INTESA SANPAOLO BANK IRELAND plc

Directors' report and financial statements

Year ended	**31 December 2017**
Registered number	*125216*

INTESA SANPAOLO BANK IRELAND plc

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INTESA SANPAOLO BANK IRELAND plc

Directors and other information

Directors

Mr. R. Barkley (Chairman, British)
Mr. J. Bowden
Mr. M.Ciampolini (Italian)
Mr. N. Copland (British)
Mr. C. Persico (Italian)
Ms. D. Migliasso (Italian)
Mr. A. Faragalli Zenobi (Italian)

Registered office

2nd Floor
International House
3 Harbourmaster Place
International Financial Services Centre
Dublin D01 K8F1

Secretary

Link IFS Limited
2 Grand Canal Square, Grand Canal Harbour
Dublin D02 A342

Independent Auditors

KPMG
Chartered Accountants
1 Harbourmaster Place
International Financial Services Centre
Dublin D01 F6F5

Principal bankers

INTESA SANPAOLO S.p.A.
Piazza della Scala, 6
Milan
I-20121
Italy

INTESA SANPAOLO – New York Branch
One William Street
New York
NY 10004
USA

Solicitors

McCann FitzGerald
Sir John Rogerson's Quay
Dublin D02 X576

Directors' report

Financial Statements

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 31 December 2017.

Principal Activities

INTESA SANPAOLO BANK IRELAND plc (the "Company") was granted a banking licence in October 1998 by the Central Bank of Ireland under section 9 of the Irish Central Bank Act 1971 and is engaged in wholesale banking business.

The Company's principal areas of business include: international lending to corporate clients and financial institutions mainly in Europe both on a bilateral and syndicated basis; the management of a portfolio of securities held for liquidity purposes; treasury activities; intra-group lending and issuance of guarantees and transaction services.

Review of Results and Development of the Business

The results and financial position of the Company for 2017 are set out on pages 16-20 of the financial statements. The highlights for the year ended 31 December 2017 were the following:

- Gross interest income decreased by 21.7% to €187.6m mainly due to (i) the negative interest rate environment, (ii) further contraction in bond yields and (iii) scheduled loan maturities.
- Gross interest expense decreased by 19.1% to €135.9m.
- Net interest income decreased by 27.9% to €51.6m with a reduction in the net interest margin to 27.5% (29.9% in 2016).
- Other operating income (net fees and commission expenses, dividend and simial income, net trading income and foreign exchange profit) increased to €28.2m (€9.8m in 2016), mainly due to the active management and targeted sales of Available for Sale ("AFS") securities, net gains on liabilities early redemptions and lower fees & commissions paid.
- Operating expenses increased by 41.6% to €9.4m mainly due to charges for planned Group IT and support services received, higher employee costs and the increase in Single Resolution Fund Levy to €3.1m (€2.2m in 2016). Notwithstanding the above increases, operating costs continue to remain under control and the cost-to-income ratio (excluding the SRF Levy) stood at 7.85% (5.41% in 2016).
- Impairment provisions recorded a €1.1m write-back in 2017 (€0.9m write-back in 2016) following further improvements in corporate credit ratings.
- Profit after tax decreased by 5.6% to €62.5m (€66.2m in 2016).
- Total assets decreased by 2.0% to €13.59bn.
- The securities portfolio decreased by 34.6% to €1.75bn albeit remaining diversified both in terms of asset class and geographical split. All bond holdings are highly liquid securities.
- Medium-term intragroup lending decreased by 27.2% y/y to €5.6bn, whereas short-term lending to group increased four fold to €4.3bn on the back of excess liquidity generated from debt issuance activities.
- Third party customer loans decreased by 30% y/y as a result of scheduled loan maturities and unexpected prepayments that far exceeded new loans granted. The Company remains focussed on the development of Irish-domestic corporate relationships.
- In terms of liabilities, a 17.5% decrease in EMTN outstandings to €4.2bn was more than offset by greater appetite for the Company's ECP/CD issuance, which increased by 45.6% to €5.5bn. As a result, short term funding from the parent company declined substantially and the Company repaid €290m TLTRO I funds during the year.

- Total shareholders equity were only 0.4% lower y/y at €1.22bn as a result of a 14.9% decrease in the AFS security reserve and a 1.1% reduction in retained earnings.

The directors have proposed a dividend of 15.48065 cent per ordinary share, amounting to €62 million in respect of the year 2017 (2016: €66 million dividend was paid, equivalent to 16.4794 cent per ordinary share).

The principal risks faced by the Company as a result of the normal course of its activities remain:

- Credit Risk and Counterparty Credit Risk
- Interest Rate and Foreign Exchange Risks (Banking Book)
- Liquidity Risk
- Operational Risk

These risks are monitored and managed on an on-going basis by the Company, and the risk management objectives, policies, risk measures and limits of the Company are fully described in Note 2 to the financial statements.

Future Developments in the Business

The directors intend to continue the development of the Company's lending activities on a selected basis and in line with group policy, maintaining a focus on actively marketing Irish-domestic corporate clients and international customers operating out of Ireland. In addition, the Company intends to increase the size of the securities portfolio held for liquidity purposes, always ensuring a high level of diversification both in terms of asset class and geographical split.

Risk Management and Control

An analysis of the risks to which the Company is exposed and the management of these is set out in Notes 2 and 3 to the financial statements.

Regulatory capital ratios remain strong, with a tier 1 capital ratio of 17.38% (2016: 18.14%) and a total capital ratio of 17.38% as at 31 December 2017 (2016: 18.15%).

Accounting Record

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and employment of competent persons. The books of account are available at the registered office at 2nd Floor, International House, 3 Harbourmaster Place, IFSC, Dublin 1.

Directors

The directors who held office during the year under review were:

Mr. R. Barkley
Mr. A. Plomp (resigned 13/10/2017)
Mr. N. Copland
Mr. C. Persico
Mr. A. Faragalli Zenobi
Mr. M. Ciampolini
Ms. D. Migliasso
Mr. J. Bowden

CORPORATE GOVERNANCE STATEMENT

Parent

Intesa Sanpaolo Bank Ireland plc is a public limited liability company and is incorporated and domiciled in Ireland. The Company is a wholly owned subsidiary of INTESA SANPAOLO S.p.A. which beneficially holds 100% of the ordinary share capital of the Company. INTESA SANPAOLO S.p.A. is a public limited company and is incorporated and domiciled in Italy. The consolidated financial statements for 2017 of INTESA SANPAOLO S.p.A. may be obtained from the group headquarters based at Piazza San Carlo, 156, 10121 Turin, Italy, or via its website www.group.intesasanpaolo.com.

Articles of Association

In accordance with its Constitution, the Company may by ordinary resolution appoint any person to be a director. The powers to appoint directors are subject to the maximum number of directors permitted and eligibility for appointment, both in accordance with the Constitution.

In accordance with the Constitution, the Directors are authorised to issue shares subject to the limit of the authorised share capital. The authority expires five years from the date of the Constitution.

The Constitution may be amended in line with the Companies Acts, e.g. where a special resolution is required by consent of the holder of at least 75% of the ordinary share capital of the Company.

Directors

The composition of the Board of Directors and standing Committees at year–end:

Mr. R. Barkley	Independent Non-Executive
Mr. N. Copland	(Member of Risk Committee) - Independent Non-Executive
Mr. C. Persico	(Member of Credit Committee and Audit Committee)
Mr. J. Bowden	(Member of Audit Committee) - Independent Non-Executive
Mr. M. Ciampolini	(Member of Risk Committee)
Ms. D. Migliasso	(Member of Audit Committee and Risk Committee)
Mr. A. Faragalli Zenobi	

Interests of Directors and Secretary

The directors and secretary of the Company at 31 December 2017 and their spouses had no interest in the shares or debentures or loan stock of the Company.

The directors and secretary of the Company at 31 December 2017 and their spouses had no interest of at least 1% with respect to the of shares or debentures or loan stock of the Group companies.

Directors' report *(continued)*

Directors who are employees of INTESA SANPAOLO S.p.A. participate in a discretionary share incentive scheme under which a portion of their bonus may be converted into shares in INTESA SANPAOLO S.p.A.

Shareholders

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

Transactions involving Directors

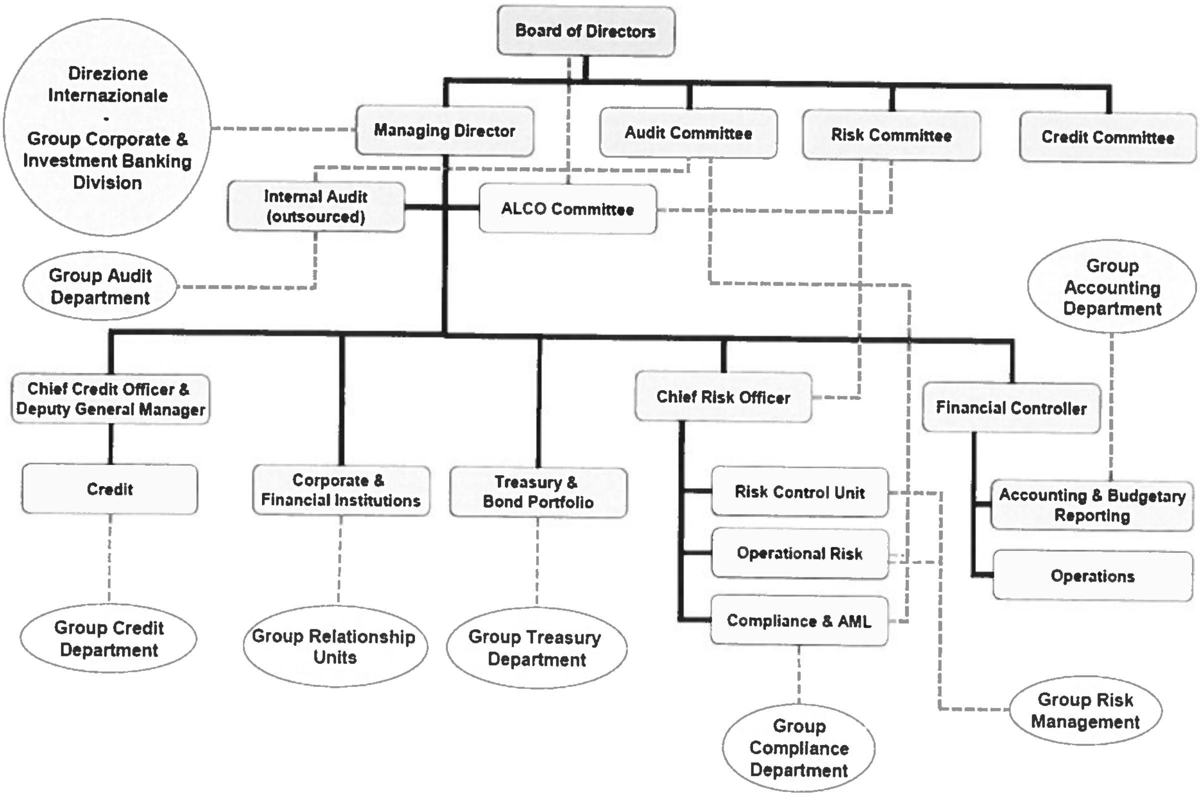
There were no contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in the Companies Act, 2014, at any time during the year ended 31 December 2017.

Directors' Responsibilities

The directors are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Structure

The overview of the Board and Executive Management structure in the chart below as at 31 December 2017 identifies key individuals and committees and their inter-relationship with business and control units:


Board of Directors
Direzione Internazionale - Group Corporate & Investment Banking Division
Managing Director
Audit Committee
Risk Committee
Credit Committee
Internal Audit (outsourced)
ALCO Committee
Group Audit Department
Group Accounting Department
Chief Credit Officer & Deputy General Manager
Chief Risk Officer
Financial Controller
Credit
Corporate & Financial Institutions
Treasury & Bond Portfolio
Risk Control Unit
Operational Risk
Compliance & AML
Accounting & Budgetary Reporting
Operations
Group Credit Department
Group Relationship Units
Group Treasury Department
Group Risk Management
Group Compliance Department

Management Responsibilities

Management at departmental level has primary responsibility for the execution of all internal controls implemented by the Directors in collaboration with the Senior Management of the Company. They ensure risks relating to all business processes are identified and mitigated through adequate control levels defined in departmental policies and procedures. The mapping of these processes and the identification of associated risks has been performed using an Italian Law 262-2005 compliant methodology.

Risk Management Framework

The Company has a dedicated Risk Control function responsible for the measurement and monitoring of financial and market risks. The Risk Control function, through the Chief Risk Officer, reports to the Risk Committee of the Company, who is responsible for defining and proposing the risk management framework to the Directors and ensuring its consistency with the framework laid down by the Group Risk Appetite Framework ("RAF").

In addition, the control and proactive monitoring of internal processes is performed by the Operational Risk and Compliance functions, which report to theRisk Commmittee and Audit Committee on a periodical basis. The Risk and Audit standing Committees, established by the Board, assist the Directors in fulfilling their responsibilities in the supervision over the financial reporting process, the auditing process, the existing internal control system, the risk management reporting and the compliance with laws, regulations, rules and code of conduct of the Company.

The active involvement of the Managing Director in the Company's management of risks allows the Board to continually monitor risks and ensure the adherence on an on-going basis to the Company's strict internal control procedures.

In respect of the financial reporting process, the Company has mapped such process, so that controls that must be complied with are identified. Some of these controls are designed to ensure that:

- business transactions are properly authorised, approved and executed within the transaction limits identified by the Risk Control department and compliant with RAF limits;
- financial reporting is accurate and complies with the financial reporting framework; and
- systems are in place to achieve compliance with regulatory requirements.

Operational Risk

As per the Guidelines for Group Operational Risk Management adopted by the Board of Directors of the Company and the local Operational Risk policy approved on 30 March 2017, operational risk is defined in the Group *as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but does not include strategic or reputational risk"* in line with the "Principles for the Sound Management of Operational Risk" of the Basel Committee on banking Supervision.

Operational Risk Management ("ORM") is the structured set of processes, functions and resources for identifying, assessing and controlling operational risk, in order to ensure effective risk prevention and mitigation in accordance with the Group's stated appetite for risk in its Risk Appetite Framework.

The objectives of ORM are as follows:

- Asset Protection
- Ex ante Monitoring and Control of Processes
- Compliance with Processes and Rules
- Use of the Internal Operational Risk Model for Management Purposes

Although the Company belongs to the core group of entities within Intesa Sanpaolo Group for the consolidated computation of the operational risk capital charge under the Advanced Measurement Approach (AMA), the current roll-out plan of the Group methodologies stipulates the implementation of the Standardised Approach (TSA) for the local computation. TSA has been used for the calculation of the capital charge for Operational Risk since 1 January 2010.

The Board of Directors of the Company approved the classification of Operational Risk among the list of the material risk factors the Company is exposed to as part of its Internal Capital Adequacy Assessment Process ("ICAAP") submission to the Central Bank of Ireland. Although the Board has not set any quantitative limits to the amount of operational risk the Company can be exposed to, it has demonstrated its risk appetite by a continued focus on this area in their agenda and the ongoing monitoring of the internal control framework. The Board has also approved an organisational structure compatible with the overall objective of operational risk-minimisation.

The operational risk-minimisation objective of the Board involves the following activities:

- Identification and implementation of mitigation actions and risk transfer, in accordance with the qualitative risk appetite defined by the Board;
- Rationalisation and optimisation, in means of costs/benefits of insurance recovery system and other forms of risk transfer adopted by the Group.

The main operational risk-minimisation options therefore are:

- The conscious acceptance of the operational risk inseparably linked to the business activities of the Company;
- The mitigation of the operational risk through action taken on relevant risk factors;
- The risk transfer by means of insurance policies or other specific financial instruments.

In particular, the main mitigants used by the Company to reduce operational risk are:

- The monitoring of the effectiveness of internal controls using Italian Law 262-2005 compliant methodology. This monitoring involves the on-going Review of processes affecting significant accounts of the Company with a documentation of the same processes, of the attached risks, and of the controls in place
- The Monitoring of Key Risk Indicators (KRI) defined under the Company's Operational Risk Policy.
- The involvement of Operational Risk in all discussions with respect to "New Products" to ensure all aspects of risks have been assessed and documented.
- The existence of a local Disaster Recovery and Business Continuity framework including:
  - A local UPS (uninterruptible power supply) at the main office;
  - A back up power generator is located at the main office;
  - A hot site is located at Farnborough, Armstrong Mall, Southwood Business Park, Apollo Rise, UK supported by an annual full test of the functionality of the site to conduct critical activities.
  - Annual participation in Persons Unavailability training scenarios on critical activities supported by subsequent testing where a backup staff member carries out critical activities as per the affected department's business continuity plan;
  - The critical IT systems of the Company are centralised Group systems with local access. These centralised systems are replicated daily in London or at Moncalieri in Italy as well as at the disaster recovery sites in both places.
- The purchase of insurance policies, including:
  - Property damage insurance (all risks property and contents);
  - Liability insurance (third party and employer's liability);
  - Directors and Officers liability;
  - IT insurance (Electronic Data Processing Equipment, cyber risk);
  - Internal fraud insurance (i.e. internal theft, falsification of documents, internal system fraud, etc.).

