



**Annual Report &
Financial Statements
Financial Year Ended 31
December 2018**



Contents

Contents	1
Directors and Other Information.....	2
Chairman’s Statement.....	3
Directors Report	4
Statement of Directors' Responsibilities	12
Independent auditor’s report.....	14
Financial Statements	19
Explanatory Notes	29

Directors and Other Information

Name	Board of Directors
Aidan Williams	Chairman & Independent non-executive *
Massimiliano Sinagra	Managing Director
Guy Laffineur	Group & Deputy Chairman *
Donal Courtney	Independent non-executive
Jackie Gilroy	Independent non-executive
Attilio Napoli	Group
Andrea Marchetti	Group

Registered Office

La Touche House
International Financial Services Centre
Dublin 1
Registered Number: 240551

Company Secretary

Beatrice Rinaldi
La Touche House
International Financial Services Centre
Dublin 1

Independent Auditor

Deloitte & Touche House,
29 Earlsfort Terrace,
Dublin 2,
Ireland.
D02 AY28.

* On 29th Jan 2018 Mr. Aidan Williams was appointed to the role of Chairman. Mr. Guy Laffineur acted as Deputy Chairman up until this date and continues in his role as Deputy Chairman.

Chairman's Statement

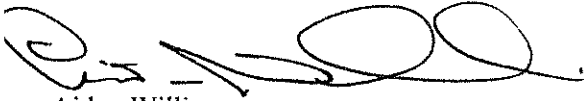
UniCredit Bank Ireland p.l.c. has come through 2018 in a satisfactory manner despite facing a number of challenges. The risk of global trade wars, Brexit and budgetary tensions between Italy and the EU, have led to increased market volatility mixed with ongoing political and economic uncertainty.

Our strategic focus in 2019 will be the continued execution of our current business plan, including;

- The continuation of our role managing a significant part of the Group Liquidity Portfolio which is made up of mainly high quality SSA Assets (Sovereign, Supranational & Agencies);
- The continued reduction of the Inter-company portfolio from around €5 billion to €4 billion, in order to ensure compliance with the Net Stable Funding Ratio ('NSFR') requirement;
- Acting as the bridge to the Irish Financial Services sector for the UniCredit Group to deliver our Markets and Debt Capital Markets platform across a wide range of offerings and services;
- The continued management of all of the relevant risks of the Company, including robust internal control systems, policies and procedures centred on strong Corporate Governance and a culture of transparency.

The financial highlights of 2018 are as follows. We achieved a net profit of €43.7 million compared to €24.8 million last year. The main driver of this increase versus 2017 was the cost incurred unwinding infra-group positions in that period.

Once again, I would like to thank my fellow Board Members, the management team and colleagues for their dedication throughout the year.



Aidan Williams

Chairman

4th February 2019

Directors Report

The Directors present their report together with the audited financial statements of UniCredit Bank Ireland p.l.c. for the financial year ended 31 December 2018.

Definitions

UniCredit Bank Ireland p.l.c.: 'The Company' or 'the Bank', a wholly owned subsidiary of UniCredit S.p.A.

UniCredit S.p.A.: The Company's Parent Company

UniCredit Banking Group: The Parent Company and its fully consolidated entities.

Directors

The Directors named on page 2 'Directors and Other Information' served as Directors throughout 2018. There were no other individuals who acted as a Director during 2018.

Ownership

The Bank is a wholly-owned subsidiary of UniCredit S.p.A., which is incorporated in Italy. Consolidated financial statements as at 31 December 2018 were prepared by UniCredit S.p.A., which incorporate the results of its subsidiary companies. The Group financial statements of UniCredit S.p.A. are available on the Group website: <https://www.unicreditgroup.eu>.

Principal Activities

The principal business of the Company relates to the investment in securities and in wholesale lending activities, which are funded through short term secured and unsecured deals and also by medium term notes. The medium term notes are listed on the Luxembourg stock exchange.

In terms of governance reporting line, UniCredit Bank Ireland p.l.c. is fully segmented with a single reporting line to Group Corporate & Investment Banking incorporating third party assets and short term funding, with Group Corporate Centre focused on group assets and medium term liabilities. The segmentation would give the opportunity to continue the traditional funding role of the Company, with a more investment orientated focus, in order to deliver a successful Group strategy.

Key Performance Indicators ('KPIs')

- Profit to 31 December 2018 amounted to €43.7 million (31 December 2017: €24.8 million).
- Interest income and similar revenues to 31 December 2018 amounted to €398.8 million (31 December 2017: €432.9 million).
- Interest expense and similar charges to 31 December 2018 amounted to €332.8 million (31 December 2017: €358.9 million).
- Net interest income to 31 December 2018 amounted to €66.1 million (31 December 2017: €73.9 million).
- Net write backs on impairment on financial assets of €0.8 million have been recorded in 2018 due to the following reasons;
 - maturity/call of debt securities which resulted in a write-back of ca. €1.7 million;
 - lower Probability of Default "PD" attributed to Parent Company UniCredit S.p.A. following the upgrade in the internal rating in June 2018 resulted in a write-back of ca. €0.7 million;
 - higher PD 1 year on our sovereign positions resulting in a write-down of approximately €1.6 million.
- Net write backs on impairments on financial assets under IAS39 in 2017 was ca. €1.8 million due to the following;

- €0.4 million write back to the collective impairment on loans;
 - €1.4 million adjustment to the impairment on Available for sale financial assets due to a disposal.
- Total operating income to 31 December 2018 amounted to €63.7 million (31 December 2017: €41.7 million).

- 1) The most significant events and transactions for the financial year ended 31 December 2018 were the following: The Company adopted IFRS9 on the 1st January 2018. IFRS9 introduced significant changes in the rules for classifying and measuring financial instruments compared to IAS39 and introduced a new accounting model of impairment for credit exposures based on;
 - i. an “expected losses” approach replacing the IAS39 one based on the recognition of “incurred losses” and
 - ii. on the concept of “lifetime” expected loss. The Company has exercised the option to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging. The impacts on the Bank’s financial statements are detailed in the Part A.2: Transition to “IFRS 9: Financial Instruments” of these notes.
- 2) The Company successfully continued the execution of its strategic plan. Total assets at the end of 2018 amounted to €14.8 billion, which was lower than 2017 year end mainly due to the combined effect of the call/maturity of ca. €3 billion of both securities and loans, the spread widening of the Italian government bonds that had a negative impact on the fair value through other comprehensive income (“FVOCI”) assets and the new classification and measurement effects linked to IFRS9 first time adoption. The majority of the Assets were non-Intercompany as at 31 December 2018, and the percentage of Intercompany Assets over Total Assets is expected to continue to reduce. Total liabilities also decreased since year end 2017 primarily due to decreases in Deposits from customers and matured debt securities in issue. Net interest income equal to €66.1 million is 10.5% lower than the prior financial year, primarily due to the reduction in the FVOCI assets and other assets measured at amortized cost.
- 3) The Company entered into intercompany securities borrowing and funding transactions of €1.9 billion to ensure compliance with the Net Stable Funding Ratio requirement at year end.
- 4) The 2018 Ex-ante contribution for the Single Resolution Fund Levy, amounting to €4.8 million, has recorded a reduction compared to the 2017 levy (31 December 2017: €5.2 million) mostly driven by the reduction in the Bank’s liabilities. The CBI Industry funding levy increased to €1.7 million compared to €1 million in 2017 mostly driven by an increased percentage of funding to cover CBI costs; both levies have been fully accounted for in the ‘Other Administrative Expenses’ line.
- 5) The positive opening balance of the IFRS 9 FVOCI Reserve of €132 million became negative (€10 million) at the end of 2018 due to the Italian Government Bond spread widening as a result of the market response to the political crisis in Italy. This determined a negative result of €98.6 million in the “Total comprehensive income after tax” for year ended 31 December 2018.

Total Shareholders’ equity as of 31 December 2018 amounted to €2.3 billion substantially aligned with year-end 2017 figures but €122 million lower than IFRS9 opening balances mainly driven by the changes in FVOCI Reserve.

As of 31 December 2018 the fully loaded CET1 was 68.3% (31 December 2017: 38.4%); fully loaded meaning the calculation of the CET1 ratio after the expiry of the transitional provisions. With reference to CET1, as of today no transitional provisions are in place.

Principal Risks and Uncertainties

The Company has designed its risk management framework to capture all material risks to which it is exposed and invested substantial time and effort in its risk management strategies, framework, policies, procedures and monitoring techniques. Nevertheless, there is a risk that these may fail to entirely mitigate risks in unanticipated situations or circumstances or to an extent previously considered immaterial. Any residual losses, financial and/or reputational, would have to be borne by the Company in such a situation or circumstance.

Risk factors that could have a material adverse effect on the Company's business, financial condition and results of operations over the next 12 months, are as follows:

- continuing uncertainty of the consequences of the Brexit Referendum, and expected exit of the United Kingdom from EU, including the uncertainty over whether the Company's key Central Counterparty ('CCP') for over-the-counter interest rate swaps, London Clearing House ('LCH'), will retain market access to the EU in the event of a 'hard' Brexit;
- continuing volatility caused by the political situation in Italy, which, as also highlighted above, can impact adversely the markets in which the Company operates or investments presently held in Other Comprehensive Income portfolio;
- inherent risks from macroeconomic conditions in the Company's and Group's main markets, concerns on sovereign debt and financial uncertainties in the EU and the potential effects of those uncertainties on investments presently held by the Company or on Group business activities and results,
- deterioration in the credit quality of the Company's borrowers/counterparties, as well as difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties that could result in significant increases in the Company's impaired loans and impairment provisions,
- the impact of downgrades in the Group's or the Italian Government's credit ratings,
- the impact of the continuing implementation of significant regulatory developments (Basel III and Capital Requirements Directive (CRD) IV),
- the ability of the Company/Group to generate additional liquidity and/or capital, as required, and
- failures in internal controls and procedures leading to financial loss, reputational damage and/or regulatory sanction.

The above list is not exhaustive nor, is it intended to be a definitive list of all risks but the principal risks and uncertainties faced by the Company.

In relation to Brexit and related potential risks, the Company does not envisage any major risk to its current business model which is based on EU and not UK assets. The Company nevertheless is monitoring the progress of the Brexit discussions and it is part of a project coordinated at UniCredit S.p.A. level, which covers all potential impacts.

Distribution of reserves / Dividends

A distribution of reserves of €23.5 million was approved by the Board on 2 May 2018 and paid on 21 May 2018. In 2017 a dividend of €73 million was paid on 9 November 2017. The Directors propose a final dividend for the financial year ended 31 December 2018 of €41.5 million to be paid to UniCredit S.p.A. by the end of May 2019.

Capital Restriction

There is only one class of shares and all of the shares are owned by UniCredit S.p.A. There are no restrictions on the transfer or voting rights of these shares.

Risk Management and Control

The Company, in the normal course of business, is exposed to a number of classes of risk, of which the most significant are credit, market (including interest rate and currency risk), operational, liquidity and funding risk. Details of these risks are provided in *Part E: Information on risks and hedging policies* of the notes to the financial statements. The Company, in preparing the financial statements, follows a documented set of procedures and a control risk framework which is reviewed on a six monthly basis.

Arm's Length Transactions

The Directors have established formal procedures to ensure that all transactions with other members of the ultimate Parent undertaking is carried out on an arm's length basis. The Bank abides by the Group Transfer Pricing Policies and Guidelines which are grounded in the OECD Transfer Pricing Guidelines.

Political Donations

The Electoral Act, 1997 as amended requires companies to disclose all political donations over €200 in aggregate made during the financial period. The Directors have satisfied themselves that no such donations have been made by the Company.

Future Developments

The Directors have reviewed the activities of the Company with the intention of further developing its operations.

Going Concern

The financial statements continue to be prepared on a going concern basis, as the Directors are satisfied that the Company as a whole has the resources to continue in business for the foreseeable future. Refer to the Part A.1: Accounting Policies Section 1 - Statement of Compliance with IFRSs for details.

Accounting records

The measures taken by the Directors to ensure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 to keep adequate accounting records are the use of appropriate systems and procedures and the employment of competent persons. The accounting records are kept at La Touche House, IFSC, Dublin 1.

Independent Auditor

On 6 March 2013 Deloitte Ireland LLP were appointed as auditors. Deloitte Ireland LLP have expressed their willingness to continue in office in accordance with section 383(2) of the Companies Act, 2014.

Regulation/Corporate Governance

UniCredit Bank Ireland P.l.c. is a bank licensed and regulated by the Central Bank of Ireland under the Central Bank Acts 1942 to 2015 and is subject to the Corporate Governance Code for Credit Institutions.

Corporate Governance Statement

The Board retains the primary responsibility for the Corporate Governance within the Bank. Therefore, in line with the Annual Compliance Statement the Board confirms that the Company has complied with the provisions of the Central Bank of Ireland's Corporate Governance Code for Credit Institutions 2015 (the "Code") (the Code is available on www.centralbank.ie).

The Board is responsible for:

- ensuring the effective, prudent and ethical oversight of the Company;
- setting the business strategy for the Company;
- overseeing the amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Company;
- setting the strategy for the on-going management of material risks including inter-alia, liquidity risk;
- implementing a robust and transparent organisational structure with effective communication and reporting channels; and
- a remuneration framework that is in line with the risk strategies of the credit institution;

in accordance with law and applicable regulatory requirements. Please refer to Directors' Responsibilities Statement on pages 11 -12 for further details of the Boards responsibilities.

Internal Controls

With regard to internal controls, the Board is responsible for implementing an adequate and effective internal control framework, which includes a well-functioning risk control, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework. All key control functions within the Company such as internal audit, compliance and risk management are independent of business units and have adequate resources and authority to operate effectively and receive timely, accurate and sufficient detailed information.

The Board is required to understand the risks to which the Bank is exposed and has established a documented risk appetite framework for the Bank which is reviewed on a yearly basis. The Board ensures that the risk management system and internal controls reflect the risk appetite and that there are adequate arrangements in place to ensure there is regular reporting to the Board in compliance with the risk appetite. During 2018 the Board met 7 times.

Board Committees

In order to support the Directors, the Board has delegated authority to 2 sub-committees, the Audit and Risk Committees, to act on its behalf in respect of certain matters. The Board is responsible for the oversight of each of its committees.

Audit Committee

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in respect of the Company and its affairs. The Audit Committee does so by:

- monitoring the financial reporting process, including the integrity of the Company's financial statements and the financial information provided to the Board, the Company's parent, the Central Bank of Ireland, the Companies Registration Office and others, ensuring that they give a "true and fair view" of the Company's financial status;
- recommending to the Board whether to approve the Company's annual accounts;
- monitoring and reviewing the effectiveness of the Company's systems of internal control, internal audit and IT systems;
- liaising with the external auditor and monitoring the statutory audit of the annual accounts and ensuring the effectiveness of that process;
- reviewing and monitoring the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity; and
- reviewing any financial announcements by, and financial reports of, the Company.

The Audit Committee currently comprises two Independent non-executive Directors and a Group Director.

Risk Committee

The primary function of the Risk Committee is to assist the Board to fulfil its oversight responsibilities by advising the Board on the current risk exposures of the Company and future risk strategy and overseeing the risk management function of the Company. The Risk Committee does so by:

- developing and maintaining a risk management system within the Company that is effective and proportionate to the nature, scale and complexity of the risks inherent in the Company's business;
- ensuring that risks within the Company are managed and controlled appropriately; and
- ensuring that strategy is informed by and aligned with the Company's risk appetite.

The Risk Committee currently comprises the Managing Director, one Independent non-executive Director and a Group Director.

Remuneration policy

The Board has approved the Group HR Policy Framework to ensure that all employees are remunerated fairly and to align the business objectives of each Group Company with specific and measurable individual objectives and goals, the business strategy, objectives, and long-term interests of UniCredit Banking Group. This Policy is also structured so as to minimise actual or potential conflicts of interest and is consistent with and promotes sound and effective risk management. This policy was last approved by the Board of Directors on 31 July 2018.

Shareholders

The Company is controlled by the sole shareholder, UniCredit S.p.A.

Board of Directors

The Board of Directors of UniCredit Bank Ireland P.l.c. is comprised of 7 members, 1 Executive Director, 3 Group Directors and 3 Independent non-executive Directors. The composition of the Board is reviewed at least once every three years. The Board establishes its qualitative and quantitative composition deemed most suitable for achieving the correct performance of the functions assigned to it.

Significant transactions

In March 2018, a €500 million intergroup subordinated security was called on the first call date at par in line with the Bank's expectations.

On 27 June 2018 the Bank repaid a subordinated deposit of £115 million to UniCredit Luxembourg on the basis it no longer qualified as regulatory capital. The terms mirrored a hybrid financial instrument issued by UniCredit Luxembourg which was repaid at the call date (27 June 2018). The Bank had been requested by the CBI to provide further evidence of the rationale and interpretation of the rule that led to the repayment of the subordinated deposit no longer considered eligible as Tier 2 capital. Based on further evidence of the rationale and interpretation of the rule provided by UniCredit, CBI and ECB confirmed that the repayment of the subordinated deposit, no longer considered to be eligible as Tier 2 capital, was correct and in line with regulations on regulatory capital.

In September 2018, two subordinated securities held by the Bank with a nominal value of €350 million were called by the respective issuers on their first call dates in line with the Bank's expectations. Due to these positions being re-measured on adoption of IFRS 9 on 1 January 2018 to financial assets mandatorily at fair value, the realised loss from the call back of securities was €6 million. Separately, a loan to a third party bank with a value CHF95 million was prepaid during the same month (this was scheduled to mature in March 2020) at par value.

During 2018, the Bank actively managed and targeted sales of FVOCI securities realising a trading profit of €15.5 million.

Directors' and Secretary's shareholdings and their interests

Directors:	At 1 January 2018	At 31 December 2018
	UniCredit S.p.A. Ordinary Shares	UniCredit S.p.A. Ordinary Shares
M. Sinagra	808	865
A. Marchetti	1,335	1,335
G. Laffineur	-	8,270

Directors not listed above had nil UniCredit S.p.A. Ordinary Shares shareholdings during the year.

Options to subscribe for ordinary shares in UniCredit S.p.A. at 1 January 2018 (or date of appointment if later) and at 31 December 2018 were as follows:

Directors:	Options at 1 January 2018	Options granted since 1 January 2018	Options expired since 1 January 2018	Options at 31 December 2018
M. Sinagra	15,456	-	15,456	-

Directors not listed above had nil UniCredit S.p.A. Ordinary Shares options during the year.

Post balance sheet events

There have been no post balance sheet events. Refer to Part H: Other Explanatory Notes Section 3 Subsequent Events for details.

Compliance Statement

We, the directors of UniCredit Bank Ireland plc (the "Company") hereby say and affirm:

The directors of the Company acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in the Companies Act 2014 (the "2014 Act")) and, as required by Section 225 of the 2014 Act, the directors confirm that:

- a compliance policy statement setting out the Company's policies with regard to complying with the relevant obligations under the 2014 Act has been prepared;
- arrangements and structures have been put in place that they consider sufficient to secure material compliance with the Company's relevant obligations; and
- a review of the arrangements and structures has been conducted during the financial year to which this directors' report relates.

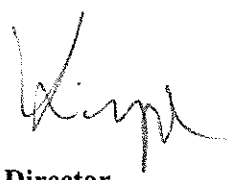
Statement of Relevant Audit information per section 330 of the Companies Act 2014

- So far as the Directors are aware there is no relevant audit information of which auditors are unaware and
- The Directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant information and to establish that the Company's statutory auditors are aware of that information.

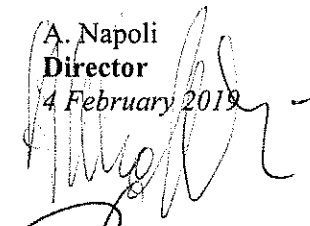
On behalf of the Board



A. Williams
Chairman
4 February 2019



M. Sinagra
Managing Director
4 February 2019



A. Napoli
Director
4 February 2019



D. Courtney
Director
4 February 2019

Statement of Directors' Responsibilities

The Directors' are responsible for preparing the Chairman's report, Directors' report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. Under the 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 company as at the financial year end date and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014.

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

- select suitable accounting policies for the Company financial statements and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the 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 Company will continue in business.

The Directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the Company 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 Company 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 Company's website.

Responsibility statement in accordance with the Transparency Regulations:

The Directors whose names and functions are listed on page 2 confirm that to the best of each Director's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position of the Company and the profit of the Company for the financial year ended 31 December 2018; and
- the Director's Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties faced by the company.

On behalf of the Board

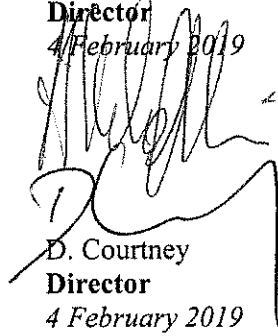


A. Williams
Chairman
4 February 2019



M. Sinagra
Managing Director
4 February 2019

A. Napoli
Director
4 February 2019



D. Courtney
Director
4 February 2019

Independent auditor's report to the members of UniCredit Bank Ireland plc

Report on the audit of the financial statements

Opinion on the financial statements of UniCredit Bank Ireland plc (the 'company')

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2018 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Balance Sheet;
- the Income Statement;
- the Statement of Other Comprehensive Income;
- the Statement of Changes in Shareholder's Equity;
- the Cash Flow Statement; and
- the related notes A1 to H5, including a summary of significant accounting policies as set out in note A1.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

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 described below in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, 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 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 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.

Key Audit Matters

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

Provisions for Impairment

Key audit matter description

As at 31 December 2018, the provision for impairment on Financial Assets at Amortised Cost is €4.1 million and on Financial Assets at Fair Value Through Other Comprehensive Income is €1.6 million. This represents the estimation of expected losses at the year-end.



As of 1 January 2018, the Company adopted the accounting standard "IFRS 9: Financial instruments". The adoption of IFRS 9 resulted in reclassifications of financial assets and the implementation of an Expected Credit Loss (ECL) model.

The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data, and has been identified as a significant risk of material misstatement.

There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated. This includes the risk that the ECL model is not compliant with the requirements of IFRS 9 and the risk that data is not complete and accurate.

The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note A1 to the financial statements on pages 31 and 33. Refer also to notes A.2 and E in the financial statements

How the scope of our audit responded to the key audit matter

We undertook an assessment of, and challenged the company's' new provisioning methodology and compared it with the requirements of IFRS 9.

We reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and Interest test for relevant financial instruments.



We evaluated the design & implementation and tested the operating effectiveness of the company's controls and IT controls around credit management, data inputs to loan loss provisioning, ECL model and provision assessment.

We assessed management's assumptions in relation 'significant increase in credit risk' and the allocation of loans to the three stages. We tested loans to challenge that they have been included in the correct stage in accordance with the company's methodology and IFRS 9.

We reviewed the output of the ECL model and provision assessment.

We reviewed the IFRS 7 disclosures for compliance with the amendments relating to IFRS 9.

As a result of our work we considered the impairment provision to be in a reasonable range.

Revenue Recognition

Key audit matter description

The company's accounting policy for the recognition of revenue is disclosed in note A1 to the financial statements.



Revenue recognition relating to significant trading transactions impacting profit in the current year is a key audit matter. This is due to materiality of such transactions and the fact that they may have complex structures and contractual arrangements or may involve other Group entities as counterparties, and has been identified as a significant risk of material misstatement.

There is a risk that revenue recognised on these transactions has not been accurately recognised in accordance with the company's accounting policy or IFRS.

How the scope of our audit responded to the key audit matter



We assessed the revenue recognition policy applied by the company for compliance with IFRS.

We evaluated the design & implementation and tested the operating effectiveness of controls around trade input, and the calculation of gains and losses; and general IT controls relating to the systems that calculate the gains and losses. We also evaluated the financial reporting and risk management controls around transaction approval and review.

We obtained an understanding of the nature and rationale for significant trading transactions. We independently tested the accounting entries to underlying contractual arrangements and verified settlement as appropriate. We reviewed the pricing and contractual terms of transactions involving other Group entities as counterparties and ensured that the revenue recognised is consistent with the company's accounting policy and IFRS.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be €5,000,000 which is approximately 10% of expected pre-tax profit. We have considered the expected pre-tax profit adjusting for any once-off transactions to be the critical component for determining materiality because the key driver of performance is expected pre-tax profit and that economic decisions of a reasonably knowledgeable person would be changed or influenced by a change in profitability. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements and complexity of the company's operations.

We agreed with the Audit Committee that we would report to them any audit differences in excess of €250,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including the controls within the company, and assessing the risks of material misstatement related to the financial statements of the company. Based on that understanding the majority of the work was completed in UniCredit Bank Ireland plc with some support relating to intercompany balance, IFRS 9 and general IT controls from the audit team of the ultimate parent.

We focused our audit scope, and the extent of our testing, based on our assessment of the risks of material misstatement and of the materiality determined. The risks of material misstatement that had the greatest effect on our audit are identified as key audit matters in the "Key Audit Matters" section of our report.

Other information

The directors are responsible for the other information. The 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have 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.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may be reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the

audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This 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.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

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

- 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.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages 7 to 9 that, in our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 Companies Act 2014 is consistent with the company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014. Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

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.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by UniCredit Bank Ireland plc Board of Directors on 6 March 2013 to audit the financial statements for the financial year 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2013 to 31 December 2018.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the company in conducting the audit.

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Niamh Geraghty
Niamh Geraghty
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 4 February 2014

Financial Statements

<i>Balance Sheet</i>	20
<i>Income Statement</i>	22
<i>Statement of Other Comprehensive Income</i>	22
<i>Statement of Changes in Shareholder's Equity</i>	23
<i>Cash Flow Statement</i>	25

Balance Sheet as at 31 December 2018 under IFRS 9 and 31 December 2017 under IAS 39 respectively

	AMOUNTS AS AT	
	31 December 2018	31 December 2017
	€'000	€'000
Balance sheet - Assets		
20 Financial assets at fair value through the profit and loss:		
a) financial assets held for trading	2,206	-
c) financial assets mandatorily at fair value	48,343	-
<i>Financial assets held for trading (ex IAS 39 Item N. 20)</i>	-	592
30 Financial assets at fair value through other comprehensive income	8,147,196	-
<i>Available-for-sale financial assets (ex IAS 39 Item N. 40)</i>	-	10,055,362
40 Financial assets at amortised cost:		
a) loans and receivables with Banks	4,520,239	-
b) loans and receivables with Customers	1,713,221	-
<i>Loans and receivables with banks (ex IAS 39 Item N. 60)</i>	-	6,773,114
<i>Loans and receivables with customers (ex IAS 39 Item N. 70)</i>	-	1,106,021
50 Hedging derivatives	55,838	79,210
60 Changes in fair value of portfolio hedged items (+/-)	313,788	14,743
80 Property, plant and equipment	126	119
90 Intangible assets	1,443	2,295
100 Tax assets		
a) current tax assets	695	4,996
b) deferred tax assets	735	-
120 Other assets	621	365
Total Assets	14,804,451	18,036,817

	AMOUNTS AS AT	
	31 December 2018	31 December 2017
	€'000	€'000
Balance sheet - Liabilities		
10 Financial liabilities at amortised cost:		
a) deposits from banks	5,942,460	-
b) deposits from customers	3,630,799	-
c) debt securities in issue	2,148,820	-
<i>Deposits from banks (ex IAS 39 Item N. 10)</i>	-	4,204,714
<i>Deposits from customers (ex IAS 39 Item N. 20)</i>	-	5,258,077
<i>Debt securities in issue (ex IAS 39 Item N. 30)</i>	-	5,256,403
20 Financial liabilities held for trading	1,318	-
<i>Financial liabilities held for trading (ex IAS 39 Item N. 40)</i>		7,027
40 Hedging derivatives	753,973	923,162
50 Changes in fair value of portfolio hedged items (+/-)	23,333	43,015
60 Tax liabilities		
a) current tax liabilities	-	-
b) deferred tax liabilities	-	7,005
80 Other liabilities	2,745	2,425
Total Liabilities	12,503,448	15,701,828

	AMOUNTS AS AT	
	31 December 2018	31 December 2017
	€'000	€'000
Balance sheet - Shareholders' equity		
110 Revaluation reserves through the OCI	(10,054)	-
<i>Revaluation reserve (ex IAS 39 Item N. 140)</i>		49,033
140 Reserves		
a) Capital contribution	753,419	753,419
b) Capital redemption reserve	45,802	45,802
c) Profit and loss account - at start of year	143,616	191,840
d) Distribution of reserve / Dividend paid	(23,500)	(73,000)
e) First Time Adoption Reserve	4,909	-
180 Net profit for the financial year	43,692	24,776
160 Issued capital	1,343,119	1,343,119
Total Shareholders' Equity	2,301,003	2,334,989
Total liabilities and shareholders' equity	14,804,451	18,036,817

The notes on pages 29 to 103 form part of these financial statements. All results are from continuing activities.

On behalf of the Board

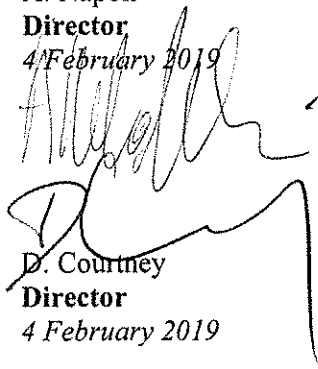


A. Williams
Chairman
4 February 2019



M. Sinagra
Managing Director
4 February 2019

A. Napoli
Director
4 February 2019



D. Courtney
Director
4 February 2019

Income Statement

Financial Year Ended 31 December 2018 under IFRS 9 and 31 December 2017 under IAS 39 respectively

	31 December 2018	31 December 2017
	€'000	€'000
Items – Part D		
10 Interest income and similar revenues	387,070	432,870
20 Interest expense and similar charges	(320,987)	(358,929)
30 Net Interest Income	66,083	73,941
50 Fee and commission expense	(5,786)	(5,188)
60 Net fees and commissions	(5,786)	(5,188)
80 Gains and (Losses) on financial assets and liabilities held for trading	13,242	-
<i>Gains (Losses) on financial assets and liabilities held for trading (ex IAS 39 Item N. 80)</i>	-	937
90 Fair Value adjustments in hedge accounting	(2,022)	3,435
100 Gains/(losses) on disposal of:		
a) financial assets at amortised cost	646	-
b) financials assets at fair value through other comprehensive income	15,512	-
c) financial liabilities at amortised cost	(747)	-
<i>Gains (Losses) on disposal and repurchase of: (ex IAS 39 Item N. 100)</i>		
a) loans	-	(39,346)
b) available-for-sale financial assets	-	9,328
c) held-to-maturity investments	-	(1,371)
110 Gains/(losses) on:		
a) financial assets/liabilities designated at fair value through profit or loss	-	-
b) financial assets mandatorily at fair value	(23,262)	-
<i>Gains (Losses) on financial assets/liabilities at fair value through profit or loss (ex IAS 39 Item N. 110)</i>	-	-
120 Total operating income	63,666	41,736
130 Impairment (provisions)/write-back on:		
a) financial assets at amortised cost	1,653	-
b) financial assets at fair value through other comprehensive income	(821)	-
<i>Net losses/recoveries on impairment: (ex IAS 39 Item N. 130)</i>		
a) loans	-	354
b) available-for-sale financial assets	-	1,435
150 Net profit from financial activities	64,498	43,525
160 Administrative costs		
a) Staff expenses	(3,955)	(4,542)
b) Other administrative expenses	(9,716)	(9,789)
180 Depreciation on property, plant and equipment	(93)	(93)
190 Amortisation of intangible assets	(1,075)	(963)
200 Other operating income	341	207
210 Operating costs	(14,498)	(15,180)
260 Profit before tax from continuing operations	50,000	28,345
270 Tax expense related to profit from continuing operations	(6,308)	(3,569)
300 Profit for the financial period (all attributable to shareholders)	43,692	24,776

Statement of Other Comprehensive Income

Financial Year Ended 31 December 2018 under IFRS 9 and 31 December 2017 under IAS 39 respectively

	31 December 2018	31 December 2017
	€'000	€'000
10 Profit for the financial period	43,692	24,776
Other comprehensive income after tax		
140 Financial assets at fair value through Other Comprehensive Income		
- Net change in fair value	(142,300)	90,361
170 Total of other comprehensive income after tax	(142,300)	90,361
180 Total comprehensive income after tax	(98,608)	115,137

The notes on pages 29 to 103 form part of these financial statements. All results are from continuing activities.

Statement of Changes in Shareholders' Equity
Financial Year Ended 31 December 2018

	Share capital	Capital contribution	Other undominated capital	OCI reserve	First Time Adoption Reserve	Profit and Loss account	Total
	€'000	€,000	€'000	€'000	€'000	€'000	€,000
Closing balances at 31 December 2017 under IAS 39	1,343,119	753,419	45,802	49,033	-	143,616	2,334,989
First time adoption of IFRS 9 reclassifications	-	-	-	83,212	4,909	-	88,121
Opening balances at 1 January 2018 under IFRS 9	1,343,119	753,419	45,802	132,245	4,909	143,616	2,423,110
Profit attributable to the equity shareholders	-	-	-	-	-	43,692	43,692
Other comprehensive income							
Change in fair value through other comprehensive income of financial assets							
- other comprehensive income financial assets	-	-	-	(146,368)	-	-	(146,368)
- hedge	-	-	-	(16,261)	-	-	(16,261)
Cash flow hedges:							
- Effective portion of changes in fair value	-	-	-	-	-	-	-
- Net amount transferred to profit or loss	-	-	-	-	-	-	-
Movement in deferred tax	-	-	-	20,329	-	-	20,329
Total other comprehensive income	-	-	-	(142,300)	-	-	(142,300)
Total comprehensive income	-	-	-	(142,300)	-	43,692	(98,608)
Distribution of reserves	-	-	-	-	-	(23,500)	(23,500)
Closing balances as at 31 December 2018	1,343,119	753,419	45,802	(10,054)	4,909	163,808	2,301,002

Statement of Changes in Shareholders' Equity

Financial Year ended 31 December 2017

	Share capital	Capital contribution	Other un-denominated capital	Available for safe reserve	Cash Flow Hedge Reserve	Profit and Loss account	Total
	€'000	€,000	€'000	€'000	€'000	€'000	€,000
Opening balances at 1 January 2017	1,343,119	753,419	45,802	(41,328)	-	191,840	2,292,852
Profit attributable to the equity shareholders	-	-	-	-	-	24,776	24,776
Other comprehensive income							
Change in fair value of available for sale financial assets	-	-	-	(137,357)	-	-	(137,357)
- available for sale financial assets - hedge accounting	-	-	-	240,627	-	-	240,627
Cash flow hedges:							
- Effective portion of changes in fair value	-	-	-	-	-	-	-
- Net amount transferred to profit or loss	-	-	-	-	-	-	-
Movement in deferred tax	-	-	-	(12,909)	-	-	(12,909)
Total other comprehensive income	-	-	-	90,361	-	-	90,361
Total comprehensive income	-	-	-	90,361	-	24,776	115,137
Dividend distribution	-	-	-	-	-	(73,000)	(73,000)
Closing balances as at 31 December 2017	1,343,119	753,419	45,802	49,033	-	143,616	2,334,989

Cash Flow Statement (indirect method)

Financial Year Ended 31 December 2018

31 December 2018

€'000

A. Operating Activities	
1. Operations	55,378
- profit for the financial period	43,692
- capital (gains)/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss and financial assets mandatory at fair value	10,020
- capital (gains)/losses on hedging operations (+/-)	2,022
- net write-backs due to impairment (+/-)	(832)
- net write-offs on tangible and intangible assets (+/-)	1,168
- tax paid (+/-)	(7,000)
- Add back tax charge for the financial period	6,308
2. Liquidity generated/absorbed by financial assets	2,758,350
- financial assets held for trading	11,628
- financial assets mandatory at fair value	(71,605)
- financial assets at fair value through other comprehensive income	1,907,345
- loans and receivables with banks	1,656,741
- loans and receivables with customers	(471,374)
- other assets	(274,385)
3. Liquidity generated/absorbed by financial liabilities	(144,282)
- deposits from banks	1,737,746
- deposits from customers	(1,627,278)
- financial liabilities held for trading	(5,708)
- other liabilities	(249,042)
Net liquidity generated/absorbed by operating activities	2,669,446
B. Investment Activities	
1. Net Liquidity by:	
- tangible and intangible assets	(324)
Net liquidity generated/absorbed by investment activities	(324)
C. Financing Activities	
- debt certificates including bonds	(3,107,583)
- Distribution to Parent Company	(23,500)
Net liquidity generated/absorbed by financing activities	(3,131,083)
Increase/Decrease in cash and cash equivalents	(461,961)
Cash and cash equivalents at 1 January	813,556
Cash flow	(461,961)
Cash and cash equivalents at 31 December	351,595

KEY: (+) generated; (-) absorbed

Cash Flow Statement (indirect method) (continued)

Financial Year Ended 31 December 2018

Reconciliation of Cash and Cash Equivalents	31 December 2018
	€'000

Cash and cash balances	-
Deposit and current accounts with banks	73,127
Deposits with customers	278,468
Cash and cash equivalents total at 31 December	351,595

Included in operating activities are the following:	31 December 2018
	€'000

Interest received	410,826
Interest paid	325,715

Changes in liabilities arising from financial activities

Financial Year Ended 31 December 2018

Reconciliation of liquidity generated/absorbed by financing activities	01 January 2018	Changes	31 December 2018
	€'000	€'000	€'000
Debt certificates including bonds*	5,256,403	(3,107,583)	2,148,820
Distribution to Parent Company	-	(23,500)	-
Liquidity generated/absorbed by financing activities	5,256,403	(3,131,083)	2,148,820

* refer to Part B: Balance Sheet Notes – Liabilities Item 10C - Debt securities in issue for the breakdown of this item.

Cash Flow Statement (indirect method)

Financial Year Ended 31 December 2017

	31 December 2017
	€'000
A. Operating Activities	
1. Operations	14,640
- profit for the financial period	24,776
- capital (gains)/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/-)	(937)
- capital (gains)/losses on hedging operations (+/-)	(3,435)
- net write-backs due to impairment (+/-)	(1,789)
- net write-offs on tangible and intangible assets (+/-)	1,056
- tax paid (+/-)	(8,600)
- Add back tax charge for the financial period	3,569
2. Liquidity generated/absorbed by financial assets	2,385,318
- financial assets held for trading	6,689
- available-for-sale financial assets	752,350
- loans and receivables with banks	1,307,490
- loans and receivables with customers	235,046
- other assets	83,743
3. Liquidity generated/absorbed by financial liabilities	(1,685,757)
- deposits from banks	337,505
- deposits from customers	(1,662,290)
- financial liabilities held for trading	4,095
- other liabilities	(365,067)
Net liquidity generated/absorbed by operating activities	714,201
B. Investment Activities	
1. Net Liquidity by:	
- tangible and intangible assets	(588)
Net liquidity generated/absorbed by investment activities	(588)
C. Financing Activities	
- debt certificates including bonds	(211,824)
- dividend Paid to Parent Company	(73,000)
Net liquidity generated/absorbed by funding activities	(284,824)
Increase/Decrease in cash and cash equivalents	428,789
Cash and cash equivalents at 1 January	384,767
Cash flow	428,789
Cash and cash equivalents at 31 December	813,556

KEY: (+) generated; (-) absorbed

Cash Flow Statement (indirect method) (continued)

Financial Year Ended 31 December 2017

Reconciliation of Cash and Cash Equivalents	31 December 2017
	€'000
Cash and cash balances	-
Deposit and current accounts with banks	671,208
Deposits with customers	142,348
Cash and cash equivalents total at 31 December	813,556
Included in operating activities are the following:	31 December 2017
	€'000
Interest received	431,053
Interest paid	359,345

Explanatory Notes

Part A.1: Accounting Policies

Section 1 - Statement of Compliance with IFRSs

The financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB), including the interpretation documents issued by the SIC and the IFRIC as adopted by the EU and applicable at 31 December 2018.

In compliance with IFRS9 paragraph 7.2.15, the Company has not restated prior periods. Disclosures have been made in Part A.2: Transition to “IFRS9: Financial Instruments” including comparisons between the 31 December 2018 financial statements under IFRS9 and the 31 December 2017 financial statements under IAS39.

The same accounting policies and methods of computation have been followed in these financial statements as were followed in the 2017 annual report with the exception of the adoption of IFRS9 and IFRS15 as discussed below;

- Effective from 1 January 2018 IFRS9 Financial Instruments replaced IAS39 Financial Instruments: Recognition and Measurement. The Bank adopted IFRS9 at this date. The impact of the adoption of IFRS9 on the financial statements is detailed in Part A.2: Transition to “IFRS9: Financial Instruments” of these notes;
- IFRS15 Revenue from contracts to customers superseded the set of international accounting principles and interpretations on revenue recognition and in particular IAS18 Revenue; it became effective on 1 January 2018. Due to the business activities of the Company, which is primarily focused on investment in securities and wholesale lending activities, the impact of IFRS15 on the Company has been assessed to be minimal. The impact of the adoption of IFRS15 on the financial statements is detailed in Part A.3: Transition to “IFRS15: Revenue” of these notes;

The Directors have considered all other standards and pronouncements newly effective for the financial period ended 31 December 2018 and have concluded that they have no material impact on the financial statements.

The financial statements comply with applicable requirements of Irish Statute comprising the Companies Act 2014.

The financial statements continue to be prepared on a going concern basis, as the Directors are satisfied that the Company as a whole has the resources to continue in business for the foreseeable future. Refer to the Directors Report for details.

Section 2 - General Basis of Preparation

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management’s judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are in the areas of impairment of financial assets, and the fair value of certain financial assets and financial liabilities. Refer to accounting estimates and key

judgements paragraphs that follow for more details. There were significant changes to the methodology applied in the calculation of estimates relating to impairments due to the adoption of IFRS9. The impact on the calculation of impairment due to the adoption of IFRS9 is detailed in Part A.2: Transition to “IFRS9: Financial Instruments” of these notes.

The financial statements comprise of the Balance Sheet, the Income Statement, the Statement of Other Comprehensive Income, the Statement of Changes in Shareholders’ Equity, the Cash Flow Statement and the Notes to the financial statements.

Foreign Currency Translation

Functional and presentational currency

The Company’s financial statements are presented in euro, which is the functional currency of the Company’s operations, rounded to the nearest thousand.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year–end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Transactions in foreign currencies are translated at the exchange rate as at the date of the transaction.

Translation differences on non-monetary items, such as securities held at fair value through the profit and loss and other comprehensive income, are reported as part of the fair value gain or loss. Translation differences on the amortised cost balances of securities classified as financial assets at fair value through other comprehensive income and financial asset mandatorily at fair value are included in the income statement. Other translation differences arising on securities classified financial assets at fair value through other comprehensive income are included in other comprehensive income.

Interest Income and Expense

Interest income and expenses and similar income and expense items relate to financial assets and liabilities, i.e. (i) financial assets and liabilities held for trading, (ii) financial assets mandatorily at fair value, (iii) financials assets at fair value through other comprehensive income, (iv) financial assets and liabilities at amortised cost such as loans and receivables with Banks and Customers, deposits from Banks and Customers, and securities in issue.

Interest also includes the net credit or debit balance of differentials and margins on financial derivatives (i.e. hedging interest-bearing assets and liabilities).

Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant instrument’s expected life. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, including those for estimated early redemptions, directly attributable transaction costs and all other premiums or discounts.

Fee and Commission Income (including Other Operating Income) and Expense

Fees and commissions Income and Expense are generally recognised on an accruals basis when the service has been provided, unless it is appropriate to include them in the effective interest rate calculation.

Commitment fees, together with related costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised on a straight line basis over the term of the commitment.

Other operating income is accounted for in the income statement as the Company satisfies the performance obligation embedded in the contract, according to “IFRS15 Revenue from Contracts with Customers” rules.

In particular:

- if the performance obligation is satisfied at a specific moment (“point in time”), the related revenue is recognized in income statements when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in income statement in order to reflect the progress of satisfaction of such obligation.

Financial Assets

As a result of the entry into force of the new accounting standard, the Company has reclassified financial assets as at 1 January 2018 into the new categories.

In this regard, it should be noted that this classification is based on the business model and characteristics of the contractual cash flows. The analysis of the business model was conducted by assessing the individual assets of the Company and by allocating a specific business model to each of them.

In this regard, the assets that make up the Company’s portfolio have been assigned “held-to-collect” or “held-to-collect and sell” business models according to holding intentions and expected turnover of the financial instruments. The derivatives in the Company’s portfolio that are trading in nature have been assigned an “other” business model in order to reflect trading intentions.

