, comparable lifetime origination PDs did not exist. These have been retrospectively created using the relevant model inputs applicable at initial recognition.

23. Risk management - Credit risk continued

PD estimates

Commercial models

Commercial PD models use the existing Credit Cycle Index (CCI) based point-in-time/through-the-cycle model to convert one year regulatory PDs into point-in-time estimates that reflect current economic conditions across a comprehensive set of region/industry segments.

One year point-in-time PDs are then extrapolated to multi-year PDs using a conditional transition matrix approach. The conditional transition matrix approach allows the incorporation of forward-looking information by adjusting the credit state transition probabilities according to projected, forward-looking changes of credit conditions in each region/industry segment. This results in forward-looking point-in-time PD term structures for each obligor from which the lifetime PD for a specific exposure can be calculated according to the exposure's residual contractual maturity.

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates.

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding capital LGD models with bespoke adjustments to ensure estimates are unbiased and where relevant forward-looking. A bespoke IFRS 9 mortgage LGD model is in use.

Commercial

Forward-looking economic information is incorporated into LGD estimates using the existing CCI framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

Personal

For personal, forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated.
Analysis indicates minimal impact for personal unsecured portfolios.

EAD estimates

For Commercial, EAD values are projected using product specific credit conversion factors (CCF), closely following the product segmentation and approach of the respective capital model. However, the CCFs are estimated over multi-year time horizons to produce unbiased model estimates.

No explicit forward-looking information is incorporated, on the basis that analysis has shown that temporal variations in CCFs are largely attributable to changes in exposure management practices rather than economic conditions.

The IFRS 9 personal modelling approach for EAD is dependent on product type.

- Revolving products use existing capital models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.
- There is no specific EAD model for personal loans. Instead, debt flow (i.e. combined PD x EAD) is directly modelled.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all personal portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Post model adjustments (PMAs) are applied where necessary to incorporate the most recent data available and made on a temporary basis ahead of the underlying model parameter changes being implemented.

The total impact of PMAs at the financial year end was a net €6 million reduction in ECL. These adjustments were over and above those covering economic uncertainty and non-linearity of losses discussed above and are also subject to over-sight and governance by the Provisions Committee.

Significant increase in credit risk

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). The Group has adopted a framework to identify deterioration based primarily on movements in probability of default supported by additional backstops. The principles applied are consistent across the Group and align to credit risk management practices.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at Date of Initial Recognition (DOIR)) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a lifetime loss assessment.

23. Risk management - Credit risk continued

For Commercial, a doubling of PD would indicate a significant increase in credit risk subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria varies by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in following table:

Personal risk bands	Risk bandings (based on residual lifetime PD calculated at DOIR)	PD deterioration threshold criteria
Risk band A	<0.762%	$PD^{@DOIR} + 1\%$
Risk band B	<4.306%	$PD^{@DOIR} + 3\%$
Risk band C	>=4.306%	$1.7 \times PD^{@DOIR}$

In the mortgage portfolio the above risk bandings are applied to exposures originated post 1 January 2012. For mortgage exposures originated prior to 2012 the threshold applied is 2.8 x PD@DOIR.

- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as Commercial exposures managed within the Risk of Credit Loss framework also qualify.
- Persistence – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. It is a Personal methodology feature and is applied to PD driven deterioration only.

The criteria are based on a significant amount of empirical analysis and seek to meet three key objectives:
- Criteria effectiveness – the criteria should be effective in identifying significant credit deterioration and prospective default population.
- Stage 2 stability – the criteria should not introduce unnecessary volatility in the Stage 2 population.
- Portfolio analysis – the criteria should produce results which are intuitive when reported as part of the wider credit portfolio.

Asset lifetimes
The choice of initial recognition and asset duration (lifetime) is another critical judgement in determining the quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at this time provides the baseline used for subsequent determination of SICR.
For asset duration, the approach applied (in line with IFRS 9 requirements) is:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation);
- Revolving facilities: for personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For commercial portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.

Measurement uncertainty and ECL sensitivity analysis
The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Set out below is the impact of some of the material sensitivities considered for 2019 year end reporting. These ECL simulations are separate to the impact arising from MES as described earlier in this disclosure, which impacts are embedded in the reported ECL. Given the current benign environment for impairments the focus is on downsides to the existing ECL provision levels.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL uplifts reflect the simulated impact at the year end balance sheet date.

As default is an observed event as at the balance sheet date, Stage 3 provisions are not subject to the same level of measurement uncertainty, and therefore have not been considered in this analysis, with the exception of a univariate HPI sensitivity.

The following common scenarios have been applied across the key Personal and Commercial portfolios:

- Economic uncertainty – simulating the impact arising from the Downside 2 scenario, which is one of the five discrete scenarios used in the methodology for Personal multiple economic scenarios. In the simulation, the Group have assumed that the economic macro variables associated with the Downside 2 scenario replace the existing base case economic assumptions, giving them a 100% probability weighting for Personal and using the Monte Carlo approach in Commercial to simulate the impact of MES around the base case economic scenario.
- The Downside 2 scenarios assumes a recession in Ireland over the course of 2020. GDP declines marginally over the year compared to robust growth of 3.4% in the base case. A tentative recovery begins in 2021 before accelerating through 2022. Unemployment rises, reaching 7.3% by end 2021, significantly above the 4.8% assumed in the base case at that time. House prices fall through 2020 and 2021 before recovering. Interest rates are held at zero through the forecast period.
- Portfolio risk – evaluation of the impact of a movement in one of the key metrics, PD, simulating a relative 25% upward shift in PDs.

23. Risk management - Credit risk continued

These common scenarios were complemented with two specific portfolio simulations:

- Commercial portfolios – simulating the impact of PDs moving upwards to the through-the-cycle (TTC) average from their current point-in-time (PIT) estimate. This simulation looks solely at PD movements, potential movements in LGD rates have not been considered. With the current benign economic conditions Commercial IFRS 9 PIT PDs are significantly lower than TTC PDs.

This scenario shows the increase to ECL by immediately switching to TTC PDs providing an indication of long run average expectations. IFRS 9 PDs have been used so there remain some differences to Basel TTC PDs where conservative assumptions are required, such as caps or floors, not permitted under the IFRS 9 best estimate approach.

- Mortgages – House Price Inflation (HPI) is a key economic driver and the Group has simulated a univariate scenario of a 20% decrease in HPI across the main mortgage portfolios. A univariate analysis using only HPI does not allow for the interdependence across the other key primary loss drivers to be reflected in any ECL estimate. The simulated impact is based on 100% probability weighting to demonstrate the sensitivity of HPI on the central base case. The Downside 2 scenario above has house prices falling by a more material amount, and also includes the impact of PD increases which are not captured under the HPI univariate simulation.

The Group's core criterion to identify a significant increase in credit risk is founded on PD deterioration, as discussed above. Under the simulations, PDs increase and result in exposures moving from Stage 1 to Stage 2 contributing to the ECL uplift.

	Actual position at 31 December 2019			Common scenarios [3]						Discrete scenarios [3]		
	Stage 1 and Stage 2 [1]			Downside 2			25% PD increase			HPI/TTC PD [4]		
	Exposure	of which in Stage 2	ECL provision[2]	Potential	ECL Uplift	Exposure in Stage 2	Potential	ECL Uplift	Exposure in Stage 2	Potential	ECL Uplift	Exposure in Stage 2
	€bn	%	€m	€m	%	%	€m	%	%	€m	%	%
Personal Banking	14.4	9.8%	53.2	21.8	40.9%	14.8%	(2.3)	(4.2%)	9.6%			
of which: mortgages	13.7	9.3%	48.4	-	-	-	-	-	-	0.7	1.5%	9.2%
Commercial Banking	12.3	5.1%	40.1	4.7	11.7%	6.8%	(3.7)	(9.3%)	4.7%	9.4	23.6%	6.2%
Total	26.7	7.6%	93.3	26.5	28.4%	11.1%	(6.0)	(6.4%)	7.3%			
Personal mortgages stage 3	2.2		682.6							26.9	3.9%	

Notes:
1. Exposure and ECL is all modelled exposure which is in scope for IFRS 9, in addition to loans this includes bonds, cash and contingent liabilities.
2. The ECL provision includes the ECL overlay taken in quarter 3 to recognise the elevated economic uncertainty in the period running up to the UK leaving the European Union.
3. All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL uplift reflecting the simulated impact at the year end balance sheet date.
4. TTC or long-run average PDs are applied to Commercial portfolios only, excluding business banking exposures, the impact on which is included within the Personal portfolio for this analysis.

23. Risk management - Credit risk continued

Credit risk - Banking activities

Introduction

This section covers the credit risk profile of the Group's banking activities.

Financial instruments within the scope of IFRS 9 ECL

Refer to Note 11 for balance sheet analysis of financial assets that are classified as amortised cost (AC) or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL assessment.