Independent Auditor

The Auditor, KPMG Chartered Accountants have indicated their willingness to continue in office in accordance with Section 383(2) of Companies Act, 2014.

Corporate Governance

Directors' Compliance Statement is subject to the requirements laid out under the Corporate Governance Code for Credit Institutions ("the Code") for "non major institution" and is required under section 26 of the code to submit an Annual Compliance Statement to the Central Bank of Ireland for the period 1 January to 31 December 2017. Such statement will be duly communicated in accordance with the Central Bank requirements in 2018.

Directors Compliance Statement

The directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section arising from the Companies Act 2014 and Tax laws ('relevant obligations'). The directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to such compliance;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review has been conducted, during the financial year, of those arrangements and structures.

The directors believe that they have taken all the steps necessary to make themselves aware of any relevant audit information and have established that the Company's statutory auditors are aware of that information. Insofar as they are aware, there is no relevant audit information of which the Company's statutory auditors are unaware.

On behalf of the board

Chairman *Director* *Director* *Director*

22 February 2018

Statement of Directors' Reponsibilities

The Directors present herewith the audited financial statements for the year ended 31 December 2017.

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

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 and of its profit or loss for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; 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 keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

On behalf of the board

Chairman *Director* *Director* *Director*

22 February 2018

KPMG
Audit
1 Harbourmaster Place
IFSC
Dublin 1
D01 F6F5
Ireland

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTESA SANPAOLO BANK IRELAND PLC

1 Opinion: our opinion is unmodified

We have audited the financial statements of Intesa Sanpaolo Bank Ireland plc ("the Company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes (except where identified as unaudited), including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 2017 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the European Union (Credit Institutions: Financial Statements) Regulations 2015.

Basis for opinion

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

The date of our appointment as auditor of the Company, for the purpose of the Company being a public interest entity is 17 June 2016.The period of total uninterrupted engagement is the one year ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

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

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

Valuation of available for sale investments €1,751m (2016 - €2,675m)
Refer to page 18 and 21 (accounting policy) and pages 45-47(financial disclosures)

The key audit matter

Available for sale investments are reported recorded at fair value and are all classified as Level 1. The valuation of these investments requires assessment of a number of factors including credit worthiness, liquidity and other market data to be applied by the Directors such that assumptions and/or the judgements made can result, either on an individual investment or in aggregate, in a material change to the valuation.

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How the matter was addressed in our audit

Our audit procedures included among others:

(i) gaining an understanding of the activities with respect to initiation, authorisation, recording and processing of transactions associated with valuation of available for sale investments;
(ii) testing design and implementation and operating effectiveness of key controls associated with the valuation of available for sale investments;
(iii) considering the appropriateness of the valuation policies in place in accordance with the requirements IFRS;
(iv) independently revaluing 100% of the portfolio of available for sale investments;
(v) reviewing the Company's impairment assessment with respect to the available for sale investments and challenging assumptions used to determine whether any impairment existed as at 31 December 2017 by assessing, using market data, whether there was a significant or prolonged deterioration in the fair value; and
(vi) considering the adequacy of the Company's disclosures in financial statements in accordance with IFRS.

Based on evidence obtained, we found that the valuation of the available for sale investments are not materially misstated and disclosures are adequate.

Valuation of derivatives and hedge accounting – asset €476m, liability €505m (2016 – asset €504m, liability €716m)
Refer to pages 21 - 23 (accounting policy) and pages 44 – 48, 56 – 57, (financial disclosures)

The key audit matter

The valuation of the derivative positions involves assessment of a number of complex factors relating to market, liquidation and counterparty risks that were of significance to the audit of the financial statements.

How the matter was addressed in our audit

Our audit procedures included among others:

(i) gaining an understanding of the activities with respect to initiation, authorisation, recording and processing of transactions related to the valuation of derivatives and hedge accounting;
(ii) testing design and implementation and operating effectiveness of key controls related to the valuation of derivatives and hedge accounting;
(iii) considering the appropriateness of the valuation policies in place for derivatives in accordance with the requirements IFRS;

(iv) independently revaluing 100% of the derivative portfolio using our valuation specialists;

(v) assessing and challenging the inputs into the model, valuation methodology and pricing of derivatives, including the valuation of CVA and DVA;

(vi) assessing the hedging strategy, hedge documentation and effectiveness testing in accordance with IFRS;

(vii) testing the hedge effectiveness for a sample of hedge relationships by recalculation of the effectiveness as estimated by management;

(viii) assessing whether the policies applied are in accordance with Intesa Sanpaolo S.p.A Group accounting policies and IFRS for valuation of derivatives and hedging, including receipt of confirmation from the KPMG Group Auditor who have challenged the appropriateness of the assumptions within the methodology;

(ix) testing the hedge effectiveness to identify any failed hedges which do not meet its 80%-125% test per IAS 39 via re-performance of the effectiveness testing on a sample basis; and

(x) assessing the adequacy of the Company's disclosures in financial statements for valuation of derivatives and hedging in accordance with IFRS.

Based on evidence obtained, we found that valuation of the derivatives are not materially misstated and that the related hedge accounting has been reasonably applied and appropriately disclosed.

Valuation of loans and advances €11,272m (2016 – €10,618m)

Refer to pages 18 - 21 (accounting policy) and pages 44 – 45, 48, 53 – 55, (financial disclosures)

The key audit matter

The Company has significant loans and advances and there exists judgements relating to the recoverability of these from the counterparties and as a result this is a risks that was of significance to the audit of the financial statements.

How the matter was addressed in our audit

Our audit procedures included among others:

(i) gaining an understanding of the activities with respect to initiation, authorisation, recording and processing of transactions associated with loans and advances;

(ii) gaining an understanding of the activities with respect to the monitoring of the credit quality and valuation of loans and advances;

(iii) testing design and implementation and operating effectiveness of the key controls, including General IT controls, with respect to initiation, authorisation, recording and processing of transactions associated with loans and advances;

(iv) testing design and implementation and operating effectiveness of the key controls associated with the monitoring of credit quality and valuation of loans and advances;
(v) obtaining management's annual (or equivalent) credit assessment of loans which they consider to be individually impaired and challenging key assumptions used to determine this judgement;
(vi) obtaining management's annual (or equivalent) credit assessment of loans which are considered on the 'watchlist' and challenging key assumptions and judgements used to determine the appropriateness of any required provision;
(vii) assessing the existence and impact of guarantee arrangements on the Company's provision estimates.
(viii) assessing the oversight of Board of Directors, Audit, Credit, and Risk Committees with respect to valuation of loans and receivables;
(ix) obtaining management's collective impairment assessment model and assessing the methodology applied in accordance with IAS 39;
(x) receiving confirmation from the KPMG Group Auditor of the input parameters used within the collective provisioning methodology, who have challenged the appropriateness of the assumptions used by management ;
(xi) testing the collective impairment model on a sample basis by recalculation in line with the methodology applied to validate the accuracy of the collective provision;
(xii) assessing sovereign risk exposure and credit ratings against external data; and
(xiii) assessing the adequacy of the Company's disclosures in financial statements in respect of the requirements of IFRS 7.

Based on evidence obtained, we found that the impairment methodology, provisioning calculations and related disclosures are appropriate.

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

Materiality for the financial statements as a whole was set at €3.9m (2016: €3.6m), determined with reference to a benchmark of profit before tax from continuing operations (of which it represents 5% (2016: 5%)).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding €0.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds including any omitted disclosures.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in Dublin, Ireland.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTESA SANPAOLO BANK IRELAND PLC *(continued)*

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the Annual Report, together with the financial statements. The other information comprises the information included in the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Based solely on our work on the other information

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

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

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

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

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

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

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or the parent Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTESA SANPAOLO BANK IRELAND PLC *(continued)*

Auditor's responsibilities

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

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

The purpose of our audit work and to whom we owe our responsibilities

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

Ian Nelson
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

22 February 2018

Income statement

For the year ended 31 December 2017

	Note	**2017** **€'000**	2016 €'000
Interest and similar income	7	**187,585**	**239,569**
Interest expense and similar charges	7	**(135,936)**	**(167,953)**
Net interest income		**51,649**	**71,616**
Fees and commission income	8	**3,582**	**1,892**
Fees and commission expense	8	**(8,800)**	**(9,152)**
Net fees and commission expense		**(5,218)**	**(7,260)**
Dividend and similar income		**9**	**7**
Net trading income	9	**33,158**	**17,159**
Foreign exchange profit / (loss)		**205**	**(108)**
Release of provision for impairment of loans and receivables	19	**1,047**	**812**
Release of provision for liabilities and Commitments	28	**31**	**104**
Net operating income		**80,881**	**82,330**
Administrative expenses	11	**(9,321)**	**(6,613)**
Depreciation		**(79)**	**(24)**
Total operating expenses		**(9,400)**	**(6,637)**
Profit before tax	12	**71,481**	**75,693**
Income tax expense	13	**(8,944)**	**(9,456)**
Profit for the financial year		**62,537**	**66,237**
Profit attributable to the equity holders of the parent		**62,537**	**66,237**

All of the above profits are in respect of continuing operations.

The notes on pages 21 to 81 are an integral part of these financial statements.

Statement of comprehensive income *For the year ended 31 December 2017*	**2017** **€'000**	2016 €'000
Profit for the year	**62,537**	**66,237**
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Movements in fair value reserve (available-for-sale financial assets):		
Net change in fair value	**8,945**	**(958)**
Net amount transferred to profit or loss	**(10,833)**	**(12,302)**
Related tax	**236**	**1,657**
Other comprehensive income for the year, net of tax	**(1,652)**	**(11,603)**
Total comprehensive income for the year, net of tax	**60,885**	**54,634**
Total comprehensive income for the year attributable to equity holders of the parent	**60,885**	**54,634**

The notes on pages 21 to 81 are an integral part of these financial statements.

INTESA SANPAOLO BANK IRELAND plc

Statement of financial position *As at 31 December 2017*	Note	**2017** **€'000**	2016 €'000
ASSETS			
Cash and balances with central banks	15	88,481	68,909
Available for sale investments	16	1,750,600	2,675,210
Loans and advances to banks	17	10,508,882	9,523,936
Loans and advances to customers	18	762,686	1,093,565
Derivative financial instruments	20	475,791	503,577
Prepayments and accrued income		92	52
Current tax		-	74
Deferred tax asset	21	27	366
Other assets	22	1,881	3,798
Property, plant and equipment	23	620	22
Total assets		13,589,060	13,869,509
LIABILITIES			
Deposits from banks	24	683,707	1,087,883
Debt securities in issue	25	9,765,933	8,861,958
Repurchase agreements	26	97,859	508,658
Due to customers		1,310,652	1,461,533
Derivative financial instruments	20	505,249	715,844
Current tax		48	-
Deferred tax liability	21	1,376	1,951
Accruals and deferred income		2,483	4,959
Other liabilities	27	1,159	967
Provisions for liabilities and commitments	28	32	79
Total liabilities		12,368,498	12,643,832
EQUITY attributable to the equity holders of the parent company			
Share capital	29	400,500	400,500
Share premium	29	1,025	1,025
Available for sale reserves		9,439	11,091
Capital contribution reserves		506,764	506,764
Retained earnings		302,834	306,297
Total equity		1,220,562	1,225,677
Total liabilities and shareholders' funds		13,589,060	13,869,509

The notes on pages 21 to 81 are an integral part of these financial statements.

On behalf of the board

Chairman

Director

Director

For and on behalf of Link IFS Limited
Company Secretary

22 February 2018

INTESA SANPAOLO BANK IRELAND plc

Statement of Changes in Equity for the year ended 31 December 2017

	Attributable to equity shareholders of the Company					
	Share capital	Share premium	Available for sale reserves	Capital Contribution reserves	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000
1 January 2017	400,500	1,025	11,091	506,764	306,297	1,225,677
Profit for the financial year	-	-	-	-	62,537	62,537
Other comprehensive income	-	-	(1,652)	-	-	(1,652)
Total comprehensive income for the year	-	-	(1,652)	-	62,537	60,885
Equity dividends paid	-	-	-	-	(66,000)	(66,000)
31 December 2017	**400,500**	**1,025**	**9,439**	**506,764**	**302,834**	**1,220,562**
1 January 2016	400,500	1,025	22,694	506,764	310,060	1,241,043
Profit for the financial year	-	-	-	-	66,237	66,237
Other comprehensive income	-	-	(11,603)	-	-	(11,603)
Total comprehensive income for the year	-	-	(11,603)	-	66,237	54,634
Equity dividends paid	-	-	-	-	(70,000)	(70,000)
31 December 2016	**400,500**	**1,025**	**11,091**	**506,764**	**306,297**	**1,225,677**

Other reserves include a distributable capital contribution of €506,764,365 (2016: €506,764,365).

INTESA SANPAOLO BANK IRELAND plc

Statement of Cashflow for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Cash flows from operating activities			
Interest received		183,577	286,059
Dividend received		9	7
Fees and commission receipts		1,067	1,130
Fees and commission paid		(7,265)	(9,656)
Net trading and other receipts and payments		(1,899)	16,346
Interest paid		(139,114)	(218,719)
Cash payments to employees and suppliers		(8,651)	(6,668)
Recoveries on loans previously written off		-	393
Income taxes paid		(8,822)	(9,547)
Cash flows from operating activities before changes in operating assets and liabilities		18,902	59,345
Changes in operating assets and liabilities			
Net increase in cash and balances with central banks		(17,925)	(1,678)
Net increase / (decrease) in loans and advances to banks		(680,145)	172,007
Net increase / (decrease) in loans and advances to customers		331,674	(33,494)
Net increase / (decrease) in deposits from banks		(144,966)	75,584
Net (decrease) in amounts due to customers		(147,685)	(140,348)
(Purchases) / Proceeds from repurchase agreements		(290,000)	97,979
Cash flows from changes in operating assets and liabilities		(949,047)	170,050
Net cash from operating activities		(930,145)	229,395
Cash flows used in investing activities			
Purchase of property, plant and equipment		(678)	(8)
Proceesds from sale of property, pland and equipment		1	-
Purchases of available for sale investments		(1,497,769)	(1,168,028)
Proceeds from sale of available for sale investments		2,254,259	992,052
Net cash used in / generated by investing activities		755,813	(175,984)
Cash flows used in financing activities			
Proceeds from debt securities in issue		7,737,106	5,491,987
Repayment of debt securities		(6,815,523)	(5,887,284)
Dividends paid		(66,000)	(70,000)
Net cash used in financing activities		855,583	(465,297)
Net increase / (decrease) in cash and cash equivalents		681,251	(411,886)
Cash and cash equivalents at beginning of year		(502,518)	(90,632)
Cash and cash equivalents at end of year	30	178,733	(502,518)

1. Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are material in relation to the Company's financial statements.

1.1. Reporting Entity

INTESA SANPAOLO BANK IRELAND plc is a public limited company incorporated and domiciled in the Republic of Ireland under the Companies Act, 2014 with the registration number 125216 and is regulated by the Central Bank of Ireland.

1.2. Basis of preparation and Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and with those parts of the Companies Acts, 2014 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, except for non-derivative financial assets and financial liabilities held at fair value through profit or loss, available for sale securities and derivative contracts that have been measured at fair value.

Key Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Directors to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1.9 and Note 5, in relation to impairment and fair value, respectively.

Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

1.3. Segment reporting

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker (the Board of Directors) to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of a company.

1.4. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

1.5. Fee and commission

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Upfront fees for loans are recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Company retains no part of the loan package for itself or retains a part at the same effective interest rate as the other participants.

1.6. Financial assets / financial liabilities

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. Management determines the classification of its investments at initial recognition.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception or at the time of adoption of IFRS. A portion of the financial assets purchased at fair value and designated at fair value were acquired from Intesa Bank Ireland during the merger in 2007 and the classification within the Group was maintained. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedged.

(b) Loans and receivables

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

(c) Available for sale financial assets

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss and available for sale are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not subsequently measured at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in other comprehensive income (OCI), until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in OCI is recognised in the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

Financial liabilities are measured at amortised cost, except for liabilities designated at fair value, which are measured through profit or loss.

1.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a 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.

