Preliminary Statement

For the year ended
31 December 2015

Bank of Ireland Group

Bank of Ireland

Preliminary Statement

for the year ended 31 December 2015

Forward-looking statement

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the 'Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward-looking.

Examples of forward-looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations.

Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Such risks and uncertainties include, but are not limited to, the following:

- *geopolitical risks which could potentially adversely impact the markets in which the Group operates;*
- *concerns on sovereign debt and financial uncertainties in the EU and the potential effects of those uncertainties on the financial services industry and on the Group;*
- *general and sector specific economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *property market conditions in Ireland and the United Kingdom;*
- *the potential exposure of the Group to credit risk and to various types of market risks, such as interest rate risk and foreign exchange rate risk;*
- *the impact on lending and other activity arising from the emerging macro prudential policies;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the Ireland Strategic Investment Fund) and possible changes in the level of such stockholding;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with the operation of the Single Supervisory Mechanism and the establishment of the Single Resolution Mechanism;*
- *the impact of the continuing implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive;*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *uncertainty relating to the forthcoming UK European Union 'In / Out' referendum;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings more generally, that may have implications for the Group;*
- *the development and implementation of the Group's strategy, including the Group's ability to achieve net interest margin increases and cost reductions;*
- *the inherent risk within the Group's life assurance business involving claims, as well as market conditions generally;*
- *potential further contributions to the Group sponsored pension schemes if the value of pension fund assets is not sufficient to cover potential obligations;*
- *the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues and equipment failures and other operational risk;*
- *the Group's ability to meet customers' expectations in mobile, social, analytics and cloud technologies which have enabled a new breed of 'digital first' propositions, business models and competitors;*
- *failure to establish availability of future taxable profits, or a legislative change in quantum of deferred tax assets currently recognised; and*
- *difficulties in recruiting and retaining appropriate numbers and calibre of staff.*

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof. The reader should however, consult any additional disclosures that the Group has made or may make in documents filed or submitted or may file or submit to the US Securities and Exchange Commission.

For further information please contact:

Andrew Keating
Group Chief Financial Officer
Tel: +353 76 623 5141

Mark Spain
Director of Group Investor Relations
Tel: +353 76 623 4850

Pat Farrell
Head of Group Communications
Tel: +353 76 623 4770

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View this report online

This Preliminary Statement and other information relating to Bank of Ireland is available at:

www.bankofireland.com

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Key highlights

Business highlights

Customers

- Group loans grew in 2015; net new lending of €3.9 billion in core loan books
- Continue to be the largest lender to the Irish economy in 2015
- International businesses (UK and acquisition finance) both performed well
- Group new lending up >40% on 2014
- Reduced Non-performing loans by a further €3.8bn in 2015

Profitability

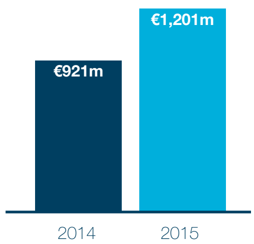
- Underlying profit of €1.2bn, 30% increase over 2014
- Increased total income by c.10%; Net interest income up 4%; NIM of 2.19%
- Significantly reduced impairment charge to 32bps
- All trading divisions contributing towards the Group's profitability
- Increased TNAV per share by c.12% to 24.1c

Capital

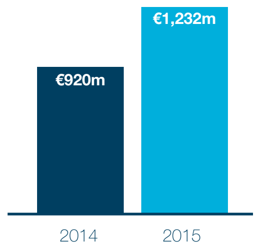
- Increased fully loaded CET 1 ratio by 200bps to 11.3%; transitional CET 1 ratio of 13.3%
- Redeemed the 2009 Preference Shares at the earliest possible opportunity
- Successful AT1 issuance of €750m; total capital ratio of 18.0%
- Now restored to Investment Grade by Moody's, Standard & Poor's and Fitch
- Maintaining progress towards dividend capacity - updated distribution policy in place

Financial highlights

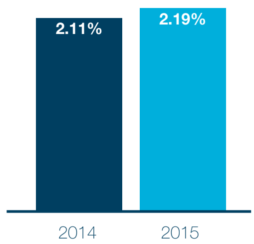
Underlying profit before tax €m



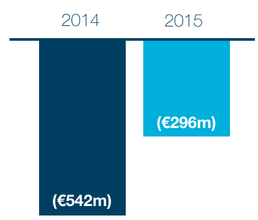
Profit before tax €m



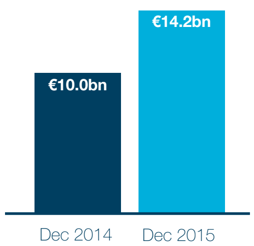
Net interest margin (before ELG fees) %



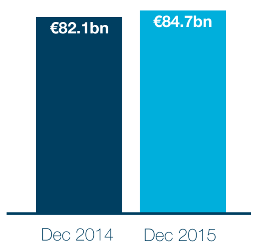
Impairment charges on loans & advances to customers €m



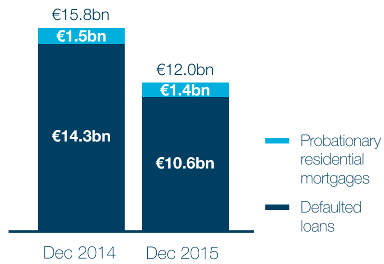
Gross new lending volumes[1] €bn



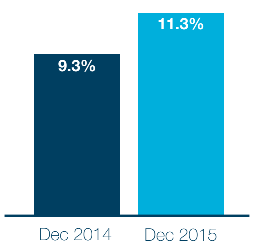
Loans & advances to customers (net) €bn



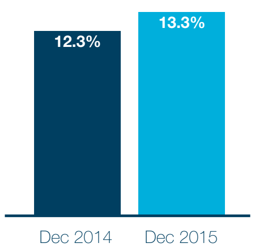
Non-performing loan volumes €bn



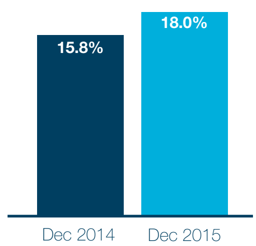
Common equity tier 1 (CRD IV fully loaded) %



Common equity tier 1[2] (CRD IV transitional) %



Total capital[2] (CRD IV transitional) %



[1] *Gross new lending volumes in 2015 include loan book acquisitions of €0.6 billion.*
[2] *The CRD IV transitional Common equity tier 1 (CET 1) and Total capital ratios at 31 December 2014 have been restated to exclude the benefit of the 2009 Preference Stock which the Group derecognised from regulatory capital in November 2015 (see note 36). Including the benefit of the 2009 Preference Stock the CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 were 14.8% and 18.3% respectively.*

Group Chief Executive's review

Richie Boucher, Group Chief Executive Officer

'All of our trading divisions are profitable and contributed to our strong financial performance during the period. We continued to be the largest lender to the Irish economy, providing €6.9 billion of new credit to personal and business customers in 2015. With our strong franchises, we are well positioned to meet credit demand which is recovering as the Irish economy grows and confidence returns. We generated an underlying profit before tax of €1,201 million in 2015, 30% higher than the equivalent figure in 2014 of €921 million.

The Group continues to generate capital at a significant pace, with a 200 basis points increase to 11.3% in our fully loaded Common equity tier 1 ratio during 2015. Our aim is to have a sustainable dividend. We have maintained our progress towards dividends and have updated our distribution policy. The strength and momentum in our businesses gives us confidence in the Group's prospects and in our ability to continue to focus on our duty to responsibly develop our profitable, long term franchises and better serve our customers, in a way that delivers attractive sustainable returns to our shareholders.'

We have continued to deliver on our strategic priorities in 2015

We set a number of strategic priorities at the beginning of the year. These included continuing to:
- develop relationships with existing and new customers, both in our Irish and international businesses,
- further increase our profitability, through revenue growth, margin and cost discipline and reductions in our impairment charges,
- provide appropriate solutions to customers in financial difficulty and reduce non-performing loans,
- effectively manage the developing regulatory environment,
- protect and build our capital, thereby enabling the redemption of the expensive 2009 Preference Stock, and
- maintain our progress towards dividend capacity.

We have made significant progress against all of these strategic priorities during 2015.