Financial assets

	2019	2018
	€bn	€bn
Balance sheet total gross AC/FVOCI	30.0	28.4
In scope of IFRS 9 ECL framework	29.3	27.9
% in scope	97.6%	98.4%
Loans - in scope	26.1	25.0
Stage 1	21.8	19.9
Stage 2	1.9	2.3
Stage 3	2.4	2.8
Other financial assets - in scope		
Stage 1	3.2	2.9
Out of scope of IFRS 9 ECL framework	0.7	0.5

Those assets outside the framework were as follows:

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets were assessed as having no ECL unless there was evidence that they were credit impaired.
- Commercial cards which operate similar to charge cards, with balances repaid monthly via mandated direct debit with the underlying risk of loss captured within the customer's linked current account.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 24 – reputationally committed limits are also included in the scope of the IFRS 9 ECL framework. These are offset by out of scope balances primarily related to facilities that, if drawn would not be classified as AC or FVOCI, or undrawn limits relating to financial assets exclusions.

Asset quality

Internal asset quality ratings have ranges for the probability of default. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an asset quality scale, used for external financial reporting, and a master grading scale used for internal management reporting across portfolios. The table that follows details the relationship between internal asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only.

Internal asset quality band	Probability of default range	Indicative S&P rating
AQ1	0% - 0.034%	AAA to AA
AQ2	0.034% - 0.048%	AA to AA-
AQ3	0.048% - 0.095%	A+ to A
AQ4	0.095% - 0.381%	BBB+ to BBB-
AQ5	0.381% - 1.076%	BB+ to BB
AQ6	1.076% - 2.153%	BB- to B+
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	100%	D

23. Risk management – Credit risk continued

Portfolio summary - sector analysis

The table below summarises financial assets and off-balance sheet exposures gross of ECL and related ECL provision, impairment and past due by sector, asset quality and geographical region.

31 December 2019	Personal[1] €m	Commercial €m	Total €m
Loans by geography	16,314	9,805	26,119
- Republic of Ireland	16,314	9,215	25,529
- United Kingdom	-	312	312
- Other Europe	-	48	48
- Rest of the World	-	230	230
Loans by asset quality	16,314	9,805	26,119
- AQ 2	49	75	124
- AQ 3	-	4,037	4,037
- AQ 4	7,555	1,457	9,012
- AQ 5	5,609	2,103	7,712
- AQ 6	203	1,119	1,322
- AQ 7	187	472	659
- AQ 8	199	114	313
- AQ 9	306	240	546
- AQ 10	2,206	188	2,394
Loans by stage	16,314	9,805	26,119
- Stage 1	12,762	9,033	21,795
- Stage 2	1,346	584	1,930
- Stage 3	2,206	188	2,394
Loans - past due analysis	16,314	9,805	26,119
- Not past due	14,482	9,580	24,062
- Past due 1-29 days	279	53	332
- Past due 30-89 days	291	34	325
- Past due 90-180 days	183	5	188
- Past due > 180 days	1,079	133	1,212
Stage 2	1,346	584	1,930
- Not past due	1,109	541	1,650
- Past due 1-29 days	113	10	123
- Past due 30-89 days	124	33	157
ECL provision (total)	747	164	911
ECL provisions by geography	747	164	911
- Republic of Ireland	747	147	894
- United Kingdom	-	16	16
- Other Europe	-	1	1
ECL provisions by stage	747	164	911
- Stage 1	14	20	34
- Stage 2	38	25	63
- Stage 3	695	119	814
ECL Provision coverage (total) - ECL/loans	4.6	1.7	3.5
- Stage 1 (%)	0.1	0.2	0.2
- Stage 2 (%)	2.8	4.3	3.3
- Stage 3 (%)	31.5	63.3	34.0
ECL release - third party	(18)	(20)	(38)
ECL (release)/charge by geography	(18)	(20)	(38)
- Republic of Ireland	(18)	(23)	(41)
- United Kingdom	-	3	3
ECL loss rate (%)	(0.1)	(0.2)	(0.2)
Amounts written off	78	19	97
Other financial assets by asset quality	-	3,248	3,248
- AQ 1-4	-	3,235	3,235
- AQ 5-8	-	13	13
Off balance sheet	752	2,893	3,645
Loan commitments	752	2,470	3,222
Financial guarantees	-	423	423
Off balance sheet by asset quality	752	2,893	3,645
- AQ 1-4	331	1,624	1,955
- AQ 5-8	414	1,221	1,635
- AQ 9	1	13	14
- AQ 10	6	35	41
Weighted average life - ECL measurement (years)	9	7	8
Weighted average life 12 months PDs			
- IFRS 9 (%)	0.88	1.18	0.94
- Basel (%)	1.09	1.64	1.31

At 31 December 2019, AQ10 includes € 740 million of exposures which are not currently considered defaulted for capital calculation purposes but are included in Stage 3.
Note:
(1) Includes a €6m million impairment release and a €2 million write off (2018 – €1 million and €3 million) related to the business banking portfolio.

23. Risk management – Credit risk continued

Portfolio summary - sector analysis continued

31 December 2018*	Personal €m	Commercial €m	Total €m
Loans by geography	16,544	8,449	24,993
- Republic of Ireland	16,544	7,761	24,305
- United Kingdom	-	290	290
- Other Europe	-	90	90
- Rest of the World	-	308	308
Loans by asset quality	16,544	8,449	24,993
- AQ 2	39	-	39
- AQ 3	-	3,188	3,188
- AQ 4	6,026	1,204	7,230
- AQ 5	6,492	1,928	8,420
- AQ 6	430	1,138	1,568
- AQ 7	214	633	847
- AQ 8	260	115	375
- AQ 9	518	42	560
- AQ 10	2,565	201	2,766
Loans by stage	16,544	8,449	24,993
- Stage 1	12,351	7,553	19,904
- Stage 2	1,628	695	2,323
- Stage 3	2,565	201	2,766
Loans - past due analysis	16,544	8,449	24,993
- Not past due	14,510	8,224	22,734
- Past due 1-29 days	306	47	353
- Past due 30-89 days	256	12	268
- Past due 90-180 days	309	14	323
- Past due > 180 days	1,163	152	1,315
Stage 2	1,628	695	2,323
- Not past due	1,352	674	2,026
- Past due 1-29 days	159	13	172
- Past due 30-89 days	117	8	125
ECL provision (total)	860	211	1,071
ECL provisions by geography	860	211	1,071
- Republic of Ireland	860	194	1,054
- United Kingdom	-	13	13
- Other Europe	-	1	1
- Rest of the World	-	3	3
ECL provisions by stage	860	211	1,071
- Stage 1	14	26	40
- Stage 2	94	34	128
- Stage 3	752	151	903
ECL Provision coverage (total) - ECL/loans	5.2	2.5	4.3
- Stage 1 (%)	0.1	0.3	0.2
- Stage 2 (%)	5.8	4.9	5.5
- Stage 3 (%)	29.3	75.1	32.7
ECL (release)/charge - third party	(24)	1	(23)
ECL (release)/charge - Republic of Ireland	(24)	1	(23)
ECL loss rate (%)	0.2	(0.0)	0.1
Amounts written off	388	33	421
Other financial assets by asset quality	-	2,941	2,941
- AQ 1-4	-	2,580	2,580
- AQ 5-8	-	361	361
Off balance sheet	787	3,001	3,788
Loan commitments	787	2,509	3,296
Financial guarantees	-	492	492
Off balance sheet by asset quality	787	3,001	3,788
- AQ 1-4	308	1,696	2,004
- AQ 5-8	468	1,263	1,731
- AQ 9	6	17	23
- AQ 10	5	25	30
Weighted average life - ECL measurement (years)	9	4	8
Weighted average life 12 months PDs			
- IFRS 9 (%)	1.10	2.50	1.39
- Basel (%)	1.78	0.94	1.47

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

At 31 December 2018, AQ10 includes €620 million of exposures which are not currently considered defaulted for capital calculation purposes but are included in Stage 3.

23. Risk management – Credit risk continued

Credit risk enhancement and mitigation

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related credit risk enhancement and mitigation (CREM).

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial	Property	Other	Total	Stage 3	Total	Stage 3
31 December 2019	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets											
Loans - amortised cost	26,119	905	25,214	1,583	68	17,770	603	18,441	1,545	6,773	38
Personal	16,314	746	15,568	1,511	-	15,218	-	15,218	1,505	350	6
Commercial	9,805	159	9,646	72	68	2,552	603	3,223	40	6,423	32
Other financial assets	3,248	1	3,247	-	-	-	-	-	-	3,247	-
Total financial assets	29,367	906	28,461	1,583	68	17,770	603	18,441	1,545	10,020	38
Contingent liabilities and commitments											
Personal	752	-	752	6	-	-	-	-	-	752	6
Commercial	2,893	5	2,888	32	29	339	61	429	8	2,459	24
Total off-balance sheet	3,645	5	3,640	38	29	339	61	429	8	3,211	30
Total exposure	33,012	911	32,101	1,621	97	18,109	664	18,870	1,553	13,231	68

The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

23. Risk management – Credit risk continued

Credit risk enhancement and mitigation continued

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related credit risk enhancement and mitigation (CREM).