1.8. Impairment of financial assets

(a) Assets carried at amortised cost

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

1.1. significant financial difficulty of the issuer or obligor;

1.2. a breach of contract, such as a default or delinquency in interest or principal payments;

1.3. the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

1.4. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

1.5. the disappearance of an active market for that financial asset because of financial difficulties; or

1.6. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

- adverse changes in the payment status of borrowers in the Group; or
- national or local economic conditions that correlate with defaults on the assets in the Group.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the recoverable amount on the impaired asset to be assessed individually is determined at INTESA SANPAOLO S.p.A. (the "Parent Company") level in conjunction with local management on the basis of the available information collected on debt secondary markets or in the credit default swap markets. In the absence or in the case of unreliability of such information, the consideration of qualitative factors in the overall individual impairment assessment process will determine the evaluation of a recovery rate by the local Senior Management in coordination with the Parent Company.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

If there is no objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the internal credit rating) for the purpose of a collective evaluation of impairment. Collective Impairment is based on the Exposure at Default (EAD) after risk re-allocation and will be applied on the ultimate obligor subsequent to the introduction of mitigation such as Risk Participation Agreements or Guarantees received. For collective assessment, reference should be made to portfolio losses already suffered, even if it is not possible to link them to any specific loans. These losses are also defined as "incurred but not reported losses", and they are determined for each transaction as a function of the risk parameters (probability of default and loss severity) defined at Group level. The probability of default relating to a country or an obligor/guarantor is driven by the internal rating assigned according to the Group's methodology. The internal rating is therefore a synthetic indicator of the risk attributed to a country defaulting on its cross border obligations (i.e. transfer risk), or a client/issuer becoming insolvent within a specified period of time. Specific Impairments are applied only on the residual Exposure at Default (EAD) after recourse to risk mitigation. The level of specific impairment is set by the specialised department of the Parent Company. Where there is a simultaneous default of the borrower and failure of recourse through risk mitigation, the level of specific impairment will be based on the full exposure.

For the purpose of the calculation of the incurred loss on a collective basis for corporate counterparts and countries, the Company uses the assigned internal rating as per the Parent Company's methodology as the driver for the determination of the applicable probability of default. For financial institutions, the Company uses the external rating assigned by an External Credit Assessment Institution which is then mapped onto the main probability of default scale.

The loss severity indicates the percentage of the Company's total exposure to a client or a country that will not be recovered in case of default. In the case of counterpart credit risk, it is determined on the basis of factors such as: financial guarantees/covenants, nature of loan/financial instrument, level of subordination, and legal action undertaken. In the case of country risk, factors such as political environment and macro-economic conditions are considered.

The severity of the loss relating to country risk is conditional on the wealth level of that country as per the World Bank classification.

The severity of the loss relating to an obligor's default is driven by the type of transaction involved, and the geographical or business sector origins of the obligor communicated by the Parent Company.

The collective impairment provisions of the Company are defined as the sum of incurred losses for both counterpart credit risk and country risk, adjusted for the following parameters:

- Loss Confirmation Period (LCP): the Company has opted for a LCP of 1 year given the predominantly corporate structure of the portfolio, and
- Concentration Index of 1 and cyclicality factor of 0.67 for all counterparties

(b) Available for sale financial assets

The impairment testing for debt securities classified as available for sale is put into practice if the issuer is delinquent in its debtor obligations or defaults on payments, as demonstrated by any one of the following events:

- default (as defined under international contract law),
- bankruptcy proceedings, and
- delinquency in interest or principal payments (except where the issuer is entitled contractually not to make interest payments without being in breach of contract).

Where the issuer does not default, though the fair value of the bonds is lower than their carrying amount, further checks will need to be conducted. In particular, management assess whether the fair value of the bonds has suffered a significant deterioration of more than 20% less than their carrying value as per Group accounting policy. Situations of prolonged deterioration will be assessed on a case by case basis with an analysis performed on a 6 monthly basis or whether any other indicators of impairment exist:

- unexpected and substantial downgrade,
- debt restructuring scenarios, and
- sudden disappearance of an active market or prices of CDS with premium up-front.

If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from OCI and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(c) Provisions for liabilities and commitments

Impairments made on a collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, are determined by applying a calibration factor, driven by the credit quality of the obligor, to the same criteria set out above with respect to loans and receivables.

1.9. Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from valuation techniques such as discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value by the Risk Management Department of the Parent Company with changes in fair value recognised in the income statement. The Company mitigates all risks generated by embedded derivatives which are mitigated with the Parent Company by entering into opposite derivative risk transactions.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument. The Company designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The 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 (efficiency tests). At year end the Company only had fair value hedges.

In the case of a fair value hedge, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the income statement.

In accordance with the Group Fair Value Policy, the Parent Company provides on a monthly basis a valuation component called "Bilateral Credit Value Adjustment (bCVA).
It takes into account the counterparty risk premium related to the probability that the counterparties may not fulfil their obligations (e.g. in case of default). This component is the sum of two elements, named Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA):

CVA (which is negative) considers the scenarios where the Counterparty defaults before the Bank, and the Bank has a positive exposure towards the Counterparty. In these scenarios, the Bank incurs a loss equal to the replacement cost of the derivative;
DVA (which is positive) considers the scenarios where the Bank defaults before the Counterparty, and the Bank has a negative exposure towards the Counterparty. In these scenarios, the Bank makes a gain equal to the replacement cost of the derivative;

The bCVA depends on the probability of default, on the Loss Given Default of the counterparties and on the total exposure between the two counterparties.
The latter must be calculated taking into account any counterparty risk mitigation agreements, in particular collateral and netting agreements with each counterparty.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the changes in the fair value of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

The Company applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book. The Company has adopted to perform its effectiveness tests using the "Dollar offset method". The method is based on the relationship between the cumulative changes (from the beginning of coverage) in the fair value or cash flow hedged item attributable to the hedged risk and past changes in fair value or cash flows of hedging instrument (delta fair value), net of accrued interest.

In line with rules for testing and measuring the effectiveness of interest rate risk hedges (IAS39) published on 28.01.2016 by International Accounting Standards Board (IASB), the Company applies materiality thresholds and back-testing methodologies in its effectiveness testing processes.

In the case of an effectiveness test showing results within the range 80-125%, but different than 100%, the Mark to Market (MTM) value associated to the differential is recorded into the income statement see note 9.

In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately in the income statement. In 2017 the Bank did not have any instances of failures in relation to effectiveness testing.

1.10. Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office equipment	20.0% straight line
Computer equipment & software	33.3% straight line
Leasehold Improvement	20.0% straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

1.11. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturity of less than three months, including cash, loans and advances to banks, deposits from banks and repurchase agreements.

1.12. Foreign currency translation

(a) Functional and presentation currency
The financial statements are presented in Euro, which is the Company's functional and presentation currency, with amounts being rounded to the nearest thousand, unless otherwise stated.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Non-monetary items
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

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1.13. Pension costs

The Company operates a defined contribution scheme. The Company pays contributions to privately administered pension insurance plans on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

1.14. Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable to or disallowed for tax. It is calculated using tax rates that were applicable to the current reporting year-end. Current tax is recognised in the income statement in the period in which the profits or losses arise except to the extent that it relates to items recognised in OCI or directly in equity, in which case the tax is also recognised in OCI or equity respectively.

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current tax and deferred tax relating to items recognised directly in OCI or equity are also recognised in OCI or in equity respectively and not in the income statement.

1.15. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

1.16. Guarantees

In the ordinary course of business, the Company gives guarantees, consisting of letters of credit, guarantees and acceptances. Guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less, where appropriate, cumulative amortisation recognised in the income statement, and the best estimate of probable expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to guarantees is recorded in the income statement. The premium received is recognised in the income statement in "net fees and commission income" on a straight line basis over the life of the guarantee.

The Company may receive financial guarantees, open lines of credit, committed facility or other forms of financial money market credit facility. These facilities are not recognised in the statement of financial position unless the actual drawdown has been made. Related expenses, fees or interest on undrawn amounts are recognised in the income statement.

1.17. Repurchase / LTRO / MRO agreements

Securities sold under agreements to repurchase at a specified future date at a pre agreed price or form part of the Long Term Refinancing Operation / Main Refinancing Operation with the Central Bank of Ireland are not derecognised from the statement of financial position as the Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Repurchase agreements", reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. See Note 26.

1.18. New standards

Adoption of new and amendment of accounting standards

From 1 January 2017 the Company has adopted the following amendments to standards:

- Amendments to IFRS 10 Consolidated financial statements
  The standard is effective for annual periods beginning on or after 1 January 2016. It establishes a new control-based model for consolidation that replaces the existing requirements of both IAS 27 Separate financial statements and SIC 12 Consolidation – special purpose entities. The new standard does not have any impact on the financial position or performance of the Company.

- Amendments to IFRS 11 Accounting for acquisitions of interest in Joint Operations
  The standard is effective for annual periods beginning on or after 1 January 2016. It establishes principles for financial reporting by parties to a joint arrangement. The new standard does not have any impact on the financial position or performance of the Company.

- Amendments to IFRS 12 Disclosures of interests in other entities
  The standard is effective for annual periods beginning on or after 1 January 2016. It includes the disclosure requirements for all forms of interests in other entities. The new standard does not have any impact on the financial position or performance of the Company.

- Amendments to IAS 27 Separate financial statements
  The standard is effective for annual periods beginning on or after 1 January 2016. The standard was revised as a consequence of the introduction of IFRS 10, to relate only to separate financial statements. The revised standard does not have any impact on the financial position or performance of the Company.

- Amendments to IAS 28 Investments in associates and joint ventures
  The standard is effective for annual periods beginning on or after 1 January 2016. The standard was revised as a consequence of the introduction of IFRS 11, to include entities that qualify as joint ventures under that standard. The revised standard does not have any impact on the financial position or performance of the Company.

Prospective accounting changes to relevant accounting standards

The Company has not applied the following new standards and amendments that have been approved by the International Accounting Standards Board with an effective date after the date of these financial statements: It is not expected these new standard will have an impact on the Company.

	Effective date
• IFRS 16 Leases	1 January 2019

Under the new requirements, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheets The revised standard does not have any impact on the financial position or performance of the Company.

	Effective date
• IFRS 15 – Revenue from contracts with customers	1 January 2018

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15. The standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption.

	Effective date
• IFRS 9: the new accounting standard on financial instruments	1 January 2018

In compliance with the indications of the European Securities and Market Authority (ESMA), and in relation to the requirements of IAS 8 paras. 30 and 31, Intesa Sanpaolo Bank Ireland details its implementation of IFRS 9 – Financial Instruments.

Regulations

As of 1 January 2018, the new IFRS 9, released by the IASB in July 2014 and approved by the European Commission with Regulation 2067/2016, replaces IAS 39 that governed the classification and measurement of financial instruments up to 31 December 2017.

IFRS 9 is divided into the three sections, the classification and measurement of financial instruments, impairment, and hedge accounting.

With reference to the first section, IFRS 9 states that the classification of financial instruments shall be guided by the characteristics of the contractual cash flows and the business model within which the assets are held. Instead of the current four accounting categories, under IFRS 9, and using the two drivers described below, financial instruments may be classified in three categories. Financial assets measured at amortised cost; Financial assets measured at fair value through other comprehensive income (FVOCI) (for debt securities, the reserve is transferred to profit and loss when the instrument is disposed); Financial assets measured at fair value through profit and loss.

Financial assets may be classified in either of the first two categories and therefore measured at amortised cost or fair value through other comprehensive income only if there is proof that they give rise to cash flows that are "solely payment of principal and interest (SPPI test). Equities are always classified in the third category and measured at fair value through profit and loss, except for when the entity opts (irrevocably, on first time recognition) to present the changes in value of shares not held for trading in an equity reserve that can never be transferred to profit and loss, even on disposal of the instrument (Financial assets measured at fair value through other comprehensive income without recycling).

No significant changes have been introduced for the classification and measurement of financial liabilities. The only change is the treatment of own credit risk: for financial liabilities designated at fair value (fair value option), the Standard states the changes in the fair value of the liabilities attributable to variations in own credit risk shall be recognised in net equity, unless that treatment creates and exaggerates an accounting mismatch in the period profit, while the residual sum of changes in the fair value of liabilities shall be recognised in the income statement (profit and loss).

With reference to impairment, assets measured at amortised cost or at fair value though other comprehensive income (other than equities) shall be subject to the new model based on expected loss, replacing the current incurred loss model, to recognise losses more promptly. IFRS 9 requires entities to recognise 12-month expect losses (Stage 1) from initial recognition. On the other hand, the time line for the calculation of expected loss becomes the expected lifetime of the measured asset when the credit risk has "significantly" deteriorated compared to the initial measurement (Stage 2) or is impaired "Stage 3.

The introduction of the new regulations on impairment means:

- allocation of performing assets in different credit risk stages (staging), with corresponding adjustments based on 12-month expected losses (Stage 1), or lifetime (Stage 2) in the event of significant increase in credit risk (SICR) determined by a comparison of the Probability of Default at first recognition and that at reporting date;
- allocation of non-performing assets in Stage 3, always adjusted according to lifetime expected losses;
- including forward-looking information in the calculation of Expected Credit Losses (ECL), also connected to changes in the macro-economic scenario.

Regarding hedge accounting, the new model – that does not apply to macro-hedging – aims to align accounting recognition with risk management and reinforce the disclosure of the risk management activities of the entity preparing the financial statements

Given the extensive effects of the changes introduced by IFRS 9, on business, organisation and reporting, as of September 2015, the Intesa Sanpaolo Group has been pursuing a project to study the areas principally affected by the Standard in order to define the qualitative and quantitative impacts, as well as to draw up and implement the actions necessary for a coherent, organic and efficient application within the Group and each of its subsidiaries.

In the CFO and CRO Areas, and under the joint responsibility of the Administration and Tax Department, the Credit Risk Department and Financial and Market Risks Department, with the active participation of a number of Group Structures, specific working groups have been set up on the basis of the main requirements of the Standard.
In order to ensure an adoption in line with the Standard and international best practices (also according to the relevant guidance of international authorities), a dedicated board has been set up to coordinate the groups in their analysis and implementation decisions.
In addition to the involvement of the operative Divisions in analysing the effects of the Standard on the business areas, it also became necessary to create a Coordinating Board involving the other projects developing the IT systems, in order to create the necessary synergies.
The project is nearing its conclusion and at the moment is supporting and monitoring activities relating to the FTA of the new Standard and implementation of the final applicative and organisational measures to ensure a coherent final application of the new regulations.

The following Is a brief analysis of the actions taken and being finalised in relation to the main areas affected by the implementation of IFRS 9.

Classification and Measurement
In order to comply with IFRS 9 – that introduces a model by which the classification of a financial asset is guided, on the one hand, by the contractual characteristics of the cash flows of the instrument and, on the other, the purpose for which the asset is held – the approaches to the test of cash flow characteristics (SPPI Test) and the business model adopted by Intesa Sanpaolo Group have been formalised.

As far as the SPPI Test on financial assets is concerned, the methodology has been defined and Intesa Sanpaolo Bank Ireland performed an analysis on the composition of its securities and loan portfolios to ensure correct classification at the time of First Time Adoption (FTA) of the new Standard.

With regard to debt securities, the characteristics of the cash flows of instruments measured at amortised cost and those classified as Financial assets available for sale under IAS 39 have been examined in detail to identify those assets that, failing the SPPI Test, shall be measured at fair value through profit and loss under IFRS 9. The analysis confirms that all of debt securities passed the SPPI Test,

Concerning the loan portfolio only a very few cases (5 loans) have been noted that, because of specific contract clauses or the nature of the financing, led to the SPPI Test being failed. As these loans are matched with related liabilities and also reclassified as fair value to Profit and Loss, there is no impact on FTA reserves for the loans sector.

As for the second driver for classifying financial assets, the business model has been defined for the adoption of IFRS 9. The securities portfolios currently measured at amortised cost shall adopt the Hold to Collect and Sell model.
In line with the Standard, the current approach to credit management, for corporate customers, can basically be attributed to a Hold to Collect business model.

Impairment
The following specific projects have been conducted regarding impairment for loans and debt securities.

- Tracking approaches have been defined for the credit risk of portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income.
- Parameters have been defined to determine significant increase in credit risk for the correct allocation of performing loans in Stage 1 or Stage 2. On the other hand, with reference to impaired loans, alignment of the definitions of accounting and regulatory default – already existent – means that current classification methods for loans "non-performing/impaired" may be considered identical if compared to the approaches utilized in order to classifying loans in Stage 3.
- models – including forward-looking information – have been drawn up for stage allocation (based on Lifetime PD) and calculation of 1-year Expected Credit Loss (to be applied to Stage 1 loans) and Lifetime ECL (to be applied to Stage 2 and Stage 3 loans). In order to take into account forward looking information and the macro-economic scenarios the Group may find itself in, it has been decided to adopt the Most likely+add on scenario, as detailed hereafter.