For the purposes of classifying financial instruments in the new categories envisaged by IFRS9, the business model analysis must be complemented by an analysis of contractual flows (“SPPI Test”). The (“SPPI Test”) is defined as ‘Solely payments of principal and interest on the principal amount outstanding’.

In this regard, the Company has developed processes that also leverage Group systems aimed at analysing the portfolio of securities and loans in order to assess whether the features of their contractual cash flows allows their measurement at amortized cost (“held to collect” portfolio) or at fair value through comprehensive income (“held to collect and sell” portfolio”).

The analysis in question was carried out contract by contract locally analysing the contract features with respect to IFRS9 requirements, and/or by using external data providers.

In application of the aforementioned rules, the Company’s financial assets have been classified as follows:

- Asset item 20 a) Financial assets held for trading;

- Asset item 20 c) Financial assets mandatorily at fair value;
- Asset item 30 Financial assets at fair value through Comprehensive income;
- Asset item 40 Financial assets at amortised cost.

Asset item 20 a) Financial assets held for trading

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- it is a derivative contract not designated under hedge accounting, including derivatives with positive fair value embedded in financial liabilities other than those valued at fair value with recognition of income effects through profit or loss.

As with other financial instruments, on initial recognition, and at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and revenue, which are recognized in profit and loss although directly attributable to the financial assets. Derivatives are recognized at trade date.

After initial recognition these financial assets are measured at their fair value through profit or loss.

A derivative is a financial instrument or other contract that has all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the ‘underlying’) provided that in case of non-financial variable, this is not specific of one of the parties to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

The Company had foreign exchange forwards and interest rate swaps classified as financial assets held for trading as at 31 December 2018 and also as at 31 December 2017.

Asset item 20 c) Financial assets mandatorily at fair value

A financial asset is classified as a financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest and have therefore failed the SPPI test;

These assets are accounted for alike “Financial assets held for trading”

Asset item 30 Financial assets at fair value through other comprehensive income

A financial asset is classified as at fair value through other comprehensive income if:

- its business model is held to collect and sell;
- its cash flows are solely the payment of principal and interest.

On initial recognition, and at settlement date, a financial asset is measured at fair value, which is usually equal to the consideration paid, plus transaction costs and revenues directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortized cost criterion. The gains and losses arising from changes in fair value are recognized in the statement of other comprehensive income and shown under *item 110. Revaluation reserves* in shareholders' equity.

These instruments are tested for impairment as illustrated in the following section. Impairment losses are recorded in the income statement with contra-entry in the statement of other comprehensive income and also shown *under item 110. Revaluation reserves* in shareholders' equity.

In the event of disposal, the accumulated profits and losses are recorded in the income statement.

Asset item 40 Financial assets at amortised cost

A financial asset is classified within the financial assets measured at amortised cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

On initial recognition, and at settlement date, financial assets at amortized cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument.

After initial recognition at fair value, these assets are measured at amortized cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

Impairment of financial assets

Loans and debt securities classified as financial assets at amortized cost, financial assets at fair value through comprehensive income and relevant off-balance sheet exposures are tested for impairment as required by IFRS9.

In this regard, these instruments are classified in stage 1, stage 2 or stage 3 according to their absolute or relative credit quality with respect to initial disbursement. Specifically:

- Stage 1: includes (i) newly issued or acquired credit exposures, (ii) exposures for which credit risk has not significantly deteriorated since initial recognition, (iii) exposures having low credit risk (low credit risk exemption);
- Stage 2: includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition;
- Stage 3: includes impaired credit exposures.

For exposures in stage 1, impairment is equal to the expected loss calculated over a time horizon of up to one year. For exposures in stages 2 or 3, impairment is equal to the expected loss calculated over a time horizon corresponding to the entire life of the exposure.

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses. The Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

As at 31 December 2018 the Company had no off-balance sheet exposures and only had Stage 1 exposures.

In order to meet the requirements of the standard, the Company leverages specific models that have been developed at Group level to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulations.

As mentioned in the previous paragraph, the Group has developed specific models for calculating the expected loss; such models are based on the parameters of PD, LGD and EAD and on the effective interest rate. In particular:

- the PD (Probability of Default), represents the probability of occurrence of an event of default of the credit exposure, in a defined time lag (i.e. 1 year);
- the LGD (Loss Given Default), represents the percentage of the estimated loss, and thus the expected rate of recovery, at the date of occurrence of the default event of the credit exposure;
- the EAD (Exposure at Default), represents the measure of the exposure at the time of the event of default of the credit exposure;
- the Effective interest rate is the discount rate that expresses of the time value of money.

Further details are available in Part E: Information on risks and hedging policies Section 5 Parameters and risk definitions used for calculating value adjustments and stage allocations.

Financial Liabilities

Financial liabilities include deposits taken, medium term notes, other debt securities issued and derivatives. The Company classifies its financial liabilities in the following categories:

- Liability item 10 Financial liabilities at amortised cost;
- Liability item 20 Financial liabilities held for trading.

Liability item 10 Financial liabilities at amortised cost

Liabilities, deposits and debt securities in issue are initially recognised at fair value, which is normally the consideration, received less transaction costs directly attributable to the financial liability. Subsequently, these instruments are measured at amortised cost using the effective interest method.

The Company sub classifies its financial liabilities at amortised cost in the following categories:

- a) deposits from banks
- b) deposits from customers
- c) debt securities in issue

Liability item 20 Financial liabilities held for trading

Financial liabilities held for trading include at fair value to profit and loss:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e. an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

Financial liabilities held for trading, including derivatives, are measured at fair value on initial recognition and during the life of the transaction.

The Company had foreign exchange forwards and interest rate swaps classified as financial liabilities held for trading as at 31 December 2018 and also as at 31 December 2017.

Accounting policies under IAS 39 have been included in a dedicated annex (annex A) at the end of the explanatory notes.

Offsetting Financial Instruments

Financial assets and liabilities must be offset and the net amount reported in the Balance Sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Sale and Repurchase Agreements

Securities may be lent or sold subject to a commitment to repurchase them (“repos”). Such securities are retained on the Balance Sheet when substantially all the risks and rewards of ownership remain with the Company. The liability to the counterparty is included separately on the Balance Sheet as appropriate.

Similarly when securities are purchased subject to a commitment to resell (“reverse repo”), or where the Company borrows securities but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the Balance Sheet. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method.

Securities, Borrowing and Lending

Securities lending agreements are transactions in which the Bank lends or borrows securities for a fee. The Bank continues to recognise the securities in their entirety in the balance sheet because it retains substantially all of the risks and rewards of ownership. For securities borrowed the securities remain off-balance sheet as substantially all of the risks and rewards of ownership are not transferred.

Income Tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related income tax is also recognised respectively in other comprehensive income or equity. Current tax is the expected tax payable on the taxable income for the financial year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment in respect of previous financial years.

Deferred income tax is provided, using the Balance Sheet liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the Balance Sheet date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and provision for impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss item 160. Administrative costs b) other administrative expense.

Property, plant and equipment include leasehold improvements relating to assets which can be separately identified. Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item 120. Other assets.

Depreciation is charged so as to write down the cost of assets over their estimated useful life using the straight line method. Residual useful life is usually assessed as follows:

- Leasehold improvements: up to 8 years
- Computer equipment: up to 5 years
- Office equipment: up to 3 years

Intangible Assets

Computer software is stated at cost, less amortisation and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Company, and where it is probable that future economic benefits that exceed costs will flow from its use over more than one financial year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 years or 5 years, subject to the associated useful life using the straight line method, from the date it is brought into use.

Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, unrestricted balance with Central Bank and demand deposits, and short-term (with a maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost in the Balance Sheet.

Share Capital

Issued financial instruments or their components are classified as equity where they meet the definition of equity in IAS 32 and confer on the holder a residual interest in the assets of the Company.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

Pension Obligations

The Company operates a defined contribution pension scheme. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Accounting Estimates

Under the IFRS, management must make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the accounts, as well as the disclosure concerning contingent assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

In particular, estimated figures have been used for the recognition and measurement of some of the items in the Financial Statements as at 31 December 2018, as required by the accounting policies and regulations described above. These estimates are largely based on calculations of future recoverability of the values recognised in the accounts according to the rules laid down in current legislation and have been made on the assumption of a going concern.

Valuation is particularly complex because of the uncertainty in the macroeconomic and market environment; the parameters and information used may be significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out. Estimates and assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods. Valuation estimates include the choice of valuation techniques (e.g. Net Present Value of cash flows) employed in determination of fair values and determination of hierarchy levels. With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Part E: Information on risks and hedging policies Section 10 – Financial Instruments Fair Value.

Valuation estimates relate to asset item 20 Financial assets at fair value through the profit and loss, asset item 30 Financial assets at fair value through other comprehensive income, asset item 50 Hedging derivatives and asset item 60 Changes in fair value of portfolio hedged items (+/-), liability item 20 Financial liabilities held for trading, liability item 40 Hedging derivatives, liability item 50 Changes in fair value of portfolio hedged items (+/-) and liability item 110 Revaluation reserves through the OCI. Refer to the in the Financial Statements as at 31 December 2018 for the carrying amounts of the asset and liability items mentioned.

Uncertainty affecting estimates is generally inherent, among others, in the measurement of fair value of financial instruments not listed in active markets, loans and receivables, and, in general, any other financial assets/liabilities, intangible assets and property, plant and equipment, whose assessment may significantly change over time according to the trend in (i) domestic and international socio-economic conditions and subsequent impact on the Bank's profitability and customers' creditworthiness; and (ii) financial markets which affect changes in interest rates, prices and actuarial assumptions.

With regard to credit exposures evaluation it should be noted that, with the initial application of IFRS9, such estimation is based on forward looking information and, in particular on the evolution of macroeconomic scenarios used in the loan loss provisions calculation. Further details are available in Part A.2: Transition to "IFRS 9: Financial Instruments" Section 6 Impairment and Part E: Information on risks and hedging policies.

Credit exposure estimation relate to asset item 30 Financial assets at fair value through other comprehensive income, asset item 40 Financial assets at amortised cost and liability item 110 Revaluation reserves through the OCI. Refer to the in the Financial Statements as at 31 December 2018 for the carrying amounts of the asset and liability items mentioned.

Similarly, risks and uncertainties associated with a macroeconomic scenario involving tensions in international trade, an increase in rates and spreads, with specific reference to certain geographical areas and the contractions of quantitative easing measures so far implemented by Central Banks, were considered in the valuation of assets.

Refer to the following sections for sensitivity analysis related to accounting estimates:

- Credit exposure estimation: Part E: Information on risks and hedging policies Section 5 Parameters and risk definitions used for calculating value adjustments and stage allocations.
- Valuation estimation: Part E: Information on risks and hedging policies Section 9 – Market Risk.
- Valuation estimation: Part E: Information on risks and hedging policies Section 10 - Fair Value Disclosures.

Key judgements

Key judgements include IFRS 9 classification related criteria such as business model assessment and determining if a financial asset meets the SPPI criteria. Judgements used when the Company is assessing whether a financial asset is to be considered under business model “held to collect” or “held to collect and sell” include why the instrument has been acquired or originated and the expected turnover of financial asset. Similarly, when the Company is performing contract by contract analysis of the contractual cash flows (“SPPI Test”) on a financial asset it may make judgements in relation to certain features of the asset, in the scenario where it is not certain if the SPPI criteria are met. Further details of how these judgements are made are included in Part A.1: Accounting Policies Section 2 - General Basis of Preparation Financial Assets.

Key judgements also include IFRS 9 impairment related judgements such as defining the meaning of default and expected credit loss modelling. Details of how these judgements are made are included in Part E: Information on risks and hedging policies.

Derivative Financial Instruments and Hedge Accounting

Derivative instruments used by the Company primarily comprise interest rate swaps, cross currency swaps and foreign exchange forwards.

Non-trading derivative transactions comprise transactions held for hedging purposes, as part of the Company’s risk management strategy, against financial assets, financial liabilities, positions or cash flows, either accounted for on an amortised cost basis or part of the financials assets at fair value through other comprehensive income.

All derivatives are held on the Balance Sheet at fair value and are accounted for on a trade date basis. Fair values are obtained from quoted prices prevailing in active markets where available. Otherwise valuation techniques including discounted cash flows and option pricing models are used to value the instruments. Derivatives are included in assets when their fair value is positive and liabilities when their fair value is negative, unless there is a legal ability and intention to settle net.

When a financial instrument is designated as a hedge, the Company formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

To the extent that changes in the fair value of the hedging derivatives differ from changes in the fair value of the hedged risk in the hedged item or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of the hedged item, the hedge is ineffective. The amount of

ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge from hedge accounting, is recorded in the income statement.

The Company currently has one type of hedging instrument:

Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability.

Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method.

The Company currently has both portfolio 'Macro' and one-to-one 'Micro' hedge relationships.

- Macro hedge relationships are accounted for dependant on the classification of the underlying hedged item. For hedged items carried at amortised cost the change in the fair value of the hedging instrument is accounted for under line item "Changes in fair value of portfolio hedged items". For hedged items carried at fair value through other comprehensive income the changes in the fair value of the hedging instrument is accounted for under line item 110 "Revaluation reserves through the OCI".
- The changes in the fair value of the hedging instruments relating to Micro hedge relationships for which the hedged items are carried at amortised cost or at fair value through other comprehensive income are accounted for directly against the hedged item.

The fair value changes recorded in item 110 "Revaluation reserves through the OCI" are also disclosed in the Statement of Other Comprehensive Income.

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement in item 80 'Gains and losses on financial assets and liabilities held for trading'.

In relation to the adoption of IFRS 9 the Company has exercised the option to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging.

Section 3 - Segmental Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and to which discrete financial information is available.

IFRS 8 Operating Segments requires the disclosure of revenues from external customers for each product and service, or each group of similar products and services. IFRS 8 also requires disclosures based on geographical information. For detail on these disclosures please refer to Part F: Segmental Reporting.

Section 4 – Financial Instruments Fair Value

Fair value of financial assets and liabilities held for trading, financial assets mandatorily at fair value, financial assets at fair value through other comprehensive income, fair value of loans and receivables securities and hedging derivatives.

The following paragraphs set out the method of valuing the positions of the above mentioned assets and liabilities.

Transferable securities include government bonds, corporate bonds and other debt securities;

- Bonds and debt quoted in an active market.
- Where bonds are not quoted in an active market, the Company uses valuation techniques which include external ratings and market information to assess the pricing procedure. The prices are reviewed by a UniCredit Banking Group company.

Asset Backed Securities ('ABS')

- Where actively traded the closing bid prices are utilised.
- Where the securities are not quoted in an active market, the Company uses valuation techniques which include external ratings and market information to assess the pricing procedure. The prices are reviewed by a UniCredit Banking Group company.

Where the asset is not quoted in an active market, valuation techniques may include;

- a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);
- cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
- an income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

Derivative contracts including: Eonia swaps, Interest rate swaps, Cross currency swaps and FX Forwards

Derivative contracts are valued using discounted cash flow analysis. Cash flows are discounted using rates which are either directly observable or are implied from instrument prices and input into the system on a daily basis.

Fair value calculation

In order to calculate the fair value of loans and receivables with banks, loans and receivables with customers, deposits from banks, deposits from customers and debt securities in issue, present value calculations based on Euribor/Libor curves as at 31 December 2018 were utilised. The fair value determined using this calculation includes specific risk factors such as liquidity risk, and where relevant, counterparty risk.

IFRS 13 requires that for financial instruments measured at fair value on Balance Sheet fair value measurements are disclosed by the source of inputs, using the following three level hierarchies:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level 3: Inputs for the asset or liability that is not based on observable market data (non-observable inputs).

For details of these disclosure requirements in accordance with IFRS7 and IFRS13 please refer to Part E: Information on risks and hedging policies Section 10 – Financial Instruments Fair Value.

In 2018 the following standards, amendments or interpretations came into force:

- IFRS9 - Financial Instruments (EU Regulation 2016/2067);
- IFRS15 - Revenue from Contracts with Customers (EU Regulation 2016/1905);
- Amendments to IFRS4: Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts (EU Regulation 2017/1988);
- Clarifications to IFRS15 Revenue from Contracts with Customers (EU Regulation 2017/1987);
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (Reg. UE 2018/519);
- Amendments to IAS40: Transfers of Investment Property (Reg. UE 2018/400);
- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (Reg. UE 2018/289);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Reg. UE 2018/182).

For further details on the impacts coming from IFRS9 and IFRS15 adoption, refer to the specific paragraphs of the relevant sections. Part A.2: Transition to “IFRS 9: Financial Instruments” and Part A.3: Transition to “IFRS 15: Revenue”.

Standards issued but not yet effective

As of 31 December 2018 the European Commission endorsed the following accounting principles that will be applicable for reporting periods beginning on or after 1 January 2019:

- IFRS16 - Leasing (EU Regulation 2017/1986);
- IFRIC 23 Uncertainty over Income Tax Treatments (Reg. UE 2018/1595);
- Amendments to IFRS9: Prepayment Features with Negative Compensation (EU Regulation 2018/498).

IFRS 16 Leases

IFRS 16, effective starting from 1 January 2019 modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17. IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows. After the initial recognition the right-of-use will be measured on the basis of the rules set for the assets by IAS 16, IAS 38 or by IAS 40 and therefore applying the cost model, less any accumulated depreciation and any accumulated impairment losses, the revaluation model or the fair value model as applicable. The Company has, as required by the standard, not capitalised short term leases, lower than 12 months, and low value assets leases.

The Company has decided not to restate comparatives and has chosen, for First Time Adoption purposes, to put the value of right of use equal to the lease liability.

The financial impact arising from the adoption of IFRS 16 is considered immaterial.

As of 31 December 2018 the IASB issued the following standards, amendments, interpretations or revisions, whose application is subject to completion of the endorsement process by the competent bodies of the European Commission, which is still ongoing:

- IFRS17: Insurance Contracts (May 2017);
- Amendments to IAS28: Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (December 2017);
- Amendments to IAS19: Plan Amendment, Curtailment or Settlement (February 2018);
- Amendments to the References to the Conceptual Framework IFRS Standards (March 2018);
- Amendments to IFRS3: Business combination (October 2018);
- Amendments to IAS1 and IAS8: Definition of Material (October 2018).

The likely impacts of the initial application of the above listed standards, which are subject to completion of the endorsement, have not been considered by management at this point.

Part A.2: Transition to “IFRS 9: Financial Instruments”

Section 1 – Summary of impacts

As of 1 January 2018, the Company adopted the accounting standard “IFRS9: Financial instruments”. The adoption of the standard is the result of a project aimed at creating reporting and risk monitoring methods, which is aligned with UniCredit S.p.A. approach and ensures full compliance with the standard and updated governance and monitoring processes in light of the new rules. The project was organized locally as follows;

- “Classification and Measurement” aimed at reviewing financial instruments classification in line with new IFRS9 criteria;
- “Impairment” aimed at developing and implementing models and methods for calculating impairment.

The project was developed with the involvement of all the relevant departments of the Company and with the active oversight of the Board of Directors and Senior Management.

With reference to “Classification and Measurement”, the Company has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard;
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas composing the Company and by attributing them a specific business model.

In this regard, a “held to collect” or “held to collect and sell” business model has been attributed to the business areas composing the banking portfolio of the Company in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.

In this context, possible sales of financial instruments are considered as compliant with a “held to collect” business model in case of

- (a) sales determined by adverse change in the credit risk of the counterparty,
- (b) sales that are infrequent or not significant to be evaluated case by base.

For the classification of financial assets in the new IFRS9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows (“SPPI Test”).

In this regard, the Company has developed processes that also leverage on Group systems aimed at analysing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allows their measurement at amortized cost (“held to collect” portfolio) or at fair value through comprehensive income (“held to collect and sell” portfolio”). This analysis is performed contract by contract, defined on the basis of the features of the asset.

With reference to the “Impairment” calculation, the Company’s impairment models have been adapted to comply with the new accounting requirements, and following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

The portfolio of assets subject to the expected loss calculation includes all financial assets at amortized cost, applicable off balance sheet exposures and all credit exposures assets classified at Fair Value through Other Comprehensive Income. The Company did not have any off-balance sheet exposures as at 31 December 2018.

The Company's IFRS9 ECL modelling framework leverages UniCredit S.p.A. methodologies and systems to ensure that the requirements of IFRS9 are met.

Expected loss calculation and parameters are being adjusted to reflect the specific characteristics of the local portfolio. Specific adjustments have been developed on Probability of Default (PD) and Loss Given Default (LGD) parameters to compound the Expected Credit Loss (ECL), and a new model has been developed to assess the stage allocation on non-defaulted assets, at transaction level, between Stage 1 and Stage 2 depending on their credit quality. Stage 1 assets require a 12 month ECL, while for stage 2 assets a full lifetime ECL is recorded.

On assets represented by securities, the Company has opted, fully in compliance with applicable standard, to apply the "low credit risk exemption" on investment rate securities.

The Company has exercised the option to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging.

The Company has decided to exploit the option provided by the accounting standard not to restate comparative figures of previous years, consequently, for UniCredit Bank Ireland P.l.c., the first time adoption of the new standard is 1 January 2018.

EU Regulation n. 2017-2395, issued on 27 December 2017, allows, as an option, financial institutions to adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a "phase-in" mechanism over 5 years starting from 2018. The Company will not adopt this transitional regime.