	Gross exposure	ECL	Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
			Total	Stage 3	Financial	Property	Other	Total	Stage 3	Total	Stage 3
31 December 2018*	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets											
Loans - amortised cost	24,993	1,061	23,932	1,865	35	17,457	453	17,945	1,836	5,987	29
Personal	16,544	857	15,687	1,812	-	15,305	-	15,305	1,795	382	17
Commercial	8,449	204	8,245	53	35	2,152	453	2,640	41	5,605	12
Other financial assets	2,942	1	2,941	-	-	-	-	-	-	2,941	-
Total financial assets	27,935	1,062	26,873	1,865	35	17,457	453	17,945	1,836	8,928	29
Contingent liabilities and commitments											
Personal	404	3	401	5	-	-	-	-	-	401	5
Commercial	3,001	6	2,995	23	48	326	83	457	2	2,538	21
Total off-balance sheet	3,405	9	3,396	28	48	326	83	457	2	2,939	26
Total exposures	31,340	1,071	30,269	1,893	83	17,783	536	18,402	1,838	11,867	55

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

23. Risk management – Credit risk continued

Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions). Loan-to-value (LTV) ratios are split by stage, weighted average LTVs are separated into owner-occupied and buy-to-let categories.

	2019 €m	2018* €m
Mortgages	15,982	16,197
Owner occupied	14,801	14,781
Buy-to-let	1,181	1,416
Interest-only - variable	194	210
Interest-only - fixed	11	13
Mixed(1)	72	77
ECL provision	731	830
Other lending	362	370
Drawn exposure	362	370
ECL provision	16	29
Total Personal lending	16,344	16,567
Mortgage LTV ratios		
- Total portfolio	60%	62%
- Stage 1/performing	57%	58%
- Stage 2/performing	67%	67%
- Stage 3/non-performing	73%	77%
- Buy to let	61%	64%
- Stage 1	57%	58%
- Stage 2	69%	72%
- Stage 3	75%	78%
Gross new mortgage lending	1,393	1,134
Owner Occupied exposure	1,381	1,122
Weighted average LTV(2)	75%	73%
Buy-to-let	12	12
Weighted average LTV(2)	58%	57%
Interest-only - variable rate	-	-
Interest-only - fixed rate	-	-
Mixed(1)	1	1
Mortgage forbearance		
Forbearance flow	208	237
Forbearance stock	2,620	3,103
Current	1,350	1,482
1-3 months in arrears	185	299
>3 months in arrears	1,085	1,321
Stage 3 mortgages time in default		
<1 year	13%	5%
1-3 years	12%	10%
3-5 years	23%	11%
5-10 years	44%	67%
>10 years	8%	7%

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

Notes:
1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
2) Weighted by current exposure gross of provisions.

23. Risk management – Credit risk continued

Personal portfolios

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band.

2019

	Drawn exposure - Total book				Of which:	ECL provisions				ECL provisions coverage (1)			
	Stage 1	Stage 2	Stage 3	Total	Gross new lending	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%
≤50%	4,828	362	558	5,748	127	4	9	115	128	0.1	2.5	20.6	2.2
>50% and ≤70%	3,974	322	481	4,777	271	4	9	106	119	0.1	2.8	22.0	2.5
>70% and ≤80%	1,623	178	258	2,059	419	2	5	71	78	0.1	2.8	27.5	3.8
>80% and ≤90%	1,331	170	255	1,756	569	1	5	89	95	0.1	2.9	34.9	5.4
>90% and ≤100%	448	120	221	789	4	1	3	85	89	0.2	2.5	38.5	11.3
>100% and ≤110%	196	67	177	440	2	1	2	78	81	0.5	3.0	44.1	18.4
>110% and ≤130%	96	42	179	317	1	-	2	92	94	-	4.8	51.4	29.7
>130% and ≤150%	10	4	54	68	-	-	-	35	35	-	-	64.8	51.5
>150%	8	3	17	28	-	-	-	12	12	-	-	70.6	42.9
Total	12,514	1,268	2,200	15,982	1,393	13	35	683	731	0.1	2.8	31.0	4.6

2018*

	Drawn exposure - Total book				Of which:	ECL provisions				ECL provisions coverage (1)			
	Stage 1	Stage 2	Stage 3	Total	Gross new lending	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%
≤50%	4,265	417	519	5,201	122	1	6	46	53	0.0	1.4	8.9	1.0
>50% and ≤70%	3,983	407	532	4,922	262	2	11	71	84	0.1	2.7	13.3	1.7
>70% and ≤80%	1,747	212	290	2,249	397	2	12	78	92	0.1	5.5	27.0	4.1
>80% and ≤90%	1,182	205	330	1,717	342	2	17	118	137	0.2	8.3	35.7	8.0
>90% and ≤100%	636	172	317	1,125	4	2	19	136	157	0.4	11.1	42.7	13.9
>100% and ≤110%	220	89	256	565	5	2	11	119	132	0.9	12.8	46.6	23.5
>110% and ≤130%	57	39	229	325	2	-	6	123	129	0.8	16.6	53.8	40.0
>130% and ≤150%	5	6	51	62	-	-	1	33	34	0.3	19.1	63.3	53.8
>150%	11	3	17	31	-	-	1	11	12	2.1	27.2	66.3	40.1
Total	12,106	1,550	2,541	16,197	1,134	11	84	735	830	0.1	5.4	28.9	5.1

*2018 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

Note:
(1) ECL provisions coverage is ECL provision divided by drawn exposure.

Flow statements

The flow statements that follow show the main changes in ECL, the changes in related financial assets used in determining ECL and related Income Statement movements. Due to differences in scope, exposures in this section may therefore differ from those reported in other tables in the credit risk section, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for debt sale activity.
- There were small ECL flows from Stage 3 to Stage 1. This does not however indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events.

23. Risk management – Credit risk continued

Flow statements continued

As noted earlier, interest suspended post default is now included within Stage 3 ECL, with 2018 data restated.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Total	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2019*	22,841	40	2,340	128	2,803	902	27,984	1,070
Currency translation and other adjustments	21	-	4	-	4	4	29	4
Transfers from Stage 1 to Stage 2	(2,125)	(10)	2,125	10	-	-	-	-
Transfers from Stage 2 to Stage 1	2234	44	(2,234)	(44)	-	-	-	-
Transfers to Stage 3	(73)	(2)	(369)	(35)	442	37	-	-
Transfers from Stage 3	32	4	360	47	(392)	(51)	-	-
Net re-measurement of ECL on stage transfer	-	(35)	-	16	-	28	-	9
Changes in risk parameters (model inputs)	-	(10)	-	(51)	-	34	-	(27)
Other changes in net exposure	1,704	3	(267)	(5)	(349)	(22)	1,088	(24)
Other	-	-	-	-	-	4	-	4
Income statement (releases)/charges	-	(42)	-	(40)	-	44	-	(38)
Amounts written-off	-	-	(3)	(3)	(95)	(94)	(98)	(97)
Unwinding of discount	-	-	-	-	-	(24)	-	(24)
At 31 December 2019	24,634	34	1,956	63	2,413	814	29,003	911
Net carrying amount	24,600		1,893		1,599		28,092	
At 1 January 2018	21,552	31	2,497	122	3,833	1,173	27,882	1,326
2018 movements	1,289	9	(157)	6	(1,030)	(271)	102	(256)
At 31 December 2018	22,841	40	2,340	128	2,803	902	27,984	1,070
Net carrying amount	22,801		2,212		1,901		26,914	

*1 January 2019 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

The following tables analyse the ECL flow for significant classes of assets in the Group.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Residential mortgages	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2019*	12,041	12	1,557	84	2,545	734	16,143	830
Currency translation and other adjustments	-	-	-	-	15	15	15	15
Transfers from Stage 1 to Stage 2	(1,516)	(5)	1,516	5	-	-	-	-
Transfers from Stage 2 to Stage 1	1,689	25	(1,689)	(25)	-	-	-	-
Transfers to Stage 3	(45)	(2)	(317)	(31)	362	33	-	-
Transfers from Stage 3	15	1	335	37	(350)	(38)	-	-
Net re-measurement of ECL on stage transfer	-	(20)	-	2	-	5	-	(13)
Changes in risk parameters (model inputs)	-	2	-	(33)	-	32	-	1
Other changes in net exposure	279	-	(125)	(1)	(304)	(12)	(150)	(13)
Other	-	-	-	-	-	22	-	22
Income statement (releases)/charges	-	(17)	-	(32)	-	46	-	(3)
Amounts written-off	-	-	(3)	(3)	(64)	(64)	(67)	(67)
Unwinding of discount	-	-	-	-	-	(22)	-	(22)
At 31 December 2019	12,463	13	1,274	35	2,204	683	15,941	731
Net carrying amount	12,450		1,239		1,521		15,210	
At 1 January 2018	11,999	9	1,726	81	3,568	993	17,293	1,083
2018 movements	42	3	(169)	3	(1,023)	(259)	(1,150)	(253)
At 31 December 2018	12,041	12	1,557	84	2,545	734	16,143	830
Net carrying amount	12,029		1,473		1,811		15,313	