Regarding tracking of credit risk, in line with the standard and the indications of the Supervisory Authorities (Regulators) on the ways to apply the accounting standard in bigger institutions, a detailed analysis has been made – in the context of specific Group projects and as a policy

choice to be applied univocally to all exposures after the coming into force of IFRS 9 – of the credit risk of each relationship (both paper and real) to identify any significant deterioration from the date of first recognition and the subsequent need for classification in Stage 2, as well as the conditions for re-entry into Stage 1 from Stage 2. In other words, the standard requires, on a case-by-case basis and at each reporting date, a comparison for between the credit risk of the financial instrument at the valuation date and the credit risk at origination or purchase.
In relation to the above, the components of the determining principles to be considered in evaluation passages from one stage to another are as follows:

- change in the lifetime probability of default compared to initial disclosure of the financial instrument: effectively, an evaluation made using a "relative" criterion that becomes the principal driver;
- existence of any past due loan that – without altering the levels of significance identified in the regulation – is at least of 30 days, in which case, the credit risk of the loan is presumed "significantly increased" and, therefore, there is a passage to Stage 2 (when the exposure was previously in Stage 1);
- any forbearance measures that – presumably – lead to classifying the loans with a "significantly increased" credit risk compared with initial recognition;

In addition, some special considerations hold for the staging of securities. Unlike loans, for this type of exposures, sales after first acquisition (conducted referring to the same ISIN), may be included in the ordinary management of the positions (with the consequent need to identify an approach to distinguishing sales and repayments to determine the residual quantities of single transactions for a credit/rating at origination to be compared with the reporting date). In this context, it has been decided that using the first-in-first-out (FIFO) approach (for reversal to profit and loss of the recorded ECL in the event of sales and repayments) contributes to a more transparent management of the portfolio, also for front-office operators, and at the same time allowing a continual updating of credit risk assessment based on new acquisitions.

As previously explained, fundamental elements in the estimation of expected loss are forward-looking factors, and especially macro-economic scenarios. After analysing a variety of possible alternative approaches, the Intesa Sanpaolo Group has opted for the "Most likely scenario+Add-on" approach for ECL calculation and stage assignment.
Special considerations apply to Stage 3 loans (those corresponding to the current area of non-performing loans, as explained above). With special reference to non-performing loans, even though the definition of credit-impaired financial assets in IFRS 9 is much the same as in the preceding standard, the approaches to calculating Lifetime ECL have had repercussions on the valuations in the segment, principally concerning:

- inclusion of forward-looking information that could influence collateral value or the expected recovery time;
- consideration of alternative recovery scenarios, such as the sale of credit assets, connected to the possible disposal of quota of credit-impaired portfolios, relating to the business objectives of reducing non-performing assets, to which must be attributed a probability of realisation, to be taken into account in the overall assessment;
- recovery estimation and schedules, in addition to the probability of migration to lower classes.

Hedge accounting

The changes in the regulations on Hedge Accounting exclusively concern General Hedging and are strictly linked to the Group's decision to use the opt-in/opt-out option (i.e. the possibility to adopt the new IFRS 9 rather than maintaining the old IAS 39). After an analysis of current hedging operations, The Group has decided to utilise the opt-out option during FTA of IFRS 9; subsequently, all hedging operations will be managed according to the current IAS 39 (carve-out). The Groups will decide later whether or not to confirm that decision for reporting periods after 2018.

Effects on IT systems
A rational and efficient implementation of the changes introduced by IFRS 9 relating to Classification and Measurement and, especially, Impairment has meant taking significant action in Information Technology (IT). Dedicated studies have been made to identify the main areas affected, and target architectures have been identified, together with the necessary applications, procedures and modifications.

Implementation on the systems – that must meet the new requisites of the Standard in terms of classification of portfolios, tracking and measurement of credit risk, accounting and disclosure – has therefore involved the integration into existing procedures of new functions and the application of new software needed for a more efficient and efficacious management.

More specifically, with regard to Classification and Measurement, once the approaches to the SPPI Test had been defined, the applications and procedures were updated/acquired where necessary, in relation to both securities and loans.

Concerning Impairment, after the parameters were selected for the assessment of significant deterioration, as well as the approaches to calculating ECL (including forward-looking information), the risk management applications were identified and implemented to track the credit risk for each position and calculate the related ECL, in addition to the necessary upgrades and adaptions.
In general, this work has been designed and realised centrally in Intesa Sanpaolo for all Group companies with IT systems in common or compatible with the Parent.

The approach to First Time Adoption (FTA) of IFRS 9
In the second half of 2017, Intesa Sanpaolo began a "parallel running" of application of the new Standard that involved a modular, and increasingly complete, approach according to the availability of information and the necessary technological support. The aim of the parallel running is to check the correct implementation of the technology supporting the management of the changes introduced by IFRS 9 and a more accurate estimation of the impacts of FTA.

Effects of FTA
On the basis of the above information, there follows an estimation of the expected effects of first time application (FTA) of IFRS 9 on the net equity of the Intesa Sanpaolo Bank Ireland as at 1 January 2018. The effects, that involve both the amount and composition of net equity, derive mainly from:

- the obligation to re-determine adjustments to financial assets in the portfolio (both performing and non) using the expected credit losses model – including forward-looking elements – in place of the previous incurred credit losses.
  - More specifically, with regard to performing loans, the increase in adjustments is attributable to (i) allocation of a quota of the performing portfolio to Stage 2, based on the defined criteria of stage allocation, with consequent need to calculate expected loss for the entire residual life of the financial asset, and (ii) inclusion in the calculation of expected losses of forward-looking information deriving from future macro-economic scenarios.
  - With regard to non-performing loans, the impact is essentially due to the inclusion in the calculation of expected losses of forward-looking parameters deriving from the consideration of future macro-economic scenarios for all categories of NPL and inclusion of the sales scenario forecast in the company objectives to reduce the non-performing assets for a saleable part of the doubtful portfolio;
- the requirement to reclassify some financial assets in the portfolio based on the combined result of the two classification drivers established by the Standard: the business model for the management of the instruments and the contract characteristics of the related cash flows (SPPI test).

In line with our expectations the transitional effect of IFRS 9 has not been material to our ISPIRE, with the first time adoption application (FTA) of IFRS 9 on the net equity expected be in the range of a debit €4-8 million.

Also the following are not currently endorsed by the EU.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration:

  IFRIC 22 clarifies the transaction date used to determine the exchange rate. When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rates* is not clear on how to determine the transaction date for translating the related item.

- Annual Improvements to IFRSs 2014 – 2016 Cycle (Amendment to IFRS1 First Time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)

  This covers amendments made to the following standards:
  IFRS 1 First-time Adoption of IFRS
  IFRS 12 Disclosure of Interests in Other Entities
  IAS 28 Investments in Associates and Joint Ventures

- Prepayment Features with Negative Compensation (Amendments to IFRS9):

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.
  Companies that have modified or exchanged fixed rate financial liabilities face a significant change in the accounting for non-substantial modifications that do not result in derecognition

- IFRS 17 Insurance Contracts
  It is not expected that his standard will have an impact on the company.

- Classification and Measurements of Share-based Payment Transactions (Amendments to IFRS 2):
  It is not expected that his standard will have an impact on the company.

- Transfers of Investment Property (Amendments to IAS 40):
  It is not expected that his standard will have an impact on the company.

- Longer Term interests in Associates and Joint Ventures (Amendments to IAS 28):
  It is not expected that his standard will have an impact on the company
  .

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts:
  It is not expected that his standard will have an impact on the company.

- IFRIC 23 Uncertainty over Income Tax Treatments:
  It is not expected that his standard will have an impact on the company.

2. Qualitative risk disclosures and Basel 2

Capital Management

*The definition of a capital plan for the Company is based on the management of capital adequacy at Group level, consisting of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements. The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources which are allocated to the Business Units such as INTESA SANPAOLO BANK IRELAND plc on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders.

At Group and local levels, the regulatory capital at risk and the overall economic capital at risk differ by definition and in terms of the coverage of the risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Bank and the consequent measurement in relation to the exposure assumed.

Capital Management essentially involves the control of capital soundness through the careful monitoring of both the regulatory constraints and current and prospective operational constraints (overall economic capital) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.

The process of assessment of capital adequacy at the Company follows this “twin track” approach established by the Group: regulatory capital at risk against the total own funds of the bank for solvency purposes, and overall economic capital at risk for the purposes of the ICAAP (Internal Capital Adequacy Assessment Process) process against the Company's available financial resources as defined by the Group.

Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Company's budget.

Compliance with the target levels of capitalisation (regulatory & economic) identified within the Group Risk Appetite Framework are monitored on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregate.

Regulatory Capital

*The Company is computing and monitoring regulatory capital adequacy in compliance with EU Capital Requirements Regulation 575/2013.

In relation to Credit and Counterparty Risk, the Bank, following notification to the Central Bank of Ireland applied an AIRB approach for the risk exposures related to corporate obligors (excluding non-bank financial institutions) starting from 31 March 2012 for regulatory purposes with a Standardised Approach used to calculate capital requirements for other obligors. With respect to Operational Risk, the Company adopted a Standardised Approach from January 2010.

*The Company maintains Total Capital Ratio in excess of requirements notified by the European Central Bank, as part of the Supervisory Review and Evaluation Process and as at 31 December 2017 the Total Capital Ratio was 17.38% (18.15% in December 2016).

* (Unaudited)

The table below discloses the own funds and regulatory capital requirements of the Company for 2017 and 2016 year-ends:

Regulatory Capital Information 2017 and 2016*

	Eligible Own Funds	**Capital Requirement**	Eligible Own Funds	Capital Requirement
	2017	**2017**	2016	2016
	€'000	**€'000**	€'000	€'000
Equity	1,158,025		1,159,441	
Prudential filters and regulatory adjustments	(1,949)		(10,028)	
Core Tier 1	**1,156,076**	**614,833**	**1,149,412**	**554,435**
Total Tier 1	**1,156,076**	**614,833**	**1,149,412**	**554,435**
Collective provisions	-		853	
Prudential filters and regulatory adjustments	-		-	
Tier 2	-		853	
Total Capital	**1,156,076**	**614,833**	**1,150,265**	**554,435**

* (Unaudited)

3. Quantitative risk disclosures

3.1. Credit Risk and Counterparty Credit Risk

Financial assets, including loans and advances, debt securities and off-balance sheet commitments such as guarantees, undrawn committed credit lines and derivatives generate credit risk. Credit risk is characterised, for a specific counterparty, by the existence of a potential loss linked to the possible default of that counterparty.

The Company controls the levels of credit risk it is exposed to by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to also industry segments. Limits on the level of credit risk by industry sector are approved by the Company's Board of Directors, in compliance with local regulatory requirements.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Limits on the level of credit risk by borrower are assessed on the basis of a credit risk management model developed by the Group, including an internal rating system applied to all corporate clients, and are approved on an on-going basis by the Board of Directors. In the case of financial institutions and governments, the external credit rating assigned by an external credit assessment institution (ECAI) has been mapped onto the Group internal rating scale using the worse external rating when two are available, or the second worse when three are available.

The Company uses several risk mitigants in order to ensure compliance with the Company's credit risk appetite. They include:

- Export Credit Agencies' insurance policies and/or financial guarantees to cover political and commercial risks generated by trade finance operations. ECAs (SACE, COFACE, ECGD, HERMES and other major ECA cover) must cover at least 85% of the political risk, while a guarantee issued by the exporter must secure at least 50% of the country risk not covered by ECA as per the Company's lending policy;
- Intra-group guarantees involving both counterparty and country risk outside the Company's Credit Risk Appetite;
- Parental and third party bank / corporate guarantees or collateral for transactions involving exposures outside the Company's Credit Risk Appetite. Collateral is seen as a way of controlling the borrower and providing additional sources of repayment and its quality and liquidity are therefore very important and must be carefully appraised in the loan proposal. Secured loans should be margined so that money received from the collateral under foreclosure conditions will be sufficient to repay the loan. Guarantees must be issued by counterparties of good credit standing;
- Intra-group risk participations for large syndicated facilities in order to limit concentration risk and comply with the regulatory Large Exposure limits

With regard to loans, the total exposure of the Company derived from loans to banks and customers amounted to €11.3 billion at the end of 2017 (€10.6 billion in 2016):

	2017 **€'000**	2016 €'000
Loans and advances to banks (as per Statement of Financial Position)	10,508,882	9,523,936
Loans and advances to customers (as per Statement of Financial Position)	762,686	1,093,565
	11,271,568	**10,617,501**

The Company has in place a Nominal Limit of €4 billion (€4 billion in 2016) equivalent for the purchase of bonds. Within the Company's approved Financial Portfolio Policy the investment in permissible bonds is subject to sub category limits as described therein.

The total exposure of the Company derived from bonds classified as Available for Sale and Carried at Fair Value through profit or loss shown in the following table, amounted up to €1.750 billion at the end of 2017 (€2.675 billion in 2016).

	2017 **€'000**	2016 €'000
Available for Sale Investments * (as per Statement of Financial Position)	1,750,600	2,675,210
	1,750,600	**2,675,210**

** AFS Investments in 2017 include € 146,000 of Equity Securities (2016: € 128,000)*

A breakdown of the Company's credit risk exposure relating to Loans and Receivables, Contingent Liabilities and Bonds at year-ends 2017 and 2016 **by activity sector** is provided in the tables below: The numbers are inclusive of risk mitigation.

31 December 2017 **Sector of Risk**	**Loans/Receivables** **€'000**	**Contingent Liab.** **€'000**	**Bonds** **€'000**
Central Government	229,895	-	1,133,886
Credit Institutions	137,010	-	334,938
Electricity, Gas and Water Supply	146,173	70,000	-
Extra-Territorial Organisations and Bodies		-	80,144
Financial Intermediaries *(excluding Credit Institutions / Central Bank)*	33,794	19,571	173,426
Manufacturing	-	4,348	5,036
Mining and Quarrying	49,540	-	-
Transport, Storage and Communications	57,003	-	23,024
Group	10,615,964	120,113	-
Cash Collateral	2,189	-	-
Grand Total	**11,271,568**	**214,032**	**1,750,454**

31 December 2016 **Sector of Risk**	**Loans/Receivables** **€'000**	**Contingent Liab.** **€'000**	**Bonds** **€'000**
Central Government	302,911	-	2,035,283
Credit Institutions	79,023	-	318,251
Electricity, Gas and Water Supply	263,861	70,000	-
Extra-Territorial Organisations and Bodies	-	-	160,189
Financial Intermediaries *(excluding Credit Institutions / Central Bank)*	42,191	13,672	97,289
Manufacturing	-	2,215	-
Transport, Storage and Communications	91,198	-	64,070
Wholesale / Retail Trade & Repair	-	33,204	-
Group	9,772,106	196,737	-
Cash Collateral	66,211	-	-
Grand Total	**10,617,501**	**315,828**	**2,675,082**

A breakdown of the Company's credit risk exposure relating to Loans and Receivables, Contingent Liabilities and Bonds at year-ends 2017 and 2016 **by credit rating** (Fitch, Moodys and S&P are the external agencies used to compute and the External Rating Proxy is S&P) is provided in the tables below: The numbers are inclusive of risk mitigation.

31 December 2017 Internal Rating	**External Rating**	**Loans/Receivables €'000**	**Contingent Liab. €'000**	**Bonds €'000**
I.1.A	AAA	134,343	-	260,409
I.1.B	AA+	-	-	74,369
I.1.D	AA-	-	-	278,095
I.1.E	A+	380	-	98,655
I.1.F	A	35,063	-	179,076
I2	A-	1,760		5,036
I4	BBB+	517,724	4,348	184,255
I5	BBB	10,140,382	90,114	670,559
I6	BBB-	185,329	100,000	-
M1	BB+	179,967	19,571	-
M2	BB+	49,540	-	-
R1	B+	24,891	-	-
Cash Collateral		2,189	-	-
Grand Total		**11,271,568**	**214,032**	**1,750,454**

31 December 2016 Internal Rating	**External Rating**	**Loans/Receivables €'000**	**Contingent Liab. €'000**	**Bonds €'000**
I.1.A	AAA	152,497	-	308,536
I.1.B	AA+	-	-	146,378
I.1.C	AA	-	-	331,015
I.1.D	AA-	-	-	157,114
I.1.E	A+	1,990	-	-
I.1.F	A	-	-	57,252
I2	A-	214,451	2,215	-
I3	BBB+	-	70,000	-
I4	BBB+	9,751,178	96,737	124,288
I5	BBB	50,911	100,000	1,550,499
I6	BBB-	30,021	33,204	-
M1	BB+	306,052	13,672	-
M2	BB+	44,190	-	-
Cash Collateral		66,211	-	-
Grand Total		**10,617,501**	**315,828**	**2,675,082**

A breakdown of the Company's credit risk exposure relating to Loans and Receivables, Contingent Liabilities and Bonds at year-ends 2017 and 2016 **by country risk** is provided in the tables below: The numbers are inclusive of risk mitigation.