Section 2 (a) Balance sheet at First Time Adoption date: January 1st, 2018

Amounts in '€'000

ASSETS	AMOUNTS AS AT	
	01.01.2018	31.12.2017
10. Cash and cash balances	-	-
20. Financial assets at fair value through profit or loss:	466,840	-
a) financial assets held for trading	592	-
b) financial assets designated at fair value	-	-
c) other financial assets mandatorily at fair value	466,248	-
<i>Financial assets held for trading (ex IAS 39 Item N. 20)</i>	-	592
<i>Financial assets at fair value through profit or loss (ex IAS 39 Item N. 30)</i>	-	-
30. Financial assets at fair value through other comprehensive income	8,984,899	-
<i>Available-for-sale financial assets (ex IAS 39 Item N. 40)</i>	-	10,055,362
40. Financial assets at amortised cost:	8,247,583	-
a) loans and advances to banks	6,355,307	-
b) loans and advances to customers	1,892,276	-
<i>Held-to-maturity investments (ex IAS 39 Item N. 50)</i>	-	-
<i>Loans and receivables with banks (ex IAS 39 Item N. 60)</i>	-	6,773,114
<i>Loans and receivables with customers (ex IAS 39 Item N. 70)</i>	-	1,106,021
50. Hedging derivatives	79,210	79,210
60. Changes in fair value of portfolio hedged items (+/-)	351,102	14,743
70. Equity investments	-	-
80. Property, plant and equipment	119	119
90. Intangible assets	2,295	2,295
<i>of which: goodwill</i>	-	-
100. Tax assets:	4,294	4,996
a) current	4,294	4,996
b) deferred	-	-
120. Other assets	365	365
Total assets	18,136,707	18,036,817

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT	
	01.01.2018	31.12.2017
10. Financial liabilities at amortised cost:	14,719,194	
a) deposits from banks	4,204,714	
b) deposits from customers	5,258,077	
c) debt securities in issue	5,256,403	
<i>Deposits from banks (ex IAS 39 Item N. 10)</i>		4,204,714
<i>Deposits from customers (ex IAS 39 Item N. 20)</i>		5,258,077
<i>Debt securities in issue (ex IAS 39 Item N. 30)</i>		5,256,403
20. Financial liabilities held for trading	27,645	
<i>Financial liabilities held for trading (ex IAS 39 Item N. 40)</i>		7,027
30. Financial liabilities designated at fair value	-	
<i>Financial liabilities at fair value through profit or loss (ex IAS 39 Item N. 50)</i>		-
40. Hedging derivatives	902,544	923,162
50. Value adjustment of hedged financial liabilities (+/-)	43,015	43,015
60. Tax liabilities:	18,772	7,005
a) current	-	-
b) deferred	18,772	7,005
70. Liabilities associated with assets classified as held for sale	-	-
80. Other liabilities	2,425	2,425
90. Provision for employee severance pay	-	-
100. Provisions for risks and charges:	-	-
a) commitments and guarantees given	-	-
b) post-retirement benefit obligations	-	-
c) other provisions for risks and charges	-	-
110. Valuation reserves	132,246	49,033
120. Redeemable shares	-	-
130. Equity instruments	-	-
140. Reserves	922,971	918,061
150. Share premium	-	-
160. Share capital	1,343,119	1,343,119
170. Treasury shares (-)	-	-
180. Profit (Loss) for the period (+/-)	24,776	24,776
total liabilities and shareholders' equity	18,136,707	18,036,817

Section 2 (b) – Impacts from adoption of IFRS9 on shareholders' equity

The adoption of IFRS9 on the 1 January 2018 had an overall positive effect on equity, net of the taxes, of €88.1 million.

In particular, this effect stems from:

- a positive impact of €4.9 million due to the creation of the First Time Adoption ('FTA') reserve. The FTA reserves components are as follows:
 - o reclassifications of financial instruments from *Available-for-sale financial assets (ex IAS39 Item N. 40)* and *Loans and receivables with banks (ex IAS39 Item N. 60)* to *asset item 20 c) financial assets mandatory at fair value*; positive impact of €11.6 million;
 - o the recognition of the IFRS9 compliant impairment amount as at 1 January 2018; negative impact of €6.5 million;
 - o the reversal of the IAS39 impairment amount as at 31 December 2017; positive impact of €0.5 million;
 - o the recognition of the corporation tax amount relating to the creation of the FTA reserve; negative impact of €0.7 million.

- a positive impact of €83.2 million from changes in the revaluation reserves reported in liability *item 120* which is attributable to assets reclassified from *Available-for-sale financial assets (ex IAS39 Item N. 40)* to the following:
 - o *item 20 c) financial assets mandatory at fair value* (due to the failure of the SPPI test); negative impact of €2.4 million gross;
 - o *item 40 b) loans and receivables with Customers* (This is due to the change of the related business model.); negative impact of €253.2 million gross;
 - o related hedge accounting reclassifications; positive impact of €349.8 million gross;
 - o related net deferred tax reclassifications; negative impact of €11.8 million;
 - o recognition of IFRS9 compliant impairment amount related to asset *item 30. Financials assets at fair value through other comprehensive income*; positive impact of €0.8 million.

Section 3 – Reclassifications of financial assets and liabilities

With reference to the reclassifications of financial assets and liabilities in application of the new accounting standard, the following tables show separately for financial assets and liabilities:

- a) the portfolio under IAS39 and the related closing balance as of 31 December 2017;
- b) the reclassification of this balance in the various IFRS9 portfolios;
- c) the effects from application of the measurement criteria of IFRS9;
- d) the opening IFRS9 balance as of 1 January 2018.

Section 3 (a) – Reclassifications of financial assets tables

Amounts in €'000

IAS39 Category	New IFRS9 Category																	
	IAS39 Book value at 31/12/2017			Financial assets held for trading			Financial assets mandatory at fair value			Financial assets at FVTOCI*			Financial assets at Amortized Cost**			Total		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
Financial assets held for trading	592	-	-	592	-	-	-	-	-	-	-	-	-	-	-	592	-	-
Available for sale financial assets	10,055,362	-	-	-	30,243	-	30,243	8,984,899	-	8,984,899	-	-	1,040,220	(253,165)	787,055	10,055,362	(253,165)	9,802,197
Loans to Banks*	6,773,590	-	-	-	413,442	22,562	436,004	-	-	-	-	-	6,360,148	-	6,360,148	6,773,590	-	22,562
Loans to Customers*	1,106,091	-	-	-	-	-	-	-	-	-	-	-	1,106,091	-	1,106,091	1,106,091	-	1,106,091
IFRS 9 total			592			466,248			8,984,899			8,253,294						

* gross of impairment

Legend

- A: Reclassification of former IAS39 book value
- B: Change in measurement
- C: New book value as per IFRS9

Nine securities were reclassified due to the adoption of IFRS9 and in detail:

- FE Mortgage 30/10/43 failed the SPPI test and was reclassified from *Available-for-sale financial assets (ex IAS39 Item N. 40) to item 20 c). Financial assets mandatorily at fair value*. There was no change in measurement as fair value was applied under both classifications, however the gain of €2.4 million previously classified in *item 140. AFS Revaluation reserves* was crystallised in the FTA reserve upon adoption.
- Four securities were assessed as having a “held to collect” business model and were reclassified from *Available-for-sale financial assets (ex IAS39 Item N. 40) to item 40 b). Financial assets at amortised cost: loans and receivables with Customers*. There was a change in measurement as fair value was applied under IAS39 whereas amortised cost is applied under IFRS9. This reclassification also resulted in the simultaneous reversal of previously recognized revaluation reserves. The amounts reversed from IAS39 liability *item 140. AFS Revaluation reserves* totalled negative €253.2 million gross. Due to retrospective application also the hedge accounting relationship related to these four securities was also reclassified from IAS39 liability *item 140. AFS Revaluation reserves* to IFRS9 asset *item 60. Changes in fair value of portfolio hedged items*. The amounts reversed from IAS39 liability *item 140. AFS Revaluation reserves* relation to historical hedge accounting totalled positive €349.8 million gross of tax. The overall impact to IAS39 liability *item 140. AFS Revaluation reserves* due to these reclassifications are positive €96.6 million gross of tax. For details of the accounting policy applied refer to Part A.1: Accounting Policies Section 2 - General Basis of Preparation Derivative Financial Instruments and Hedge Accounting
- Four securities failed the SPPI test and were reclassified from *Loans and receivables with banks (ex IAS39 Item N. 60) to item 20 c). Financial assets mandatorily at fair value*. There was a change in measurement as amortised cost was applied under IAS39 whereas fair value is applied under IFRS9. The change in measurement is positive €22.5 million and was crystallised in the FTA reserve upon adoption. The historical hedge accounting resulting from the fair value movement of the hedging derivatives related to these four securities, amounting to negative €13.4 million, was also reclassified (due to retrospective

application) from IAS39 asset item 60. Changes in fair value of portfolio hedged items to the FTA reserve. The hedge accounting relationship was terminated and the fair value of the former hedging derivatives amounting to €20.6 million was reclassified under liability item 20. Financial liabilities held for trading.

Section 3 (b) – Reclassifications of financial liabilities tables

Amounts in €'000

Liability	IAS39 Category			New IFRS9 Category									Total		
	IAS39 Book value at 31/12/2017	Financial liabilities at amortized cost			Financial liabilities at amortized cost			Financial liabilities at amortized cost			Financial liabilities held for trading				
			a) Deposits from banks	b) Deposits from customers	c) Debt securities in issue	A	B	C	A	B	C	A	B	C	
Deposits from banks	4,204,714	4,204,714	-	-	-	-	-	-	-	-	4,204,714	-	-	4,204,714	
Deposits from customers	5,258,077	-	5,258,077	-	-	-	-	-	-	-	-	-	-	5,258,077	
Debt securities in issue	5,256,403	-	-	5,256,403	-	-	-	-	-	-	5,256,403	-	-	5,256,403	
Financial liabilities held for trading	7,027	-	-	-	-	-	-	7,027	-	-	-	7,027	-	7,027	
Hedging derivatives	923,162	-	-	-	-	-	-	-	-	-	20,618	-	-	902,544	
IFRS9 total		4,204,714		5,258,077							5,256,403		27,645		

Legend

- A: Reclassification of former IAS39 book value
- B: Change in measurement
- C: New book value as per IFRS9

The reclassification of financial liabilities under IFRS9 shows a substantial continuity of the classification compared to those applied according to IAS39. Any derivative that had been designated as hedging instrument under IAS39 but upon adoption of IFRS9 due to reclassifications of the underlying hedged item, there was no longer the possibility for that hedging instrument to be designated as hedging, the hedging relationship was terminated and the derivative becomes 'held for trading'.

Upon adoption of IFRS9 the Company terminated the hedging relationships associated to any financial asset that was reclassified to Asset item 20 c) financial assets mandatorily at fair value, which resulted in reclassifications of the derivatives from Liability item 40 Hedging derivatives to the Liability item 20 financial liabilities held for trading.

Section 4 – Impairment tables

With reference to impairment, the following table shows, as at 1 January 2018, the gross exposure and value adjustments broken down by accounting portfolio and by classification stage.

Amounts in '€'000	Gross Amount			Loan Loss Provisions			Net exposure		
	S1	S2	S3	S1	S2	S3	S1	S2	S3
Item 30. Financial assets at fair value through other comprehensive income	8,985,719	-	-	(820)	-	-	8,984,899	-	-
Debt securities	8,985,719	-	-	(820)	-	-	8,984,899	-	-
Loans and advances with banks	-	-	-	-	-	-	-	-	-
Loans and advances with customers	-	-	-	-	-	-	-	-	-
Item 40. Financial assets measured at amortized cost	8,241,871	-	-	(5,711)	-	-	8,236,161	-	-
Debt securities	5,502,780	-	-	(4,886)	-	-	5,497,895	-	-
Loans and advances with banks	1,634,525	-	-	(63)	-	-	1,634,462	-	-
Loans and advances with customers	1,104,566	-	-	(763)	-	-	1,103,803	-	-

Amounts in '€'000

The Company did not have off-balance sheet exposures as at 1 January 2018.

On adoption of IFRS9 the Company reversed any collective impairment that existed at 31 December 2017. The collective impairment as at 31 December 2017 on *Loans and receivables with banks (ex IAS39 Item N. 60)* was €0.48 million and on *Loans and receivables with customers (ex IAS39 Item N. 70)* was €0.07 million.

Amounts in '€'000	Impairment		
	31 December 2017	FTA Reserve	01 January 2018
IAS 39			
Loans and advances with banks	(480)	480	-
Loans and advances with customers	(70)	70	-
	(550)	550	-
IFRS 9			
Item 30. Financial assets at fair value through other comprehensive income	-	(820)	820
Item 40. a) Loans and advances with banks	-	(63)	63
Item 40. b) Loans and advances with customers	-	(5,648)	5,648
	-	(6,532)	6,532

Amounts in '€'000

Section 5 – Further reclassifications made as at 1 January 2018 in compliance with IFRS9

The widespread impact of the introduction of the IFRS9 principle is further demonstrated by the fact that the impacts arising from this adoption have determined effects not only on the single financial asset and liabilities but also on related other items.

In this regard we highlight the followings:

- *asset item 60. Changes in fair value of portfolio hedged items* as of 31 December 2017 under IAS39 was equal to €14.7 million and post adoption of IFRS9 became €351.1 million. Positive €349.8 million of the variance relates to the reclassification of historical hedge accounting related to securities that were reclassified from IAS39 liability *item 140. AFS Revaluation reserves* to asset *item 40 c). Financial assets at amortised cost: loans and receivables with Governments*. Negative €13.4 million of the variance relates to the reclassification of historical hedge accounting related to securities reclassified from *Loans and receivables with banks (ex IAS39 Item N. 60)* to asset *item 20 c). Financial assets mandatorily at fair value* on which the related hedging relationship was terminated.
- Current Tax assets as of 31 December 2017 were equal to €5.0 million and post adoption of IFRS9 became equal to €4.3 million as a result of tax effects on the accounting changes resulting from IFRS9 application.
- Deferred Tax liabilities as of 31 December 2017 were equal to €7.0 million and post adoption of IFRS9 became equal to €18.8 million as a result of tax effects on the reclassification of assets (including the hedge accounting reclassifications) from IAS39 liability *item 140. AFS Revaluation reserves* to IFRS9 asset *item 20 c) financial assets mandatorily at fair value* and IFRS9 asset *item 40 c) loans and receivables with Governments*.

Section 6 – Impacts on regulatory capital arising from the application of IFRS9

The following table illustrates the capital adequacy as of 1 January 2018 arising from the application of IFRS9 and the published amounts as of 31 December 2017 (IAS39);

	IFRS 9	IAS 39
	01-Jan-18	31-Dec-17
	€'000	€'000
Regulatory own funds		
Common Equity Tier I Own Funds		
Paid up ordinary share capital – Equity Tier I	1,343,119	1,343,119
Capital contribution – Equity Tier I	753,419	753,419
Revenue reserves – Equity Tier I	242,552	237,643
Dividend	(73,000)	(73,000)
IRB Shortfall – Deduction Equity Tier I	(306)	(4,588)
Accumulated other comprehensive income	132,244	49,033
Intangible Assets	(2,295)	(2,295)
Additional Value Adjustment	(483)	(483)
Excess of deduction from AT1 items	(149,042)	(149,042)
Other Transitional Adjustments to CET1	(26,418)	(9,348)
Total Common Equity Tier I Own Funds	2,219,790	2,144,458
Additional Tier I Own Funds		
Tier II Own Funds		
Subordinated deposits – Tier 2 – Grandfathered	338,406	338,406
Collective Impairment Provisioning - Standardised		
Other transitional adjustments to T2 Capital	(16,591)	(17,019)
Total Tier II Own Funds	321,815	321,387
Total Own Funds	2,541,605	2,465,845
Reconciliation between Own Funds and Shareholders' Equity		
	01-Jan-18	31-Dec-17
	€'000	€'000
Total Shareholders' Equity	2,423,110	2,334,988
(Net Profit of the period)	(24,776)	(24,776)
(Filtered Accumulated other comprehensive income)	(132,244)	(134,768)
(Deductions and Adjustments)	(46,300)	(30,986)
Tier II Capital	321,815	321,387
Total Own Funds	2,541,605	2,465,845

Note: This table illustrates the impact of the application of IFRS 9. Any other regulatory changes that take effect from the 1 January 2018 have not been considered.

The Total Capital Ratio arising from the application of IFRS9 on the 1 January 2018 was 45.68% versus 44.32% under IAS39.

The Common Equity Tier 1 Ratio arising from the application of IFRS9 on the 1 January 2018 was 39.90% versus 38.54% under IAS39.

The Fully Loaded CET1 and Fully Loaded Total Capital ratios arising from the application of IFRS9 on the 1 January 2018 was 40.07% versus 38.41% under IAS39.

Part A.3: Transition to “IFRS 15: Revenue”

Section 1 – Summary of transactions impacted by IFRS 15

On July 3rd 2017, following the acquisition of Pioneer Investments by Amundi, and as requested by UniCredit S.p.A., UniCredit Bank Ireland p.l.c. entered a number of Service Level Agreements with those PAI entities(*) that remained within UniCredit Group after the transaction:

- PAI Management Limited (formerly Pioneer Alternative Investment Management Limited)
- PAI (Bermuda) Limited (formerly Pioneer Alternative Investment Management (Bermuda) Ltd;
- PAI (New York) Ltd (formerly Pioneer Alternative Investment (New York) Ltd;
- Pioneer Alternative Investments (Israel) Limited;
- Pioneer Global Funds Distributor Ltd.

Since then, the Company has been providing services such as legal and corporate administration, finance services, management of accounts payable, tax affairs and treasury on a continuous basis and until the entities will be finally dissolved.

The remuneration of the Service Provider for the Services rendered is set in accordance with the OECD rules on Transfer Pricing, Part 35A of the Taxes Consolidation Act 1997 and the relevant Group Policy, Global Operational Instructions and Global Operational Regulation approved and implemented by the Service Provider regarding Transfer Pricing.

UniCredit Bank Ireland p.l.c. is invoicing the Service Recipients on a quarterly basis in advance, either at the beginning or during of each quarter and invoices are payable within 30 days of receipt.

The total amount of Income Receivables for services provided during the year according to the Service Level Agreement in place, that were classified as Other assets in the Balance Sheet as at 31 December 2018, was €9k, entirely connected to activities performed on behalf of Pioneer Alternative Investments (Israel) Limited.

As at year end 2017 the amount of Income Receivables was €44k, including €35k related to services provided to PAI (New York) Ltd, and €9k related to services provided on behalf of Pioneer Alternative Investment Israel Limited.

During 2018 the amount of revenues recognised in Other Income in relation to these contracts is €341k, whereas in 2017 the amount recognised was €206k, as the agreement was in force only for half year. One entity was dissolved in May 2018.

Part B: Balance Sheet Notes - Assets

Item 20 - Financial assets at fair value through profit and loss

Item 20A – Financial assets held for trading

20A.1 Financial assets held for trading: product breakdown	31 December 2018		31 December 2017	
	€'000		€'000	
Derivative assets	2,206		592	
	2,206		592	

20A.2 Derivatives held for trading	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	€'000	€'000	€'000	€'000
	Fair Value	Nominal	Fair Value	Nominal
Eonia swaps	729	5,940,000	85	5,550,000
Forward currency sales	-	-	-	-
Forward currency purchases	1,477	21,022	507	118,198
	2,206	5,961,022	592	5,668,198

Included in derivatives held for trading is a fair value carrying amount of €2.2 million (31 December 2017: €0.6 million) due from UniCredit Banking Group. The derivatives classified in financial assets held for trading are for economic hedging purposes.

The adoption of IFRS9 did not result in a reclassification within item 20A – Financial assets held for trading.

Item 20C – Financial assets mandatorily at fair value

20C.1 Financial assets mandatorily at fair value: product breakdown	31 December 2018
	€'000
Issued by public bodies	
- Government debt securities	-
- Other public sector debt securities	-
Other securities	
- Other debt securities	48,343
	48,343

Amounts include:

UniCredit S.p.A. Group financial assets mandatorily at fair value	19,701
---	--------

Included within financial assets mandatorily at fair value is €28.6 million of asset backed securities as at 31 December 2018. Under IAS 39 these asset backed securities were classified under available for sale assets to the amount of €30.2 million as at 31 December 2017.

Management has considered the financial impact of collateral held within securities and considers it to be sufficient to recover the carrying value of such assets.

Item 30 – Financials assets at fair value through other comprehensive income

30.1 Financials assets at fair value through other comprehensive income: product breakdown	31 December 2018
	€'000
Issued by public bodies	
- Government debt securities	7,223,202
- Other public sector debt securities	176,826
Other securities	
- Other debt securities	747,168
	8,147,196
Amounts include:	
UniCredit S.p.A. Group financials assets at fair value through other comprehensive income	-

Financial assets at fair value through other comprehensive income of €6.2 billion have been pledged to third parties in sale and repurchase agreements. Under IAS 39 as at 31 December 2017 available for sale assets of €7.8 billion had been pledged to third parties in sale and repurchase agreements.

The collateral pledged to third parties can be used in the event of the Bank's default and non-repayment of the Banks related liabilities with each counterparty, in order to offset each counterparty's exposure to the Bank.

30.2	31 December 2018
Financials assets at fair value through other comprehensive income: analysis by remaining maturity	€'000
- over 5 financial years	2,789,046
- 5 years or less but over 1 financial year	4,633,380
- 1 financial year or less but over 3 months	264,732
- 3 months or less	460,038
	8,147,196

Financial assets at fair value through other comprehensive income with a maturity of 3 months or less do not qualify as cash equivalents as they will be re-invested once matured.

30.3 Financials assets at fair value through other comprehensive income: listing status	31 December 2018
	€'000
Analysis by listing status	
- Listed	8,147,196

30.4 Financials assets at fair value through other comprehensive income: annual changes	31 December 2018
	€'000
At 1 January	8,984,899
Additions	1,570,599
Disposals and maturities	(2,114,632)
Exchange differences	13,377
Changes in fair value	(292,372)
Interest receivable	(14,675)
At 31 December	8,147,196

Management has considered the financial impact of collateral held within securities and considers it to be sufficient to recover the carrying value of such assets.

The tables prepared pursuant to IAS39 are reported below for the purpose of comparability.

Item 40 – Available for sale financial assets

40.1 Available for sale financial assets: product breakdown	31 December 2017
	€'000
Issued by public bodies	
- Government debt securities	8,905,522
- Other public sector debt securities	181,248
Other securities	
- Other debt securities	968,592
	10,055,362
Amounts include:	
UniCredit S.p.A. Group available for sale financial assets	-
40.2 Available for sale financial assets: analysis by remaining maturity	31 December 2017
	€'000
- over 5 financial years	3,154,932
- 5 years or less but over 1 financial year	5,795,389
- 1 financial year or less but over 3 months	1,052,340
- 3 months or less	52,701
	10,055,362
40.3 Available for sale financial assets: listing status	31 December 2017
	€'000
Analysis by listing status	
- Listed	10,055,362
40.4 Available for sale financial assets: annual changes	31 December 2017
	€'000
At 1 January	10,807,712
Additions	947,749
Disposals and maturities	(1,394,834)
Exchange differences	(85,121)
Changes in fair value	(223,723)
Interest receivable	3,579
	10,055,362
At 31 December	10,055,362

Item 40 - Financial assets at amortised cost

Item 40A – Loans and receivables with banks

40A.1 Loans and receivables with banks: analysis by remaining maturity	31 December 2018
	€'000
Loans and receivables : Remaining maturity	
- over 5 financial years	613,050
- 5 financial years or less but over 1 financial year	86,729
- 1 financial year or less but over 3 months	-
- 3 months or less	60,894
- Repayable on demand	12,233
	772,906
Loans and receivables with banks impairment	(6)
	772,900
Unquoted securities : Remaining maturity	
- over 5 financial years	1,950,225
- 5 financial years or less but over 1 financial year	-
- 1 financial year or less but over 3 months	1,800,002
- 3 months or less	-
	3,750,227
Unquoted securities with banks impairment	(2,888)
	3,747,339
	4,520,239
Amounts include:	
Due from parent company and fellow subsidiaries	4,480,120
	4,480,120
40A.2 Loans and receivables with banks: fair value	31 December 2018
	€'000
Loans and receivables with banks	4,271,889
	4,271,889

Included in the total of loans and receivables with banks are securities of €nil billion which have been pledged to third parties in sale and repurchase agreements (31 December 2017: nil).