*1 January 2019 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

23. Risk management – Credit risk continued

Flow statements continued

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
Commercial								
At 1 January 2019*	10,289	25	643	31	199	132	11,131	188
Currency translation and other adjustments	21	-	4	-	(3)	(3)	22	(3)
Transfers from Stage 1 to Stage 2	(460)	(3)	460	3	-	-	-	-
Transfers from Stage 2 to Stage 1	432	14	(432)	(15)	-	-	-	(1)
Transfers to Stage 3	(26)	-	(33)	(2)	58	2	(1)	-
Transfers from Stage 3	7	1	16	5	(23)	(6)	-	-
Net re-measurement of ECL on stage transfer	-	(11)	-	10	-	12	-	11
Changes in risk parameters (model inputs)	-	(9)	-	(7)	-	(3)	-	(19)
Other changes in net exposure	1,400	2	(109)	(2)	(37)	(7)	1,254	(7)
Other	-	-	-	-	-	(5)	-	(5)
Income statement (releases)/charges	-	(18)	-	1	-	(3)	-	(20)
Amounts written-off	-	-	-	-	(18)	(18)	(18)	(18)
Unwinding of discount	-	-	-	-	-	(1)	-	(1)
At 31 December 2019	11,663	19	549	23	176	108	12,388	150
Net carrying amount	11,644		526		68		12,238	
At 1 January 2018	9,017	16	622	28	217	150	9,856	194
2018 movements	1,272	9	21	3	(18)	(18)	1,275	(6)
At 31 December 2018	10,289	25	643	31	199	132	11,131	188
Net carrying amount	10,264		612		67		10,943	

*1 January 2019 data has been restated for a change to presentation of unrecognised interest, refer to Note 1(a) for further details.

Related financial asset movements are one month in arrears relative to the balance sheet reporting dates, as these are the balances used to calculate the modelled ECL (i.e. reported financial assets at 1 January 2019 in the flow statements reflect 30 November 2018 positions, and 31 December 2019 reported figures reflect 30 November 2019 positions).

Market risk

The Group has no trading books and no exposure to traded market risk. Non-traded market risk is discussed below.

Definition
Non-traded market risk is the risk to the value of assets or liabilities or the risk to income that arises from changes in market prices such as interest rates, foreign exchange rates and equity prices, or from changes in managed rates.

Sources of risk
The majority of non-traded market risk exposure arises from retail and commercial banking activities and from the High Quality Liquid Asset portfolio and investment of equity capital.

Non-traded market risk largely comprises interest rate risk, credit spread risk, accounting volatility risk and foreign exchange risk.

Interest rate risk
Non-traded interest rate risk ("NTIRR") arises from the provision to customers of a range of banking products with differing interest rate characteristics. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

Credit spread risk
Credit spread risk arises from the potential adverse economic impact of a move in the spread between bond yields and swap rates, where the bond portfolios are accounted at fair value in the non-trading book.

Accounting volatility risk
Accounting volatility risk arises when a non-trading book exposure is accounted at amortised cost but economically hedged by a derivative that is accounted at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement.

23. Risk management - Market risk continued

Foreign exchange risk
Non-traded foreign exchange risk arises from three main sources:
- Structural foreign exchange risk - arising from the capital deployed in branches and related currency funding where it differs from Euro.
- Transactional foreign currency exposure - arising from mismatches in the currency balance sheet.
- Foreign currency profit streams and costs - in respect of branches in the UK and the costs of services acquired from other RBS Group companies charged in Sterling.

Risk governance
Responsibility for identifying, measuring, monitoring and controlling the market risk lies with Treasury, with independent oversight provided by the Market Risk function.

Market risk metrics are reported monthly to ALCO and the Executive Risk Committee (ERC) and quarterly to the Board Risk Committee (BRC). In addition, Market Risk maintains daily and monthly monitoring.

Risk appetite
The Group's qualitative market risk appetite is set out in the non-traded market risk appetite statement.

Its quantitative market risk appetite is expressed in terms of exposure limits for the non-trading activities that are consistent with business plans.

These limits comprise both board risk measures which are approved by Board on the recommendation of BRC and key risk measures which are approved by ALCo. For each desk, a document known as a dealing authority compiles details of all applicable limits and dealing restrictions.

The limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity limits including basis risk and earnings-at-risk (EaR) and Economic Value of Equity (EVE) limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that the Group remains within its risk appetite, triggers at the Group and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the front office, Market Risk and Finance.

Risk identification and assessment
Identification and assessment of non-traded market risk is achieved through gathering, analysing, monitoring and reporting market risk information by business line or at a consolidated level. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks. This is complemented by the New Product Risk Assessment process, which requires market risk teams to assess and quantify the market risk associated with all proposed new products.

Risk monitoring
Non-traded Market Risk exposures for the Short Term desk are monitored against limits and analysed daily by market risk reporting and control functions and monthly in the case of structural interest rate risk. The Market Risk function also prepares daily risk reports that detail exposures against a more granular set of limits and triggers. Limit reporting is supplemented with stress testing information as well as ad hoc reporting.

Risk measurement
The Group uses a comprehensive set of methodologies and techniques to measure non-traded market risk.

The main risk measurement methods are VaR, SVaR, sensitivity, EaR and EVE. In addition, stress testing is used to identify any vulnerabilities and potential losses in excess of VaR and SVaR.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in deal or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact on the income statement of large moves in risk factors or the joint impact of two risk factors.

These methods have been designed to capture correlation effects and allow the Group to form an aggregated view of its market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

Risk assessment, monitoring and mitigation

Interest rate risk
NTIRR factors are grouped into the following categories:
- Gap risk - which arises from the timing of rate changes in non-trading book instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk - which captures the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices, or on the same interest rate indices but with different tenors.
- Option risk – which primarily arises from optional elements embedded in assets, liabilities and/or off-balance sheet items, where the Group or its customer can alter the level and timing of their cash flows. Option risk can be further characterised into automatic option risk and behavioural option risk.

To manage exposures within appetite, the Group aggregates its interest rate positions and hedges these internally with NatWest Bank Plc using derivatives (primarily interest rate swaps). Credit spread volatility is a consequence of holding high quality liquid assets and is not hedged or mitigated while managed within conservative risk appetite parameters.

23. Risk management - Market risk continued

NTIRR is measured from both an economic value-based and earnings-based perspective. Value-based approaches measure the change in value of the balance sheet assets and liabilities over a longer timeframe, including all cash flows. Earnings-based approaches measure the potential short-term (generally one year) impact on the income statement of changes in interest rates.

The Group uses both approaches to quantify its interest rate risk: VaR as its value-based approach and sensitivity of net interest income (NII) as its earnings-based approach.

These two approaches provide different yet complementary views of the impact of interest rate risk on the balance sheet at a point in time. The scenarios employed in the NII sensitivity approach incorporate business assumptions and simulated modifications in customer behaviour as interest rates change. In contrast, the VaR approach assumes static underlying positions and therefore does not provide a dynamic measurement of interest rate risk. In addition, while NII sensitivity calculations are measured to a 12-month horizon and thus provide a shorter-term view of the risks on the balance sheet, the VaR approach can identity risks not captured in the sensitivity analysis, in particular the impact of duration and repricing risk on earnings beyond 12 months.

Value-at-Risk

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. The standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% - are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for Group are included in the following Banking book VaR table. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities. It includes any mismatch between structural hedges and stable non and low interest-bearing liabilities such as equity and money transmission accounts as regards their interest rate repricing behavioural profile.

Calculation of regulatory capital

The Group capitalises non-traded market risk as part of the ICAAP. The approach combines both earnings based and economic value based methodologies, in accordance with regulatory guidelines. The calculation captures the principal sources of non-traded market risk – interest rate risk, credit spread risk, basis risk, structural foreign exchange risk and accounting volatility risk. Models and methodologies are reviewed by the NatWest Holdings Model Risk Management and based on their review and findings the Treasury Models Committee considers whether a model / methodology can be approved for use. The results are approved by Group ALCO.

Pillar 1 capital must be held for non-trading book foreign exchange exposures, as outlined under Capital Requirements Regulation (CRR) Articles 455 and 92(3)c. Structural foreign exchange exposures are excluded from the calculations as outlined under CRR Article 352(2); such exposures are considered under Pillar 2A.

Total VaR

The total VaR for the Group's dealing is presented in the table below:

	31 December 2019 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.4	1.8	1.0	1.3

	31 December 2018 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.2	1.6	0.7	1.1

Interest Rate VaR

The Interest Rate VaR limit is a sub limit of the Total VaR limit and is monitored daily.

Interest Rate VaR is presented in the table below:

	31 December 2019 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.3	0.6	0.1	0.3

	31 December 2018 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.2	2.6	0.2	0.5

23. Risk management – Business risk continued

Business risk

Definition
Business risk is the risk that the Group makes inappropriate business or strategic choices or that the Group is not able to execute its chosen strategy in line with its budget. The risk is that the Group does not deliver its strategic plan's budgeted performance which could lead to a deterioration in stakeholder trust and confidence or to a breach of regulatory thresholds.