31 December 2017 Country of Risk	**Loans/Receivables €'000**	**Contingent Liab. €'000**	**Bonds €'000**
Austria	-	-	23,024
Canada	-	-	42,570
France		-	303,422
Germany	134,343	-	5,036
Hungary	30,020	-	-
Ireland	168,664	93,919	251,292
Italy	10,645,665	20,113	740,876
Luxembourg	-	-	7,537
Netherlands	-	-	33,908
Norway	-	-	78,390
Romania	9,169	-	-
Russian Federation	195,713	-	-
Slovak Republic	35,063		
Slovenia	20,439	100,000	-
Spain	-	-	184,255
Supranational	-	-	80,144
United Kingdom	32,492	-	-
Grand Total	**11,271,568**	**214,032**	**1,750,454**

31 December 2016 Country of Risk	**Loans/Receivables €'000**	**Contingent Liab. €'000**	**Bonds €'000**
Austria	-	-	23,714
Belgium	-	-	121,485
Bermuda	-	33,204	-
Canada	-	-	77,268
Denmark	-	-	9,977
France	-	-	287,625
Germany	152,497	-	-
Hungary	30,021	-	-
Ireland	102,194	85,887	139,246
Italy	9,980,349	96,737	1,618,787
Luxembourg	-	-	20,007
Netherlands	-	-	34,829
Norway	-	-	31,726
Romania	15,449	-	-
Russian Federation	265,481		
Slovenia	20,893	100,000	-
Spain	-	-	124,288
Supranational	-	-	160,189
United Kingdom	50,617	-	25,941
Grand Total	**10,617,501**	**315,828**	**2,675,082**

The following tables provide a breakdown of loans and advances to banks and customers by loan quality:

	2017 **Net exposure** **€'000**	**%** **break-down**	2016 Net exposure €'000	% break-down	**Change net exposure** **€'000**
Doubtful Loans	-	-	-	-	-
Substandard Loans	-	-	-	-	-
Past Due Loans	-	-	-	-	-
Non-Performing Loans	**-**	**-**	**-**	**-**	**-**
Performing Loans	11,271,568	100.00	10,617,501	100.00	654,067
Loans and Advances to Banks and Customers	**11,271,568**	**100.00**	**10,617,501**	**100.00**	**654,067**

	2017 **Gross exposure** **€'000**	**Impairment provisions** **€'000**	**Net exposure** **€'000**	2016 Gross exposure €'000	Impairment provisions €'000	Net exposure €'000
Doubtful Loans	226	(226)	-	226	(226)	-
Substandard Loans	-	-	-	-	-	-
Past Due Loans	-	-	-	-	-	-
Non-Performing Loans	**226**	**(226)**	**-**	**226**	**(226)**	**-**
Performing Loans	11,272,577	(1,009)	11,271,568	10,619,714	(2,213)	10,617,501
Loans and Advances to Banks and Customers	**11,272,577**	**(1,009)**	**11,271,568**	**10,619,940**	**(2,439)**	**10,617,501**

Non-performing loans decreased last year both on a gross and net exposure basis, with a net exposure representing 0.00% of the total loans and advances to banks and customers in December 2017 (0.00% in December 2016).

Gross exposure relating to doubtful loans decreased in 2017 amounting to €0.23 million at year-end (€0.23 million at 31 December 2016). Individual impairment losses on these exposures covered 100% (2016:100%) of the exposures that are not guaranteed either by Government or by Group Entities at year-end 2017. Provisions are considered in line with market-driven recovery expectations. Net exposure to doubtful loans accounted for 0.00% of total loans and advances to banks and customers in December 2017 (0.00% in December 2016).

There is currently no exposure to past due loans in December 2017 (2016: Nil).

There is currently no exposure to substandard loans (2016: Nil).

Credit Spread Risk

The bond portfolio's fair value is subject to the volatility of credit spreads associated with each issuer, representative of both specific credit risk as well as systemic credit market conditions. The impact of the sensitivity of the portfolio to credit spread volatility will vary in accordance with the accounting classification of each bond and the relevant accounting principles. The table below provides estimates of the impact of a parallel upward shift of 25 basis points of individual credit spread curves on the revaluation of equity ("AFS Securities") of the Company in 2017.

Price Sensitivity Analysis as at 31 December 2017
of AFS Securities to Credit Spread Volatility

	Profit & Loss	**Other Comprehensive Income and Equity**
	€'000	**€'000**
AFS Securities	-	(20,653)
Total	**-**	**(20,653)**

Price Sensitivity Analysis as at 31 December 2016
AFS Securities to Credit Spread Volatility

	Profit & Loss	Other Comprehensive Income and Equity
	€'000	€'000
AFS Securities	-	(26,929)
Total	-	**(26,929)**

Use of Credit Risk Mitigants:

At year-end 2017, of the total amount of cash loans and advances (excluding intra-Group transactions) of €902.07 million (2016: €1,242 million), €586.21 million (2016: €871 million) (representing 64.98% (2016: 70.15%)) had a credit risk mitigation either through Risk Participation Agreements or Cash Collateral. Group guarantees amounted to €245.54 million (2016: €474 million).

Collateral Management:

An amount of €468.914 million of risk exposure was partially or fully covered by collateral at year-end 2016 (2016: €651.76 million), with an adjusted fair value of such collateral estimated at €470.888 million at 31 December 2017 (2016: €653.18 million). The collateral related to derivative exposure of €466.726 million (2016: €492.36 million) and loan and advances of €2,188 million (2016: €159.41 million).

The Company did not take possession of any new pledged collateral, excluding cash and securities, during the course of the financial year.

In case of the default of an obligor (as defined in the terms and conditions of the contractual agreement linking the obligor to the Company), the Company will exercise its rights.

Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2017

				Related amounts not offset in the statement of financial position		
€'000	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
Derivatives	467,877	(6,661)	461,216	-	460,664	552

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2017

				Related amounts not offset in the statement of financial position		
€'000	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives	398,056	(7,914)	390,142	-	390,138	4
Repurchase agreements	97,859	-	97,859	97,859	-	-

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2016

				Related amounts not offset in the statement of financial position		
€'000	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
Derivatives	500,549	(8,193)	492,356	-	490,119	2,237

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2016

				Related amounts not offset in the statement of financial position		
€'000	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
Derivatives	600,372	(3,028)	597,344	-	596,100	1,244
Repurchase agreements	508,658	-	508,658	508,658	-	-

Credit Concentrations Monitoring:

It is the policy of the Company to monitor and control concentrations of credit risk so that they do not exceed specified limits. It is sound banking practice to avoid concentration of lending to specific industries and specific clients or group of clients.

In addition to the monitoring of concentration limits at the counterparty and sectors of activity levels, the Board has adopted the prudent view of calibrating the collective impairment provisions of the Company to take into consideration the materiality of the credit concentration risk factor associated with the Company's activity of lending principally to large corporations (as described above). The Concentration Index, utilised for the computation of collective impairment provisions, is reviewed by the Risk Control Unit periodically and the result is communicated to the Board.

One key concentration limit of the Company concerns the concentration to any singular or group of connected clients calculated as a portion of owns funds whereby any final exposure (uncovered by any credit risk mitigation) to a client or group of connected clients shall be considered a Large Exposure if its value is equal to or exceeds 10 per cent of the Company's Own Funds base.

The Company has set the following limits:

- Large Exposures to a client or group of connected clients not to exceed 25% of the Own Funds base. Intra-Group credit or financial institutions, Central Governments and Central Banks exposures are exempt from this requirement;
- the sum of Large Exposures in total not to exceed 800 per cent of Own Funds base;
- loans to Directors are not permitted.

Another concentration limit concerns sector economic activity whereby the aggregate amount of risk-weighted loans and undrawn commitments concentrated in one sector of business or economic activity, excluding credit institutions, government, extra-territorial organisations and central bank, must not exceed 200% of the Own Funds base. Where a common risk could be considered to apply to two or more separate sectors (for example, property development and building sectors), then not more than 250% of the Own Funds base shall be employed in such sectors on an aggregate basis.

Credit Risk Exposure related to derivatives

The Company had entered into stand-alone derivative transactions for a total notional of €4.309 billion at the end of 2017 (2016: €5.82 billion), of which €1,709 billion were classified as hedging derivatives with application of hedge accounting rules (2016: €3.37 billion). The increase is reflective of an increase in macro swap activity to manage interest rate risk as detailed in following paragraph.

The remainder €2.60 bn (2016: €2.46 bn) are used to mitigate interest rate risk, including asset and liability maturity mismatches, and foreign exchange risk generated by mismatches between the respective currencies of assets and liabilities. This increase is a result of the lengthening maturity of our ECP issuance (circa 1 year) which we have swapped into 3 / 6 month to ensure that it is consistent with Asset re-fixing profile.

At the end of 2017, 78.53% of the derivatives involving the Company were dealt with another entity of the Group (2016: 82.09%). Cash Collateral received for derivatives amounted to €468.70 million (2016: €493.77 million). The Company computes a non-material amount for bilateral credit and debit risk adjustment (CVA / DVA) as 100% of all derivatives are covered through specific CSA contracts with Group and Non-Group counterparties.

3.2. Liquidity Risk

Liquidity is the ability of a credit institution to meet its on and off-balance sheet obligations in a timely manner as they fall due, without incurring significant cost, while continuing to fund its assets and growth therein.

Funding liquidity risk arises from the inability to meet payment obligations due to the lack of liquid funds and related difficulties in selling assets or raising funds in the market, and focuses on the short-term (below two years), as in the event of a liquidity crisis, the ability to meet payments in the first few days is a critical determinant of the subsequent evolution of the crisis.

As per the Company's Liquidity Risk Policy approved by the Board of Directors in line with the Financial Regulator requirements, the Company's liquidity analysis aims at:

- defining the liquidity risk on the basis of mismatches between maturing or readily realisable assets and maturing liabilities for each time band (liquidity gap), amounts are deemed to include accrued interest;
- defining "target liquidity ratios" for the on-demand to 8 days and the 9 days – 1 month periods. Furthermore "attention thresholds" are defined on the liquidity gap for the 1-3 month, 3-6 month, 6-12 month, 1-2 years and more than 2 years periods. The target liquidity ratios and the attention thresholds are defined as the ratio of inflows to outflows in a given time period. The value of the first target liquidity ratio must remain above 1.0, while the value of the second target liquidity ratio, computed on a cumulative basis (including net inflows or outflows from the previous time band), must remain above 0.9. Attention thresholds are monitored for information purposes;
- defining rules for maintaining a minimum of liquid assets to cover very short-term liquidity risk, to be refinanced through borrowings;
- Defining rules for new regulatory reporting requirement, such as the Liquidity Coverage Ratio and the Net Stable Funding Ratio (NSFR, implementation in 2018).

***Historical statistics on liquidity ratios (standard case) for 2017 and 2016**

	2017		2016	
	0-8 days	9d – 1m	0-8 days	9d – 1m
	%	%	%	%
Minimum	112.3	95.7	105.2	91.2
Maximum	1141.1	1439.5	487.0	1,529.9
Average	200.0	348.7	200.1	289.1

Further to CEBS' Guidelines on Liquidity Buffers & Survival Periods the Company has implemented a committed money market line dedicated to cover potential liquidity shortfalls experienced by the Bank under stressed conditions.

* (Unaudited)

The following tables show the liquidity risk exposure of the Company for the year ended 2017 and 2016 using the IFRS 7 application guidance and assuming that all undrawn loan commitments are included in the time band containing the earliest date they can be drawn (0-8 days).

31-Dec-2017* €000	**Sight to**	**Over 8 days**	**Over 1 mth**	**Over 3 mth**	**Over 6 mth**	**1 year to**	**Over 2**
Time band	**8 days**	**to 1 month**	**to 3 mths**	**to 6 mths**	**to 1 year**	**2 years**	**years**
INFLOWS							
Readily Marketable Assets/Liquid Assets	**1,246,715**	-	-	-	-	-	-
Cash	13,254	-	-	-	-	-	-
Lending to MFI's	348,800	-	-	-	-	-	-
Securities other than shares issued by MFI's	188,504	-	-	-	-	-	-
Central Government Securities	550,838	-	-	-	-	-	-
Securities other than shares issued by non MFI's	73,164	-	-	-	-	-	-
Accrued Interest	2,116	-	-	-	-	-	-
Minimum Reserve Balance	70,039	-	-	-	-	-	-
Less Deposit Protection Account	0	-	-	-	-	-	-
Monetary Financial Institutions	-	**576,582**	**293,549**	**997,234**	**4,044,104**	**1,751,917**	**3,113,848**
- Affiliates	-	576,574	293,465	892,239	4,039,093	1,742,104	3,092,222
- Other Credit Institutions - Non Irish	-	-	-	4,901	4,928	9,666	21,626
- Other Credit Institutions - Irish	-		-	100,000	-	-	-
- All other Monetary Financial Institutions	-	3	29	-	-	-	-
- Sale of Securities or Investments in MFIs	-	5	55	94	83	147	-
ECB and Other Central Banks	-	-	-	-	-	-	-
Central Government	-	-	-	-	-	-	-
- From investments	-	-	-	-	-	-	-
- From Lending Operations	-	-	-	-	-	-	-
Non Government Credit	**1**	**35,967**	**46,664**	**168,519**	**97,272**	**205,798**	**464,169**
- Overdrafts	-	-	1,901	-	-	-	-
- Term Loans	1	35,967	44,763	168,519	97,272	205,798	464,169
Sale and Repurchase Agreements	-	-	-	-	**125,713**	-	**291,41**
-Affiliated Credit Institutions	-	-	-	-	-	-	-
- Other Credit Institutions	-	-	-	-	-	-	291,040
- ECB	-	-	-	-	125,713	-	372
Fee Income	-	-	-	-	-	-	-
Derivative and OBS Activity	**206,859**	**98**	**13,714**	**16,891**	**15,558**	**31,299**	**922,200**
- Swap	206,859	98	13,714	16,891	15,558	31,299	922,200
Total Inflows	**1,453,574**	**612,647**	**353,927**	**1,182,644**	**4,282,647**	**1,989,014**	**4,791,629**
OUTFLOWS							
Monetary Financial Institutions	**211,647**	**21,520**	**52,625**	**20,956**	**63,007**	**60,140**	**2,027,582**
- Affiliates	207,537	5	41	510	3,883	137	-
- Other Credit Institutions - non Irish	1,670	5,846	-	-	10,585	-	464,610
- Other Credit Institutions - Irish	-	-	-	138	-	-	-
- All other Monetary Financial Institutions	2,440	15,669	52,584	20,308	48,539	60,003	1,562,972
Debt Securities Issued	**96,076**	**580,177**	**1,525,352**	**2,200,909**	**3,712,849**	**1,363,880**	**393,976**
ECB and Other Central Banks	-	-	-	-	-	-	-
Non-Government Deposits	**3,426**	-	-	-	-	-	-
- Current Accounts	3,426	-	-	-	-	-	-
- Demand Deposit Accounts	-	-	-	-	-	-	-
Sale and Repurchase Agreements	-	-	-	-	**75,000**	-	**23,000**
- Affiliated Credit Institutions	-	-	-	-	-	-	-
- ECB	-	-	-	-	75,000	-	23,000
Fees Payable	**88**	**290**	**744**	**1,159**	**2,306**	**4,600**	-
Other Costs	**92**	**304**	**779**	**1,214**	**2,416**	**4,818**	-
Undrawn Committed Facilities Granted	**214,039**	-	-	-	-	-	-
Derivative and OBS Activity	**203,959**	**1,057**	**17,553**	**22,678**	**24,380**	**42,428**	**919,142**
- Swap	203,959	1,057	17,553	22,678	24,380	42,428	919,142
Total Outflows	**729,327**	**603,343**	**1,597,053**	**2,246,916**	**3,879,958**	**1,475,866**	**3,363,700**
Net Position in the Period	724,247	9,304	-1,243,126	-1,064,272	402,689	513,148	1,427,929
Net Cumulative Inflow/Outflow	724,247	733,551	-509,575	-1,573,847	-1,171,158	-658,010	769,919
Liquidity Ratio (%)	199.3	221.6	68.1	42.9	78.5	75.1	119.1