The tables prepared pursuant to IAS39 are reported below for the purpose of comparability.

Item 60 – Loans and receivables with banks

60.1 Loans and receivables with banks: analysis by remaining maturity	31 December 2017
	€'000
Loans and receivables : Remaining maturity	
- over 5 financial years	716,079
- 5 financial years or less but over 1 financial year	211,917
- 1 financial year or less but over 3 months	35,447
- 3 months or less	663,520
- Repayable on demand	7,688
	1,634,651
Loans and receivables with banks impairment	(476)
	1,634,175
Unquoted securities : Remaining maturity	
- over 5 financial years	2,808,632
- 5 financial years or less but over 1 financial year	1,845,036
- 1 financial year or less but over 3 months	485,271
- 3 months or less	-
	5,138,939
	6,773,114
Amounts include:	
Due from parent company and fellow subsidiaries	6,172,193
60.2 Loans and receivables with banks: fair value	31 December 2017
	€'000
Loans and receivables with banks	6,687,146
	6,687,146

Item 40B – Loans and receivables with customers

40B.1 Loans and receivables with customers: analysis by remaining maturity	31 December 2018 €'000
Loans and receivables: Remaining maturity	
- over 5 financial years	-
- 5 financial years or less but over 1 financial year	450,505
- 1 financial year or less but over 3 months	278,467
- 3 months or less	728,972
	728,972
Loans and receivables with customers impairment	(627)
	728,345
Unquoted securities : Remaining maturity	
- over 5 financial years	404,143
- 5 financial years or less but over 1 financial year	581,270
- 1 financial year or less but over 3 months	-
- 3 months or less	-
	985,413
Unquoted securities with customers impairment	(538)
	984,875
	1,713,221
Amounts include:	
Due from parent company and fellow subsidiaries	450,505

40B.2 Loans and receivables with customers: Fair value	31 December 2018 €'000
Loans and receivables with customers	1,628,133
	1,628,133

Included in the total of loans and receivables with customers are securities of €0.8 billion which have been pledged to third parties in sale and repurchase agreements (31 December 2017: nil).

The collateral pledged to third parties can be used in the event of the Bank's default and non-repayment of the Banks related liabilities with each counterparty, in order to offset each counterparty's exposure to the Bank.

Management has considered the financial impact of collateral held within securities and considers it to be sufficient to recover the carrying value of such assets.

The tables prepared pursuant to IAS39 are reported below for the purpose of comparability.

Item 70 – Loans and receivables with customers

70.1 Loans and receivables with customers: analysis by remaining maturity	31 December 2017 €'000
Loans and receivables: Remaining maturity	
- over 5 financial years	-
- 5 financial years or less but over 1 financial year	450,500
- 1 financial year or less but over 3 months	468,235
- 3 months or less	142,348
	1,061,083
Loans and receivables with customers collective impairment	(70)
	1,061,013
Unquoted securities : Remaining maturity	
- over 5 financial years	45,008
- 5 financial years or less but over 1 financial year	-
- 1 financial year or less but over 3 months	-
- 3 months or less	-
	45,008
	1,106,021
Amounts include:	
Due from parent company and fellow subsidiaries	700,557

70.2 Loans and receivables with customers: Fair value	31 December 2017 €'000
Loans and receivables with customers	1,127,486
	1,127,486

Item 50 – Hedging derivatives

50.1 Hedging derivatives	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	€'000	€'000	€'000	€'000
	Fair Value	Nominal	Fair Value	Nominal
Cross currency swaps	15,699	133,109	9,961	128,183
Interest rate swaps	40,139	891,673	69,249	1,943,173
	55,838	1,024,782	79,210	2,071,356

Included in hedging derivatives is an amount of €55.8 million (31 December 2017: €79 million) which is due from UniCredit Banking Group.

For detail on derivatives please refer to the notes on derivatives which is included Part E: Information on risks and hedging policies Section 9 – Market Risk

Item 60 – Changes in fair value of portfolio hedged items (+/-)

60.1 Changes in fair value of portfolio hedged items (+/-)	31 December 2018	31 December 2017
		€'000
Positive changes in fair value of portfolio hedged items	313,788	14,743
	313,788	14,743

The above amount relates to changes in portfolio hedged items in securities which are both loans and receivables with banks and loans and receivables with customers.

The adoption of IFRS 9 on the 1st January 2018 resulted in a reclassification of €336 million (net of tax) from IAS 39 item 140 revaluation reserve to IFRS 9 item 60 changes in fair value of portfolio hedged items. Refer to Part A.2: Transition to “IFRS 9: Financial Instruments” Section 8 (a) – Reclassifications of financial assets tables for further details.

Item 80 – Property, plant and equipment

80.1 Property, plant and equipment	Leasehold improvements	Office equipment	Computer equipment	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2017	1,299	87	506	1,892
Additions	-	-	40	40
Disposals	(48)	-	(137)	185
At 1 January 2018	1,251	87	409	1,747
Additions	-	16	83	99
Disposals	-	-	(19)	(19)
At 31 December 2018	1,251	103	473	1,827
Accumulated depreciation				
At 1 January 2017	1,286	81	353	1,720
Charge for financial period	12	6	75	93
Disposals	(48)	-	(137)	(185)
At 1 January 2018	1,250	87	291	1,628
Charge for financial period	1	6	86	93
Disposals	-	-	(19)	(19)
At 31 December 2018	1,251	93	357	1,701
Net book values				
At 31 December 2017	1	0	118	119
At 31 December 2018	0	10	116	126

Item 90 – Intangible assets

90.1 Intangible assets	Computer software costs	Total
Cost	€'000	€'000
At 1 January 2017	5,006	5,006
Additions	547	547
Disposals	(100)	(100)
At 1 January 2018	5,453	5,453
Additions	224	224
Disposals	-	-
At 31 December 2018	5,677	5,677
Accumulated amortisation		
At 1 January 2017	2,297	2,297
Charge for financial period	963	963
Disposals	(100)	(100)
At 1 January 2018	3,160	3,160
Charge for financial period	1,075	1,075
Disposals	-	-
At 31 December 2018	4,235	4,235
Net book values		
At 31 December 2017	2,295	2,295
At 31 December 2018	1,443	1,443

Item 100 – Tax assets

Tax assets	31 December 2018	31 December 2017
	€'000	€'000
100A Current taxation asset	695	4,996
Reversal of deferred tax liability	-	-
Deferred taxation asset at 1 January	-	-
Tax credit arising from negative OCI revaluation reserve	735	-
100B At 31 December	735	-
Total tax assets	1,430	4,996

The deferred tax asset is 12.5% of the gross amount of the total OCI revaluation reserve.

The adoption of IFRS 9 on the 1st January 2018 resulted in a deferred taxation liability of €0.7 million. Refer to Part A.2: Transition to “IFRS 9: Financial Instruments” Section 7 (b) – Impacts from adoption of IFRS9 on shareholders' equity for further details.

Item 120 – Other assets

120.1 Other assets	31 December 2018	31 December 2017
	€'000	€'000
Accounts receivable and prepayments	621	365
	621	365

Leasehold improvements of €0.2 million (31 December 2017: nil) relating to property, plant and equipment that are identifiable but not considered separable are included in other assets.

Included in other assets is the amount of €0.01 million (31 December 2017: nil) which is due from UniCredit Banking Group. This receivable relates to the Service Level Agreement in place to perform activities on behalf of Pioneer Alternative Investments (Israel) Limited.

Part B: Balance Sheet Notes – Liabilities

Item 10 - Financial liabilities at amortised cost

Item 10A – Deposits from banks

10A.1 Deposits from banks: analysis by remaining maturity	31 December 2018	31 December 2017
	€'000	€'000
Remaining maturity		
- Over 5 financial years	-	-
- 5 financial years or less but over 1 financial year	1,917,844	431,744
- 1 financial year or less but over 3 months	662,453	795,402
- 3 months or less	3,362,126	2,977,520
- Repayable on demand	37	48
	5,942,460	4,204,714
Amounts include:		
Due to parent company and fellow subsidiaries	2,321,464	1,098,462

Included in deposits from banks are deposits of €4.2 billion (31 December 2017: €3.0 billion) held as security for securities sold under repurchase agreements.

Deposits from banks with a maturity of 3 months or less do not qualify as cash equivalents as they are not held for short term cash commitments.

Included in deposits from banks is one Tier II deposit which is included within Regulatory Capital in Item 160.2.

10A.2 Deposits from banks: Fair Value	31 December 2018	31 December 2017
	€'000	€'000
Deposits from Banks	5,956,178	4,242,924
	5,956,178	4,242,924

Item 10B – Deposits from customers

10B.1 Deposits from customers: analysis by remaining maturity	31 December 2018	31 December 2017
	€'000	€'000
Remaining maturity		
- 5 financial years or less but over 1 financial year	57,844	53,676
- 1 financial year or less but over 3 months	67,871	354,702
- 3 months or less	3,505,084	4,849,699
	3,630,799	5,258,077
Amounts include:		
Due to parent company and fellow subsidiaries	76,457	63,029

Included in customer accounts are deposits of €3.4 billion (31 December 2017: €5.0 billion) held as security for securities sold under repurchase agreements.

10B.2 Deposits from customers: Fair Value	31 December 2018	31 December 2017
	€'000	€'000
Deposits from Banks	3,632,376	5,259,677
	3,632,376	5,259,677

Item 10C – Debt securities in issue

10C.1 Debt securities in issue: analysis by remaining maturity	31 December 2018	31 December 2017
	€'000	€'000
<i>Bonds and medium term notes</i>		
Remaining maturity		
- over 5 financial years	-	41,839
- 5 financial years or less but over 1 financial year	282,401	574,221
- 1 financial year or less but over 3 months	101,479	1,678,040
- 3 months or less	236,617	306,231
	620,497	2,600,331
<i>Other debt securities in issue</i>		
Remaining maturity		
- 1 financial year or less but over 3 months	94,875	2,144,323
- 3 months or less	1,433,448	511,749
	1,528,323	2,656,072
	2,148,820	5,256,403
Amounts include:		
Due to parent company and fellow subsidiaries	18,836	31,692

10C.2 Debt securities in issue: Fair Value	31 December 2018	31 December 2017
	€'000	€'000
Debt securities in issue	2,162,636	5,324,805
	2,162,636	5,324,805

10C.3 Debt securities in issue: by financial instrument	31 December 2018	31 December 2017
	€'000	€'000
Certificate of deposit	-	50,014
Commercial paper	1,528,323	2,606,058
Medium term note	620,497	2,600,331
	2,148,820	5,256,403

During 2018 investors' continued appetite for short term funding in the markets in which The Company operates, allowed The Company to move a larger portion of its funding activities towards short term funding in the form of repurchase agreement funding.

Item 20 – Financial liabilities held for trading

20.1 Financial liabilities held for trading	31 December 2018		31 December 2017	
	€'000		€'000	
	Fair Value	Nominal	Fair Value	Nominal
Currency forward purchase contracts	1,285	246,061	6,687	351,866
Interest rate, eonia and cross currency derivatives	33	4,900,000	340	6,900,000
	1,318	5,146,061	7,027	7,251,866

Included in trading derivatives is an amount of €1.3 million (31 December 2017: €7.0 million) which is due to UniCredit Banking Group. Derivative purchases and maturities resulted in variances of the nominal values during the financial year. For details on derivatives please refer to the notes on derivatives which are included within Part E: Information on risks and hedging policies Section 9 – Market Risk. The derivatives classified in financial liabilities held for trading are for economic hedging purposes.

Item 40 – Hedging derivatives

40.1 Hedging derivatives	31 December 2018		31 December 2017	
	€'000		€'000	
	Fair Value	Nominal	Fair Value	Nominal
Cross currency swaps	46,642	262,962	60,312	428,065
Interest rate swaps	707,331	8,127,966	862,850	8,063,981
	753,973	8,390,928	923,162	8,492,046

Included in hedging derivatives is an amount of €741 million (31 December 2017: €900 million) which is due to UniCredit Banking Group. Derivative purchases and maturities resulted in variances of the nominal values during the financial year. For details on derivatives please refer to the notes on derivatives which are included within Part E: Information on risks and hedging policies Section 9 – Market Risk.

The adoption of IFRS 9 on the 1st January 2018 resulted in a reclassification of €20.6 million (net of tax) from IAS 39 item 60 hedging derivatives to IFRS 9 item 40 hedging derivatives. Refer to Part A.2: Transition to “IFRS 9: Financial Instruments” Section 3 (a) – Reclassifications of financial assets tables for further details.

Item 50 – Changes in fair value of portfolio hedged items (+/-)

50.1 Changes in fair value of portfolio hedged items (+/-)	31 December 2018		31 December 2017	
	€'000		€'000	
Positive changes in fair value of portfolio hedged items			23,333	43,015
			23,333	43,015

The above amount relates to changes in portfolio hedged items on deposits from banks and Debt Securities in Issue.

Item 60 – Tax liabilities

Tax liability	31 December 2018	31 December 2017
	€'000	€'000
Deferred taxation liability at 1 January	18,772	-
Tax liability arising from negative FVOCI revaluation reserve	(18,772)	7,005
60B At 31 December	-	7,005
60A Current tax liability	-	-
Total tax liability	-	7,005

Item 80 – Other liabilities

80.1 Other liabilities	31 December 2018	31 December 2017
	€'000	€'000
Creditors and accruals	2,745	2,425
	2,745	2,425

Included in other liabilities is the amount of €0.7 million which is due to UniCredit Banking Group.

Item 110 – Revaluation reserves through the other comprehensive income

110.1 Other comprehensive income revaluation reserve	31 December 2018
	€'000
At 1 January	132,246
Change in fair value of financials assets at fair value through other comprehensive income	
- financials assets at fair value through other comprehensive income	(146,368)
- hedge	(16,261)
Movement in deferred tax	20,329
At 31 December	(10,054)

The revaluation reserve through the other comprehensive income movement represents the fair value movements in financial assets at fair value through other comprehensive income and includes the removal of any fair value movement related to any disposals during the financial year.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 140 – Revaluation reserves

14.1 Available for sale reserve	31 December 2017
	€'000
At 1 January	(41,328)
Change in fair value of available for sale financial assets	
- available for sale financial assets	(137,357)
- hedge	240,627
Movement in deferred tax	(12,909)
At 31 December	49,033

Item 140 – Reserves

140.1 Reserves	31 December 2018	31 December 2017
	€'000	€'000
a) Capital contribution	753,419	753,419
b) Capital Redemption Reserve	45,802	45,802
c) Profit and Loss Account at start of financial year	143,616	191,840
d) Dividend paid	(23,500)	(73,000)
e) First Time Adoption Reserve	4,909	-
g) Net profit for the financial period	43,692	24,776
	967,938	942,837

Item 160 – Issued Capital

160.1 Authorised	31 December 2018
1,343,118,650 (31 December 2017 : 1,343,118,650) ordinary shares of one Euro each	1,343,119
	1,343,119
Issued and paid up	
1,343,118,650 (31 December 2017 : 1,343,118,650) ordinary shares of one Euro each	1,343,119
	1,343,119

The Bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of the Central Bank of Ireland. The Bank must at all times monitor and demonstrate the compliance with the relevant regulatory capital requirements of the Central Bank of Ireland. The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy and no breaches were reported to the Central Bank of Ireland during the financial year.

160.2 Regulatory own funds

31 December 2018

Common Equity Tier I Own Funds	
Paid up ordinary share capital – Equity Tier I	1,343,119
Capital contribution – Equity Tier I	753,419
Revenue reserves – Equity Tier I	194,328
Dividend	(23,500)
Firb Provision Shortfall – Deduction Equity Tier I	(724)
Accumulated other comprehensive income	(10,054)
Additional Value Adjustment	(210)
Intangible Assets	(1,443)
Excess of deduction from Additional Tier I items	-
Other Transitional Adjustments to CET1	-
Total Common Equity Tier I Own Funds	2,254,933
Additional Tier I Own Funds	-
Tier II Own Funds	
Subordinated deposit – Tier II – Grandfathered	200,000
Other transitional adjustments to Tier II Capital	-
Total Tier II Own Funds	200,000
Total Own Funds	2,454,933

Reconciliation between Own Funds and Shareholders' Equity

31 December 2018

Total Shareholders' Equity	2,301,002
(Net Profit of the financial period)	(43,692)
(Filtered Accumulated other comprehensive income)	-
(Deductions and Adjustments)	(2,377)
Tier II Capital	200,000
Total Own Funds	2,454,933

The above Own Funds are computed in accordance with the EU Capital Requirements Regulation 575/2013.

UniCredit Bank Ireland received from the European Central Bank ('ECB') the joint risk assessment decision that defined UniCredit Bank Ireland prudential requirements on the basis of Article 16 EU Regulation 1024/2013 and it stated a minimum Total Supervisory Capital Ratio of 8.0% for 2018 (2017: 9.5%). The Bank received confirmation from the ECB that the SREP excess requirement for 2018 was 0% (2017: 1.5%).

The Total Capital Ratio at 31 December 2018 is 74.38% (31 December 2017: 44.32%).

The Common Equity Tier 1 ratio at 31 December 2018 is 68.32% (31 December 2017: 38.54%).

The subordinated deposit is related to a subordinated undated item with UniCredit Bank International Luxembourg, which has been grandfathered.

The notional amounts are the following:

- 383 million Euro, with a call date on the 10 December 2019.

In relation to the Intangible Assets, they were fully deducted against the CET1.

In relation to the shortfall of Provision against the Internal Ratings Based Expected Loss, it was entirely deducted against CET I.

The Fully Loaded CET1 and Fully Loaded Total Capital ratios as at 31 December 2018 are 68.30% (31 December 2017: 38.41%).

Based on the ECB recommendation letter dated 8 December 2016, UniCredit Bank Ireland is advised to consider fully loaded total capital ratio when establishing a dividend distribution policy.

As per the ECB letter dated 8 December 2017 relating to SREP, from 1 January 2018 the Bank has been required to keep a Total Supervisory Capital Ratio of at least 8.0%.

The grandfathering rule on subordinated deposits lead to a decrease in Tier 2 capital of €50m between 2017 and 2018.

From 1 January 2018 the Bank is required to calculate a capital conservation buffer of 1.875% of Total Risk Exposures. This capital buffer amounts to €70m.

Since 1 January 2016 the Bank has also been required to calculate a countercyclical capital buffer requirement based on the weighted average of the buffer rates that apply in the countries where the bank has credit exposures. This capital buffer for 2018 is zero.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 190 – Issued Capital

19.1 Authorised	31 December 2017
	€'000
1,343,118,650 (31 Dec 2016 : 1,343,118,650) ordinary shares of one Euro each	1,343,119
	1,343,119
Issued and paid up	
1,343,118,650 (31 Dec 2016 : 1,343,118,650) ordinary shares of one Euro each	1,343,119
	1,343,119

19.2 Regulatory own funds	31 December 2017
	€'000
Common Equity Tier I Own Funds	
Paid up ordinary share capital – Equity Tier I	1,343,119
Capital contribution – Equity Tier I	753,419
Revenue reserves – Equity Tier I	237,643
Dividend	(73,000)
Firb Provision Shortfall – Deduction Equity Tier I	(4,588)
Accumulated other comprehensive income	49,033
Additional Value Adjustment	(483)
Intangible Assets	(2,295)
Excess of deduction from Additional Tier I items	(149,042)
Other Transitional Adjustments to CET1	(9,349)
Total Common Equity Tier I Own Funds	2,144,457
Additional Tier I Own Funds	-
Tier II Own Funds	
Subordinated deposits – Tier II – Grandfathered	338,406
Collective Impairment Provisioning - Standardised	
Other transitional adjustments to Tier II Capital	(17,019)
Total Tier II Own Funds	321,387
Total Own Funds	2,465,844

Reconciliation between Own Funds and Shareholders' Equity

	31 December 2017
	€'000
Total Shareholders' Equity	2,334,989
(Net Profit of the financial period)	(24,776)
(Filtered Accumulated other comprehensive income)	(134,768)
(Deductions and Adjustments)	(30,988)
Tier II Capital	321,387
Total Own Funds	2,465,844

Part C: Income Statement Notes

Item 10 - Interest income and similar revenues

10.1 Interest and similar income arising on:	31 December 2018
	€'000
Financial assets mandatorily at fair value	24,368
Financial assets at fair value through other comprehensive income	110,236
Financial assets at amortised cost	79,787
Other assets	41,571
Interest income on Trading Derivatives	12,831
Interest income on Hedging Derivatives	118,278
	387,071
Amounts include:	
Due from parent company and fellow subsidiaries	62,965

Total interest income calculated using the effective interest rate method is €232 million (31 December 2017: €261 million).

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 10 - Interest income and similar revenues

1.1 Interest and similar income arising on:	31 December 2017
	€'000
Loans and receivables with banks	70,863
Loans and receivables with customers	6,636
Financial assets held for trading	5,778
Available for sale financial assets	183,621
Other Assets	22
Hedging derivatives	165,950
	432,870
Amounts include:	
Due from parent company and fellow subsidiaries	111,248

Item 20 - Interest expense and similar charges

20.1 Interest expense and similar charges arising on:	31 December 2018
	€'000
Financial liabilities at amortised cost	(74,194)
Financial liabilities designated at FV through P&L	-
Other liabilities	(6,656)
Interest expense hedging	(226,266)
Interest expense on Trading Derivatives	(13,871)
	(320,987)
Amounts include:	
Due to parent company and fellow subsidiaries	(276,533)

Total interest expense calculated using the effective interest rate method is €321 million (31 December 2017: €359 million).