We have increased our profitability and further strengthened our capital position

Underlying profit before tax grew 30% to c.€1.2 billion

We generated an underlying profit before tax of €1,201 million in 2015, 30% higher than the equivalent figure in 2014 of €921 million. Higher net interest income and fees together with significantly reduced loan impairment charges have all contributed to this improvement. All of our trading divisions are profitable and contributed to our strong financial performance during the period. On a statutory basis, the Group reported a profit before tax of €1,232 million.

The overall result reflects additional gains amounting to €237 million, primarily relating to the rebalancing of our liquid asset portfolio. It also reflects a c.€30 million benefit, arising due to foreign exchange translation effects. Underlying profit, excluding additional gains, more than doubled in 2015 to €964 million.

We increased our fully loaded CET 1 ratio by 200 basis points to 11.3%. This supported our redemption of the 2009 Preference Stock at the earliest possible date

The Group continues to generate capital at a significant pace, with a 200 basis points increase to 11.3% in our fully loaded Common equity tier 1 (CET 1) ratio during 2015. The Group's transitional CET 1 ratio was 13.3% at the end of December 2015. The increase in our CET 1 ratios mainly reflects profits earned during the year. Our Total capital ratio was 18.0% at the end of 2015 and reflects, inter alia, our successful €750 million Additional tier 1 (AT1) bond issue in June 2015.

Our strong capital performance during 2015 helped us to redeem the expensive €1.3 billion 10.25% 2009 Preference Stock on 4 January 2016, which was the earliest date that we could redeem them.

We have received further clarity on our capital requirements

The Group has received further clarity on its minimum regulatory capital requirements. The Single Supervisory Mechanism (SSM) has advised that the Group's SREP (Supervisory Review and Evaluation Process) requirement for 2016 is to maintain the CET 1 ratio at a minimum level of 10.25%, calculated on a transitional basis. The Central Bank of Ireland has advised that the Group will be required to maintain an O-SII (Other Systemically Important Institution) buffer, which will be phased in as follows: 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. Both the SREP requirement and the O-SII buffer are subject to annual review by the SSM and the Central Bank of Ireland (CBI) respectively. The Group expects to maintain sufficient capital to meet, at a minimum, applicable regulatory capital requirements plus an appropriate management buffer of 100-150bps.

We have maintained progress towards dividends and have updated our distribution policy

Our aim is to have a sustainable dividend. Our ambition is to re-commence dividend payments in respect of financial year 2016, with the initial payment being made in the first half of 2017. We expect dividend payments to re-commence at a modest level, prudently and progressively building, over time, towards a payout ratio of around 50% of sustainable earnings. The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

The economies in our main markets have been performing well

Our businesses have been benefitting from the growing Irish and UK economies. In Ireland, healthy exports and investment along with rising consumer spending are providing support. Confidence has been increasing reflecting ongoing job gains and earnings growth, and the residential and commercial property markets in Ireland are continuing to recover. Whilst the outlook for these two economies continues to be generally favourable, we are conscious of international economic and geopolitical risks to sentiment and growth.

The Group's loan book grew in 2015. We continue to be the largest lender to the Irish economy in 2015

Group loans grew in 2015, as new lending exceeded redemptions.

Gross new lending (including acquisitions) of €14.2 billion for the year was more than 40% higher than in 2014, with strong performances across our businesses.

We continued to be the largest lender to the Irish economy, providing €6.9 billion of new credit to personal and business customers in 2015. With our strong franchises, we are well positioned to meet credit demand which is recovering as the Irish economy grows and confidence returns.

Our international businesses also grew during the year, benefitting, amongst other things, from investments we have been making. While fully supporting and benefitting from the ongoing Irish economic recovery, as the demand for credit grows in Ireland, this international diversification provides attractive additional opportunities for the Group to deploy its capital and liquidity to develop and grow profitable, focused businesses.

Gross loan redemptions of €13.9 billion in 2015 included the results of our successful actions to reduce our defaulted loans, from repayments and redemptions in our RoI mortgage tracker book (reduced by €1.5 billion during the year) and from the run-down of our non-core GB business banking book. Together, these items accounted for €3.6 billion of repayments and redemptions.

Overall, net loans and advances to customers were €84.7 billion at 31 December 2015, an increase of €2.6 billion since 31 December 2014. The strengthening of sterling during the period contributed c.€2.5 billion to this increase.

The Group's core loan books continue to grow and the momentum we are seeing across our businesses gives us confidence that we will continue to make further progress in 2016, and beyond.

Net interest income increased 4% in 2015, notwithstanding significant liquid asset sales and the impact of the low interest rate environment

Our net interest income increased by 4% in 2015, compared to 2014.

We earned a net interest margin of 2.19% in 2015, compared to 2.11% in 2014. The increase reflects lower funding costs and the positive impact of new lending, partially offset by the impact of lower yields on liquid assets purchased to replace bonds maturing or sold as part of our liquid asset rebalancing strategy and the challenges posed by the low interest rate environment generally.

Our net interest margin in H2 2015 was 2.17% and we expect that the net interest margin in 2016 will be broadly in line with this level. We expect the net interest margin to fall modestly from the H2 2015 level in the first half of 2016, as a consequence of further bond sales taking place in the early part of 2016, before growing again in the second half when the €1 billion Convertible Contingent Capital Note instrument is repaid and as new lending continues to positively impact income and margin.

Growth in non-interest income

The Group's non-interest income increased to €828 million in 2015, compared to €653 million last year. The increase reflects growth in our business income driven by increased customer activity levels, supplemented by €237 million additional gains, with €173 million arising on the rebalancing of our liquid asset portfolio and €64 million arising from the sale of investment properties and certain other assets. Group non-interest income included equivalent additional gains of €137 million in 2014. Our available for sale reserves and fully loaded CET 1 ratio, at December 2015, include the estimated pre-tax gain of €75 million on the recently announced Visa transaction. We expect gains from the Visa transaction to be reflected in our 2016 income statement, on completion.

Maintaining tight control over costs, while continuing to invest in our businesses, people and infrastructure

We have continued to maintain tight control over costs while investing in our people and infrastructure as well as initiatives to further expand our distribution platforms, improve our customer propositions and enhance our franchises. Our cost-income ratio was c.53% in 2015, albeit with our income benefitting from the additional gains referred to earlier. Our operating expenses increased by approximately €145 million compared to last year. The strengthening in the value of sterling accounted for c.€41 million of this increase, with investments in our people, distribution platforms, infrastructure and technology accounting for the balance. These investments are paying off - we have doubled Group new lending over the past two years; our start up financial services partnership with the AA commenced 6 months ago and we are encouraged by its early progress; and in Ireland, we are seeing increasing customer adoption of our digital propositions, leading to further opportunities and efficiencies, over time. Regulatory charges, including the costs associated with the Irish bank levy, amounted to €75 million in 2015. We currently expect that these regulatory costs and levies could increase by €40-€45 million in 2016.

Reduced non-performing loans by a further €3.8 billion; Restructuring solutions for challenged loans are working

Our asset quality continues to improve in 2015.

We reduced our non-performing loans by a further €3.8 billion - with reductions across all asset classes. These reductions reflect our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty, the improving economic environment and the ongoing recovery in collateral values. We anticipate further reductions in non-performing loans in 2016 and beyond, with the pace of such reductions being influenced by a range of factors.

We continue to be very focused on the resolution of Irish mortgage arrears and SME challenged loans, agreeing suitable and sustainable solutions, which work for our customers and are acceptable to the Group. More than 9 out of 10 challenged Owner occupier Irish mortgage customers with restructuring arrangements continue to meet the agreed repayments. In our challenged Irish business banking portfolio, we have restructuring and resolution arrangements in place in over 90% of cases. More than 9 out of 10 restructured business banking borrowers continue to meet their agreed arrangements.

Customer loan impairment charge reduced by >60%

Our customer loan impairment charge was €296 million in 2015, down from a net charge of €542 million last year, with reductions across all asset classes. The impairment charge amounted to 32 basis points in the period, down more than 60% on the equivalent 2014 charge of 90 basis points. We expect the impairment charge to remain at broadly similar levels in 2016.

Maintaining a robust liquidity position

Our liquidity position continues to be robust. Customer deposits fund more than 90% of customer loans and these deposits are predominantly retail oriented. Our wholesale funding requirement has further reduced to €14 billion in 2015. At the end of December 2015, our net stable funding ratio was 120%, our liquidity coverage ratio was 108% and our loan to deposit ratio was 106%.