Sources of risk
Business risk arises as a result of the Group's exposure to the macro-environment, to the competitive environment, and to technological changes. Current macro issues that give rise to business risk include Brexit, cyber threats, corporate structure reform and political and economic uncertainty. In addition, internal factors such as volatility in sales volumes, and input costs, and other operational risks such as the Group's ability to assess the business operating environment, or to execute its chosen strategy, contribute to business risk.

Governance
The Board has ultimate responsibility for business risk and for approving strategic plans, initiatives and changes to strategic direction. The Group's strategic planning process is managed by the Finance department. The Risk and Finance functions are key contributors to strategic planning. As part of the process, each banking division develops a strategic plan within a process set by the Executive Committee. The strategic plans are consolidated at a Group-wide level, and reviewed and assessed against risk appetite by the Chief Executive, the Chief Financial Officer and the Director of Risk before review, challenge and ultimately approval by the Board.

Controls and assurance
Business risk is directly managed and controlled through the Group's strategic planning, budgeting and new product development processes, in which the following elements are incorporated:

- Evaluation of the macroeconomic environment
- Industry analysis
- Competitor analysis, across geography, product, and customer
- Customer behaviour analysis (understanding customer segments, trends and behaviours)
- Impact of technological developments
- Assessment of regulatory developments and changes
- Evaluation of the political environment

Furthermore, business risk is controlled as a result of having a requirement for the Group and each business to incorporate the following elements in strategic plans:

- Organisational capabilities
- Organisational resources
- Organisational commitment
- Requirements of stakeholders, including customers, regulators, colleagues, and investors

Risk appetite
The Group has limited appetite to make inappropriate business or strategic choices or to deliver a financial performance that is materially worse than its chosen strategic business plan.

Risk identification and assessment
Customer impact, estimated revenue, costs and capital, including the potential range of outcomes, are key considerations in the design of any new product or in any new investment decision.

Risk mitigation
The Group operates a monthly rolling forecasting process to identify projected changes in, or risks to, key financial metrics, and ensures appropriate actions are taken.

Key strategies are reviewed and approved by the Board. These reviews are intended to maximise the capture of market and customer insight while providing independent scrutiny and challenge. Strategic plans contain analysis of current and expected operating conditions, current and targeted competitive and market positioning, key strategic initiatives, financial and customer targets and milestones, and upside and downside risks.

A full sensitivity analysis of the consolidated strategic plan is undertaken at the end of the strategic and financial planning process to assess the robustness of the plan and compliance with strategic risk objectives under a variety of stressed conditions. Following consideration of an opportunity the Group may decide not to pursue the opportunity as a result of a perceived strategic risk.

The Group also undertakes strategic reviews to decide on how to react to specific developments.

Reputational risk

Definition
Reputational risk is the risk to the Group's public image from a failure to meet stakeholders' expectations in relation to performance, conduct or business profile. Stakeholders include customers, investors, colleagues, suppliers, government, regulators, special interest and consumer groups, media and the general public. It can arise as a consequence of actions taken (or not taken) by the Group.

Sources of risk
Reputational risk can arise from the conduct of colleagues; activities of customers and the sectors and countries in which they operate; provision of products and transactions; as well as operations and infrastructure.

Governance
The Group has a Reputational Risk Policy which sets out controls to manage the risk. A Reputational Risk Forum (RRF), under delegated authority from the Group's Executive Risk Committee, acts as a central forum to review customer transactions, themes or issues which have material reputational implications, escalated to it by first line of defence business areas.

23. Risk management – Reputational risk continued

The forum also reviews reputational risk arising from environmental, social and ethical risk positions, for example, in the defence and gambling sector. Cases which have material reputational risk implications for the wider RBS Group are escalated to the RBS Group Reputational Risk Committee (GRRC).

Risk appetite
The Group manages and articulates its appetite for reputational risk through the implementation of a qualitative reputational risk appetite statement. The Group relies on due consideration of its reputation in its decision making. As a minimum this should include using the Yes Check. The Group has no appetite for a lack of escalation of material reputational risks. Escalation and subsequent debate must be timely and holistic and involve all relevant stakeholders. The Group recognises that unforeseen outcomes occur from time to time and seeks to address any customer detriment as quickly as possible.

Risk mitigation
Reputational risk is mitigated through clear escalation responsibilities of all colleagues through their business line, should they identify potential reputational risk impact, with the most material cases being submitted to the RRF. Referrals are recorded in a Reputational Risk Register.

Early identification and effective escalation are essential to the successful mitigation of reputational risk. Lessons learned from discussions at RRF meetings will improve the way cases and issues are debated and decisions made.

Operational risk

Definition
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. It arises from day-to-day operations and is relevant to every aspect of the business.

Operational risk may directly affect customers, lead to financial loss or damage to the Group's reputation (for example, a major IT systems failure or fraudulent activity).

Sources of risk
Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Fraud and theft as well as the increasing threat of cyber attacks are sources of operational risk, as is the impact of natural and man-made disasters. It can also arise from a failure to account for changes in law, regulations or taking appropriate measures to protect assets.

Operational risk can arise from a failure of other parts of the RBS Group or third parties to provide services in accordance with Service Level Agreements. There can also be a link between operational risk failures and conduct risk issues.

Risk governance
A strong Operational Risk management function is vital to support the Group's ambition to serve its customers better. Improved management of operational risk against a defined appetite directly supports the strategic risk objective of improving stakeholder confidence and is vital for stability and reputational integrity.

The Operational Risk function, part of the second line of defence, undertakes a leadership role and is tasked with delivering an operational risk management approach across the Group.

The Operational Risk function is responsible for the design, development, delivery and continuous improvement of operational risk management through application of the Operational Risk Handbook. The Operational Risk policy is incorporated into the Policy Management Framework and the Operational Risk Handbook provides direction for the consistent identification, assessment, management, monitoring and reporting of operational risk. Through a network of oversight teams, the function seeks to ensure the integrity of the framework, and manages overall operational risk profile against risk appetite.

The Operational Risk Committee (ORC) is responsible for reviewing operational risk exposure; identifying and assessing both current and emerging material operational risks; reviewing and monitoring the operational risk profile; and reviewing and approving material operational risk policy changes.

Risk assessment, controls and assurance
The Control Environment Certification (CEC) process is a half-yearly self-assessment by the business. It gives an assessment on the adequacy and effectiveness of the internal control environment in a consistent and comparable manner, highlighting areas where targeted effort is needed to meet the standards required in order to create a safer and more secure bank for customers. It covers material risks and the key controls that underpin them, including financial, operational and compliance controls, as well as the supporting risk management frameworks.

The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and the progress made to improve the control environment, are reported to the Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the Policy Management Framework.

Assurance and monitoring activities are essential to measure the extent to which the Group manages its delivery of specific customer outcomes. Risk assessments are used to identify material risks and implement key controls across all business areas.

The risk assessment process is designed to confirm that risks are effectively managed and prioritised, as well as ensuring that controls are tested.

23. Risk management - Operational risk continued

Risk assessment, controls and assurance continued
Scenario analysis is used to assess the impact of extreme but plausible operational risks. It provides a forward-looking basis for evaluating and managing operational risk exposures.

The scenarios assess the risks that could significantly affect the Group's financial performance, customers or reputation and are an important component in operational risk management and the economic capital model.

Risk appetite
The operational risk appetite framework supports effective management of key operational risks. It expresses the level and types of operational risk the Group is willing to accept in order to achieve its strategic objectives and business plans.

The Group's operational risk appetite is expressed through a set of qualitative risk appetite statements and quantitative measures which are defined at a material risk driver level. Appetite covers the Group's most material operational risks, defined by a materiality assessment, which considers past, current and future risk exposures. Appetite exposures for all material risks are regularly reported to ERC and BRC.

The aggregation of operational risk appetite drives measurement of how effective the Group is in managing its material risks across the core components of the operational risk management framework. It provides for an aggregate view of risk appetite, risk and control profile, loss event data management and control environment.

Above these sits the Group-level operational risk appetite statement which encompasses the full range of operational risks. This drives the strategic risk measurement of stakeholder confidence and is reviewed annually by ERC, BRC and the Board. The statement is supported by six board risk measures: (i) payments not processed on the due date, duplicated or made erroneously; (ii) cyber security control failures;(iii) mandatory programmes at risk of non-delivery;(iv) non-compliance with SLAs relating to delegated internal services; (v) non-compliance with SLAs relating to third party services; (vi) operational losses relative to the material risk assessment threshold.

Risk identification and assessment
Across all business areas risk and control assessments are used to identify and assess material risks and key controls. To support identification of risk concentrations, all risks and controls are mapped to the risk directory. Risk assessments are refreshed at least annually or triggered when a material change occurs to ensure they remain relevant and capture any emerging risks.

The process is designed to confirm that risks are effectively managed and prioritised in line with the stated risk appetite. Controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively.