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 20 - Interest expense and similar charges

2.1 Interest expense and similar charges arising on:	31 December 2017	
	€'000	
Deposits from banks	(43,353)	
Deposits from customers	(1,088)	
Debt securities in issue	(36,508)	
Financial liabilities held for trading	-	
Repos	26,590	
Hedging derivatives	(303,032)	
Other liabilities	(53)	
Trading derivatives	(1,485)	
	(358,929)	
Amounts include:		
Due to parent company and fellow subsidiaries	(417,006)	

Item 30 - Net interest income

30.1 Net interest income	31 December 2018	31 December 2017
	€'000	€'000
Net interest income	66,083	73,941
	66,083	73,941

Item 40, 50 and 60 - Fee and commission income and expense

50.1 Fees and commission expense	31 December 2018	31 December 2017
	€'000	€'000
Brokerage and management fees	(439)	(576)
Guarantee fees	(2,426)	(2,295)
Securities Borrowing	(2,045)	(919)
Other fees	(876)	(1,398)
	(5,786)	(5,188)
Amounts include:		
Due to parent company and fellow subsidiaries	(4,175)	(3,562)

60.1 Net fees and commissions	31 December 2018	31 December 2017
	€'000	€'000
Net fees and commissions	(5,786)	(5,188)
	(5,786)	(5,188)

Item 80 – Gains/(losses) on financial assets and liabilities held for trading

80.1 Gains/(losses) on financial assets and liabilities held for trading	31 December 2018	31 December 2017
	€'000	€'000
Trading gains/(losses)	13,781	794
Foreign currency translation (losses)	(539)	143
	13,242	937
Amounts include:		
Due from parent company and fellow subsidiaries	19,820	(10,512)

Trading gains/ (losses) are related to fair value movement of derivatives which are not part of any hedge accounting relationship.

Item 90 – Fair value adjustments in hedge accounting

90.1 Fair Value adjustment	31 December 2018
	€'000
Fair value adjustment on hedging derivatives	113,745
Fair value adjustment relating to hedged items	
- OCI Hedge	(130,522)
- Non-OCI Hedge	14,755
	(2,022)

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 90 – Fair value adjustments in hedge accounting

9.1 Fair Value adjustment	31 December 2017
	€'000
Fair value adjustment on hedging derivatives	343,868
Fair value adjustment relating to hedged items	
- AFS Hedge	(340,773)
- Non-AFS Hedge	340
	3,435

Item 100 – Gains/(losses) on disposal of:

100.1 Gains/(losses) on disposal of:	31 December 2018
	€'000
a) financial assets at amortised cost	646
b) financials assets at fair value through other comprehensive income	15,512
c) financial liabilities at amortised cost	(747)
	15,411
Amounts include:	
Due from parent company and fellow subsidiaries	646

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 100 – Gains/(losses) on disposal of:

10.1 Gains/(losses) on disposal of:	31 December 2017
	€'000
a) Loans and receivables	(39,346)
b) Available-for-sale financial assets	9,328
c) Financial liabilities at amortised cost	(1,371)
	(31,389)
Amounts include:	
Due from parent company and fellow subsidiaries	(39,346)

Item 110 – Gains/(losses) on:

110.1 Gains/(losses) on:	31 December 2018
	€'000
a) financial assets/liabilities designated at fair value through profit or loss	0
b) financial assets mandatorily at fair value	(23,262)
	(23,262)
Amounts include:	
Due from parent company and fellow subsidiaries	(2,922)

Item 130 – Impairment (provisions)/write-back

130.1 Impairment (provisions)/write-back on	31 December 2018
	€'000
a) financial assets at amortised cost	1,653
b) financial assets at fair value through other comprehensive income	(821)
c) other transactions	-
	832

Net impairment write backs of €0.8 million on financial assets have been recorded in 2018 due to the maturity/call of debt securities which resulted in a write-back of ca. €1.7 million, lower PD attributed to Parent Company UniCredit S.p.A. following the upgrade in the internal rating in June 2018 resulted in a write-back of ca. €0.7 million and higher PD 1 year on our sovereign positions resulting in a write-down of approximately €1.6 million.

Refer to Part A.2: Transition to “IFRS 9: Financial Instruments” Section 4 Impairment for details of the impact of IFRS 9 on impairments.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Item 130 – Impairment (provisions)/write-back

13.1 Impairment (provisions)/write-back on	31 Dec 2017
	€'000
a) Loans and receivables with Banks	292
b) Loans and receivables with Customers	62
c) Available for sale financial assets	1,435
	1,789

Item 160 – Administrative costs

160.1 Administrative costs	31 December 2018	31 December 2017
	€'000	€'000
a) Staff expenses	(3,955)	(4,542)
Wages and salaries	(3,391)	(3,822)
Social security costs	(352)	(361)
Pension costs	(212)	(247)
b) Other administrative expenses	(9,716)	(9,901)
Total Administrative costs	(13,671)	(14,331)
	31 December 2018	31 December 2017
	€'000	€'000
Auditor's Remuneration excluding VAT (included in other administrative expenses)	(160)	(145)
Statutory Audit	-	-
Other non-audit services	(160)	(145)

The decrease in other administrative expenses was driven a decrease in IT servicing costs and consulting costs during the year.

Included in other administrative costs are banking levies totalling €6.5 million. For 2017 the amount included in other administrative costs related to banking levies totalled €6.2 million. Also included in other administrative costs are information, communications and technology (“ICT”) related costs totalling €1.4 million. For 2017 the amount included in other administrative costs related to ICT totalled €1.8 million.

The number of people employed directly by the Company at the end of the year is 28 (31 December 2017: 28). The average number of employees for the financial year was 28 (31 December 2017: 33).

There were no other assurance or tax services provided by the auditors during the financial year.

Staff costs that have been capitalized during the year were nil (31 December 2017: €297,072).

Item 180 – Depreciation on property, plant and equipment

180.1 Item 180 – Depreciation on property, plant and equipment	31 December 2018	31 December 2017
	€'000	€'000
Depreciation on property, plant and equipment	(93)	(93)
	(93)	(93)

Item 190 – Amortisation of intangible assets

190.1 Item 190 – Amortisation of intangible assets	31 December 2018	31 December 2017
	€'000	€'000
Amortisation of intangible assets	(1,075)	(963)
	(1,075)	(963)

Item 200 – Other operating income

200.1	Item 200 – Other operating income	31 December 2018	31 December 2017
		€'000	€'000
	Other operating income	341	207
		341	207

Other operating income of €0.3 million (31 December 2017: €0.2 million) relates to services provided to the ex-Pioneer entities.

Item 270 – Tax expense

270.1	Tax (expense) income related to profit or loss from continuing operations	31 December 2018	31 December 2017
		€'000	€'000
	Current tax (charge)	(6,305)	(3,604)
	Adjustments in respect of previous financial years	(3)	35
		(6,308)	(3,569)
	Profit before tax	50,000	28,345
		(6,250)	(3,543)
	Tax calculated at a tax rate of 12.5% (31 December 2017: 12.5%)	(6,250)	(3,543)
	Effects of:		
	Disallowable items	(18)	(17)
	Allowable deductions	1	3
	Capital allowances in excess of depreciation	(28)	(25)
	Tax relief at source charge	(10)	(22)
	Adjustments in respect of previous financial years	(3)	35
	Income tax (charge)	(6,308)	(3,569)

Part E: Information on risks and hedging policies

Section 1 Introduction

UniCredit Bank Ireland p.l.c is responsible for the management of its own risks and it has consequently set up processes to properly set the Risk Appetite and the associated data collection, risk measurement and reporting, both for local capital adequacy assessment and at a consolidated level.

The role of the Risk Management function in this context is to design and oversee the Bank's Internal Capital Adequacy Assessment Process "ICAAP" framework, undertaking the following activities:

- identifying which of the Bank's risks are within the scope of the ICAAP;
- designing the structure and key constituents of the risk appetite statement, which also includes developing a process that aligns the business and risk strategy of the bank by linking the Risk Appetite 2018, Budget 2018 and Multi Year Plan 2017-2019; and
- ensuring the local ICAAP framework and its constituent processes and methodologies are both appropriate to local business model requirements (according to the proportionality principal) and consistent with Group ICAAP to allow for consolidated reporting and monitoring and highlight any differences that might exist.

The Bank defines Risk Appetite as the variability in results and/or position, on both a short and a long term, which the Bank and its senior executives are prepared to accept in support of a stated strategy. The aim is not to prevent risk taking, but to pursue the execution of the Bank's articulated strategy in a manner that is consistent with the level of risk tolerance set by the Board. In setting the level of Risk Appetite acceptable to the Bank, the Board will take into account factors such as conditions with market environment and regulatory practices, both current and future.

Section 2 Credit Risk general aspects

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. In the course of its credit business activities the Company is exposed to the risk that an unexpected change in a counterparty's creditworthiness may generate a corresponding unexpected change in the value of the associated credit exposure and may thus result in a partial or full write-off.

The main reasons for a default lie in the borrower's lacking the autonomous ability to service and repay the debt (due to a lack of liquidity, insolvency, etc.), as well as the occurrence of events that are affecting the debtor's operating and financial condition, such as country risk or the impact of operational risk. Other banking operations, in addition to traditional lending and deposit activities, can expose the Company to other credit risks. For example, 'non-traditional' credit risk may arise from:

- entering into derivative contracts;
- purchasing and selling securities, futures, currencies or commodities;
- holding third-party securities.

The counterparties in these transactions or issuers of securities held by the Company could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons. Defaults of a large number of transactions, or one or more large transactions, could have a material adverse impact on the Company's operations, financial condition and operating results. The Company therefore monitors and manages the specific risk of each counterparty as well as the overall risk of loan portfolios through procedures, structures and rules that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice, also aimed to extend their effectiveness to all phases of the economic cycle.

The Company seeks to minimise credit risk through sound risk management practices. Long term profitability is dependent on the accurate assessment and classification of credit risk. The pricing of credit services must therefore reflect the level of credit risk inherent in proposed credit facilities. UniCredit Bank Ireland p.l.c. is also committed to the early identification of potential credit problems. Early identification affords greater flexibility in maximising recovery and minimising additional risk and losses.

The Company manages the levels of credit risk it undertakes by maintaining a credit management system involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain risk asset portfolios of high quality. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors.

On an annual basis, an Investment Plan and a Funding Plan are presented to the ‘Asset and Liability Committee’ (ALCO) for approval and are subsequently approved by the Board of Directors as part of the Budget. Then, individual credit limits within the scope of the Plans are proposed to the Credit Committee comprised of the Managing Director, the Chief Risk Officer and the Chief Financial Officer. Credit proposals outside of the Plans may also be considered by the Credit Committee on an exceptional basis and subject to certain limitations.

UniCredit Bank Ireland p.l.c. grades all its assets on an annual basis or more frequently in case of risk deterioration, to ensure that potential and well defined credit weaknesses associated with the assets are identified and monitored on a timely basis. The current risk grading framework consists of eighteen grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

UCI Grade	Quality	Rating agency – equivalent
B1 to B3	Superior	AAA/Aaa to AA/Aa2
B4 to B6	Very Good	AA-/Aa3 to A/A2
B7 to B9	Good	A-/A3 to BBB/Baa2
B10 to B12	Satisfactory	BBB-/Baa3 to BB/Ba2
B13 & B14	Substandard	Sub Investment Grade
B15, B16 & B17	Doubtful	Sub Investment Grade
B18	Loss	Sub Investment Grade

As part of its credit risk management strategy, the Risk department conducts periodic reviews of all credit facilities to ensure that significant trends are promptly identified and that borrowers and potential borrowers are able to meet interest and capital repayment obligations. The components of this comprehensive portfolio monitoring program are twofold. The first comprises periodic review of individual credit transactions. The second comprises review of all credit facilities in the aggregate.

Aspects which are monitored as part of the portfolio monitoring process include:

- the geographic distribution and industry exposure of the portfolio;
- other significant portfolio concentrations, including credit facilities to one borrower;
- the level of delinquencies, non-performing assets and debt restructurings;
- the level of charge-off and recoveries.

The credit policies and procedures are reviewed periodically by (1) the Credit and Risk Committee, and (2) by the Board of Directors. The Credit and Structured Finance Department and the Risk Department at UniCredit Bank Ireland p.l.c. are responsible for the development and maintenance of the Credit policies subject to the final approval of the Board.

The Risk Management function is responsible for the credit risk reporting at portfolio level, producing reports both recurring and specific (on demand of Senior Management or external entities, e.g. regulators or rating agencies). Credit portfolio performance is analysed with reference to its main risk drivers (such as growth and risk indicators) customer segments, industrial sectors, regions, and impaired credits performance and related coverage.

Country risk is the risk of losses caused by events identified at country level and not at level of specific transaction, counterparty or counterparty group. It is therefore a collection of risks that mainly includes sovereign risk, transfer and convertibility risk, delivery risk, risk related business environment and jurisdiction, political and geopolitical risk, and economic risk. Country risk is primarily managed by determining the appropriate group-wide maximum risk levels that can be assumed by the Legal Entities belonging to the Group towards all counterparties (sovereigns, government entities, banks, financial institutions, corporate customers, etc.) residing in or related to the country for cross-border transactions (from the standpoint of the Entity providing the loan).

Country risk management processes are mainly concentrated at UniCredit Group level in terms of both methodological aspects and the decision-making process, in order to ensure a uniform assessment and monitoring approach, particularly for the rating assignment, PD (probability of default) and LGD (loss given default), as well as control of risk concentration.

The Country rating assignment (both in terms of PD and LGD) is performed by using the specific internal rating model. The analysis, focused on both qualitative and quantitative factors, is an integral part of the rating calculation process.

The key objective of the reporting and monitoring of the credit portfolio is to detect any signs of deterioration and, therefore, to take appropriate corrective action by analysing the main components of credit risk such as EAD (Exposure to Default), EL (Expected Loss), Migration, Risk Cost, etc.

Section 3 Risk management organisation, processes and key functions in applying the ECL approach

UniCredit Banking Group, with reference to the Loan Loss Provision process, has the following responsibility;

- for Performing exposures, to define the UniCredit Group guidelines in terms of:
 - o impairment methodological Rules in line with the IFRS 9 Standards;
 - o expected credit loss measurement;
 - o definition of the Transfer logic criteria qualifying the event of significant deterioration in credit risk, either in terms of quantitative and additional criteria for the Stage allocation.

- For Non Performing exposures to define the UniCredit Group guidelines in terms of:
 - o identification in line with the most recent Default definition as per CRR Article 178, necessary adjustments in case of impairment;
 - o individual and collective assessment for the non performing exposures and POCI treatment

The UniCredit Group Credit Risk Function is responsible for the ECL calculation on the Bank's eligible assets.

As the Company invests in Group wide portfolios, several tasks related to the ECL calculation process are performed at group level in accordance with Group guidelines on the Loan Loss Provisioning process under IFRS 9, such as:

- development and maintenance of the methodologies for estimating the Loan Loss Provisions;
- parameterization for the risk parameters and transfer logic for group wide portfolios;
- performance of internal back testing activities, at Group level, on systems for measuring Expected Loss.

Section 4 Measurement method for expected losses

The Credit Risk processes described in the previous paragraphs are also the basis for the calculation of impairment of Loans and debt securities classified as financial assets at amortized cost, financial assets at fair value through comprehensive income and relevant off-balance sheet exposures as required by IFRS9.

In order to meet the requirements of the standard, the Company leverages specific models that have been developed at Group level to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulations.

For this purpose the calculation of impairment in accordance with expected credit losses is based on two main pillars:

- the stage allocation of the credit exposure;
- the associated calculation of expected credit loss.

In UniCredit Group the Stage allocation is based on a combination of relative and absolute elements. The main elements are:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence, including renegotiations of financial instruments due to financial difficulties met by the counterpart (i.e. Forborne classification).

With regard to debt securities, the Group is opting for application of the low credit risk exemption on investment grade securities, in full compliance with the accounting standard.

The outcome of the stage allocation is the classification of credit exposure in stage 1, stage 2 or stage 3 according to their absolute or relative credit quality with respect to initial disbursement. Specifically:

- Stage 1: includes (i) newly issued or acquired credit exposures, (ii) exposures for which credit risk has not significantly deteriorated since initial recognition, (iii) exposures having low credit risk (low credit risk exemption);
- Stage 2: includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition;
- Stage 3: includes impaired credit exposures.

The outcome of Stage allocation drives the calculation of impairment. In fact, for exposures in stage 1, impairment is equal to the expected loss calculated over a time horizon of up to one year.

For exposures in stages 2 or 3, impairment is equal to the expected loss calculated over a time horizon corresponding to the entire life of the exposure.

As at 31 December 2018 the Company only had Stage 1 exposures.

The Stage Allocation model is tested at each reporting date; in order to timely capture both significant deterioration and its reverse in a symmetric way so to correctly allocate each transaction within the proper stage and related expected loss calculation model.

With reference to the calculation of expected credit loss, please note that this amount is based on PD, LGD and EAD parameters adjusted, starting from the parameters used for regulatory purposes, in order to ensure consistency with accounting regulation. The main adjustments performed to the parameters used for regulatory purposes include those adjustments needed to arrive at the calculation of a point-in-time and forward-looking expected credit loss as well as those needed to include multiple scenarios.

Section 5 Parameters and risk definitions used for calculating value adjustments and stage allocations

The Group has developed specific models for calculating the expected loss; such models are based on the parameters of PD, LGD and EAD and on the effective interest rate. In particular:

- the PD (Probability of Default), represents the probability of occurrence of an event of default of the credit exposure, in a defined time lag (i.e. 1 year);
- the LGD (Loss Given Default), represents the percentage of the estimated loss, and thus the expected rate of recovery, at the date of occurrence of the default event of the credit exposure;
- the EAD (Exposure at Default), represents the measure of the exposure at the time of the event of default of the credit exposure;
- the Effective interest rate is the discount rate that expresses of the time value of money.

Such parameters are calculated starting from the corresponding parameters used for regulatory purposes, with specific adjustments in order to ensure consistency between accounting and regulatory treatment despite different regulatory requirements.

The main adjustments aimed at:

- removing conservatism required for regulatory purposes;
- introducing “point-in-time” adjustments to replace “through-the-cycle” adjustments required for regulatory purposes;
- including “forward looking” information;
- extending credit risk parameters to a multi-year perspective.

With reference to lifetime PD, through-the-cycle PD curves obtained by adjusting observed cumulated default rates were calibrated in order to reflect point-in-time and forward-looking forecasts on portfolio default rates. Recovery rate incorporated into through-the-cycle LGD was adjusted in order to remove conservatism and to reflect the most updated trend of recovery rates as well as expectations about future trends discounted at effective interest rate or at its best approximation.

The lifetime EAD has been obtained by extending the 1 year regulatory or managerial model, removing margin of conservatism and including expectation about future drawing levels.

With reference to the quantitative component of the model for stage allocation, the Group has adopted a statistical approach based on a quantiles regression whose objective is to define a threshold in terms of maximum variation acceptable between the PD at the time of origination and the PD assessed at the reporting date. The variable

objective of the regressive model is thus the change between the PD at the reporting date compared to the one at the date of origination while the explicative variables are factors such as the age of the transaction, the PD at the date of origination, etc.

A key component of the model is the definition of the quantile that identifies the amount of Stage 2 expected on average in the long-run and that affects the determination of the threshold of change in PD after which the transaction is classified in Stage 2. The average quantile in the long run is determined based on the expected average of deterioration of the portfolio determined by the rate of defaults as in any other deterioration stage (i.e. 30 days past due).

The amount of exposures classified in Stage 2 at each reporting date will be around the quantile identified for the long run based on the economic conditions at the time and on the future expectations about the evolution of the economic cycle.

With reference to Stage 3, it should be noted that it includes impaired exposures corresponding to the aggregate Non-Performing Exposures as ITS EBA (EBA/ITS /2013/03/rev1 7/24/2014), in accordance with Banca d'Italia rules, defined in Circular No.272 of 30 July 2008 and subsequent updates.

In particular EBA has defined as “Non-Performing” the exposures that meet one or both of the following criteria:

- material exposures with more than 90 days past due;
- exposures for which the bank values that is unlikely that the debtor would pay in full his credit obligations without recurring to enforcement and
- realisation of collaterals, regardless of past due exposures and the number of days the exposure is past due.

The expected credit loss either one year or lifetime depending on the stage considers “forward looking” information and macroeconomic forecasts under the baseline scenario through a direct adjustment of the credit risk parameters while the multiple scenarios effect is captured through the application of an overlay factor directly applied to the portfolio expected credit loss.

The process defined to include macroeconomic scenarios is fully consistent with macroeconomic forecast processes used by the Group for additional risk management objectives (as for example processes adopted to calculate expected credit losses from macroeconomic forecasts based on EBA stress test and ICAAP Framework) and also takes advantage of independent UniCredit Research function. The starting point is therefore fully aligned while the application is differentiated in order to comply with different requirements using internal scenarios.

UniCredit Group has opted for the low credit risk exemption for (and only for) debt securities within the scope of IFRS 9 financial instruments (i.e., debt securities recorded at amortized cost (AC) or at fair value through other comprehensive income (FVOCI)).

In order to perform stage allocation on debt securities, the Bank is required to identify the unit of account. The unit of account has been defined as the Tranche level, which means that if the Bank buys the same security at 2 different points in time, each position would need to be individually assessed for stage allocation.

Upon the application of the low credit risk exemption for debt securities, however, even if the Bank buys the same security at 2 different points in time, the stage allocation will be first of all assessed at security code level (i.e. ISIN code/Unit of Account level). At the same time also LLP will be calculated on aggregated level, based on the average price used for carrying value calculation.

The stage allocation approach for debt securities requires assessing whether the debt security is investment grade or not.

If the debt security is Investment Grade, then all the positions shall be allocated in Stage 1.

If the debt security is Not Investment Grade, considering that the legacy system which manages debt securities may not be the same across all Legal Entities in the Group, with a different granularity level of information available, the Bank must assess its local capacity to apply the “regular” Transfer Logic approach applied to Loans perimeter (on rated portfolio). In particular:

- a) if the Bank, given its current local legacy system and data availability, can retrieve and distinguish the inception date and the inception PD of each tranche, then the Bank shall apply for these debt securities the “regular” Transfer Logic applied on loans, assessed at single Transaction level;
- b) if, given its current local legacy system and data availability, cannot retrieve and distinguish the PD at inception by each tranche, but it’s able to statistically demonstrate that in the majority of cases the tranches for each debt security (at security code level) are purchased within a short time frame, so that they all have almost the same inception PD, the Bank is allowed to apply the “regular” Transfer Logic applied on loans, but assessed at Security Code level (instead of at Tranche level);
- c) if, given its current local legacy system and data availability, cannot apply neither of the two cases described above, then all the positions shall be allocated in Stage 2;

Option c) is the one currently applied within the model used by the Bank.