Restored to investment grade by all 3 rating agencies

During 2015, the rating agencies Moody's, Standard & Poor's and Fitch have all recognised the progress the Group has made and all three agencies have restored our investment grade rating.

Increased our TNAV by c.12%

As a result of our financial performance, our Tangible Net Asset Value (TNAV) has increased by c.12% in 2015 to 24.1 cents per share.

Our Retail Ireland division has delivered a strong performance during 2015

The Group earns c.70% of its income in Ireland through our Retail Ireland division, our Bank of Ireland Life division and the activities in Ireland of our Corporate and Treasury division. Our Retail Ireland division has continued to focus on developing relationships with existing and new customers, supporting them in their communities and enterprises, and helping them to be more financially secure and successful. This focus continues to deliver results, with strong performances across our businesses. The successful execution of our business strategies and the improved economic environment have both contributed to a significantly improved financial result in our Retail Ireland division.

We continue to be the number 1 business bank in Ireland

In Ireland, we continue to be the number 1 bank for businesses, providing over 50% of new business lending. Business lending is continuing to recover and our new lending volumes of €2.7 billion were up 17% compared to 2014. Lending growth is becoming more diversified and applications from smaller businesses have materially increased. Our agricultural, motor finance and commercial finance businesses are sustaining the momentum established in previous periods and we continue to provide over 50% of new agricultural lending. We are also the main provider of finance in the motor sector in Ireland, and enjoyed new business volume growth of 40% across our franchise partners, who account for more than 50% of the market. We are also seeing increased customer activity in the retail convenience, hospitality and nursing home sectors. We continue to invest to enhance our customer propositions and all business loans up to €100,000 can now be transacted through our centralised direct channel. This investment has been successful and over 80% of loans are being transacted through this channel. We have also supported a dedicated business online resource, ThinkBusiness.ie, which has been well received by customers. We completed the acquisitions of performing business banking portfolios, totalling c.€400 million, from Danske Bank and Lloyds Bank during the year and we believe there are further opportunities to build new relationships with businesses that are refinancing from other institutions.

Our Irish consumer businesses continue to be commercially disciplined; we continue to invest to meet changing customer requirements

Our Irish consumer businesses also performed well in 2015 with new mortgage lending levels up 12% to €1.4 billion compared to last year. We continue to be commercially disciplined in a somewhat more competitive environment, while maintaining our margins. Our market share of new mortgages was 31% in H2 2015, up from 26% in H1. Our Irish mortgage pricing strategy continues to focus on promoting our fixed rate offerings which we believe provide value and certainty to our customers and to the Group. Fixed rate products accounted for c.65% of our new lending in the second half of 2015, up from c.30% a year ago.

Our customers' requirements and preferences continue to evolve and we continue to invest in our propositions and platforms in order to enhance our customers' experience. We launched revised current account propositions in the first half of 2015, providing convenient online account opening, savings for customers migrating towards automated transactions and delivering efficiencies for the Group. Our digital adoption programmes have helped our customers to have further improved access to their money and our products. Accordingly, 65% of our personal current account customers are now digitally active, compared to 48% two years ago. Mobile is now the digital channel of choice with over 50% of online interactions via this channel. Our direct channel has also been growing strongly and we expect this to continue. Over 43% of personal and small business loan sales were delivered through Direct Channels in 2015, which was up from 21% in 2014. The feedback from our customers to our simplified and expanded range of services is very positive - they welcome the efficiency and accessibility that comes from dealing with a specialised team to execute the credit approval / drawdown process, while continuing to have access to local relationship management for advisory services and support in our network. Over 70% of customers now use self-service options in branch, up from 9% in 2011 and over the counter transactions in branch now account for less than 4% of total retail transactions, as we reconfigure our branches to firmly focus on business development within their communities.

Underlying profit before tax up >50% vs 2014

The strong operating performance is reflected in a significantly improved financial performance. Our Retail Ireland division reported underlying profit before tax of €507 million, for the period, 55% higher than the 2014 result of €328 million.

Bancassurance - a core business enhancing our customer offering

Our Bank of Ireland Life division, which includes New Ireland Assurance Company plc (NIAC), is the second largest life assurance company in Ireland. The business provides life, pensions, protection and investment products, focusing predominantly on the consumer and business market. Bank of Ireland Group is the only bancassurer in the Irish market, with c.35% of new product sales originating from the Bank of Ireland network.

NIAC performing well in a recovering market

The life assurance market continues to recover. NIAC has sustained a market share of 23% during the year, with new business levels up 9% year on year, with the investment business being the strongest contributor. Operating profits are broadly in line with 2014 levels as the business continues to invest in its customer propositions, including the launch of Life Online, a new portal that gives customers rich and personalised information on their pension and investment portfolios, all integrated alongside their Bank of Ireland current account and other banking products. NIAC's focus on customer service was recognised when it retained the Professional Insurance Brokers Association's 'Financial Broker Excellence Award' for the fourth year in a row.

Our Retail UK division is capitalising on the investments we have been making

Our Retail UK division accounts for c.25% of our total income. With over 2 million customers, it is focused on providing banking services to consumers, primarily operating via attractive partnerships with two of the UK's most trusted brands, the Post Office and the Automobile Association (AA), and other strategic intermediaries. After several years of deleveraging, this division is now growing and is well positioned to benefit from the UK economic recovery and, over time, higher interest rates. The division's financial performance improved in 2015, with underlying profit before tax up 37% to £140 million.

Partnership with the UK Post Office continuing to develop

A key objective for 2015 was to continue to grow our mortgage business, building on the progress we made last year. In 2015, our new mortgage lending was £3.3 billion compared with £1.8 billion in 2014. We have achieved good momentum through the Post Office branded direct and intermediary channels. The intermediary channel is the most important channel in the UK mortgage market, accounting for c.70% of new lending volumes, and we have enhanced our distribution capability in this channel by launching Rome, a new award winning mortgage origination platform, which has been very well received by our intermediary partners. Our foreign exchange joint venture with the Post Office remains the largest provider of consumer foreign exchange in the UK, with 24% market share, and our travel money card app has continued to win new customers with downloads passing the 250,000 mark. The Post Office continues to be our primary source of retail deposits in the UK and we further enhanced our customer offerings during the year.

New partnership with the AA is an important development for the Group

In July, we announced a new long term financial services partnership with the AA, through customer propositions focused on the provision of credit cards, unsecured personal loans, savings and mortgages in the UK. This start up partnership is complementary to our partnership with the Post Office and will combine our proven product development capabilities with the strength of the AA brand and its extensive and attractive membership base. The AA is one of the UK's most trusted brands with nearly 4 million members. In our first 5 months of trading, we have launched 9 new products across AA branded credit cards, loans and savings and we intend to launch the first AA branded mortgage in 2016.

Northern Ireland and Northridge on track

Our full service bank in Northern Ireland continues to progress with business loan demand increasing as the economy recovers. Northridge, our UK motor asset finance business, had another good year and is well positioned for further growth.

Continue to run down our GB non-core books

Our GB Corporate and Business Banking loan books, which we are running down under our EU-approved Restructuring Plan, reduced by £0.6 billion during 2015. The remaining book at December 2015 amounted to £1.3 billion.

Our Corporate & Treasury division had another successful year

Our Corporate and Treasury division provides banking services to our larger business customers. This division also manages the Group's liquid asset portfolio. Underlying profit before tax improved by 15% to €637 million in 2015.

Corporate banking maintains number 1 position

We continue to be Ireland's number 1 corporate bank, winning a number of new customer relationships during the period. With new lending volumes of over €1.8 billion, we have been able to support a significant increase in acquisition and general investment activity in the Irish mid-corporate market, a sector we helped nurture during the recession. We also continue to achieve a strong share (more than 50%) of banking relationships arising from new foreign direct investment in Ireland.

Treasury business benefitting from increased customer activity and enhanced customer propositions

In our treasury business, our foreign exchange volumes were boosted both by increased customer activity and the increased volatility in currency markets. The launch of FXPay, the Group's new online foreign exchange trading platform, has been well received by our customers.

Acquisition finance performs well again

Our international acquisition finance business has delivered another strong performance during the year. This business continues to generate attractive margins and fee income, within a disciplined risk appetite, from a geographically and sectorally diversified portfolio where we have strong relationships with sponsors who appreciate the clarity of our risk appetite.