* (Unaudited)

31-Dec-2016* €'000	Sight to	Over 8 days	Over 1 mth	Over 3 mth	Over 6 mth	1 year to	Over 2
Time band	8 days	to 1 month	to 3 mths	to 6 mths	to 1 year	2 years	years
INFLOWS							
Readily Marketable Assets/Liquid Assets	1,465,250	-	-	-	-	-	-
Cash	15,082	-	-	-	-	-	-
Lending to MFI's	45,000	-	-	-	-	-	-
Securities other than shares issued by MFI's	315,077	-	-	-	-	-	-
Central Government Securities	979,940	-	-	-	-	-	-
Securities other than shares issued by non MFI's	56,220	-	-	-	-	-	-
Accrued Interest	1,817	-	-	-	-	-	-
Minimum Reserve Balance	52,114	-	-	-	-	-	-
Less Deposit Protection Account	0	-	-	-	-	-	-
Monetary Financial Institutions	-	1,128,623	510,563	251,583	3,461,872	913,401	4,024,414
- Affiliates	-	1,078,614	510,513	244,247	3,454,484	900,082	3,956,249
- Other Credit Institutions - Non Irish	-	-	-	7,300	7,356	13,112	68,058
- Other Credit Institutions - Irish	-	50,000	-	-	-	-	-
- All other Monetary Financial Institutions	-	9	10	-	-	-	-
- Sale of Securities or Investments in MFIs	-	-	40	36	32	207	107
ECB and Other Central Banks	-	-	-	-	-	-	-
Central Government	-	-	-	-	-	-	-
- From investments	-	-	-	-	-	-	-
- From Lending Operations	-	-	-	-	-	-	-
Non Government Credit	46	6,302	75,352	166,413	129,695	281,473	693,108
- Overdrafts	-	-	1,901	-	-	-	-
- Term Loans	46	6,302	73,451	166,413	129,695	281,473	693,108
Sale and Repurchase Agreements	-	114,682	-	-	-	-	691,593
-Affiliated Credit Institutions	-	114,682	-	-	-	-	-
- Other Credit Institutions	-	-	-	-	-	-	291,278
- ECB	-	-	-	-	-	-	400,315
Fee Income	-	-	-	-	-	-	-
Derivative and OBS Activity	150,000	24,200	45,044	6,376	19,156	34,549	934,722
- Swap	150,000	24,200	45,044	6,376	19,156	34,549	934,722
Total Inflows	1,615,296	1,273,807	630,959	424,372	3,610,723	1,229,423	6,343,837
OUTFLOWS							
Monetary Financial Institutions	524,262	22,443	28,998	137,242	24,953	117,371	2,248,988
- Affiliates	474,258	-	584	100,073	657	197	100
- Other Credit Institutions - non Irish	-	6,648	-	3,501	585	10,585	488,360
- Other Credit Institutions - Irish	50,003	7	-	-	-	-	-
- All other Monetary Financial Institutions	-	15,788	28,414	33,668	23,711	106,589	1,760,528
Debt Securities Issued	51,665	1,376,745	1,764,848	1,107,679	2,543,481	1,655,373	504,509
ECB and Other Central Banks	-	-	-	-	-	-	-
Non-Government Deposits	3,444	-	-	-	-	-	-
- Current Accounts	3,444	-	-	-	-	-	-
- Demand Deposit Accounts	-	-	-	-	-	-	-
Sale and Repurchase Agreements	-	120,418	-	-	-	365,516	23,000
- Affiliated Credit Institutions	-	120,418	-	-	-	-	-
- ECB	-	-	-	-	-	365,516	23,000
Fees Payable	88	290	744	1,159	2,306	4,600	-
Other Costs	92	304	779	1,214	2,416	4,818	-
Undrawn Committed Facilities Granted	215,233	-	-	-	-	-	-
Derivative and OBS Activity	151,032	23,505	62,325	16,265	43,530	76,610	1,048,699
- Swap	151,032	23,505	62,325	16,265	43,530	76,610	1,048,699
Total Outflows	945,815	1,543,705	1,857,694	1,263,559	2,616,686	2,224,288	3,825,196
Net Position in the Period	669,481	-269,898	-1,226,735	-839,187	994,037	-994,865	2,518,641
Net Cumulative Inflow/Outflow	669,481	399,583	-827,152	-1,666,339	-672,302	-1,667,167	851,474
Liquidity Ratio (%)	170.8	125.9	55.5	20.3	84.3	42.4	115.5

* (Unaudited)

3.3. Interest Rate and Foreign Exchange Risks in the Banking Book

With regard to interest rate risk in the banking book, the Company distinguishes between cash flow interest rate risk, which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and fair value interest rate risk, which is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company takes on limited exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Company mitigates both risks mainly using interest rate swaps in order to convert fixed rate assets and liabilities with a maturity exceeding one year into floating rate, and to re-align the interest rate profile of its assets with that of the corresponding funding.

Interest rate exposure is measured separately for each currency by analysing assets and liabilities in terms of the dates they reset interest rates. Interest rate risk exposure is assessed by measuring daily the potential financial impact (or sensitivity) on assets and liabilities and derivatives of the Company of a parallel upward shift of 100 basis points of all interest rate curves (i.e. EURIBOR, LIBOR), assuming that all such assets and liabilities are re-valued at fair value. The exposure is reviewed daily by management against the set limits.

The same methodology is applied to all interest bearing and discounted assets and liabilities. Given the absence of significant optional risk in the Company, the sensitivity of all assets and liabilities and derivatives of the Company for a parallel downward shift of 100 basis points of all interest rate curves is approximately similar and opposite to the measure monitored daily by Management.

As at 31 December 2017, the Company's overall interest rate sensitivity (which is the total interest rate sensitivity of all the assets and Liabilities of the Company) on all balance sheet financial non-derivative assets, liabilities and derivatives amounted to - €6.4 million (2016: €48 thousand), within the limit approved by the Board of Directors of +/- €16 million.

Historical Interest Rate Sensitivity Review
01/01/2017 to 31/12/2017

100 bps **Shift Sensitivity**	**€'000**
Average	(1,187)
High	9,658
Low	(8,930)

Historical Interest Rate Sensitivity Review
01/01/2016 to 31/12/2016

100 bps Shift Sensitivity	€'000
Average	2,591
High	6,709
Low	(1,925)

Whereas the above sensitivity measure on the recognised non-derivative financial assets and liabilities and derivatives of the Company provides information as to the potential future impact which a parallel upward shift of 100 basis points of interest rate curves would have on the interest margin of the Company, the financial impact of the sensitivity to interest rate risk of instruments will vary in accordance with their accounting classification and the relevant accounting principles. The following tables provide estimates of the impact of a parallel upward shift of 100 basis points of interest rate curves on the revaluation of instruments classified at fair value through profit or loss or other comprehensive income and equity of the Company in 2017 and in 2016.

Interest Rate Sensitivity Analysis as at 31 December 2017
Instruments classified at Fair Value through Profit or Loss or Equity

	Profit & Loss **€'000**	**Other Comprehensive Income and Equity** **€'000**
AFS Securities	-	(1,200)
Hedged Assets and Liabilities	(2,941)	-
Trading Derivatives	1,392	-
Total	**(1,549)**	**(1,200)**

Interest Rate Sensitivity Analysis as at 31 December 2016
Instruments classified at Fair Value through Profit or Loss or Equity

	Profit & Loss €'000	Other Comprehensive Income and Equity €'000
AFS Securities	-	(3,300)
Hedged Assets and Liabilities	(4,191)	-
Trading Derivatives	7,922	-
Total	**3,731**	**(3,300)**

The management of the Company monitors daily the concentration of interest rate risk in the banking book on a time bucket and currency basis. The interest rate risk sensitivity of the Company at year-ends 2017 and 2016, by currency, is shown in the following tables:

Sensitivity as at 31 December 2017
(100 basis points shift)

Currency	**2017** **€'000**	2016 €'000
EUR	**(5,422)**	**1,610**
USD	**(879)**	**(1,556)**
Other	**(81)**	**(6)**
Total	**(6,382)**	**48**

With regard to foreign exchange risk in the banking book, such risk results from the mismatching of the currency of denomination between assets and liabilities. The Company mitigates this risk mainly using foreign exchange swaps in order to re-align the currency of denomination of its assets with that of the corresponding funding.

The Board has set a limit on the total overnight open position (measured as the maximum of the sums of all long and short open positions), which is monitored daily.

Total Position at Year-end	**2017** **Notional** **€'000**	2016 Notional €'000
Long Foreign Currency:	**2,219**	**299**
Short Foreign Currency:	**0**	**446**

Average Position during the Year	**2017** **Notional** **€'000**	**2016** **Notional** **€'000**
Average Long Foreign Currency:	**1,800**	**1,064**
Average Short Foreign Currency:	**11**	**33**

As a consequence of the limited exposure of the Company to foreign exchange risk in the banking book (on the notional limit of €3 million) and the revaluation performed on a daily basis through the income statement of all on and off-balance sheet recognised assets and liabilities as well as its cumulative yearly profit and loss, the Company does not compute any measure of sensitivity to foreign exchange risk in the banking book.

4. Statement of financial position by accounting class

The table below summarizes the analyses of the various classes of financial assets and liabilities by IAS 39 measurement category for 2017.

	Loans and receivables/ Amortised cost liabilities	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	* Other	Total
As at 31 December 2017	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Assets							
Cash and balances with central banks	88,481	-	-	-	-	-	88,481
Available for sale investments	-	-	-	-	1,750,600	-	1,750,600
Loans and advances to banks	10,508,882	-	-	-	-	-	10,508,882
Loans and advances to customers	762,686	-	-	-	-	-	762,686
Derivative financial instruments	-	467,877	-	7,914	-	-	475,791
Prepayment and accrued income	92	-	-	-	-	-	92
Deferred tax	-	-	-	-	-	27	27
Other assets	1,881	-	-	-	-	-	1,881
Property, plant and equipment	-	-	-	-	-	620	620
Total assets	**11,362,022**	**467,877**	**-**	**7,914**	**1,750,600**	**647**	**13,589,060**
Liabilities							
Deposits from banks	683,707	-	-	-	-	-	683,707
Debt securities in issue	9,765,933	-	-	-	-	-	9,765,933
Repurchase agreements	97,859	-	-	-	-	-	97,859
Due to customers	1,310,652	-	-	-	-	-	1,310,652
Derivative financial instruments	-	472,465	-	32,784	-	-	505,249
Current tax	-	-	-	-	-	48	48
Deferred tax liability	-	-	-	-	-	1,376	1,376
Accruals and deferred income	2,483	-	-	-	-	-	2,483
Other liabilities	1,159	-	-	-	-	-	1,159
Provisions for liabilities and commitments	32	-	-	-	-	-	32
Equity							
Share capital	-	-	-	-	-	400,500	400,500
Share premium	-	-	-	-	-	1,025	1,025
Available for sale reserves	-	-	-	-	-	9,439	9,439
Capital contribution reserves	-	-	-	-	-	506,764	506,764
Retained earnings	-	-	-	-	-	302,834	302,834
Total liabilities and shareholders' funds	**11,861,825**	**472,465**	**-**	**32,784**	**-**	**1221,986**	**13,589,060**

*Other includes non-financial items and equity instruments

The table below summarizes the analyses of various classes of financial assets and liabilities by IAS 39 measurement category for 2016.

	Loans and receivables/ Amortised cost liabilities	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	* Other	Total
As at 31 December 2016	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Assets							
Cash and balances with central banks	68,909	-	-	-	-	-	68,909
Available for sale investments	-	-	-	-	2,675,210	-	2,675,210
Loans and advances to banks	9,523,936	-	-	-	-	-	9,523,936
Loans and advances to customers	1,093,565	-	-	-	-	-	1,093,565
Derivative financial instruments	-	500,549	-	3,028	-	-	503,577
Prepayment and accrued income	52	-	-	-	-	-	52
Current tax	-	-	-	-	-	74	74
Deferred tax	-	-	-	-	-	366	366
Other assets	3,798	-	-	-	-	-	3,798
Property, plant and equipment	-	-	-	-	-	22	22
Total assets	**10,690,260**	**500,549**	**-**	**3,028**	**2,675,210**	**462**	**13,869,509**
Liabilities							
Deposits from banks	1,087,883	-	-	-	-	-	1,087,883
Debt securities in issue	8,861,958	-	-	-	-	-	8,861,958
Repurchase agreements	508,658	-	-	-	-	-	508,658
Due to customers	1,461,533	-	-	-	-	-	1,461,533
Derivative financial instruments	-	505,553	-	210,291	-	-	715,844
Deferred tax liability	-	-	-	-	-	1,951	1,951
Accruals and deferred income	4,959	-	-	-	-	-	4,959
Other liabilities	967	-	-	-	-	-	967
Provisions for liabilities and commitments	79	-	-	-	-	-	79
Equity							
Share capital	-	-	-	-	-	400,500	400,500
Share premium	-	-	-	-	-	1,025	1,025
Available for sale reserves	-	-	-	-	-	11,091	11,091
Capital contribution reserves	-	-	-	-	-	506,764	506,764
Retained earnings	-	-	-	-	-	306,297	306,297
Total liabilities and shareholders' funds	**11,926,037**	**505,553**	**-**	**210,291**	**-**	**1,227,628**	**13,869,509**

*Other includes non-financial items and equity instruments

5. Fair values of financial instruments

a. Determination of fair value of financial instruments recorded at fair value

In order to ensure the harmonisation of valuations among the different branches and subsidiaries of Intesa Sanpaolo Group, the Risk Management Department of the Parent Company has the responsibility to produce the valuation of the securities and structured derivatives for all the entities of the Group. These valuations, which are reviewed by management, are therefore used by the Company for the relevant instruments.

With regard to securities holdings, the existence of official prices in an active market represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the measurement of financial assets and liabilities. If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date. Such techniques include:

- Reference to market values indirectly connected to the instrument to be valued and derived from products with the same risk profile (comparable approach).
- Valuations performed using – even partly – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (mark-to-model).

In the case of comparable approach valuation technique (Level 2), the valuation is not based on the price of the same identical financial instrument to be measured, but on prices or quoted credit spreads on instruments which are similar in terms of risk factors, using a given calculation methodology. In particular,

- if third party quotes are not available to measure a specific instrument, this approach requires the search for similar transactions on active markets which are comparable in terms of risk factors with the instrument to be measured;
- calculation methodologies used in the comparable approach reproduce prices of financial instruments quoted on active markets and do not contain discretional parameters – parameters for which values may not be presumed from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets- which significantly influence the final valuation.

Where a valuation technique is used to determine fair values, it is validated and periodically reviewed by qualified personnel independent of the area that created it. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

With regard to derivatives, the Company values non-structured derivatives using market standard cash flow models. The interest rate curves used for the discounting of cash flows are communicated by the Risk Management Department of the Parent Company on the basis of market quotes and are inserted in the valuation systems centrally before being applied to all entities of the Group (Level 2 approach).

For derivatives, which might change classification from being an asset to a liability or vice versa, such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustments (DVA), unless a bilateral collateral agreement has been entered by the Company with the relevant counterparty.

Structured derivatives are re-valued by the Group Risk Management Department also using a comparable approach valuation technique.

When Level 1 (market price) and Level 2 (comparable price) approaches are unavailable for the valuation of Structured Credit Products, Intesa Sanpaolo has adopted a framework to Level 3 valuation that is characterized by three key feature:

- a Mark-to-Model component, utilizing an appropriately calibrated tool for modelling structured credit products including credit default swaps with CDO as the reference entity;
- a Stress Test component where the parameters used for the valuation(i.e. correlation, spreads, recovery and expected maturity) are stressed in order to factor in the model the impact of adverse events;
- a Qualitative Collateral Review, whose impact is incorporated into the valuation, in order to identify the specific weaknesses of the collateral of the product;

	2017						
	Level 1		Level 2		Level 3		Total
	€'000	%	€'000	%	€'000	%	
Financial Assets designated at Fair Value through Profit or Loss							
- Debt instruments	-	-	-	-	-	-	-
Available for Sale financial Assets							
- Debt instruments	1,750,454	100.0	-	-	-	-	1,750,454
- Equity instruments	146	0.00	-	-	-	-	146
Total Financial Assets	**1,750,600**	**100.0**	**-**	**-**	**-**	**-**	**1,750,600**

	2016						
	Level 1		Level 2		Level 3		Total
	€'000	%	€'000	%	€'000	%	
Financial Assets designated at Fair Value through Profit or Loss							
- Debt instruments	-	-	-	-	-	-	-
Available for Sale financial Assets							
- Debt instruments	2,675,082	100.0	-	-	-	-	2,675,082
- Equity instruments	128	0.00	-	-	-	-	128
Total Financial Assets	**2,675,210**	**100.0**	**-**	**-**	**-**	**-**	**2,675,210**

2017/2016

The level 2 assets were not actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs.There has been no movement in level 3 instruments other than fair value.