When applying the low credit risk exemption, it should be highlighted that in case the Bank has already assessed through group internal rating models the riskiness (rating/PD) of the security counterpart (issuer), the Bank will use the internally measured PD mapped into the Group Master-Scale to assess the Stage allocation. On the other hand, if an internal rating is not available, the Bank will use the one available and provided by external agencies.

Section 6 Credit Risk tables

The below table shows the Bank’s credit exposure broken down by industry:

31 December 2018 Exposure broken down by industry

Industry	Loans and receivables with customers €,000	Cash and cash balances and Loans and receivables with banks €,000	Financial assets mandatorily at fair value €,000	Financial assets at fair value through other comprehensive income €,000	Derivatives and Held for Trading €,000	Total €,000
Sovereign	-	-	-	7,042,032	-	7,042,032
Asset backed securities	-	-	28,642	-	-	28,642
Financial companies/Investment banks	1,669,382	-	-	193,224	-	1,862,606
Insurance	45,002	-	-	-	-	45,002
Municipals/Other General Government	-	-	-	176,826	-	176,826
Leasing companies	-	-	-	-	-	-
Banks	-	4,523,122	19,701	735,114	58,044	5,335,981
Non-Financial	-	-	-	-	-	-
Stage 1 impairment	(1,163)	(2,883)	-	-	-	(4,046)
Total	1,713,221	4,520,239	48,343	8,147,196	58,044	14,487,043

The total of the exposure broken down by industry table €14.5 billion (31 December 2017: €18.0 billion) is represented in lines 10-50 of the Balance Sheet.

Included in the total amount of €14.5 billion (31 December 2017: €18.0 billion) for exposures broken down by industry is an amount of €5.0 billion (31 December 2017: €6.9 billion) which is due from UniCredit Banking Group.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

31 December 2017 Exposure broken down by industry

Industry	Loans and receivables with customers €,000	Cash and cash balances and Loans and receivables with banks €,000	Investment securities €,000	Derivatives and Held for Trading €,000	Total €,000
Sovereign	-	-	8,721,713	-	8,721,713
Asset backed securities	-	-	30,243	-	30,243
Financial companies/Investment banks	1,061,083	-	264,184	-	1,325,267
Insurance	45,008	-	-	-	45,008
Municipals/Other General Government	-	-	181,248	-	181,248
Leasing companies	-	-	-	-	-
Banks	-	6,773,590	857,974	79,802	7,711,366
Non-Financial	-	-	-	-	-
Collective Impairment	(70)	(476)	-	-	(546)
Total	1,106,021	6,773,114	10,055,362	79,802	18,014,299

The below table shows the Bank's credit exposure broken down by counterparty's country of residence:

31 December 2018 Exposure broken down by geographical area

Geographical area	Loans and receivables with customers €,000	Cash and cash balances and Loans and receivables with banks €,000	Financial assets mandatorily at fair value €,000	Financial assets at fair value through other comprehensive income €,000	Derivatives and Held for Trading €,000	Total €,000
European Union Including:	1,714,384	4,523,122	48,343	8,147,196	58,044	14,491,089
Ireland	-	23,212	-	-	-	23,212
Italy	1,713,375	3,867,068	28,642	3,901,215	58,044	9,568,344
Spain	-	-	-	2,233,809	-	2,233,809
United Kingdom	1,009	12,989	-	43,098	-	57,096
Germany	-	613,050	-	-	-	613,050
Rest of Europe	-	6,803	19,701	1,969,074	-	1,995,578
Non EU	-	-	-	-	-	0
North America	-	-	-	-	-	0
Stage 1 impairment	(1,163)	(2,883)	-	-	-	(4,046)
Total	1,713,221	4,520,239	48,343	8,147,196	58,044	14,487,043

The total of the exposure broken down by geographical area table above €14.5 billion (31 December 2017: €18.0 billion) is represented in lines 10-50 of the Balance Sheet.

Included in the total amount of €14.5 billion (31 December 2017: €18.0 billion) for exposure broken down by geographical area is an amount of €5.0 billion (31 December 2017: €6.9 billion) which is due from UniCredit Banking Group.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

31 December 2017 Exposure broken down by geographical area

Geographical area	Loans and receivables with customers €,000	Cash and cash balances and Loans and receivables with banks €,000	Investment securities €,000	Derivatives and Held for Trading €,000	Total €,000
European Union Including:	1,106,091	6,773,590	9,953,052	79,802	17,912,535
Ireland	-	29,739	-	-	29,739
Italy	1,092,221	5,656,646	5,773,605	79,802	12,602,274
Spain	-	-	2,096,354	-	2,096,354
United Kingdom	13,870	74,646	44,725	-	133,241
Germany	-	722,148	-	-	722,148
Rest of Europe	-	290,411	2,038,368	-	2,328,779
Non EU	-	-	51,687	-	51,687
North America	-	0	50,623	-	50,623
Collective Impairment	(70)	(476)	-	-	(546)
Total	1,106,021	6,773,114	10,055,362	79,802	18,014,299

The below table details the Bank's credit exposure broken down by UniCredit Bank Ireland's internal credit grade ratings.

The Bank applies a scale of ratings that comprises 7 rating categories. Grades B1 – B9 correspond to AAA down to BBB (i.e. investment grade level of external rating categories), whereas rating categories B10 to B18 correspond primarily to the sub-investment grade level.

31 December 2018 Exposure broken down by rating category

Rating category	Loans and receivables with customers €,000	Cash and cash balances and Loans and receivables with banks €,000	Financial assets mandatorily at fair value €,000	Financial assets at fair value through other comprehensive income €,000	Derivatives and Held for Trading €,000	Total €,000
B1 to B3	-	-	-	1,017,220	-	1,017,220
- Group	-	-	-	-	-	-
- Non-group	-	-	-	1,017,220	-	1,017,220
B4 to B6	-	20,894	28,642	672,898	56,124	778,559
- Group	-	-	-	-	56,124	56,124
- Non-group	-	20,894	28,642	672,898	-	722,435
B7 to B9	1,714,384	4,502,228	19,701	2,533,416	1,920	8,771,648
- Group	450,505	4,480,118	19,701	-	1,920	4,952,244
- Non-group	1,263,879	22,109	-	2,533,416	-	3,819,404
B10 to B12	-	-	-	3,923,662	-	3,923,662
- Group	-	-	-	-	-	-
- Non-group	-	-	-	3,923,662	-	3,923,662
B13 & B14	-	-	-	-	-	-
- Group	-	-	-	-	-	-
- Non-group	-	-	-	-	-	-
B15 to B17	-	-	-	-	-	-
- Non-group	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
- Group	-	-	-	-	-	-
- Non-group	-	-	-	-	-	-
Stage 1 impairment	(1,163)	(2,833)	-	-	-	(4,046)
Total	1,713,221	4,520,239	48,343	8,147,196	58,044	14,487,043

The total of the exposure broken down by rating category above €14.5 billion (31 December 2017: €18.0 billion) is represented in lines 10-50 of the Balance Sheet.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

31 December 2017 Exposure broken down by rating category

Rating category	Loans and receivables with customers €,000	Cash and cash balances and Loans and receivables with banks €,000	Investment securities €,000	Derivatives and Held for Trading €,000	Total €,000
B1 to B3	-	-	1,039,068	-	1,039,068
- Group	-	-	-	-	-
- Non-group	-	-	1,039,068	-	1,039,068
B4 to B6	745,565	179,721	747,984	78,316	1,751,586
- Group	700,557	-	-	78,316	778,873
- Non-group	45,008	179,721	747,984	-	972,713
B7 to B9	360,526	6,593,834	8,176,566	1,486	15,132,412
- Group	-	6,172,193	-	1,486	6,173,679
- Non-group	360,526	421,641	8,176,566	-	8,958,733
B10 to B12	-	35	91,744	-	91,779
- Group	-	-	-	-	-
- Non-group	-	35	91,744	-	91,779
B13 & B14	-	-	-	-	-
- Group	-	-	-	-	-
- Non-group	-	-	-	-	-
B15 to B17	-	-	-	-	-
- Non-group	-	-	-	-	-
Unrated	-	-	-	-	-
- Group	-	-	-	-	-
- Non-group	-	-	-	-	-
Collective Impairment	(70)	(476)	-	-	(546)
Total	1,106,021	6,773,114	10,055,362	79,802	18,014,299

For details on derivatives please refer to the notes on derivatives which are included within the market risk note in Part E: Information on risks and hedging policies Section 9 – Market Risk.

Maximum Credit Risk Exposure

Maximum credit risk exposure	31 December 2018 €'000
Loans and receivables with customers	1,713,221
Loans and receivables banks	4,520,239
Financial assets mandatorily at fair value	48,343
Financial assets at fair value through other comprehensive income	8,147,196
Derivatives	58,044
Contingent liabilities and commitments	-
	14,487,043

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Maximum Credit Risk Exposure

Maximum credit risk exposure	31 December 2017 €'000
Loans and receivables with customers	1,106,021
Loans and receivables banks	6,773,114
Investment securities	10,055,362
Derivatives	79,802
Contingent liabilities and commitments	-
	18,014,299

Derivatives subject to Netting arrangements and similar Agreements:

Amounts not set off on the Statement of Financial Position:

Fair Value 31 December 2018 €'000	Collateral-Value 31 December 2018 €'000	Net Amount €'000
(697,247)	697,039	(208)

Derivatives subject to Netting arrangements and similar Agreements:

Amounts not set off on the Statement of Financial Position:

Fair Value 31 December 2017 €'000	Collateral-Value 31 December 2017 €'000	Net Amount €'000
(850,387)	776,570	(73,817)

The Bank has in place netting agreements with major counterparties in order to mitigate the Counterparty Risk for both Credit Risk and Regulatory purposes.

Included in the fair value amount is asset item 20 a) financial assets held for trading, asset item 50 hedging derivatives, liability item 20 financial liabilities held for trading and liability item 40 hedging derivatives.

Included in collateral amount are the derivative margins which are classified under asset item 40 financial assets at amortised cost.

31 December 2018 Exposures outside the scope of the expected credit loss model

Asset item 20 c) financial assets mandatorily at fair value	Currency	Maturity date	Product	Type	Notional €'000	Fair value €'000
FE MORTGAGE 30/10/43	EUR	02 May 2023	BOND	ABS	32,289	28,621
UC INTL 29/12/49 A	EUR	10 December 2019	BOND	BOND	18,100	18,875

The Bank did not hold collateral as security related to asset item 20 c) financial assets mandatorily at fair value as at 31 December 2018.

Section 7 Sovereign Exposures

Breakdown of Sovereign Debt Securities by Country and Portfolio

The below table provides an overview of the Company's sovereign exposures' as at 31 December 2018:

Country/Portfolio	31 December 2018	31 December 2018
	€'000	€'000
	Nominal Value	Fair Value
- Belgium	20,000	22,397
Financial assets at fair value through other comprehensive income	20,000	22,397
- Czech Republic	342,500	395,267
Financial assets at fair value through other comprehensive income	342,500	395,267
- Italy	4,625,672	4,999,525
Financial assets at fair value through other comprehensive income	3,691,000	3,885,105
Loans and receivables with customers	934,672	1,114,420
- Poland	256,245	283,498
Financial assets at fair value through other comprehensive income	256,245	283,498
- Portugal	35,000	38,557
Financial assets at fair value through other comprehensive income	35,000	38,557
- Slovakia	228,886	255,234
Financial assets at fair value through other comprehensive income	228,886	255,234
- Spain	1,885,000	2,161,973
Financial assets at fair value through other comprehensive income	1,885,000	2,161,973
Total	7,393,303	8,156,451

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Country/Portfolio	31 December 2017	31 December 2017
	€'000	€'000
	Nominal Value	Fair Value
- Belgium	20,000	22,749
Available for sale financial assets	20,000	22,749
- Czech Republic	342,500	408,675
Available for sale financial assets	342,500	408,675
- Italy	4,957,764	5,683,926
Available for sale financial assets	4,957,764	5,683,926
- Poland	250,076	286,227
Available for sale financial assets	250,076	286,227
- Portugal	35,000	40,057
Available for sale financial assets	35,000	40,057
- Slovakia	224,636	258,683
Available for sale financial assets	224,636	258,683
- Spain	1,710,000	2,021,397
Available for sale financial assets	1,710,000	2,021,397
Total	7,539,976	8,721,714

Sovereign Debt Securities and Loans – Weighted Tenor

The table below shows the weighted duration of the sovereign bonds:

Country	Financial Year end 31 December 2018 Years
- Belgium	4.48
- Czech Republic	3.34
- Italy	4.21
- Poland	2.27
- Portugal	1.46
- Slovakia	4.20
- Spain	5.50

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Country	Financial Year end 31 December 2017 Years
- Belgium	5.48
- Czech Republic	4.34
- Italy	3.89
- Poland	3.30
- Portugal	2.46
- Russia	-
- Slovakia	5.21
- Spain	4.89

Sovereign Debt Securities – Classification

The below table shows the classification of sovereign bonds and their percentage incidence on the total of the portfolio under which they are classified:

	Amount as at 31 December 2018	Amount as at 31 December 2018
	Financial assets at fair value through other comprehensive income (€,000)	Loans and receivables with customers (€,000)
Fair Value	7,042,032	1,114,420
% Portfolio	86%	65%

In addition to the exposures to sovereign debt securities, loans given to central and local governments and government bodies must be taken into account. The total amount of sovereign loans held by UniCredit Bank Ireland is €14 million (31 December 2017: €26 million). The full amount of €14 million (31 December 2017: €26 million) is with the Central Bank of Ireland in relation to the minimum reserve requirement and the deposit protection agreement.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

	Amount as at 31 December 2017
	Available for sale financial assets (€,000)
Fair Value	8,721,712
% Portfolio	87%

Section 8 Liquidity Risk

The UniCredit Bank Ireland p.l.c. policy defines Liquidity Risk as the risk that a Bank may find itself unable to fulfil its payment obligations (by cash or delivery), whether expected or unexpected, thus jeopardising its day to day operations or its financial condition.

The main goal of the Bank's overall liquidity management is to maintain an adequate liquidity and funding position to allow the Bank to meet its payment obligations not only on an on-going basis, but also in case of market tensions without jeopardizing its brand's name, keeping the refinancing risk at a manageable level. The going concern management of liquidity articulates in short-term liquidity, medium-long term liquidity and intragroup liquidity. With reference to the end of 2018, the Bank's liquidity profile is deemed adequate, with all metrics monitoring the short term profile (Operative Maturity Ladder (OML), Liquidity Coverage Ratio (LCR)) and long term structure (Net Stable Funding Ratio (NSFR), Adjusted NSFR >3y and >5y and Structural FX Gaps) compliant with set of thresholds in the Risk Appetite Framework (RAF) 2018 and Granular Limit 2018.

UniCredit Bank Ireland regularly monitors its liquidity risk profile in compliance with Supervisory and Group rules and EBA guidelines with daily, weekly and monthly frequency. UniCredit Bank Ireland is part of the Liquidity Reference Bank, UniCredit S.p.A. of the UniCredit Group where liquidity management is centralised and in which the Company's liquidity ladder is included. In fact, with its liquidity profile consolidated in the Liquidity Reference Bank Italy, UC Ireland is responsible to preserve a positive liquidity position in the 3-month horizon by setting a limit at €0.

A set of limits and triggers on the liquidity metrics ensures that the Bank maintains liquidity and funding position sufficiently sound to endure possible effects of adverse scenarios. The system of restrictions set at Group and Bank level is articulated in the RAF and the Granular limits. RAF is annually approved by the Board of Directors which, in case triggers and/or limits breaches, is immediately informed and also, in case of limit breach, is required to approve the remedy action. However, the granular limits derive from the RAF and its setting, approval and escalation process involves mainly the local ALCO and Group ALCO. In case of breaches on RAF and/or Granular limits, the relevant Group functions are immediately informed too.

In term of liquidity structural profile, the growth of assets is financed through appropriate funding, by identifying the most appropriate mix of instruments and maturities during the funding and investment plan process, with the aim of ensuring an adequate level of maturity transformation of the banking activity. The financial stability of the balance sheet and of the medium/long term funding sources aims to avoid excessive and unexpected pressures on the funding requirements in the short term liquidity position, and to optimize the cost of funding.

The Bank's resilience in a situation of contingency is regularly guarded and tested by a set of processes, like the liquidity stress testing, which simulates the effect of a crisis on the different clusters of the balance sheet under different scenarios; the liquidity reverse stress testing, which aims to identify the conditions that would threaten the Bank's viability, starting from a predefined outcome. The contingency liquidity management framework instead provides a set of rules and a dedicated funding contingency plan, independently reviewed by the risk function, to be activated in case of stress to preserve the Bank's ability to meet its payment obligations.

Analysis of financial liabilities by remaining contractual maturity – 31 December 2018

	Repayable on demand €'000	3 months or less €'000	1 financial year or less but over 3 months €'000	5 financial years or less but over 1 year €'000	over 5 financial years €'000	Total €'000
Deposits from banks	37	3,660,005	1,969,113	372,273	-	6,001,428
Deposits from customers	-	3,538,975	67,850	66,352	-	3,673,176
Debt securities in issue	-	1,693,021	135,952	375,094	-	2,204,066
Financial liabilities held for trading*	-	35,245	7,691	1,008	-	43,944
Hedging derivatives**	-	90,250	289,655	1,077,387	271,494	1,728,786
Other liabilities	-	-	2,745	-	-	2,745
Undrawn commitments	-	-	-	-	-	-
Total	37	9,017,496	2,473,006	1,892,113	271,494	13,654,145

* Consists of economic hedging derivatives valued at the current nominal.

** Cross currency swaps do not settle net.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Analysis of financial liabilities by remaining contractual maturity – 31 December 2017

	Repayable on demand €'000	3 months or less €'000	1 financial year or less but over 3 months €'000	5 financial years or less but over 1 year €'000	over 5 financial years €'000	Total €'000
Deposits from banks	48	2,977,383	799,150	499,352	-	4,275,933
Deposits from customers	-	4,843,802	354,082	56,399	-	5,254,283
Debt securities in issue	-	817,488	3,778,843	1,121,005	43,627	5,760,963
Financial liabilities held for trading*	-	421,320	198	-	-	421,518
Hedging derivatives**	-	41,919	195,445	590,060	513,797	1,341,221
Other liabilities	-	-	9,430	-	-	9,430
Undrawn commitments	-	-	-	-	-	-
Total	48	9,101,912	5,137,148	2,266,816	557,424	17,063,348

* Consists of economic hedging derivatives valued at the current nominal.

** Cross currency swaps do not settle net.

Liquidity Coverage Ratio (LCR)

The LCR was introduced to improve the short-term resilience of the liquidity risk profile of institutions, requiring them to hold a buffer of “high quality” liquid assets to match net liquidity outflows during a 30-day period of stress. The Liquidity Coverage Ratio requires financial institutions to hold a sufficient level of high quality liquid assets to sustain a stressed 30 day cash flow scenario.

The ratio became a mandatory regulatory requirement in October 2015 with a minimum ratio requirement of 60% at this date. At the balance sheet date the mandatory regulatory requirement was 100%.

LCR	31 December 2018	31 December 2017
LCR	471%	716%
Minimum Requirement	100%	80%
Liquidity Buffer surplus	€1.9 billion	€1.8 billion

At the 31 December 2018 the LCR of UniCredit Ireland p.l.c. was 471% (31 December 2017: 716%), maintaining a significant surplus above the minimum requirement.

Net Stable Funding Ratio (NSFR)

The Basel Committee for Banking Supervision (BCBS) introduced the NSFR with the objective to reduce funding risk over a longer time horizon by requiring banks to finance their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. In short, the NSFR limits over-reliance on short-term wholesale funding.

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.

Although at the present time there is no EU regulatory requirement to maintain a minimum ratio, the NSFR should be equal to at least 100% on an on-going basis. UniCredit Bank Ireland monitors the ratio on a monthly basis in compliance with its Risk Appetite Framework.

At the 31 December 2018 the NSFR of UniCredit Ireland p.l.c. was 111% (31 December 2017: 87%).

Section 9 – Market Risk

Market risk is defined as the risk of facing losses in on and off balance sheet positions, due to market prices movements. These market prices movements can be due to general conditions, such as the interest rate shifts due to European Central Bank decisions or due to factors connected to the specific issuer of financial instruments held by the UniCredit Bank Ireland p.l.c. such as the fall in the bond price due to a credit warning on a company. Market risks arise from open positions in interest rate, currency and equity/bond positions, all of which are exposed to general and specific market movement.

The UniCredit Bank Ireland p.l.c. Chief Risk Officer (CRO) department is directly involved in the measuring and monitoring process of the market risk profile of the Bank. The Banks CRO ensures daily that all relevant information and sensitivities (Basis Point Value "BPV" and Credit Point Value "CPV") generated by the portfolio are correctly captured by the system in terms of market risk exposures.

At 31 December 2018, the sensitivity of interest income to an immediate and parallel shift of +1bp was -€0.233 million. The sensitivity of the economic value of shareholders' equity to an immediate and parallel change in interest rates ("parallel shift") of +200bps was -€11.3 million as at 31 December 2018.

The principal risk within the banking book is Interest Rate Risk, which is the risk that the market value of positions decreases due to unfavourable interest rate movements. In particular there are the following sources of this type of risk:

- Re-pricing Risk, driven by re-pricing mismatches between asset and liabilities, in case of interest rate risk in the banking book;
- Yield curve risk, related to the changes in the slope and shape of the yield curve;
- Basis risk, related to the imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics;
- Optionality, related to the additional source of interest rate risk arises from the options embedded in many bank assets, liabilities, and off balance sheet (OBS) portfolios.