Our People are a key differentiator for our business

The skills, focus and drive of my colleagues is key to the continued success of our business. I would like to extend my gratitude to my colleagues for their tremendous commitment and professionalism, as we deliver on our shared objectives for our customers, and for the Group, and continue to drive sustainable, profitable growth.

During 2015, we further embedded our Group-wide career and reward framework, endorsed by our principal employee representative bodies. Reinforcing our commitment to the professionalisation and career development of all our employees, we introduced an industry leading Career Portal, designed to support career path transparency and career growth options, while highlighting professionalisation opportunities. We also delivered a new employee intranet to support employee collaboration and communication. Focused talent development programmes and targeted graduate and intern recruitment campaigns aligned with our youth proposition were also successfully delivered.

Our future success depends on my colleagues being equipped to effectively navigate the dynamic commercial, technological and regulatory environments in which we operate. We remain steadfast in our focus to build the right environment for our colleagues to thrive and progress, and to ensure that they are able to further support our business agenda and effectively support and serve our customers.

Over the past 2 years, almost 300,000 hours of learning were completed by colleagues around the Group covering a broad curriculum of over 400 programmes, with 63% delivered through digital channels in 2015. During this time, over 5,500 colleagues have achieved first time or additional professional accredited qualifications, while more than 4,000 individuals were sponsored to commence dedicated, relevant education programmes.

Continued engagement and investment in wellbeing programmes, while driving through significant change, saw record numbers of employees participating in our Be at Your Best programme. Our employees also came out in record numbers to support their Group sponsored flagship charities and their chosen causes, resulting in c.€2.5 million in charitable giving and 1,000 volunteer days contributed to the communities in which we live and work, supported by the Bank's flagship CSR programme, Give Together.

Focussed on delivering attractive and sustainable returns for shareholders

In 2015, we have continued to deliver against the strategic objectives we set for ourselves and have articulated to our shareholders. The strength of our franchises and the positive impacts of the investments we have been making and continue to make are reflected in our improved financial performance. We will continue to invest in our people and businesses to broaden our distribution platforms, enhance our customer propositions and experiences and deliver efficiencies for the Group. Investments in our core infrastructure will be getting even further focus over the next few years.

The economies of our main markets have been performing well and are anticipated to continue to grow, albeit there may be some impact on the growth trajectory from current market volatility and ongoing geo-political tensions. The strength of our retail and commercial franchises, the benefits of our diversified business model, our capital and funding strength, our commercially disciplined approach, the stability of our team and our clarity of purpose all combine to give us competitive advantage, which enables us to avail of opportunities, while successfully navigating risks and volatility.

The strength and momentum in our businesses gives us confidence in the Group's prospects and in our ability to continue to focus on our duty to responsibly develop our profitable, long term franchises and better serve our customers, in a way that delivers attractive sustainable returns to our shareholders.

Richie Boucher
19 February 2016

Operating and financial review

Performance summary

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Group performance on an underlying[1] basis		
Net interest income (before ELG fees)	2,454	2,358
Eligible Liabilities Guarantee (ELG) Scheme fees[2]	(10)	(37)
Other income (net)	828	653
Operating income (net of insurance claims)	3,272	2,974
Operating expenses (before Irish bank levy)	(1,783)	(1,635)
Irish bank levy	(38)	(38)
Operating profit before impairment charges on financial assets	**1,451**	**1,301**
Impairment charges on loans and advances to customers	(296)	(542)
Reversal of impairment charges on available for sale (AFS) financial assets	-	70
Share of results of associates and joint ventures (after tax)	46	92
Underlying[1] profit before tax	**1,201**	**921**
Total non-core items (page 25)	31	(1)
Profit before tax	**1,232**	**920**
Group performance (underlying[1])		
Net interest margin[3] (%)	2.19%	2.11%
Impairment charge (bps)	32	59
Return on assets[4] (bps)	72	61
Per unit of €0.05 ordinary stock		
Basic earnings per share (€ cent)	2.3	2.0
Underlying earnings per share (€ cent)	2.3	2.0
Tangible Net Asset Value per share (€ cent)	24	22
Divisional performance[5]		
Underlying[1] profit before tax		
Retail Ireland	507	328
Bank of Ireland Life	103	133
Retail UK	193	127
Retail UK (Stg£ million equivalent)	*140*	*103*
Corporate and Treasury	637	553
Group Centre and other (including ELG fees)	(239)	(220)
Underlying[1] profit before tax	**1,201**	**921**

[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 25 for further information.
[2] The Government Guarantee Scheme, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme) ended for all new liabilities on 28 March 2013. A fee is payable in respect of each liability guaranteed under the ELG Scheme until the maturity of the guaranteed deposit or term funding.
[3] The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications.
[4] Return on assets is calculated as being statutory net profit (being profit after tax) divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations 2014.
[5] For more details on the performance of each division see pages 37 to 57.

Performance summary (continued)

Balance sheet and key metrics	**31 December 2015 €bn**	31 December 2014 €bn
Total assets	131	130
Average interest earning assets (€bn)	109	109
Ordinary stockholders' equity	8.4	7.5
Total equity	9.1	8.7
Loans and advances to customers (after impairment provisions)	84.7	82.1
Non-performing loan volumes	12.0	15.8
Defaulted loan volumes	10.6	14.3
Customer deposits	80.2	74.8
Wholesale funding	14.2	19.9
- Wholesale market funding	*12.7*	*15.5*
- Drawings from Monetary Authorities	*1.5*	*4.4*
Liquidity		
Liquidity Coverage ratio[1]	108%	103%
Net Stable Funding ratio[2]	120%	114%
Loan to deposit ratio	106%	110%
Capital[3]		
Common equity tier 1 ratio - CRD IV fully loaded	11.3%	9.3%
Common equity tier 1 ratio - CRD IV transitional rules	13.3%	12.3%
Total capital ratio - CRD IV transitional	18.0%	15.8%
Risk weighted assets (€bn)	53.3	51.6

[1] The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015. The comparative period has been restated and has been calculated on the same basis.
[2] The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.
[3] The CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 have been restated to exclude the benefit of the 2009 Preference Stock which the Group derecognised from regulatory capital in November 2015 (see note 36). Including the benefit of the 2009 Preference Stock the CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 were 14.8% and 18.3% respectively.

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 25.

Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented, where the percentages are not measured this is indicated by n/m.

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

Strategic report

- Bank of Ireland Group (the 'Group') is one of the largest financial services groups in Ireland with total assets of €131 billion as at 31 December 2015.
- The Group provides a broad range of banking and other financial services. These services include; current account and deposit services, overdrafts, term loans, mortgages, business and corporate lending, international asset financing, leasing, instalment credit, invoice discounting, foreign exchange facilities, interest and exchange rate hedging instruments, life assurance, pension and protection products. All of these services are provided by the Group in Ireland with selected services being offered in the UK and internationally.
- The Group generates the majority of its revenue from traditional lending and deposit taking activities as well as fees for a range of banking and transaction services.
- The Group operates an extensive distribution network of 244 branches and over 1,200 ATMs in the Republic of Ireland and access to c.11,600 branches and over 2,500 ATMs in the UK via the Group's relationship as financial services partner with the UK Post Office. The Group also has access to distribution in the UK via its partnership with the AA and also through a number of strategic intermediary relationships.
- The Group is organised into four trading divisions to effectively service its customers as follows: Retail Ireland, Bank of Ireland Life, Retail UK and Corporate & Treasury.
- The Group's central functions, through Group Centre, establish and oversee policies and provide and manage certain processes and delivery platforms for divisions. These Group central functions comprise Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk and Group Human Resources.

Retail Ireland
Retail Ireland offers a comprehensive range of banking products and related financial services to the personal and business markets including deposits, mortgages, consumer and business lending, credit cards, current accounts, money transmission services, commercial finance, asset finance and general insurance. Retail Ireland serves customers through a distribution network of branches, central support teams, ATMs and through Direct Channels (telephone, mobile and online).

Retail Ireland is managed through a number of business units namely Distribution Channels, Consumer Banking (including Bank of Ireland Mortgage Bank), Business Banking (including Bank of Ireland Finance) and Customer and Wealth Management.

Bank of Ireland Life
Bank of Ireland Life includes the Group's wholly owned subsidiary, New Ireland Assurance Company plc (NIAC). Through Bank of Ireland Life, the Group offers a wide range of life assurance, pension, investment and protection products to the Irish market through the Group's branch network, its financial advisors (direct sales force) and independent brokers.