	2017						
	Level 1		Level 2		Level 3		Total
	€'000	%	€'000	%	€'000	%	
Derivatives Assets							
-Trading	-	-	405,980	98.1	61,898	100.0	467,877
-Hedging	-	-	7,914	1.9	-	-	7,914
Total	-	-	**413,894**	**100.0**	**61,898**	**100.0**	**475,791**
Derivatives Liabilities							
-Trading	-	-	410,567	92.6	61,898	100.0	472,465
-Hedging	-	-	32,784	7.4	-	-	32,784
Total	-	-	**443,351**	**100.0**	**61,898**	**100.0**	**505,249**

	2016						
	Level 1		Level 2		Level 3		Total
	€'000	%	€'000	%	€'000	%	
Derivatives Assets							
-Trading	-	-	433,303	100.0	67,245	100.0	500,549
-Hedging	-	-	-	-	-	-	-
Total	-	-	**433,303**	**100.0**	**67,245**	**100.0**	**500,549**
Derivatives Liabilities							
-Trading	-	-	438,308	67.6	67,245	100.0	505,553
-Hedging	-	-	210,291	32.4	-	-	210,291
Total	-	-	**648,599**	**100.0**	**67,245**	**100.0**	**715,844**

b. Fair value of financial instruments other than those carried at fair value through profit or loss or Other Comprehensive Income

Set out below is a comparison of carrying values and fair values of the financial assets and financial liabilities (excluding short term receivables, payables and items present in the Company's statement of financial position at their fair value) held as at 31 December 2017 and at 31 December 2016.

	Level 1	Level 2	Level 3	31-Dec-17 Fair value €'000	31-Dec-17 Carrying value €'000
Assets					
Cash and balances at central banks	-	88,480	-	88,480	88,480
Loans and advances to banks	-	9,519,936	1,304,187	10,824,123	10,508,882
Loans and advances to customers	-	779,912	6,675	786,587	762,686
Liabilities					
Deposits by banks	-	215,007	468,700	683,707	683,707
Due to customers	-	38,042	1,514,151	1,552,193	1,310,652
Debt securities in issue	-	7,553,010	2,257,455	9,810,465	9,765,934
Repurchase agreements	-	-	97,554	97,554	97,859

	Level 1	Level 2	Level 3	31-Dec-16 Fair value €'000	31-Dec-16 Carrying value €'000
Assets					
Cash and balances at central banks	-	68,909	-	68,909	68,909
Loans and advances to banks	-	5,614,340	4,313,765	9,928,105	9,523,936
Loans and advances to customers	-	1,021,697	105,009	1,126,706	1,093,565
Liabilities					
Deposits by banks	-	574,204	513,680	1,087,884	1,087,884
Due to customers	-	26,731	1,768,018	1,794,749	1,461,533
Debt securities in issue	499,637	5,973,729	2,433,044	8,906,409	8,861,958
Repurchase agreements	-	120,397	385,288	505,686	508,658

The Company utilises the valuation methodologies developed by the Parent Company for financial assets and financial liabilities (excluding short term receivables, payables and items present in the Company's statement of financial position at their fair value).

The valuations are reviewed by the Risk Control Unit of the Company to ensure the results are in compliance with management expectations. The performance and impact on the accounts resulting from changes in valuations is reviewed by the Board of Directors on a quarterly basis.

With regard to assets, the methodology used is based on a discount of future cash flows using the observable interest rate curve on reporting date plus a credit spread estimated with an internally-developed model. The model involves the construction of a matrix of credit spreads by levels of probability of default, loss given default, and weighted average residual duration. The book value is considered to be the fair value for cash, balances at the Central Bank, short-term assets (original life of less than 18 months or residual life of less than 12 months) and non-performing assets.

With regard to liabilities, the methodology used is based on a discount of future cash flows using the observable credit curve of the Intesa Sanpaolo Group at reporting date. The book value is considered to be the fair value for short-term liabilities (original life of less than 18 months or residual life of less than 12 months).

6. Segmental Analysis

The Company has one reporting segment, the provision of banking products and services carried out from Ireland. Geographic concentrations are reported in Note 34. There are no non-Group customers with revenue exceeding 10% of the total revenue of the Company.

7. Net interest income

	2017 €'000	2016 €'000
Interest and similar income		
Cash and short term funds	**2,444**	2,433
Available for sale debt securities	**31,143**	50,490
Loans and advances *	**151,966**	186,109
Repurchase agreements	**575**	244
Debt securities in issue	**1,457**	293
	187,585	239,569

* Interest income includes €Nil (2016: €Nil) accrued on impaired loans.

	2017 €'000	2016 €'000
Interest expense and similar charges		
Banks and customers	**61,789**	73,022
Debt securities in issue	**36,456**	44,730
Repurchase agreements	**688**	148
Net swap interest expense	**37,003**	50,053
	135,936	167,953

8. Fees and commission income and expense

	2017 €'000	2016 €'000
Fee and commission income		
Credit related fees and commissions	**3,419**	1,828
Other fees	**163**	64
	3,582	1,892
Fee and commission expense		
Credit related fees and commissions	**8,726**	9,082
Brokerage fees paid	**9**	9
Other fees paid	**65**	61
	8,800	9,152

9. Net trading income

	2017 €'000	2016 €'000
Mark-to-market gains:		
- Derivatives	**640**	1,007
- Net result hedge accounting ***	**38**	167
Net realised gain on available for sale debt securities	**28,497**	12,436
Net realised profit on debt securities	**3,950**	3,549
Other income	**33**	-
	33,158	17,159

*** An analysis of the net result of hedge accounting is provided below

Interest rate derivatives designated as fair value hedges are entered into, to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily fixed rate loans to banks and customers and available for sale debt securities.

2017 - Net results of hedge accounting

	Loans and Receivables	**Available for Sale**	**Debt Securities in Issue**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
Net gains / (losses) on Hedged asset / liability	(2,488)	17,957	(1,731)	13,738
Net gains / (losses) on Fair value of hedging Derivatives	2,175	(17,403)	(1,527)	(13,701)
	(313)	**554**	**(204)**	**37**

2016 - Net results of hedge accounting

	Loans and Receivables	**Available for Sale**	**Debt Securities in Issue**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
Net gains / (losses) on Hedged asset / liability	(7,364)	107,695	1,092	101,423
Net gains / (losses) on Fair value of hedging Derivatives	7,396	(107,849)	(803)	(101,256)
	32	**(154)**	**289**	**167**

10. Employee numbers

The average number of persons employed by the Company (including Executive Directors) during the year was as follows:

	Number of employees	
	2017	2016
Administration	**28**	27

11. Administrative expenses

	2017	2016
	€'000	€'000
Staff costs		
- wages and salaries	**2,843**	2,001
- social welfare costs	**212**	187
- pension costs	**311**	367
- other personnel expenses	**6**	6
	3,372	2,561
Other administrative expenses	**5,949**	4,052
	9,321	6,613

12. Profit before taxation

		2017	2016
		€'000	€'000
Profit before tax is stated after charging:			
Depreciation – property, plant and equipment		**79**	24
Auditors' remuneration *(excluding VAT):*			
Audit services	Statutory audit	**67**	65
	Other services	**26**	25
		93	90
Directors' remuneration:			
Executive		**578**	256
Non-executive		**120**	124
		698	380

13. Income tax expense

	2017 €'000	2016 €'000
Corporation tax charge 12.5% (2016:12.5%) on the profit for the year on ordinary activities	8,944	9,456
Current tax charge for the year	8,932	9,455
Under / (Over) provision in prior year	12	1
Total current Tax	8,944	9,456

The current tax charge for the year is lower (2016: lower) than the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The difference is explained below:

	2017 €'000	2016 €'000
Profit on ordinary activities before tax	71,481	75,693
Profit on ordinary activities multiplied by the average rate of Irish corporation tax for year of 12.5% (2016:12.5%)	8,932	9,455
Effects of:		
Adjustments to tax charge in respect of previous periods	12	1
Current tax charge for the year	8,944	9,456

14. Dividends paid and proposed

	2017 €'000	2016 €'000
Declared and paid during the year		
Declared on ordinary shares:		
Final dividend for 2016: 16.48 cent per share (2015: 17.48 cent per share)	66,000	70,000
Proposed for approval at Annual General Meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary shares:		
Final dividend for 2017: 15.48 cent per share (2016:16.48 cent per share)	62,000	66,000

15. Cash and balances with central banks

	2017	2016
	€'000	€'000
Mandatory reserve deposits with central bank	**70,039**	52,114
Other cash balances	**18,442**	16,795
	88,481	68,909

Mandatory reserve deposits are available for use in the Company's day to day operations. The balances earn interest based on average Main Refinancing Operations (MRO) interest rate issued by the European Central Bank.

Of which included in cash and cash equivalents (Note 30) €18 million (2016: €17 million).

16. Available for sale debt investments

	2017	2016
Debt securities	**€'000**	€'000
Issued by public bodies		
- government securities	**1,214,030**	2,086,921
Issued by other issuers		
- banks	**394,747**	524,091
- other debt securities	**141,677**	64,070
	1,750,454	2,675,082
Of which:		
- listed on a recognised exchange	**1,750,454**	2,675,082
Equity Securities		
Equity Securities – Other	**146**	128
		128
	1,750,600	2,675,210

17. Loans and advances to banks

	2017	2016
	€'000	€'000
Placement with other banks	**10,509,026**	**9,523,987**
Gross loans and advances	**10,509,026**	**9,523,987**
Less allowances for losses	**(144)**	**(51)**
	10,508,882	**9,523,936**

Of which included in cash and cash equivalents (Note 30) €375 million (2016: €75 million).

18. Loans and advances to customers

	2017 €'000	2016 €'000
Loans to corporate entities	**763,777**	**1,095,953**
Gross loans and advances	**763,777**	**1,095,953**
Less allowances for losses	**(1,091)**	**(2,388)**
	762,686	**1,093,565**

19. Movement in the allowance for impairment / provisions for bad and doubtful debts

	2017 €'000	2016 €'000
Balance at beginning of year	**2,439**	2,832
Charge to income statement	**468**	835
Released to income statement	**(1,515)**	(1,255)
Translation adjustment	**(157)**	27
Balance at end of year	**1,235**	2,439

The net release of the provision for impairment of loans and receivabes of €1,047,000 (2016: releasee €420,000) is composed of a release to the income statement of €1,515,000 (2016: €1,255,000) and a charge of €468,000 (2016: €835,000) and a credit of Nil (2016: 392,000) in relation to loans previously written off.

Movement in the allowance for impairment / provisions for bad and doubtful debts

Amounts include:

	2017 **€'000**	2016 €'000
Cash and balances with central bank (Note 15)	**-**	-
Loans and advances to banks (Note 17)	**144**	**51**
Loans and advances to customers (Note 18)	**1,091**	**2,388**
Balance at end of year	**1,235**	**2,439**

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios at the statement of financial position date.

The following is a reconciliation of the individual and collective allowances for impairment / provision of bad and doubtful debts.

	2017	**2017**	**2017**
	Individual	**Collective**	**Total**
	€'000	**€'000**	**€'000**
Balance at beginning of year	**227**	**2,212**	**2,439**
Charge to income statement	**-**	**468**	**468**
Released to income statement	**-**	**(1,515)**	**(1,515)**
Translation adjustment	**-**	**(157)**	**(157)**
Balance at end of year	**227**	**1,008**	**1,235**

	2016	2016	2016
	Individual	Collective	Total
	€'000	€'000	€'000
Balance at beginning of year	**227**	**2,605**	**2,832**
Charge to income statement	**-**	**835**	**835**
Released to income statement	**-**	**(1,255)**	**(1,255)**
Translation adjustment	**-**	**27**	**27**
Balance at end of year	**227**	**2,212**	**2,439**

Impaired loans: Amounts include:

	2017 **€'000**	2016 €'000
Loans and advances to customers	**227**	227
Balance at end of year	**227**	227

20. Derivative financial instruments

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

Currency forwards represent commitments to purchase foreign and domestic currency.

Embedded derivatives refer to financial instruments with embedded options, which have been split out from their host contracts. The options relate to the calculation of cash coupons and redemption amounts, which are based on standard indices.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation as well as an add-on calculated as a proportion of the notional amount and representing the potential volatility in the replacement cost. This risk is monitored on a daily basis. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The 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 derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

At 31 December 2017		**Fair values including accruals**	
	Contract / notional amount €'000	**Assets €'000**	**Liabilities €'000**
1) Derivatives held for trading			
a) Foreign exchange derivatives			
Currency swaps	216,460	2,942	(1,266)
Total OTC derivatives		2,942	(1,266)
b) Interest rate derivatives			
Interest rate swaps	2,600,000	364,403	(370,667)
Total OTC derivatives		364,403	(370,667)
c) Equity options			
Equity options purchases	230,900	100,532	-
Equity options sold	230,900	-	(100,532)
Total OTC derivatives		100,532	(100,532)
Total derivative assets/(liabilities) held for trading		**467,877**	**(472,465)**

	Contract / notional amount	Fair values including accruals	
		Assets	Liabilities
	€'000	€'000	€'000
2) Derivatives held for risk management			
Derivatives designated as fair value hedges			
Interest rate swaps	1,709,759	7,914	(32,784)
Total OTC derivatives		7,914	(32,784)
Total derivative assets/(liabilities) held for risk management		7,914	(32,784)
Total derivative financial instruments		**475,791**	**(505,249)**

At 31 December 2016

	Contract / notional amount	Fair values including accruals	
		Assets	Liabilities
	€'000	€'000	€'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
Currency swaps	204,921	1,336	(952)
Total OTC derivatives		1,336	(952)
b) Interest rate derivatives			
Interest rate swaps	4,095,900	391,958	(397,346)
Total OTC derivatives		391,958	(397,346)
c) Equity options			
Equity options purchases	245,900	107,255	-
Equity options sold	245,900	-	(107,255)
Total OTC derivatives		107,255	(107,255)
Total derivative assets/(liabilities) held for trading		**500,549**	**(505,553)**

	Contract / notional amount	Fair values including accruals	
		Assets	Liabilities
	€'000	€'000	€'000
2) Derivatives held for risk management			
Derivatives designated as fair value hedges			
Interest rate swaps	1,973,007	3,028	(210,291)
Total OTC derivatives		3,028	(210,291)
Total derivative assets/(liabilities) held for risk management		3,028	(210,291)
Total derivative financial instruments		**503,577**	**(715,844)**

21. Deferred Taxation

	2017	2016
	€'000	€'000
Deferred Tax assets:		
Available for sale debt securities	27	366
Total deferred tax assets	27	366
Deferred Tax liabilities:		
Available for sale debt securities	1,376	1,951
Total deferred tax liabilities	1,376	1,951
Net Deferred Tax (liability) / assets	(1,349)	(1,585)

	2017	2016
	€'000	€'000
Analysis of movement in deferred taxation		
At 1 January	(1,585)	(3,242)
Deferred tax through other comprehensive income	236	1,657
At 31 December	(1,349)	(1,585)

22. Other assets

	2017	2016
	€'000	€'000
Deferred expenses	1,841	3,604
Sundry debtors	40	194
	1,881	3,798

23. Property, plant and equipment

	Office equipment	Computer equipment and software	Leashold Improvement	Total
	€'000	€'000	€'000	€'000
Cost				
At beginning of year	174	238	-	412
Additions in year	103	25	551	679
Disposals in year	(84)	(10)	-	(94)
At end of year	**193**	**253**	**551**	**997**
Depreciation				
At beginning of year	162	228	-	390
Charge for year	12	8	59	79
Disposals in year	(82)	(10)	-	(92)
At end of year	**92**	**226**	**59**	**377**
Net book value				
At 31 December 2017	**101**	**27**	**492**	**620**
At 31 December 2016	12	10	-	22

	Office equipment	Computer equipment and software	Leashold Improvement	Total
	€'000	€'000	€'000	€'000
Cost				
At beginning of year	174	230	-	404
Additions in year	-	8	-	8
Disposals in year	-	-	-	-
At end of year	**174**	**238**	-	**412**
Depreciation				
At beginning of year	154	212	-	366
Charge for year	8	16	-	24
Disposals in year	-	-	-	-
At end of year	**162**	**228**	-	**390**
Net book value				
At 31 December 2016	**12**	**10**	-	**22**
At 31 December 2015	20	18	-	38

The directors are satisfied that the carrying value of property, plant and equipment are not impaired.