Risk mitigation
Risks are mitigated through the application of key preventative and detective controls. This is an integral step in the risk assessment methodology, which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls.

These key controls are assessed for adequacy and tested for effectiveness annually. The control testing results are monitored and, where a material change in performance is identified, it results in a re-evaluation of the associated risk.

The Group purchases insurance to provide the business with financial protection against specific losses and to comply with statutory or contractual requirements.

Risk monitoring
Monitoring and reporting are part of the Group's operational risk management processes, which aim to ensure that risks are identified, considered by senior executives, and managed effectively. The most material operational risks and their position relative to risk appetite are regularly reviewed by ERC, along with any emerging risks and the actions taken to mitigate them. These are also reported to BRC.

Risk measurement
The Group uses the standardised approach to calculate its operational risk capital requirement. This is based upon multiplying three years' average historical gross income by coefficients set by the regulator based on type of income.

As part of the wider ICAAP an operational risk economic capital model is used. The model uses loss data and scenario analysis inputs from the Operational Risk Handbook, plus external loss data and certain other factors to provide a risk-sensitive view of the Group's operational risk capital requirement.

Event and loss data management
The operational risk event and loss data management process ensures the Group captures and records operational risk loss events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in the economic capital modelling when calculating regulatory capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of a 'Notifiable Event Process'.

All losses and recoveries associated with an operational risk event are reported against their financial accounting date. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2019 may relate to events that occurred, or were identified in, prior years.

23. Risk management continued

Pension risk

Definition
Pension risk arises due to contractual or other liabilities to or with respect to pension schemes, whether established for its colleagues or those of a related company or otherwise. It is also the risk that the Group will make payments or other contributions to or with respect to a pension scheme because of a moral obligation or because the Group considers that it needs to do so for some other reason.

Sources of risk
The Group is exposed to risk from its defined benefit pension schemes to the extent that the assets of the schemes do not fully match the timing and amount of the schemes' liabilities. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in legislation. Ultimate responsibility for the Group's pension schemes is separate from Group management. The Group is exposed to the risk that the market value of the schemes' assets, together with future returns and any additional future contributions could be considered insufficient to meet the liabilities as they fall due. In such circumstances, the Group could be obliged, or may choose, to make additional contributions to the schemes or be required to hold additional capital to mitigate such risk.

The Ulster Bank Pension Scheme (the main scheme) is the largest of the schemes and the main source of pension risk. It operates under trust deeds by which the corporate trustee is a wholly owned subsidiary of the Group. The trustee board comprises seven directors selected by the Group and two directors nominated by members.

Developments in 2019
The Group continued to progress a de-risking strategy for pensions in 2019, with an increase in the level of interest and inflation risk hedging, a lower risk investment strategy and a reduction in liabilities.

Specifically with respect to reducing liabilities, the bank made an Enhanced Transfer Value (ETV) offer to a cohort of members to consider taking their benefits out of the scheme. UBIDAC provided fully funded independent advice to each member on expression of interest. This advice facilitated members' decisions in the context of their own personal circumstances. The exercise had the impact of removing €99m of liabilities during 2019.

Risk appetite
Investment policy and related investment limits are agreed by the trustees with quantitative and qualitative input from the scheme actuaries and investment advisers. The trustees also consult with the Group to obtain its view on the appropriate level of risk within the pension funds. The Group independently monitors risk within its pension funds as part of the ICAAP including metrics focused on capital volatility incorporated in the overall risk appetite framework.

Risk mitigation
The trustees are solely responsible for the investment of the schemes' assets which are held separately from the assets of the Group. The Group and the trustees must agree on the investment principles and the funding plans. An Investment Review Committee is in place for the schemes, comprising Bank and trustee representatives, which has specific responsibility for scheme investment matters.

The schemes are invested in diversified portfolios of quoted and private equity, government and corporate fixed-interest and index-linked bonds, and other assets including property, derivatives and hedge funds.

Compliance and conduct risk

Definition
Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities. Conduct Risk is the risk that the conduct of the Group and its colleagues towards customers leads to damage arising from breaches of regulatory requirements, failure to adequately protect customers or meet their reasonable expectations.

Sources of compliance and conduct risk
Compliance risk, which covers all policy and prudential requirements, arises i) if the Compliance function fails to fulfil its obligations as per regulatory requirements; ii) if governance, controls or policy assessments are insufficient to ensure compliance with legislative and regulatory requirements; iii) if regulatory interaction is inadequate or ineffective; iv) if people are inadequately assessed, trained and managed to ensure compliance with legislative and regulatory requirements; or v) if the Group fails to comply with relevant prudential regulation thereby incurring material losses or regulatory censure.

Conduct risk exists across all areas of the Group and at all stages of the Group's relationships with its customers, from the development of its business strategies to post-sales processes. The activities through which conduct risk may arise are varied and include, but are not limited to, product design, marketing and sales processes, error and complaint handling, colleague training, conflicts of interest and handling of confidential insider information.

Key developments in 2019
- The new independent Compliance function has been operational for over 12 months and is appropriately staffed with the right skills and experience to ensure effective oversight of the compliance and conduct risks of the Group as it evolves to meet the changing needs of customers.
- Integral to this has been the embedding of the Compliance Risk Framework which was developed to enhance the ability of the Group to meet its regulatory obligations and deliver good customer outcomes.

23. Risk management – Compliance and conduct risk continued

- A specific second line Conduct Risk team has been created to monitor and challenge specifically the bank's ability to mitigate conduct and consumer protection risk. A key focus is on the bank's adherence with the Consumer Protection Risk Assessment (CPRA) approach which forms the central tenet of the CBI's Conduct supervisory approach.

Compliance and conduct risk management function

The Compliance and Conduct function, which is part of the second line of defence, is an independent, stand alone function with a Director of Compliance who has responsibility for ensuring the Group operates with integrity and in compliance with applicable laws, regulation and internal policies. It is responsible for providing oversight, challenge and advisory services to the Group.

The function seeks to ensure that there is a consistent approach to maintaining regulatory compliance and the management of conduct risk within the Group's stated risk appetite.

The overall objective of the function is to deliver regulatory compliance as well as customer protection and good customer outcomes across all areas of the Group's day to day business. The function oversees the Group's strategic ambition to focus on the long-term financial wellbeing for customers and digital and technological innovation, delivering effortless everyday banking that is brilliant when it matters.

Governance

The Board is responsible for defining appropriate standards of conduct and compliance and driving adherence to them, ensuring that the Framework for managing these risks is in place and operating effectively as well as overseeing remediation activity. The Board has overall responsibility for setting strategy with respect to the management of compliance and conduct risk and setting a risk appetite within which the Group will deliver that strategy. The Board and its senior committees receive updates on conduct and compliance risk exposures and action plans through regular reporting through the Executive Committee and its sub-committees, particularly ERC, the Compliance and Conduct Committee; and the Product Lifecycle Committee.

Controls

The Compliance Risk Framework is designed to meet local regulatory requirements while remaining consistent with the RBS Risk framework. The Framework is designed to ensure that the Group meets legislative and regulatory obligations, and provides the necessary clarity to colleagues on their conduct and compliance obligations.
The Regulatory Affairs function oversees interactions with regulators, including regulatory approvals for individuals in pre-approved controlled function roles.

The Compliance function is responsible for the development of an Annual Compliance Plan which includes assurance and monitoring. The plan is subject to annual review and approval by the Board. The plan outlines the activity required to manage Compliance and Conduct within pre-defined risk appetite levels.

Risk appetite

The Compliance Risk Framework facilitates a consistent approach across the Group for assessing compliance and conduct risk. The UBIDAC Compliance Risk Appetite is that there is no appetite for actions or behaviours that lead to a deliberate breach in regulatory or legal requirements. As part of doing business however, UBIDAC recognise that some level of risk is inevitable as unforeseen outcomes occur from time to time. UBIDAC is therefore willing to accept a very low risk exposure to Compliance Risk. For conduct risk, UBIDAC has no appetite for actions or behaviours that result in inappropriate outcomes for our customers. As part of doing business however, we recognise that some level of risk is inevitable as unforeseen outcomes occur from time to time. UBIDAC is therefore willing to accept a very low risk exposure to conduct risk.

Risk monitoring and measurement

Management reports are prepared on the most material matters for the appropriate committees, including BRC, Audit Committee and Board. Regular compliance reports are presented to BRC and the Board. Compliance breaches are escalated through the Group Notifiable Event Process.

The Audit Committee is provided with a whistleblowing report on a bi-annual basis. It details cases by internal reporting categories based on the definition of whistleblowing, which is contained within the Group's Speak Up policy.

The Group continues to work with each business to enhance the management information linked to their risk appetite statements. This is required to help ensure appropriate customer outcomes are delivered and that management information is compliant with the Basel Committee on Banking Supervision's principles for effective risk data aggregation and risk reporting.

Financial crime risk

Definition

Financial crime risk is the risk that the Group or associated third parties enable money-laundering transactions or facilitate the financing of terrorist groups or the evasion of sanctions. It also incorporates the risk that the services of the Group or associated third parties are used to facilitate bribery and corruption or for the facilitation of tax evasion.