Retail UK
The Retail UK Division's focus is on consumer banking in the UK, where we aim to provide simple, flexible, accessible financial services and products to customers both directly and through partnerships with trusted, respected UK brands and intermediaries. This incorporates the financial services partnership with the UK Post Office. Our customer offering includes savings, mortgages, foreign exchange, credit and travel cards, current accounts, personal loans and ATM services.

The financial services partnership with the AA in the UK was announced in July 2015 and extends our reach in the UK retail market through a new range of products focussing on credit cards, unsecured personal loans and savings.

We also have a UK residential mortgage business; a full service retail and commercial branch network in Northern Ireland; a motor and asset finance business under the Northridge brand in the UK; a business banking business in Great Britain (GB) which is being run-down, in accordance with the EU Restructuring Plan. The Retail UK division also includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

Strategic report (continued)

Corporate and Treasury
Corporate and Treasury comprises the Group's Corporate Banking and Global Markets activities across the Republic of Ireland, UK and selected international jurisdictions. This division also incorporates IBI Corporate Finance and manages the Group's euro liquid asset bond portfolio.

Corporate Banking provides banking services to major corporations and financial institutions. The range of lending products provided includes overdraft and revolving credit facilities, term loans and project finance. Corporate Banking also includes the Group's acquisition finance business.

Global Markets transacts in a range of market instruments on behalf of both the Group itself and its customers. The activities include transactions in inter-bank deposits and loans, foreign exchange spot and forward contracts, options, financial futures, bonds, swaps, forward rate agreements and equity tracker products. In addition, Global Markets manages the Group's Liquid Asset portfolio.

IBI Corporate Finance advises publicly-quoted, private and semi-state companies across a variety of domestic and international transactions.

Group Centre
Our central Group functions are responsible for delivering services to each division and include Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk & Group Human Resources.

Strategic objectives
The Group's balance sheet, credit risk profile and funding profile have been substantially restructured in recent years, with a focus on the Group's core Republic of Ireland (RoI) market and selected international diversification. The Group is focused on building sustainable profitability by nurturing and developing its:

(i) strong customer and client relationships;
(ii) franchise positions in its core markets in Ireland;
(iii) access to an extensive distribution network, primarily through the UK Post Office (PO) and AA partnerships, and other strategic intermediaries; and
(iv) proven capabilities in acquisition finance.

In addition, the Group has an ongoing focus on the effective management of its portfolios that are challenged from a credit and / or pricing perspective.

The Group continues to invest in our people to support the achievement of our strategic objectives.

This strategy will enable the Group to deliver for its customers and create attractive, sustainable returns for our shareholders.

(a) Focus on RoI
A key focus of the Group's strategy is to further strengthen its core franchises in the RoI and to further develop its market positions by strengthening our customer offerings and distribution. The Group continues to be focused on being a market leader in its Consumer Banking, Business Banking, Wealth Management and Corporate Banking Ireland businesses. Building a sustainable bank for the future is our priority. A key tenet of this strategy is consolidating and enhancing our customer offerings and simplifying our processes to improve customer experience and the ability of staff to serve and support our customers.

(b) Selective international diversification
The Group's international businesses provide diversification from the Irish economy. The relationships with the UK Post Office, AA and other strategic intermediaries are key priorities, in addition to which the Group will continue to leverage our strong capabilities in acquisition finance, which has consistently provided profitable returns from exposure to assets in Europe and in the US. The Group carefully evaluates investments in these international markets, focusing on opportunities where there is potential for attractive returns.

(c) Funding model
The Group maintains a stable funding base with core loan portfolios substantially funded by customer deposits and term wholesale funding.

Staff
The professionalism, commitment and dedication of the Group's staff has been key to the progress made during the challenging conditions of the past several years and their continued support and commitment will underpin the successful implementation of the Group's strategy.

Distribution policy
The Group's aim is to have a sustainable dividend. The Group has an ambition to re-commence dividend payments in respect of financial year 2016, with the initial payment being made in the first half of 2017. The Group expects dividend payments to re-commence at a modest level, prudently and progressively building over time, towards a payout ratio of around 50% of sustainable earnings. The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Court's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m	Change %
Net interest income (before ELG fees)	1	2,454	2,358	4%
Eligible Liabilities Guarantee (ELG) fees	2	(10)	(37)	74%
Net other income	3	828	653	27%
Operating income (net of insurance claims)		**3,272**	**2,974**	**10%**
Operating expenses (before Irish bank levy)	4	(1,783)	(1,635)	(9%)
Irish bank levy	5	(38)	(38)	-
Operating profit before impairment charges on financial assets		**1,451**	**1,301**	**12%**
Impairment charges on loans and advances to customers	6	(296)	(542)	45%
Reversal of impairment charges on available for sale (AFS) financial assets		-	70	(100%)
Share of results of associates and joint ventures (after tax)		46	92	(50%)
Underlying[1] profit before tax		**1,201**	**921**	**30%**
Non-core items	7	31	(1)	n/m
Profit before tax		**1,232**	**920**	**34%**
Tax charge		(285)	(134)	n/m
Profit for the year		**947**	**786**	**21%**
Profit attributable to stockholders		940	786	20%
Profit attributable to non-controlling interests		7	-	100%
Profit for the year		**947**	**786**	**21%**
Key metrics				
Net interest margin (%)		2.19%	2.11%	
Impairment charge (bps)		32	59	
Additional gains		237	516	

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 25 for further information.*

Profit before tax was €1,232 million for the year ended 31 December 2015, an increase of €312 million or 34% compared to the previous year.

Underlying profit before tax was €1,201 million for the year ended 31 December 2015, an increase of €280 million or 30% on the previous year.

Total income was €3,272 million for the year ended 31 December 2015, up €298 million or 10% on the same period in 2014. Other income was €175 million higher than in 2014, primarily reflecting higher business income, higher gains arising on transfers from the available for sale reserve on asset disposal, gains on investment property disposals and revaluations and net gains from financial instrument valuation adjustments. Net interest income (before ELG fees) has increased by €96 million compared to 2014 reflecting the expansion of the net interest margin to 2.19% from 2.11% and the impact of foreign exchange, partially offset by marginally lower average interest earning assets. The Group has also benefited from lower ELG fees, which have reduced by €27 million compared to the previous year.

Impairment charges on loans and advances to customers reduced to €296 million for the year ended 31 December 2015, compared to €542 million in 2014. This reduction reflects the strong performance of the Group's loan portfolios, the continued reduction in Non-performing loans, together with actions the Group is taking to appropriately and sustainably support customers who are in financial difficulty and improvements in the economic environment in the countries in which the Group operates.

Income from associates and joint ventures reduced to €46 million for the year ended 31 December 2015 compared to €92 million for the previous year. The reduction was primarily due to gains in 2014 relating to the disposals of an international investment property and venture capital investments which were not repeated in the current year.

Summary consolidated income statement on an underlying[1] basis (continued)

Underlying profit before tax for the year ended 31 December 2015 includes additional gains of €237 million arising on transfers from the available for sale reserve on asset disposal, primarily relating to gains of €173 million crystallised from the sale of sovereign bonds as part of a rebalancing of the Group's liquid asset portfolio and gains of €34 million on other financial instruments. Gains on investment property disposals and revaluations of €30 million were also recognised.

In 2014 the Group recognised additional gains of €516 million including a gain arising from changes in the RoI mortgages collective provisioning assumptions (c.€280 million), the reversal of an impairment charge related to NAMA subordinated debt (€70 million), gains crystallised as part of a rebalancing of our liquid asset portfolio (c.€137 million) and a gain on the sale of an international investment property (€29 million).

Non-core items are a net gain of €31 million for the year ended 31 December 2015, primarily reflecting the gain on the disposal of the Group's share of the UK Post Office insurance business compared to a net charge of €1 million for the year ended 31 December 2014. For details of non-core items see page 25.