24. Deposits from banks

	2017	2016
	€'000	€'000
Deposits from other banks	**683,707**	1,087,883
	683,707	1,087,883

Of which include cash and cash equivalents (Note 30) €215 million (2016: €474 million).

25. Debt securities in issue

At 31 December 2017

	2017	2016
	€'000	€'000
At amortised cost	**9,765,933**	8,861,958
	9,765,933	8,861,958

	2017	2016
	€'000	€'000
Floating Rate	**3,045,146**	4,358,886
Fixed Rate	**6,720,787**	4,503,072
	9,765,933	8,861,958

The Company is one of the three issuers in the €70 billion Euro Medium Term Note Programme established by Intesa Sanpaolo S.p.A., which is also the guarantor of the notes issued by the Company under the Programme.

26. Repurchase agreements

	2017	2016
	€'000	€'000
Due to central bank	**97,859**	388,261
Due to banks	-	120,397
	97,859	508,658

Included in cash and cash equivalents (Note 30) €Nil (2016: €120,418,418l).

Collateral given: The carrying amount of securities sold under agreements to repurchase at 31 December 2017 was €97,859,189 (2016: €509,433,329) of which securities with a fair value of €97,859,189 (2016: €509,433,329) are classified as available for sale (Note 16 / Note 1.17).

27. Other liabilities

	2017	2016
	€'000	€'000
Other payable and accrued expenses	**1,132**	958
VAT payable	**27**	9
	1,159	967

28. Movement in the provisions for liabilities and commitments

	2017	2016
	€'000	€'000
Balance at beginning of year	79	182
Charge to income statement	284	13
Released to income statement	(315)	(117)
Translation adjustment	(17)	1
Balance at end of year	31	79

Please refer to Note 1.8 (c) for the accounting policy and Note 31 for the outstanding undrawn commitments.

29. Share capital

	Number of shares	**Ordinary shares**	**Share Premium**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
At 1 January 2016	400,500	400,500	1,025	401,525
At 31 December 2016 / 1 January 2017	400,500	400,500	1,025	401,525
At 31 December 2017	400,500	400,500	1,025	401,525

The total authorised number of ordinary shares at year end was 500,000,000 (2016: 500,000,000) with a par value of €1 per share (2016: €1 per share). All issued shares are fully paid.

At 31 December 2017, the capital and reserves of the Company amounted to €1,158.03 million (2016: €1,159.44 million), €1,220.56 million including year end profits after tax (2016: €1,225.68 million including YTD profits after Tax).

30. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	2017	2016
	€'000	€'000
Cash and balances with central bank (Note 15)	**18,442**	16,795
Loans and advances to banks (Note 17)	**375,000**	75,000
Deposits from banks (Note 24)	**(214,709)**	(473,895)
Repurchase agreements (Note 26)	**-**	(120,418)
	178,733	(502,518)

31. Contingent liabilities and commitments

At 31 December 2017 the contracted amounts of contingent liabilities and financial commitments were:

	2017	2016
	€'000	€'000
Guarantees and irrevocable Letters of Credit	**12,385**	5,753
Undrawn formal standby facilities, credit lines and other commitments to lend with a maturity of:		
- less than one year or		
Unconditionally		
cancellable at any time	**100,000**	100,000
- one year and over	**101,647**	210,075
	214,032	315,828

32. Pension scheme

The Company operates a defined contribution pension scheme. The scheme is trustee administered and the assets are kept separate from those of the Company. Contributions to the scheme are charged to the income statement as incurred. The pension charge for the year was €310,936 (2016: €367,396). At the 31 December 2017, the pension accrual amounted to €31,558 (2016: €57,864).

33. Related party transactions

The ultimate parent company is Intesa Sanpaolo S.p.A., incorporated in Italy. A number of banking transactions are entered into with related parties in the normal course of business. The volumes of related party transactions outstanding balances at the year end and related income and expenses for the year are as follows:

31 December 2017

		PARENT	**FELLOW SUBSIDIARIES**	**TOTAL**
		€'000	**€'000**	**€'000**
ASSETS				
Available for sale investments		146	-	146
Cash and balances with central banks		17,746	-	17,746
Loans and advances to banks		8,281,260	2,052,850	**10,334,110**
Loans and advances to clients			35,063	**35,063**
Derivative financial instruments:				
	Forex	1,675	-	**1,675**
	IRS	-	-	**-**
	Options	100,352	-	**100,352**
LIABILITIES				
Deposits from Banks		303,756	-	**303,756**
Repurchase Agreements		-	-	**-**
Deposits from Clients		671	1,045	**1,716**
Derivative financial instruments:				
	Forex	-	-	
	IRS	5,394	388,909	**394,303**
INCOME STATEMENT				
Interest and similar income		101,638	23,829	**125,468**
Interest expense and similar charges		(9,870)	(31,589)	**(41,459)**
Fees and commission income		16	106	**122**
Fees and commission expense		(7,622)	(874)	**(8,496)**
Administration expense		(631)	(131)	**(762)**
Net trading expense		419	(177,003)	**(176,584)**
GUARANTEES AND COMMITMENTS				
Issued		3,776	100,206	**103,982**
Received		2,020,186	34,036	**2,054,223**
DERIVATIVES				
Derivatives (notional)		1,727,360	2,104,500	**3,831,860**

This following table represents the highest month end balances during the year.

31 December 2017

		PARENT	FELLOW SUBSIDIARIES	TOTAL
		€'000	€'000	€'000
ASSETS				
Available for sale investments		158	-	**158**
Reverse Repurchase Agreements		239,741	-	**239,741**
Cash and Balances with central banks		31,687	-	**31,687**
Loans and advances to banks		8,281,260	4,329,372	**12,610,632**
Loans and advances to customers		-	70,689	**70,689**
Derivative financial instruments:		113,936		**113,936**
	IRS	-	-	-
	Forex	1,880	-	1,880
	Options	112,056	-	112,056
LIABILITIES				
Deposits from Banks		968,935	179,900	**1,148,835**
Deposits from Clients		-	203,989	**203,989**
Repurchase Agreements		142,602	-	**142,602**
Derivative financial instruments:		10,130	566,460	**576,590**
	IRS	7,914	566,460	**574,375**
	Forex	2,216	-	**2,216**
INCOME STATEMENT				
Interest and similar income		101,638	23,829	**125,468**
Interest expense and similar charges		(9,870)	(31,589)	**(41,459)**
Fees and commission income		16	106	**122**
Fees and commission expense		(7,622)	(874)	**(8,496)**
Administration expense		(631)	(131)	**(762)**
Net trading expense		419	(177,003)	**(176,584)**
GUARANTEES AND COMMITMENTS				
Issued		3,342	100,787	**104,129**
Received		2,147,308	42,624	**2,189,933**
DERIVATIVES				
Derivatives (notional)		3,914,378	2,254,500	**6,168,878**

31 December 2016

		PARENT	FELLOW SUBSIDIARIES	TOTAL
		€'000	€'000	€'000
ASSETS				
Available for sale investments		128	-	**128**
Cash and balances with central banks		16,422	-	**16,422**
Loans and advances to banks		6,108,215	2,674,244	**8,782,459**
Derivative financial instruments:				
	Forex	1,336	-	**1,336**
	IRS	38	3,028	**3,066**
	Options	107,255	-	**107,255**
LIABILITIES				
Deposits from Banks		582,144	100,024	**682,168**
Repurchase Agreements		120,397	-	**120,397**
Deposits from Clients		939	56,088	**57,027**
Derivative financial instruments:				
	Forex	952	-	**952**
	IRS	7,242	582,627	**589,869**
INCOME STATEMENT				
Interest and similar income		128,536	29,672	**158,208**
Interest expense and similar charges		(7,229)	(45,363)	**(52,592)**
Fees and commission income		138	1	**139**
Fees and commission expense		(7,854)	(350)	**(8,204)**
Net trading expense		(4,008)	(148,382)	**(152,390)**
Administration expense		(102)	-	**(102)**
GUARANTEES AND COMMITMENTS				
Issued		2,121	100,041	**102,162**
Received		2,164.601	49,139	**2,213,740**
DERIVATIVES				
Derivatives (notional)		2,980,822	2,248,000	**5,228,822**

This following table represents the highest month end balances during the year.

31 December 2016

		PARENT	FELLOW SUBSIDIARIES	TOTAL
		€'000	€'000	€'000
ASSETS				
Available for sale investments		138	-	**138**
Cash and Balances with central banks		44,430	-	**44,430**
Loans and advances to banks		7,485,299	3,526,789	**11,012,088**
Derivative financial instruments:				
	IRS	308	3,397	**3,705**
	Forex	1,336	-	**1,336**
	Options	111,839	-	**111,839**
LIABILITIES				
Deposits from Banks		1,052,505	264,131	**1,316,636**
Deposits from Clients		-	223,524	**223.524**
Repurchase Agreements		283,157	-	**283,157**
Derivative financial instruments:				
	IRS	11,687	660,573	**672,260**
	Forex	952	-	**952**
INCOME STATEMENT				
Interest and similar income		128,536	29,672	**158,208**
Interest expense and similar charges		(7,229)	(45,363)	**(52,592)**
Fees and commission income		138	1	**139**
Fees and commission expense		(7,854)	(350)	**(8,204)**
Net trading expense		(4,008)	(148,382)	**(152,390)**
Administration expense		(102)	-	**(102)**
GUARANTEES AND COMMITMENTS				
Issued		1,908	100,253	**102,161**
Received		2,242,485	51,779	**2,294,264**
DERIVATIVES				
Derivatives (notional)		3,148,863	2,547,399	**5,596,262**

Number of transactions performed with connected parties in 2017

	PARENT	FELLOW SUBSIDIARIES	TOTAL
Loans and advances to banks	138	17	155
Derivative financial instruments	223	69	292
Deposits from banks	272	136	408
Repurchase agreements	20	-	20
Total	653	222	875

Number of transactions performed with connected parties in 2016

	PARENT	FELLOW SUBSIDIARIES	TOTAL
Loans and advances to banks	70	6	76
Derivative financial instruments	73	37	110
Deposits from banks	434	122	556
Repurchase agreements	9	-	9
Total	**586**	**165**	**751**

The cumulative total value of loans and advances to banks issued to Parent and other Group companies during the year has not been disclosed as the maturity profile for the majority ranged from overnight up to 5 years. The cumulative total value of deposits from banks received from the Parent and other Group companies during the year has not been disclosed as the maturity profile for the majority ranged from overnight up to 5 years.

Director's Remuneration

Key management personnel comprise the members of the Board of Directors. A listing of the Board of Directors is provided on page 3. In 2017 the total remuneration of the Directors was €698,466 (2016: €380,237). Included in total remuneration is €120,000 (2016: €124,103) in respect of fees earned in the capacity of directors, €195,090 (2016: €207,975) in respect of compensation earned in the capacity of management and €37,944(2016: €48,159) in respect of post-employment benefits.

Further analysis of key management personnel compensation in total and for each of the following categories;

	2017	2016
	€	€
Short Term Employee Benefits	**314,299**	332,078
Post –Employment Benefits	**37,944**	48,159
Other Long Term Benefits	**-**	-
Termination Payments	**346,223**	-
Share Based Payments	**-**	-

34. Geographic concentrations

Geographic concentrations of assets, liabilities and off balance sheet items	**Total Assets**	**Total Liabilities & Equity**	**Credit commitments**	**Operating Income**
31 December 2017	**€'000**	**€'000**	**€'000**	**€'000**
Ireland	514,102	1,358,869	93,919	(4,113)
E.U. (excl. Ireland)	12,396,698	12,221,673	118,276	46,669
U.S.A.	50,213	98	1,837	2,730
Rest of the World	628,047	8,420	-	17,251
Total	**13,589,060**	**13,589,060**	**214,032**	**62,537**

Geographic concentrations of assets, liabilities and off balance sheet items	Total Assets	Total Liabilities & Equity €'000	Credit commitments	Operating Income
31 December 2016	€'000		€'000	€'000
Ireland	332,718	1,698,423	85,888	9,047
E.U. (excl. Ireland)	12,498,692	12,157,613	194,899	33,477
U.S.A.	100,524	212	35,041	2,728
Rest of the World	937,575	13,261	-	20,592
South America	-	-	-	393
Total	**13,869,509**	**13,869,509**	**315,828**	**66,237**

Geographic sector risk concentrations within the portfolio of loans and advances to corporate clients were as follows:

	2017	**2017**	2016	2016
	€'000	**%**	€'000	%
Ireland	56,789	7	80,557	7
E.U. (excl. Ireland)	186,540	24	169,795	16
U.S.A.	50,039	7	100,007	9
Rest of the World	469,318	62	743,206	68
Total	**762,686**	**100**	1,093,565	100

Geographic sector risk concentrations within the portfolio of loans and advances to banks (excluding Central Bank) were as follows:

	2017	**2017**	2016	2016
	€'000	**%**	€'000	%
Ireland	134,870	1	60,003	1
E.U. (excl. Ireland)	10,336,249	99	9,378,558	98
Rest of the World	37,763	1	85,375	1
Total	**10,508,882**	**100**	**9,523,936**	**100**

Geographic sector risk concentrations within the portfolio of available for sale investments were as follows:

	2017 €'000	2017 %	2016 €'000	2016 %
Ireland	251,292	14	139,246	5
E.U. (excl. Ireland)	1,378,348	79	2,426,970	91
Rest of the World	120,960	7	108,994	4
Total	**1,750,600**	**100**	**2,675,210**	**100**

35. Financial Assets and Financial Liabilities by contractual residual maturity

€'000 31-Dec-2017 Time band	On demand	up to 1 month	up to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS							
Cash and balances with CB (1)	18,441	70,040	-	-	-	-	88,481
Available for sale securities	146	25,895	12,211	53,927	830,196	828,225	1,750,600
Loans and advances to banks (1)	441	961,769	281,333	4,982,941	2,655,092	1,627,306	10,508,882
Loans and advances to customers (1)	942	615	467	5,296	538,584	216,781	762,686
Derivative financial instruments	99	2,942	592	-	6,259	465,899	475,791
Total	20,070	1,061,261	294,603	5,042,164	4,030,132	3,138,211	13,586,441
LIABILITIES							
Debt securities in issue	-	775,863	1,423,607	5,914,140	1,421,054	231,268	9,765,933
Deposits from banks (2)	-	217,293	(1,493)	(2,509)	3,252	467,164	683,707
Repurchase agreements	-	-	-	75,000	22,859	-	97,859
Due to customers	3,133	19,360	48,718	61,745	169,188	1,008,508	1,310,652
Derivative financial instruments	99	850	1,923	3,648	18,199	480,529	505,249
Total	3,232	1,013,366	1,472,755	6,052,024	1,634,553	2,187,470	12,363,400

(1) Collective impairment provision allocated to time band of the contract

(2) Deposits from banks include net cash collateral deposits with positive maturities in the time bands 1 to 3 months and 3 to 12 months

€000 31-Dec-2016							
Time band	On demand	up to 1 month	up to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS							
Cash and balances with CB (1)	16,795	52,114	-	-	-	-	**68,909**
Available for sale securities	128	-	102,013	294,327	1,262,989	1,015,753	**2,675,210**
Loans and advances to banks (1)	-	1,115,710	509,114	3,592,076	2,227,551	2,079,485	**9,523,936**
Loans and advances to customers (1)	1,268	134	190	10,399	795,894	258,680	**1,093,565**
Derivative financial instruments	-	1,098	238	4,576	5,581	492,084	**503,577**
Total	**18,191**	**1,169,056**	**611,555**	**3,901,378**	**4,292,015**	**3,873,002**	**13,865,197**
LIABILITIES							
Debt securities in issue	-	1,425,152	1,757,933	3,632,708	1,745,492	300,673	**8,861,958**
Deposits from banks	-	480,075	388	107,450	8,686	491,284	**1,087,883**
Repurchase agreements	-	120,397	-	-	388,261	-	**508,658**
Due to customers	1,800	10,741	14,998	16,360	237,767	1,179,867	**1,461,533**
Derivative financial instruments	-	895	2,878	7,566	90,123	614,382	**715,844**
Total	**1,800**	**2,037,260**	**1,776,197**	**3,764,084**	**2,470,329**	**2,586,206**	**12,635,876**

(1) Collective impairment provision allocated to time band "up to 1 month"

36. Subsequent events as at 22 February 2018

The directors have proposed a dividend of 15.48 cent per ordinary share, amounting to €62.00 million in respect of the year 2017. Final dividends are not accounted for until they have been ratified by the Shareholders at the Annual General Meeting.

37. Date of approval

The financial statements were approved and authorised by the directors on 22 February 2018.