Sources

Financial crime risk arises from all aspects of the Group's business, including both retail and commercial banking, dealings with third parties and activities in each of the markets the Group operates in.

Key developments

In Quarter 3 2019 the Central Bank of Ireland issued Guidelines in respect of the Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2018. In line with RBS Group during 2019 the Anti Tax Evasion Policy was launched within the Group to address the regulatory requirements under the UK Criminal Finances Act 2017.

23. Risk management – Financial crime risk continued

Risk governance

The Financial Crime team within the Group operates within the Compliance function. The Financial Crime Accountable Executive chairs the Financial Crime Committee. The Forum is responsible for Group-wide oversight and monitoring of financial crime risk management and regulatory compliance, including escalation as appropriate to the Executive Risk Committee and Board Risk Committee. The Forum reviews and monitors key financial crime risks, provides guidance, challenge, recommendations and decisions on financial crime issues affecting the Group.

Risk identification & measurement

Financial crime risks are identified through qualitative and quantitative means across four key areas: anti-money laundering (AML), anti-bribery and corruption (ABC), anti-tax evasion (ATE) and sanctions. Industry-standard approaches – including transactions monitoring and client screening – are used to identify any potential or actual breaches.

Management information is regularly reported to the Executive Risk Committee, the Board Risk Committee and the Board.

Risk mitigation

The Group has systems, policies, processes and controls in place to manage financial crime risk. The Group's financial crime risk assessment approach is regularly reviewed to ensure it is optimised to keep pace with the continually-evolving environment.

The Financial Crime team provides centralised expertise to detect and disrupt threats to the Group and its customers. Intelligence is shared with law enforcement, regulators and government bodies in order to strengthen overall defences against those who would misuse the financial system for criminal motives.

Awareness training is mandatory for all colleagues across the Group.

24. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2019. Although the Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Group's expectation of future losses.

	Group and Bank	
	2019	2018
	€m	€m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	157	208
Other contingent liabilities	261	280
Standby facilities, credit lines and other commitments	3,665	3,655
	4,083	4,143

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Group's normal credit approval processes.

Contingent liabilities

Guarantees - the Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. The Group expects most guarantees it provides to expire unused.

Regulatory enquiries and investigations - in the normal course of business the Bank and its subsidiaries co-operate with regulatory authorities in their enquiries or investigations into alleged or possible breaches of regulations. Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material losses will arise from these transactions.

Commitments

Commitments to lend - under a loan commitment the Bank agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived.

24. Memorandum items continued

Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by the Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and revolving underwriting facilities, documentary credits and other short-term trade related transactions.

The Bank has given guarantees on the liabilities of the following subsidiary undertakings in accordance with the provision of Section 357 of the Companies Act 2014 and these entities will avail of the exemptions under Section 357 regarding the provisions of Sections 347 and 348:

The RBS Group Ireland Retirement Savings Trustee Ltd
Ulster Bank Holdings (ROI) Ltd
First Active Limited
Ulster Bank Pension Trustees (RI) Limited

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the financial statements at the financial year end:

	Group and Bank	
	2019	2018
	€m	€m
Capital expenditure on other property, plant and equipment	1	1
Contracts to purchase goods or services	4	4
Total	5	5

Litigation, investigations and reviews

The Group is involved in litigation arising in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims. Material investigations and reviews involving the Group are described below. These matters could, individually or in aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

FCA review of RBS Group’s treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review RBS Group’s treatment of SME customers whose relationship was managed by RBS Group’s Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013.

The Skilled Person delivered its final report to the FCA during September 2016 and the FCA published an update in November 2016. In response, RBS Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013.

These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

The Group has made provisions totalling €23 million to date in respect of the above redress steps of which €17 million had been utilised by 31 December 2019.

In July 2018, the FCA confirmed that it had concluded its investigation and that it did not intend to take disciplinary or prohibitory action against any person in relation to these matters. On 13 June 2019, the FCA published a full report explaining how it had reached the conclusion.

Review and investigation of treatment of tracker mortgage customers

In December 2015, the CBI announced that it had written to a number of lenders requiring them to put in place a robust plan and framework to review the treatment of customers who have been sold mortgages with a tracker interest rate or with a tracker interest rate entitlement. The CBI stated that the intended purpose of the review was to identify any cases where customers’ contractual rights under the terms of their mortgage agreements were not fully honoured, or where lenders did not fully comply with various regulatory requirements and standards regarding disclosure and transparency for customers. The CBI required UBIDAC to participate in this review. UBIDAC submitted its phase 2 report to the CBI in March 2017, identifying impacted customers. The redress and compensation phase (phase 3) has now concluded although an appeals process is currently anticipated to run until approximately Q3 2020.

The Group has made provisions totalling €312 million to date for this matter of which €269 million had been utilised by 31 December 2019.

Separately, on 15 April 2016, the CBI notified UBIDAC that it was also commencing an investigation under its Administrative Sanctions Procedure into suspected breaches of the Consumer Protection Code 2006 during the period 4 August 2006 to 30 June 2008 in relation to certain customers who switched from tracker mortgages to fixed rate mortgages. This investigation is ongoing and the Group continues to co-operate with the CBI.

As part of an internal review of the wider retail and commercial loan portfolios extending from the tracker mortgage examination programme, the Bank identified further legacy business issues. A programme is ongoing to identify and remediate impacted customers. The Group has made provisions totalling €167 million to date based on expected remediation and project costs in relation to this matter. Of the €167 million cumulative provision, €111 million had been utilised by 31 December 2019.

25. Analysis of changes in financing during the financial year

	Group and Bank					
	Share capital and share premium		Subordinated liabilities[1]		Debt securities in issue[2]	
	2019	2018	2019	2018	2019	2018
	€m	€m	€m	€m	€m	€m
At 1 January	4,736	4,734	616	616	-	-
Issue of debt securities	-	-	-	-	600	-
Net cash inflow from financing	-	-	-	-	600	-
Reduction of capital	(500)	-	-	-	-	-
Currency translation and other adjustments	-	2	-	-	(2)	-
At 31 December	4,236	4,736	616	616	598	-

Notes:
(1) Subordinated liabilities of €530 million are included in Amounts due to holding companies and fellow subsidiaries (Note 11).
(2) Debt securities in issue of €598m are included in Amounts due to holding companies and fellow subsidiaries (Note 11). 2018 data has been restated to reflect the reclassification of €869 million of cash flows from the external issuance of debt securities by the Group's SPEs from financing activities to operating activities.

26. Analysis of cash and cash equivalents

	Group		Bank	
	2019	2018[1]	2019	2018[1]
	€m	€m	€m	€m
At 1 January				
Cash	287	322	287	322
Cash equivalents	4,454	4,891	4,206	4,891
	4,741	5,213	4,493	5,213
Net cash inflow/(outflow)	638	(478)	701	(726)
Effect of exchange rate changes on cash and cash equivalents	14	6	14	6
At 31 December	5,393	4,741	5,208	4,493
Comprising:				
Cash and balances at central banks	537	287	537	287
Debt securities	100	-	100	-
Loans to banks - amortised cost[2]	4,756	4,454	4,571	4,206
	5,393	4,741	5,208	4,493

Notes:
(1) 2018 data has been restated to:
- Remove debt securities with an original maturity of greater than three months (1 January 2018 - €295 million, 31 December 2018 - €447 million) from cash and cash equivalents.
- Include items in the course of collection (1 January 2018 - €37 million, 31 December 2018 - €36 million) as cash and cash equivalents.

(2) Includes €850 million (2018: €1,389 million) of Amounts due from holding companies and fellow subsidiaries (Note 11). 2018 data has been restated to include items in the course of collection (1 January 2018 - €37 million, 31 December 2018 - €36 million) as cash and cash equivalents.

27. Transactions with directors

Transactions, arrangements and agreements entered into by authorised institutions in respect of loans to persons who were directors of the Bank (or persons connected with them) at any time during the financial period were as follows:

Directors

	Principal and interest				
Name of director	As at 1 January (or date of appointment if later) €	As at 31 December €	Maximum outstanding amount during the financial year €	Interest due but not yet paid €	Provision €
2019					
D O'Shea [1]	406,455	237,317	406,455	-	-
2018					
D O'Shea [1]	446,372	406,455	446,396	-	-

Note:
(1) Mortgage loans held at commercial interest rates. During the period €169,138 (2018 - €39,917) was repaid.

27. Transactions with directors continued

Connected parties

Pursuant to the provisions of the Companies Act 2014 the amounts required to be disclosed are as follows:

- the aggregate amounts outstanding as at 31 December 2019 were €1,657,803 (2018 - €1,765,779);
- the aggregate maximum amounts outstanding during the period were €1,765,811 (2018 - €1,825,177);
- the number of relevant persons for or with whom relevant transactions as at 31 December 2019 were made by the institution was 3 (2018 - 4); and
- the maximum number of relevant persons for or with whom relevant transactions, arrangements and agreements that subsisted at any time during the period were made by the institution was 4 (2018 - 4).