Operating income (net of insurance claims)

Net interest income

TABLE: 1

Net interest income / net interest margin	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m	Change %
Net interest income (before ELG fees)	2,454	2,358	4%
IFRS income classifications[1]	(83)	(53)	(56%)
Net interest income (before ELG fees) after IFRS income classifications	**2,371**	**2,305**	**3%**
Average interest earning assets (€bn)			
Loans and advances to customers	85	84	1%
Other interest earning assets	24	25	(4%)
Total average interest earning assets	**109**	**109**	**-**
Net interest margin	**2.19%**	**2.11%**	
Gross yield - customer lending[2]	3.53%	3.60%	
Gross yield - liquid assets[2]	1.12%	1.65%	
Gross yield - interest bearing liabilities and current accounts[2]	(0.85%)	(1.09%)	
Average ECB base rate	0.05%	0.16%	
Average 3 month Euribor rate	(0.02%)	0.21%	

[1] *The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at 'fair value through profit or loss', the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is economically managed using derivative instruments - the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.*

[2] *Gross yield represents the interest income or expense recognised net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.*

Net interest income (before ELG fees), after IFRS income classifications, of €2,371 million for the year ended 31 December 2015 has increased by €66 million or 3% compared to the previous year.

The Group's average net interest margin has increased by 8 basis points to 2.19% for the year ended 31 December 2015 from 2.11% for the year ended 31 December 2014.

The average net interest margin was 2.17% in H2 2015 as compared to an average net interest margin of 2.21% in H1 2015.

Notwithstanding the low interest rate environment the Group has maintained strong margin discipline while continuing to make progress on reducing funding costs across all portfolios.

The Group earned net interest income on its liquid asset portfolio of €263 million in the year ended 31 December 2015, down from €414 million compared to the previous year. The decrease is primarily due to the lower earnings yields on available for sale liquid assets and cash balances and the impact of the rebalancing of the liquid asset portfolio. ECB rate cuts in 2014 and falling Euribor rates are also impacting earnings on Irish tracker mortgages and certain SME / corporate lending. In H1 2014, net interest income on the liquid asset portfolio included a gain from re-estimating the timing of cash flows on NAMA senior bonds of €13 million.

The stability in average interest earning assets is due to the Group's successful actions to reduce the level of defaulted assets, the redemption of NAMA senior bonds and the rebalancing of the liquid asset portfolio substantially offset by the strengthening of the sterling exchange rate against the euro.

Eligible Liabilities Guarantee (ELG) fees

TABLE: 2 ELG	**Year ended 31 December 2015**	Year ended 31 December 2014	Change %
ELG fees (€m)	10	37	(74%)
Covered liabilities (at period end) (€bn)	1	3	(78%)
Average fee during period (%)	1.25%	1.01%	19%

ELG fees of €10 million for the year ended 31 December 2015 are €27 million lower than the previous year. Total liabilities covered by the ELG Scheme reduced from €3 billion at 31 December 2014 to €0.7 billion at 31 December 2015. The ELG Scheme ended for all new liabilities on 28 March 2013. The cost of the ELG Scheme will continue to reduce in line with the maturity of covered liabilities. Final maturity of the covered liabilities is expected by December 2017.

Net other income

TABLE: 3 **Net other income**	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Net other income	828	653	27%
IFRS income classifications[1]	83	53	56%
Net other income after IFRS income classifications	**911**	**706**	**29%**

[1] The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at 'fair value through profit or loss', the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is economically managed using derivative instruments – the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.

Net other income (continued)

Net other income after IFRS income classifications	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m	Change %
Business income[1]			
Retail Ireland	331	320	3%
Bank of Ireland Life	154	145	6%
Retail UK	9	9	-
Corporate and Treasury	153	152	1%
Group Centre and other	(21)	(34)	(38%)
Total business income	**626**	**592**	**6%**
Other gains			
Transfer from available for sale reserve on asset disposal	207	192	7%
- Sovereign bonds	*173*	*177*	*(2%)*
- Other financial instruments	*34*	*15*	*n/m*
Gain on disposal and revaluation of investment properties	30	13	n/m
Other valuation items			
Financial instrument valuation adjustments (CVA, DVA, FVA)[2] and other	50	(101)	n/m
Fair value movement on Convertible Contingent Capital Note (CCCN) embedded derivative	(17)	(31)	44%
Investment variance - Bank of Ireland Life	11	17	(35%)
Economic assumptions - Bank of Ireland Life	4	24	(83%)
Net other income after IFRS income classifications	**911**	**706**	**29%**

[1] Business income is net other income after IFRS income classifications before other gains and other valuation items as set out in the table above.
[2] Credit Valuation Adjustment (CVA); Debit Valuation Adjustment (DVA); Funding Valuation Adjustment (FVA).

Net other income, after IFRS income classifications, for the year ended 31 December 2015 was €911 million, an increase of €205 million on the previous year.

Business income for the year ended 31 December 2015 compares to the previous year as follows:

- business income in Retail Ireland, which includes personal and business current account fees, foreign exchange income, interchange income on credit and debit cards and insurance income, is €331 million in 2015, a 3% increase when compared to 2014;
- other income in Bank of Ireland Life of €154 million increased by €9 million reflecting an increase in existing business profits during the year. Total operating income in Bank of Ireland Life has remained stable at €188 million in the year ended 31 December 2015 when compared to the previous year (see page 42);
- business income in Retail UK, which includes transactional banking fees and interchange income on credit cards less commissions payable to strategic partners, is €9 million in 2015 and is broadly unchanged compared to the previous year;
- business income in Corporate and Treasury of €153 million has increased marginally compared to the previous year; and
- other net charges in Group Centre are €21 million for the year ended 31 December 2015 compared to €34 million in 2014.

Other gains within net other income are as follows:

- a gain of €207 million relating to transfers from the AFS reserve on asset disposals for the year ended 31 December 2015 compared to a gain of €192 million in the previous year. These gains mainly arose from the sale of sovereign bonds as part of a rebalancing of the Group's liquid asset portfolio; and
- a gain of €30 million relating to the disposal and revaluation of investment properties compared to a gain of €13 million in 2014.

Other valuation items within net other income are as follows:

- a gain of €50 million due to valuation adjustments on financial instruments (CVA, DVA, FVA) and other compared to a charge of €101 million in the previous year influenced by changing medium to long-term euro and sterling interest rates;
- a charge of €17 million due to the accounting impact of fair value movements on the derivative embedded in the Convertible Contingent Capital Note (CCCN) during the year ended 31 December 2015 compared to a charge of €31 million in the previous year. The CCCN has a fixed maturity date of July 2016;
- a positive investment variance of €11 million in Bank of Ireland Life in the year ended 31 December 2015 reflecting positive movements in investment markets during the year. This compares to a positive investment variance of €17 million in 2014; and
- a gain of €4 million relating to economic assumption changes in Bank of Ireland Life in 2015, with swap rates increasing marginally and spreads broadly remaining the same, compared to a gain of €24 million in 2014.

Operating expenses (before Irish bank levy)

TABLE: 4 Operating expenses (before Irish bank levy)	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Staff costs (excluding pension costs)	736	685	7%
Pension costs	158	138	14%
Other costs	852	778	10%
Operating expenses (before regulatory costs and Irish bank levy)	**1,746**	**1,601**	**9%**
Regulatory costs	37	34	8%
- Financial Services Compensation Scheme (FSCS) costs	*15*	*18*	*(17%)*
- Bank and Investment Firm Resolution (BIFR) fund costs	*7*	*-*	*n/m*
- Other regulatory fees and levies	*15*	*16*	*(6%)*
Operating expenses (before Irish bank levy)	**1,783**	**1,635**	**9%**
Staff numbers at period end	**11,145**	**11,086**	
Average staff numbers during the period	**11,302**	**11,292**	

Operating expenses (before regulatory costs and Irish bank levy) of €1,746 million for the year ended 31 December 2015 were €145 million or 9% higher compared to the previous year. The weakening of the euro against sterling and the US dollar has been a key factor during 2015 and accounted for €41 million of this increase.

The Group has continued its focus on tight cost control during the year. Excluding the currency impact of €41 million, total operating costs have increased by 6% or €104 million due to ongoing investment in our people, higher pension costs, growing our business, investment in technology and the impact of additional costs for compliance with regulatory expectations.

Staff costs (excluding pension costs) of €736 million for the year ended 31 December 2015 are €51 million higher than the previous year, €36 million higher on a constant currency basis. During 2014, the Group introduced a new career and reward framework for all employees, part of this framework provided for a salary increase of 1.75% effective July 2014, and a further 2% paid from January 2015. This payment applied to the vast majority of the Group's employees. The average number of staff employed by the Group has remained broadly static at an average of 11,302 in the year ended 31 December 2015 and 11,292 in 2014. Staff numbers at 31 December 2015 were 11,145.