Interest rate risk measurement includes:

- Net Interest Income analysis: this involves a constant balance sheet analysis (assuming constant balance sheet positions during the period) and then performing an impact simulation on interest income for the current period. The simulation includes the analysis of the impact on income from different parallel shocks of interest rates (+100bp, -30bps and ± 200 bps). Additional scenarios are performed to take into account basis risk and non-parallel shifts.
- Economic Value analysis: this includes the calculation of duration measures, value sensitivities of the balance sheet for different points on the curve, as well as the impact on the Economic Value from larger shocks. The interest rate risk is monitored daily in terms of Economic Value sensitivity for an instantaneous and parallel shock of +1 basis point value of the interest rate term structure. On a monthly basis the Economic Value sensitivity for larger parallel (± 200 bps) and non-parallel shocks in the interest rate term structure and Net Interest Income Sensitivity are measured.

The Interest Rate risk on the banking book is measured and monitored using Value at Risk (VaR) which is the statistical measure used by the Bank to quantify fluctuations (profit or loss) in the value of a portfolio over a predefined period of time (called holding period) of 1 day and with a 99% confidence interval. The VaR model is based on historical behaviour using 500 scenarios and thereby without parametric assumptions about a priori statistical distribution of the portfolio value movements. Based on the risk factor scenarios, the VaR will vary with the market conditions, even though the portfolio does not change. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the empirical distribution of profit/losses has been calculated, the VaR is given by the percentile evaluation with the selected confidence interval. Sensitivity (BPV and CPV) and VaR metrics capture the market risk exposures on Banking Book portfolio, with relative limits set up on both sensitivities and VaR.

Hedging strategies, aimed at complying with interest rate risk limits set for banking book, are carried out with derivative contracts by the Bank. Interest rate swaps specifically are the most commonly used contracts. The hedges used are one-to-one type contracts, i.e. connected to monetary amounts contained in asset or liability portfolios. The majority of specific accounting hedges are recognised in connection with securities in issue or individual financial assets, most commonly assets held as financial assets at fair value through other comprehensive income.

31 December 2018 in €	Average €	Maximum €	Minimum €	2017 Average €
1,286,142	1,233,696	1,555,197	998,923	3,507,525

31 December 2017 in €	Average €	Maximum €	Minimum €	2016 Average €
1,488,666	3,507,525	6,575,514	1,488,666	1,751,527

It is the responsibility of the local 'Assets and Liability Committee' (ALCO), to ensure all market risks are identified and assessed. The Bank's ALCO has the responsibility over all market risks, by approving the limits over the Sensitivity and Value at Risk (VaR) levels, at both a Bank level and sub portfolio level and reviewing the measurement results. The Bank's Risk Department might propose to the ALCO any sub-allocation of limits to individual desk or cluster of portfolios.

Management of Market Risk - Derivative financial instruments

Hedging Policy

The Company uses the following derivatives instruments for both hedging and non-hedging purposes:

- Cross currency forward instruments which represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Currency and interest rate swaps which are commitments to exchange one set of cash flows for another.

Swaps result in an economic exchange of currencies or interest rates (i.e. fixed rate for floating rate) or a combination of these (i.e. cross currency swaps). The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques used in its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but do not indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore do not indicate the Company's exposure to credit or price risks. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivatives on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can significantly fluctuate from time to time.

The fair values of derivative contracts are accounted in the following items:

- 20 Assets - Financial assets held for trading (for economic non-IAS 39 hedging derivatives)
- 50 - Assets - Hedging derivatives
- 20 - Liabilities - Financial liabilities held for trading (for economic non-IAS 39 hedging derivatives)
- 40 - Liabilities - Hedging derivatives

IAS 39 Hedge accounting

The Company's policy is to use hedge accounting in order to hedge the interest risk for liabilities, loans and receivables and for financial assets at fair value through other comprehensive income.

All hedging derivatives entered into seek to replicate each essential element of the liability or asset to be hedged

(Amount, payment dates, maturity and rates/structured rates). Hedging derivatives are defined including, if existing, “pull to par” effects, to “transform” the associated bond or asset into a “synthetic” market floating rate position with a nominal amount equivalent to par (100%).

Macro/micro hedging strategies are also used and they may also refer to the interest rate risk of the core portion of financial assets.

To the extent that changes in the fair value of the hedging derivatives differ from changes in the fair value of the hedged risk in the hedged item or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of the hedged item, the hedge is ineffective. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge from hedge accounting, is recorded in the income statement. Changes in fair value of the hedging instruments must be measured with using The Euro Interbank Offered Rate (“EURIBOR”) discount curves while derivatives are required to be measured with a using overnight indexed swap (“OIS”) discount curves for collateralized derivatives, resulting in ineffectiveness being recorded in the income statement.

In certain instances, cash flow hedging strategies are also used as an alternative to fair value hedging strategies in order to stabilize income statement profits in the current and future financial years. The Company had no cash flow hedges during 2018 or 2017.

The following types of financial instruments have been designated as hedging instruments:

- interest rate swaps;
- cross currency swaps; and
- foreign exchange swap forwards.

Consistency of all essential contractual elements in a hedged item and a hedging instrument seeks to ensure full effectiveness of the hedging relationship. The consistency is:

- initially verified at the beginning of the hedge relationship; and
- periodically verified through retrospective hedge effectiveness testing

Economically hedge derivatives

The Company’s policy is also to hedge all interest risk positions of the Company even though formal hedge accounting is not in place. Economic hedges are related to all assets and liabilities of the Company which are not at a specific risk free cash or Eonia curve.

For this purpose the following types of financial instruments have been designated as economically hedging instruments:

- interest rate swap;
- cross currency swaps;
- eonia swaps.

Sensitivity Analysis and Stress Testing -Independent Price Verification Process

In this respect, further to the market turmoil following the sub-prime mortgages’ meltdown and the subsequent uncertainties in the valuation of most of the structured credit products, the Group Market risk function in a joint effort with Risk management functions at UniCredit Bank Ireland p.l.c. and all other Legal Entities established to:

- centralise the Independent Price Verification (IPV) process for such products in the risk control function of UniCredit Bank AG, London Branch, which has been elected as the group's "competence centre" for the evaluation of credit products, i.e. ABS, CDO, CLO, CDO of ABS etc which represent the various sectors;
- harmonise the IPV methodology across the group, defining a consistent approach based on the ranking of each single position according to the availability and relative reliability of available price sources. As a consequence, all such positions have been treated and valued on a consistent basis across the group;
- define and develop a proper methodology to apply specific fair value adjustments to such valuations. The chosen approach is essentially based on the above ranking of price sources and define specific stress tests for market valuations, the wider the less reliable is the ranking through their respective sensitivity to a one-notch downgrade;
- the whole process has been shared and developed within the framework of the established cooperation model between all CRO (Chief Risk Officer) functions either at the Group as well as UniCredit Bank Ireland p.l.c. level and the Group and UniCredit Bank Ireland's CFO (Chief Financial Officer) functions, responsible for the accounting treatment of such valuations and adjustments.

Section 9 – Operational Risk

Operational risk is the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk. For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, client claims, products distribution, fines and penalties due to regulation breaches, damage to the company's physical assets, business disruption, system failures and process management.

UniCredit Bank Ireland monitors operational risk exposure in accordance with UniCredit Group policies and procedures which aim to assure the effectiveness of control over operational risk, the reduction of operational risk losses and introduction of risk mitigation measures for the Bank. UniCredit Bank Ireland has been approved for Pillar I purposes to use the Advanced Measurement Approach (AMA) to Operational Risk. With AMA the capital requirement is calculated with the Bank's internal operational risk measurement model, based on the four quantitative elements: internal and external loss data, scenario analysis and key risk indicators.

During 2018 and 2017 the Bank didn't suffer any material operational risk loss events and we don't foresee any changes in our operational risk profile over the next year.

Section 10 - Fair Value Disclosures

IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three level hierarchies:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: Inputs for the asset or liability, that are not based on observable market data (observable inputs).

Fair Value Disclosure by Valuation Hierarchy Level

Assets measured at fair value	Level 1 €'000 31 December 2018	Level 2 €'000 31 December 2018	Level 3 €'000 31 December 2018	Total €'000 31 December 2018
10 Cash and Cash Balances	-	-	-	-
20 Financial assets at fair value through the profit and loss:				
a) financial assets held for trading*		2,206	-	2,206
c) financial assets mandatory at fair value*		48,343	-	48,343
30 Financial assets at fair value through other comprehensive income*	8,131,086	16,110	-	8,147,196
40 Financial assets at amortised cost:				
a) loans and receivables with Banks	-	4,312,186	-	4,312,186
b) loans and receivables with Customers	1,114,420	780,300	-	1,894,720
50 Hedging derivatives*	-	55,838	-	55,838
Total	9,245,506	5,214,982	-	14,460,488
Liabilities measured at fair value	Level 1 €'000 31 December 2018	Level 2 €'000 31 December 2018	Level 3 €'000 31 December 2018	Total €'000 31 December 2018
10 Financial liabilities at amortised cost:				
a) deposits from banks	-	5,956,178	-	5,956,178
b) deposits from customers	-	3,632,376	-	3,632,376
c) debt securities in issue	-	2,162,636	-	2,162,636
20 Financial liabilities held for trading*	-	1,318	-	1,318
40 Hedging derivatives*	-	753,973	-	753,973
Total	-	12,506,480	-	12,506,480

*Carried at Fair Value on the Statement of Financial Position

During the financial year no financial assets and financial liabilities were considered Level 3. There have been no transfers between the levels during the year.

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

Financial Assets at fair value through other comprehensive income, Hedging Derivatives Assets and Liabilities and Trading Derivatives Assets and Liabilities are valued at fair value using either quoted prices or observable inputs. Loans and Receivable Assets, Deposit Liabilities and Debt in Issue are valued at amortised cost. For the purposes of the Fair Value Disclosure we used either quoted prices or observable inputs in order to arrive at a fair value for Loans and Receivable Assets, Deposit Liabilities and Debt in Issue.

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Fair Value Disclosure by Valuation Hierarchy Level

Assets measured at fair value	Level 1 €'000 31 December 2017	Level 2 €'000 31 December 2017	Level 3 €'000 31 December 2017	Total €'000 31 December 2017
Cash and Cash Balances	-	-	-	-
Financial assets held for trading*				
-Trading derivatives*	-	592	-	592
Loans and Receivables - Banks	-	6,687,146	-	6,687,146
Loans and Receivables - Customers	-	1,127,486	-	1,127,486
Available-for sale financial assets*	10,008,141	47,221	-	10,055,362
Hedging derivatives*	-	79,210	-	79,210
Total	10,008,141	7,941,655	-	17,949,796
Liabilities measured at fair value	Level 1 €'000 31 December 2017	Level 2 €'000 31 December 2017	Level 3 €'000 31 December 2017	Total €'000 31 December 2017
Deposits from Banks	-	4,242,924	-	4,242,924
Deposits from Customers	-	5,259,677	-	5,259,677
Debt Securities in issue	-	5,324,805	-	5,324,805
Financial liabilities held for trading*				
-Trading derivatives*	-	7,027	-	7,027
Hedging derivatives*	-	923,162	-	923,162
Total	-	15,757,595	-	15,757,595

*Carried at Fair Value on the Statement of Financial Position

Part F: Segmental Reporting

The Company has only one main class of business, which is the provision of financing facilities, which is carried out from its sole office in Ireland.

IFRS 8 requires entity wide disclosures about product and services and about geographical areas. It also requires a disclosure about the extent of the Company's reliance on major external customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, this fact must be disclosed. Detail regarding revenues by product type can be found in the income statement notes for Item 10, Item 40 and Item 200.

The Company has one customer whose revenue exceeds 10%. This customer is UniCredit S.p.A. and fellow subsidiaries. Total revenues for this customer amounted to €63.0 million (31 December 2017: €111.2 million). Included in revenue relating to UniCredit S.p.A are Interest Income and Fees and Commission Income. The decrease year on year is due to a reduction in UniCredit S.p.A Loans and Receivables held by The Company.

The Company has two segments Corporate & Investment Banking ('CIB') and Group Corporate Centre. The general criteria of the Segmentation is to report our revenues derived from portfolios under CIB, incorporating third party assets and short term funding, with Group Corporate Centre revenues derived from group assets and medium term liabilities.

Total Revenues relating to the split are the following:

Revenue Item	CIB (Markets) 31 December 2018 €'000	Coporate Centre 31 December 2018 €'000	Total 31 December 2018 €'000
Net Interest Income	68,772	(2,690)	66,083
Net Fees and Commissions	(2,924)	(2,862)	(5,786)
Trading Income	7,677	(4,308)	3,369
Other operating income	-	341	341
Total Revenues*	73,526	(9,519)	64,007

* Total Revenues above represents Total operating income per the Income Statement

The table prepared pursuant to IAS39 is reported below for the purpose of comparability.

Revenue Item	CIB (Markets) 31 December 2017 €'000	Coporate Centre 31 December 2017 €'000	Total 31 December 2017 €'000
Net Interest Income	68,488	5,453	73,941
Net Fees and Commissions	(1,893)	(3,295)	(5,188)
Net Trading Income	11,066	(38,083)	(27,017)
Total Revenues*	77,661	(35,925)	41,736

The below table shows a breakdown of external revenues by geographical location as at 31 December 2018 under IFRS 9 and as at 31 December 2017 under IAS 39:

31 December 2018	Ireland €'000	Italy €'000	United Kingdom €'000	Spain €'000
External Revenues	98,642	202,732	2,362	19,706
Total	98,642	202,732	2,362	19,706
31 December 2018	Germany €'000	France €'000	Luxembourg €'000	Poland €'000
External Revenues	1,095	27,007	7,107	8,130
Total	1,095	27,007	7,107	8,130
31 December 2018	America €'000	Rest of Europe €'000	Rest of World €'000	Total €'000
External Revenues	337	18,937	1,015	387,070
Total	337	18,937	1,015	387,070

31 December 2017	Ireland €'000	Italy €'000	United Kingdom €'000	Spain €'000
External Revenues	99,833	248,867	8,743	17,702
Total	99,833	248,867	8,743	17,702
31 December 2017	Austria €'000	France €'000	Luxembourg €'000	Poland €'000
External Revenues	-	17,786	11,057	8,569
Total	-	17,786	11,057	8,569
31 December 2017	America €'000	Rest of Europe €'000	Rest of World €'000	Total €'000
External Revenues	1,018	16,666	2,629	432,870
Total	1,018	16,666	2,629	432,870

The above split of revenues by geographical location has been attributed to the specific country based on the residency of the issuer or counterparty.

Part G: Transfer of Financial Assets

In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets that consist primarily of debt securities, and loans and receivables with banks and with customers. The transferred financial assets continue either to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Bank transfers financial assets primarily through the following transactions:

- sale and repurchase agreements;
- securities lending agreements.

Sale and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Bank continues to recognise the securities in their entirety in the balance sheet because it retains substantially all the risks and rewards of ownership. As the Bank has agreed to repurchase the sold security it remains exposed to fluctuations in the fair value of the sold securities. The collateral pledged to third parties can be used in the event of the Bank's default and non-repayment of the Banks related liabilities with each counterparty, in order to offset each counterparty's exposure to the Bank.

The table below sets out an overview of carrying amounts related to transferred financial assets that are not derecognized;

31 December 2018	Financials assets at fair value through other comprehensive income IFRS 9 €'000	Loans and receivables with banks €'000	Loans and receivables with customers €'000
Carrying amount of assets	6,170,264	-	794,982

31 December 2018	Deposits from Banks €'000	Deposits from Customers €'000
Carrying amount of associated liabilities	4,190,909	3,405,873

31 December 2017	Available-for-sale financial assets IAS 39 €'000	Loans and receivables with banks €'000	Loans and receivables with customers €'000
Carrying amount of assets	7,817,389	-	-

31 December 2017	Deposits from Banks €'000	Deposits from Customers €'000
Carrying amount of associated liabilities	3,024,945	5,014,105

Securities lending agreements are transactions in which the Bank lends or borrows securities for a fee. For securities loaned the Bank continues to recognise the securities in their entirety in the balance sheet because it

retains substantially all of the risks and rewards of ownership. For securities borrowed the securities remain off balance sheet as substantially all of the risks and rewards of ownership are not transferred.

The Company has nil (31 December 2017: nil) in securities lending transactions and €1.95 billion (31 December 2017: €215 million) in securities borrowing. These transactions supported collateral requirements for the bank funding operation. These transactions were entered into in order to take advantage of different national funding platforms and rules within the European Union.

Part H: Other Explanatory Notes

Section 1 Contingent liabilities and commitments

The Company has nil contingent liabilities (31 December 2017: nil). The Company has nil commitments (31 December 2017: nil) other than disclosed under *Part G: Transfer of Financial Assets*.

Section 2 Pension scheme

The Company operates a defined contribution pension scheme. The funds attributable to the scheme are administered by the Trustees and are independent from the Company's finances. The Company's contributions are charged in the income statement in the financial year in which the contributions are made. Included in staff expenses in the income statement is an amount of €0.21 million (31 December 2017: €0.25 million) in relation to pension contributions. Included in Other liabilities in the balance sheet is an amount of €16,100 (31 December 2017: €16,400) in relation to accruals for pension contributions.

Section 3 Subsequent Events

No material non-adjusting events have occurred after the balance sheet date that would make it necessary to change any of the information given in these financial statements as of 31 December 2018. The Directors propose a final dividend for the financial year ended 31 December 2018 of €41.5 million to be paid to UniCredit S.p.A. by the end of May 2019.

Section 4 Related party transactions

Banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, guarantees, derivative and foreign currency transactions with parent company, fellow subsidiaries and associates of the Parent Company. Transactions with group companies are priced on an arm's length basis in accordance with Transfer Pricing Group Policies.

Details of UniCredit Banking Group balances have been disclosed in Balance Sheet Notes Assets: Items 20, 40, 50, Balance Sheet Notes Liabilities: Items 10, 20, 40, 80, 100, 140 and 160 and Income Statement Notes: Items 10, 20, 30, 40, 50, 80, 90, 100, 110, 130, 160, and 200.

Directors' remuneration

Key management personnel comprise the members of the Board of Directors. A listing of the Board of Directors is provided on page 1. In 2018 the total remuneration of the Directors was €430,474 (2017: €544,949). There were no amounts paid to Directors (2017: Nil) in respect of other benefits.

There have been no loans provided to key management personnel or any connected person (2017: Nil).

Section 5 Approval of financial statements

The Directors approved the financial statements on the 4 February 2019.

ANNEX A – IAS 39 Accounting Policies

Below the accounting policies applicable for the 2017 figures referring to financial instruments accounted for under IAS39.

Financial Assets

The Company classifies its financial assets in the following categories:

- Financial assets held for trading;
- Available for sale financial assets;
- Loans and receivables.
-

Purchases and sales of investments are recognised on a settlement date basis. Loans are recognised when the cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus direct and incremental transaction costs, with the exception of financial assets held for trading which are recognised at fair value with transaction costs expensed immediately.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

Held for Trading

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- a derivative (except for a derivative that is a designated hedging instrument).

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred the rights to receive contractual cash flows on the financial assets in a transaction which transferred substantially all the risks and rewards of ownership.

Available for Sale

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or security prices. Available for sale investments are initially measured at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in the fair value of the available for sale financial assets are included in other comprehensive income and in a separate revaluation reserve as a component of equity, unless impaired or relating to foreign exchange gains and losses. On sale of the available for sale financial asset the cumulative gain or loss is transferred to the income statement.

The fair value of assets traded in active markets is based on current bid prices. In the absence of current bid prices the Company establishes a fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other similar instruments, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants using observable inputs. The use of current bid prices gives us the best approximation of the exit price as required by IFRS13.

Interest is calculated using the effective interest method and credited to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company

has transferred the rights to receive contractual cash flows on the financial assets in a transaction which transferred substantially all the risk and rewards of ownership.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment dates that are not quoted in an active market and are not classified as available for sale. They arise when the Company provides money to borrowers and does not intend on trading the receivables. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs, and are subsequently carried on an amortised cost basis. Interest is calculated using the effective interest method and credited to the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred the rights to receive contractual cash flows on the financial assets in a transaction which transferred substantially all the risk and rewards of ownership.

Included within loans and receivables are assets which were reclassified from the held for trading category. These assets were reclassified after the International Accounting Standards Board (IASB) issued an amendment to IAS39 permitting reclassification of financial instruments in certain circumstances. These assets were reclassified as the Company has the intent and the ability to hold them for the foreseeable future and they are not traded in an active market.

Impairment of Financial Assets

At each reporting date the Company reviews the carrying amount of its loans and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. Impairment losses are immediately charged to the income statement.

Specific provisions are made against the carrying amount of loans and receivables in respect of which there is objective evidence of impairment, to reduce these loans and receivables to their recoverable amounts. The amount of specific provisions represents the difference between the carrying amount and the estimated recoverable amount, discounted at the original effective interest rate. Changes in specific provisions are recognised in the income statement.

For the purposes of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company's grading process that considers asset type, industry, geographical location and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for each of the groups of such assets by being indicative of the debtor groups' ability to pay amounts due according to the contractual terms of the assets being evaluated.

The Company calculates a collective provision amount on all homogenous groups of assets. No collective provision is calculated on Available for Sale assets which are individually reviewed for specific provisioning. The collective provision was made on loans and receivables with customers positions only (where the Company pool similar positions for collective provision calculation purposes). The Company carried out a probability of default (PD) and loss given default (LGD) scenario analysis using the PD/LGD values obtained from the Group CPM (Credit Portfolio Model).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experienced.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement.

Investment securities classified as available for sale are reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment includes a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of debt securities, non-receipt of interest due or principal repayment, or a measurable decrease in the estimated future cash flows since their initial recognition. Where such evidence exists at the reporting date, an impairment loss is recognised in the income statement as the excess of the asset's amortised cost over its fair value, therefore including a required reclassification of any cumulative fair value changes included in other comprehensive income, assuming no impairment has been previously recognised.

Financial Liabilities

Financial liabilities include deposits taken, medium term notes, other debt securities issued and derivatives. The Company classifies its financial liabilities in the following categories:

- Liabilities, deposits and debt securities in issue;
- Financial liabilities held for trading.

a) Liabilities, deposits and debt securities in issue

Liabilities, deposits and debt securities in issue are initially recognised at fair value, which is normally the consideration, received less transaction costs directly attributable to the financial liability. Subsequently, these instruments are measured at amortised cost using the effective interest method.

b) Financial liabilities held for trading

Financial liabilities held for trading include derivatives that are not held in qualifying hedge relationships. A liability held for trading is measured at fair value initially and transaction costs are taken directly to the income statement. These liabilities are subsequently measured at fair value through profit or loss. These changes in fair value are recognised in the income statement in Part C item 80 'Gains/(losses) on financial assets and liabilities held for trading'.