There were no guarantees, security or arrangements involving a guarantee or security entered into by authorised institutions in the Group in respect of guarantees to persons who were directors of the Bank (or persons connected with them) at any time during the financial period (2018 - nil).

At 31 December 2019, the total amount outstanding under any arrangement by the Bank with any director or person connected to a director was less than 10% of the Bank's total assets.

There were no amounts outstanding at 31 December 2019 (2018 - nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

28. Directors' and secretary's interest in shares

At 31 December 2019, the directors and secretary did not have any interest in the shares or debentures of the ultimate holding company representing more than 1% of the nominal value of its issued share capital.

29. Related parties

The Bank's immediate parent company is NatWest Holdings. The Bank's ultimate holding company, and the parent of the largest group into which the Bank is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland.

UK Government

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Government Investments Limited, a company it wholly owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Group.

The following table details active related undertakings incorporated in the Republic of Ireland which are 100% owned by the Bank and fully consolidated for accounting purposes.

Entity name	Activity[1]
First Active Limited	OTH
The RBS Group Ireland Retirement Savings Trustee Limited	TR
Ulster Bank Holdings (ROI) Limited	OTH
Ulster Bank Pension Trustees (R.I.) Limited	TR
Ulster Bank Dublin Trust Company Unlimited Company	SC

The following table details related undertakings incorporated in the Republic of Ireland that are in liquidation but fully consolidated, including entities where Bank ownership was less than 100%.

Entity name	Activity [1]	Group Interest %
First Active Investments No. 4 Limited	INV	100
First Active Insurances Services Limited	BF	100
Hume Street Nominees Limited	OTH	100
Norgay Property Limited	INV	100
Walter Property Limited	INV	100
Ulster Bank Group Treasury Limited	INV	100
UB SIG (ROI) Limited	INV	100
Ulster Bank Wealth Unlimited Company	BF	100
Qulpic Limited	INV	67
Zrko Limited	INV	67

29. Related parties continued

The following table details related undertakings incorporated in the Republic of Ireland. Other than Ardmore Securities No.2 Designated Activity Company which is yet to commence trading all entities are active. These are securitisation companies in which the Bank does not hold any of the voting rights but the activities of which are conducted on behalf of the Bank and it retains the majority of the residual ownership risks and benefits related to their activities. Therefore in accordance with the requirements of IFRS 10 the results of these securitisation companies are included in the Group's consolidated financial statements.

Entity name	Activity [1]	Group Interest %
Ardmore Securities No.1 Designated Activity Company	BF	-
Ardmore Securities No.2 Designated Activity Company	BF	-
Dunmore Securities No.1 Designated Activity Company	BF	-
Celtic Residential Irish Mortgage Securitisation No.14 Designated Activity Company	BF	-
Celtic Residential Irish Mortgage Securitisation No.15 Designated Activity Company	BF	-

Note:
(1) Activity - Banking and Financial institution (BF), Other/non-financial (OTH), Service Company (SC), Investment (shares or property) holding company (INV), Trustee (TR)

(a) Directors and key management

At 31 December 2019, amounts advanced by the Bank were €237,317 (2018 - €406,455) in respect of loans to 1 person (2018 - 1 person) who served as a director during the financial period.

The aggregate transactions between the Bank and its directors, key management, their close families and companies which they control were:

	Number of directors	Number of key management	Connected parties	Transaction €
Transactions during the financial year				
Loans made during the financial year:				
- at a commercial rate	-	-	-	-
Balances outstanding at the end of the year				
Loans:				
- at a commercial rate	1	3	4	3,341,838
- at a preferential rate	-	1	-	227
Customer accounts:				
- Savings	5	8	18	2,152,422

(b) Related party transactions

Included in the Group and Bank's balance sheet are the following balances with related parties at the financial year end:

	Group		Bank	
	2019	2018	2019	2018
Assets	€m	€m	€m	€m
Loans:				
Key management	2	1	2	1
Other related parties, including fellow subsidiaries	852	1,460	3,149	3,999
	854	1,461	3,151	4,000
Equity shares:				
Other	1	4	1	4
Derivatives:				
Fellow subsidiaries	185	170	185	170
Total assets	1,040	1,635	3,337	4,174

29. Related parties continued

Liabilities	Group 2019 €m	Group 2018 €m	Bank 2019 €m	Bank 2018 €m
Deposits:				
Key management	2	2	2	2
Other related parties, including fellow subsidiaries	228	340	2,935	3,532
	230	342	2,937	3,534
Debt securities in issue:				
Parent companies	598	-	598	-
Subordinated loans:				
Parent companies	530	530	530	530
Derivatives:				
Fellow subsidiaries	65	76	65	76
Total liabilities	1,423	948	4,130	4,140

The Group recognised a fee payable for the financial year of €274k due to a fellow RBS Group subsidiary for the provision of key management personnel services (2018 - nil).

(c) Compensation of key management

The aggregate remuneration of directors and other members of key management during the financial year was as follows:

	Group 2019 €	Group 2018 €
Short-term benefits	5,068,293	4,298,088
Share-based benefits	626,894	530,206
Post-employment benefits	300,093	181,301
	5,995,280	5,009,595

30. Ultimate holding company

The Bank's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland and its immediate holding company is NatWest Holdings Limited which is incorporated in Great Britain and registered in England.

As at 31 December 2019, The Royal Bank of Scotland Group plc heads the largest group in which the Bank is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

Following placing and open offers by The Royal Bank of Scotland Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, currently holds 62.3% of the issued ordinary share capital of the holding company and is therefore the Bank's ultimate controlling party.

31. Post balance sheet events

There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

32. Date of approval

The financial statements were approved by the Board of Directors on 12 February 2020.

33. Capital resources - unaudited

Capital regulation

The EU adopted legislative package, known as CRD IV consists of the CRR which is directly applicable across firms in the EU, and the new Capital Requirements Directive (CRD), which has been implemented by member states of the European Economic Area through national law. CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework.

The Bank Recovery and Resolution Directive (BRRD) marks another step by European authorities in improving the stability of the financial system. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary.

33. Capital resources - unaudited continued

Capital management

The objectives of the Group's capital management and risk appetite framework are to at all times comply with the regulatory and internal capital requirements and to ensure that the Group has sufficient capital to cover the current and future risks inherent in its business and to support its future development.

The Group achieves this through the ICAAP process. The ICAAP is an internal assessment of capital that the Group undertakes to ensure it is appropriately capitalised for its risk profile. The purpose of the ICAAP is to formalise the Group's approach to understanding its risk profile and the processes and systems it needs to have in place to assess, quantify and monitor these risks.

The primary objective of the ICAAP is to ensure the Group has adequate and appropriate capital to cover all material risks to which it is or may be exposed, at present or in the future. The Group has in place a risk management framework to ensure that the identification and evaluation of those risks is comprehensive.

In support of the ICAAP, the Group embeds risk management processes (material risk assessment, risk appetite, stress testing and capital planning), which are integrated into the wider risk management processes in the Group including ILAAP and recovery planning, ensuring effective management of the risk profile of the Group. Under CRD IV (which was enacted in Irish law by S.I. No. 158 of 2014 and S.I. No. 159 of 2014), regulators within the European Union monitor capital on a legal entity basis. The capital resources for the Bank are set out below.

	Unaudited(1) 2019 €m	Unaudited(1) 2018 €m
Shareholders' equity (excluding non-controlling interests)	4,469	4,903
Regulatory adjustments and deductions(2)		
Own Credit	-	(2)
Defined benefit pension fund adjustment	(197)	(144)
Cash flow hedge reserve	(41)	-
Deferred tax assets	(213)	(292)
Excess of expected losses over impairment provisions	(34)	(1)
Goodwill and other intangible assets	(1)	(1)
	(486)	(440)
Common equity tier 1 capital(3)	3,983	4,463
Total tier 1 capital	3,983	4,463
Qualifying tier 2 capital		
Paid up capital instruments and subordinated loans	359	467
Total tier 2 capital	359	467
Total regulatory capital	4,342	4,930
Key capital ratios	%	%
Common equity tier 1	26.5	27.5
Tier 1	26.5	27.5
Total capital	28.9	30.4
Risk weighted assets by risk	€m	€m
Credit risk	13,728	14,951
Counterparty risk	150	136
Market risk	90	53
Operational risk	1,054	1,070
Total risk weighted assets	15,022	16,210

Notes:

(1) The capital metrics included in the above table have not been audited for the financial years ended 31 December 2019 and 31 December 2018.

(2) During 2019 all Common Equity Tier 1 regulatory adjustments moved to a full implementation basis from previously following the transitional rules per the CBI publication from 2014 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR'.

(3) The Common Equity Tier 1 capital includes the total comprehensive income for the financial year.

33. Capital resources - unaudited continued

In the management of capital resources, the Group is governed by the UBIDAC and RBS policies which are to maintain a strong capital base, generate capital accretion and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business.

In carrying out these policies the Group has regard to and has complied with the capital supervisory requirements of the ECB and CBI throughout the financial year.