The Group has announced salary increases, linked to performance reviews, averaging 2.2% in 2016 and 2.6% in 2017.

Pension costs of €158 million for the year ended 31 December 2015 were €20 million higher than 2014. This is primarily as a result of higher defined benefit costs due to higher service cost, partially offset by a reduction in the interest cost. In addition there was an increase in the cost of defined contribution schemes introduced as part of the pension restructuring initiatives in 2013 and 2014.

Other costs including technology, property, outsourced services and other non-staff costs were €852 million for the year ended 31 December 2015 compared with €778 million in 2014. The strengthening of sterling increased costs by €26 million or 3%. Additionally, there has been net investment of €48 million in strategic initiatives including new distribution channels, technology, customer acquisition and improved propositions as well as increased costs associated with compliance with regulatory expectations, partially offset by cost savings and efficiencies.

Regulatory costs

FSCS costs of €15 million for the year ended 31 December 2015 were lower than the charge for 2014 due to a reduction in the overall outstanding balance of costs incurred in relation to failing UK banks during the financial crisis.

The Group also incurred costs of €7 million in relation to the **BIFR fund**, which is newly established under the Bank Recovery and Resolution Directive (BRRD), to which the Group is obligated to contribute in proportion to its eligible liabilities. The Group's 2015 contribution will transfer to the EU Single Resolution Fund in 2016.

The Group expects an increase in regulatory costs in 2016 in the range of €40-45 million, primarily driven by additional contributions to the EU Single Resolution Fund as well as anticipated contributions to the newly established Deposit Guarantee Scheme fund.

Irish bank levy

TABLE: 5

Irish bank levy	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Bank levy costs	38	38	-

The Group incurred a cost of €38 million for the year ended 31 December 2015 compared to €38 million in 2014.

The levy is in the form of a stamp duty which applies for the years 2014 to 2016. The charge is calculated as 35% of the Deposit Interest Retention Tax (DIRT) paid by each relevant financial institution in respect of 2011. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The levy is payable on 20 October 2014, 2015 and 2016.

The budget announcement in October 2015 indicated that the bank levy, which was due to expire in 2016, will now be extended to 2021. The method used to calculate the levy will be subject to review but there is currently no detail on how this method may change.

Impairment charges / (reversals) on loans and advances to customers

TABLE: 6

Impairment charges / (reversals) on loans and advances to customers	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Residential mortgages	(96)	(148)	35%
- Retail Ireland	*(84)*	*(140)*	*40%*
- Retail UK	*(12)*	*(8)*	*(50%)*
Non-property SME and corporate	149	218	(32%)
- Republic of Ireland SME	*86*	*127*	*(32%)*
- UK SME	*(2)*	*17*	*n/m*
- Corporate	*65*	*74*	*(12%)*
Property and construction	246	451	(45%)
- Investment	*173*	*307*	*(44%)*
- Land and development	*73*	*144*	*(49%)*
Consumer	(3)	21	n/m
Total impairment charges / (reversals) on loans and advances to customers	**296**	**542**	**(45%)**
Impairment charges (bps)	32	59	(46%)

Impairment charges on loans and advances to customers of €296 million for the period ended 31 December 2015 were €246 million or 45% lower than the previous year. The impairment charges for the previous year incorporated an estimated €280 million net reduction in collective impairment provisions for Retail Ireland mortgages, reflecting the combined impact of the updated collective provisioning model parameters and assumptions and improved portfolio performance and economic conditions in 2014.

The significant reduction in impairment charges for 2015 reflects the strong performance of the Group's loan portfolios, the continued reductions in both non-performing and defaulted loans, and improvements in the economic environment in the countries in which the Group's portfolios are located.

The significant reductions in both non-performing and defaulted loans reflect our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

Impairment charges across all of the Group's asset classes were lower in 2015 as compared to the previous year.

The impairment reversal on **Residential mortgages** of €96 million for the year ended 31 December 2015 compares to an impairment reversal of €148 million in the previous year.

The impairment reversal on the Retail Ireland mortgage portfolio of €84 million for the year ended 31 December 2015 compares to an impairment reversal of €140 million in the previous year. The

Impairment charges / (reversals) on loans and advances to customers (continued)

Retail Ireland mortgage impairment reversal in 2014 incorporated an estimated €280 million net reduction in collective impairment provisions, reflecting the combined impact of the updated collective provisioning model parameters and assumptions and improved portfolio performance and economic conditions in 2014. The Retail Ireland mortgage impairment reversal is lower in the current year compared to the previous year due to the more impactful update of the collective provisioning model parameters and assumptions in 2014.

The impairment reversal in the current year reflects improvements in book performance, in particular lower default rates and higher cures on foot of resolution activity, and improved economic conditions. Retail Ireland mortgage default arrears reduced significantly in 2015 in both the Owner occupied and Buy to let market segments.

Retail Ireland mortgage default arrears are at their lowest level, in terms of reporting periods, since December 2011, and have reduced by over 40% from peak levels in 2013.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €149 million for the year ended 31 December 2015 has decreased by €69 million or 32% from the previous year. Impairment charges have reduced across each of the Group's non-property portfolios, reflecting improved macroeconomic and trading conditions in both the domestic Irish and international markets.

The impairment charge on the **Property and construction** loan portfolio of €246 million for the year ended 31 December 2015 has decreased by €205 million or 45% from the previous year. The impairment charge on the Investment property element of the Property and construction portfolio was €173 million for the year ended 31 December 2015 compared to €307 million in the previous year. Lower impairment charges reflect the continued recovery in investment property markets in both RoI and the UK. Similar to the Non-property SME and corporate portfolio, current year impairment charges relate to individual case specific events and continued resolution activity. Significantly lower impairment charges on the Land and development element of the Property and construction portfolio reflects the already substantially provisioned nature of this portfolio.

The impairment reversal of €3 million on **Consumer** loans for the year ended 31 December 2015 reflects the benefits of the recovery in macroeconomic conditions, and thus lower levels of default and higher cures particularly in the Retail Ireland Consumer portfolios.

Reversal of impairment charge on available for sale financial assets

At the balance sheet date the Group held €281 million (nominal value) of subordinated bonds issued by the National Asset Management Agency (NAMA).

There was no impairment charge on available for sale financial assets for the year ended 31 December 2015.

During the year ended 31 December 2014, the Group recognised a gain of €70 million following the reversal of a previously recognised impairment. This followed NAMA's updated outlook for its long-term performance and its payment of a discretionary coupon on these bonds. The Group updated its valuation of the bonds to 96% of their nominal value at 31 December 2015 from 83% at 31 December 2014, the increase in the valuation has been recognised in other comprehensive income.

Non-core items

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

TABLE: 7

Non-core items	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Gain / (loss) on disposal / liquidation of business activities	51	(4)	n/m
Cost of restructuring programme	(43)	(56)	24%
Gain / (charge) arising on the movement in the Group's credit spreads	11	(10)	n/m
Gross-up for policyholder tax in the Life business	11	14	(19%)
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	4	93	(96%)
Payments in respect of the career and reward framework	(2)	(32)	92%
Loss on liability management exercises	(1)	(5)	78%
Investment return on treasury stock held for policyholders	-	(1)	100%
Total non-core items	**31**	**(1)**	**n/m**

Gain / (loss) on disposal / liquidation of business activities
A gain of €51 million was recognised in the year ended 31 December 2015 compared with a loss of €4 million during the year ended 31 December 2014.

On 30 September 2015, the UK Post Office exercised a pre-existing option to acquire the Group's interest in the Post Office insurance business in the UK. The Group recognised a gain of €57 million as a result of this transaction.

Separately, a loss of €6 million was recognised during the year primarily relating to the recycling of cumulative unrealised foreign exchange gains and losses through the income statement following the liquidation of a subsidiary with a US dollar functional currency.

The loss of €4 million recognised in the year ended 31 December 2014 primarily related to the disposal of the ICS mortgage platform.

Cost of restructuring programme
During the year ended 31 December 2015, the Group recognised a charge of €43 million in relation to its restructuring programme, primarily related to changes in employee numbers. A restructuring charge of €56 million was incurred in the previous year.

Gain / (charge) arising on the movement in the Group's credit spreads
A gain of €11 million was recognised in the year ended 31 December 2015 compared with a charge of €10 million during the year ended 31 December 2014. This gain arises from the 'pull to par' effect of cumulative losses reversing over time on the Group's structured deposits that are accounted for at 'fair value through profit or loss'. This is offset by the narrowing in credit spreads. These Group liabilities consist of certain structured senior and covered debt and tracker deposits. These charges do not impact the Group's regulatory capital.

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

Impact of changes to pension benefits in the Group sponsored defined benefit schemes
A gain of €4 million was recognised for the year ended 31 December 2015, reflecting the impact of changes in pension benefits implemented as part of the 2013 Pension Review (year ended 31 December 2014: €93 million).

Payments in respect of the career and reward framework
During the year ended 31 December 2014, the Group agreed a new career and reward framework, across the Group, giving transparency and flexibility around change and career development in the Group and consequently a change to certain historical employment contracts and practices. In recognition of the career and reward framework implementation virtually all staff accepted a once off payment. This resulted in a charge of €32 million for the year ended 31 December 2014 with a further €2 million recognised in the year ended 31 December 2015.

Loss on liability management exercises
A loss of €1 million on liability management exercises was recognised in the year ended 31 December 2015 compared with a loss of €5 million in the previous year, reflecting the repurchase of certain Group debt securities.

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was no charge in the

Non-core items (continued)

year ended 31 December 2015, compared to a charge of €1 million in 2014. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2015 were 18 million units (31 December 2014: 17 million units).

Taxation

The taxation charge for the Group was €285 million for the year ended 31 December 2015 compared to a taxation charge of €134 million in the previous year. On an underlying basis, the effective taxation rate was 22% for the year ended 31 December 2015 (year ended 31 December 2014: 13%). By further excluding the impact of the reassessment of the value of the tax losses carried forward (refer to note 2(b) on page 107) and the impact on deferred tax of the reduction in the UK corporation rate to 18% with effect from 1 April 2020, the effective tax rate for the year ended 31 December 2015 reduces to 16% (taxation charge) compared to the comparable rate for the previous year of 13% (taxation charge). The effective tax rate is influenced by changes in the geographic mix of profits and losses. As set out in note 16 on page 123, the deferred tax asset has reduced by €116 million in the year due to the utilisation of brought forward trading losses against current year taxable profits which reduces the amount of tax payable on those profits.

Group balance sheet

The following tables show the composition of the Group's balance sheet including the key sources of the Group's funding and liquidity.

Summary consolidated balance sheet

Summary consolidated balance sheet	**Table**	**31 December 2015 €bn**	31 December 2014 €bn	Change %
Loans and advances to customers (after impairment provisions)		85	82	3%
Liquid assets	8	24	25	(5%)
Bank of Ireland Life assets		16	16	3%
Other assets	11	6	7	(11%)
Total assets		**131**	**130**	**1%**
Customer deposits	9	80	75	7%
Wholesale funding	10	14	20	(29%)
Bank of Ireland Life liabilities		16	16	3%
Other liabilities	11	10	8	8%
Subordinated liabilities	12	2	2	(2%)
Total liabilities		**122**	**121**	**1%**
Stockholders' equity	13	8	9	(5%)
Other equity instruments	14	1	-	100%
Total liabilities and stockholders' equity		**131**	**130**	**1%**
Liquidity coverage ratio[1]		108%	103%	
Net stable funding ratio[2]		120%	114%	
Loan to deposit ratio		106%	110%	
Common equity tier 1 ratio - CRD IV fully loaded		11.3%	9.3%	
Common equity tier 1 ratio - CRD IV transitional rules[3]		13.3%	12.3%	
Total capital ratio - CRD IV transitional[3]		18.0%	15.8%	

1 *The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015. The comparative period has been restated and has been calculated on the same basis.*
2 *The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.*
3 *The CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 have been restated to exclude the benefit of the 2009 Preference Stock which the Group derecognised from regulatory capital in November 2015 (see note 36). Including the benefit of the 2009 Preference Stock the CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 were 14.8% and 18.3% respectively.*

Loans and advances to customers

The Group's **loans and advances to customers (after impairment provisions)** of €85 billion have increased by €2.6 billion or 3% since 31 December 2014. On a constant currency basis, loans and advances to customers have increased by €0.1 billion during the year ended 31 December 2015.

Gross new lending of c.€14.2 billion was €4.2 billion or 42% higher than 2014 which reflects increased lending primarily in mortgages and business banking in the Republic of Ireland, UK mortgages and Corporate Banking. It also reflects that during 2015, the Group completed a number of portfolio and asset acquisitions consistent with its strategy of growing volumes within its product and risk appetite. This included the purchase of a portfolio of performing Residential mortgages from the Irish Bank Resolution Corporation Limited (in Special Liquidation), a portfolio of performing commercial loans from Danske Bank A/S and a portfolio of performing commercial loans from Lloyds Banking Group plc.

Redemptions and repayments totalled c.€13.9 billion, of which the Group's success in progressing (through resolution or cure) a significant volume of defaulted assets, redemptions in the RoI mortgage tracker book and redemptions as part of the run-down of the GB business banking / GB corporate banking book together accounted for c.€3.6 billion of this figure.

The composition of the Group's loans and advances to customers by portfolio and by division for the year ended 31 December 2015 was broadly consistent with 31 December 2014.

Non-performing loans of €12.0 billion at 31 December 2015 have decreased by €3.8 billion or 24% compared to 31 December 2014. The decrease has occurred across all portfolios and is reflective of the actions that the Group is taking to appropriately and sustainably support customers who are in financial difficulty, the improving economic climate, increasing liquidity and improving property market conditions.

The stock of impairment provisions on loans and advances to customers of €5.9 billion has decreased by €1.5 billion since 31 December 2014 (€1.6 billion on a constant currency basis). The Non-performing loans provision coverage ratio at 31 December 2015 is 49% (31 December 2014: 47%).

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section of Risk Management, see pages 58 to 84.

Liquid assets

TABLE: 8

Liquid assets	**31 December 2015 €bn**	31 December 2014 €bn
Cash at banks	4	4
Cash and balances at Central Banks	7	5
- Bank of England	*5*	*4*
- Central Bank of Ireland	*1*	*1*
- US Federal Reserve	*1*	*-*
Government bonds	8	8
- Available for sale	*6*	*8*
- Held to maturity	*2*	*-*
NAMA senior bonds	1	2
Covered bonds	2	3
Senior bank bonds and other	2	3
	24	**25**

The Group's portfolio of liquid assets of c.€24 billion has decreased by c.€1.2 billion since 31 December 2014, primarily reflecting redemptions of NAMA senior bonds of €1 billion, decreases in the holding of sovereign bonds of €0.7 billion and in the holdings of covered and other bonds of €0.9 billion, partially offset by increases in cash at banks and in balances with central banks of €1.3 billion.

During the year ended 31 December 2015, gains of €207 million relating to transfers from the available for sale reserve on asset disposals were recognised in the income statement. These gains primarily arose from the sale of sovereign bonds and are included in net other income, see page 21.

Further analysis of the Group's holdings of sovereign and other bonds is set out on pages 156 to 165.

Customer deposits

TABLE: 9

Customer deposits	**31 December 2015 €bn**	31 December 2014 €bn
Retail Ireland	39	37
- Deposits	*22*	*22*
- Current account credit balances	*17*	*15*
Retail UK	29	26
Retail UK (Stg£bn equivalent)	22	20
- UK Post Office	*17*	*16*
- Other Retail UK	*5*	*4*
Corporate and Treasury	12	12
Total customer deposits	**80**	**75**
Loan to deposit ratio	**106%**	**110%**
Deposits covered by ELG Scheme	1	1

The Group's customer deposit strategy is to:

- maintain and grow its stable retail customer deposit base in Ireland and the UK, in line with balance sheet requirements;
- prudently manage deposit pricing and margins; and
- optimise stable funding levels in line with Basel III / CRD IV specifications.

Group customer deposits (including current accounts with credit balances) have increased by €5.3 billion to €80.2 billion since 31 December 2014 due to increases in Retail UK (€3.5 billion) and Retail Ireland (€2.4 billion), partially offset by a decrease in Corporate and Treasury of €0.6 billion. On a constant currency basis, Group customer deposits increased by €3.3 billion.

In the Retail Ireland Division, customer deposits of €39 billion at 31 December 2015 have increased by €2.4 billion since 31 December 2014, with current account credit balance growth of €2.8 billion, partially offset by a modest decline in other deposits of €0.4 billion.

Balances in Retail UK increased by £1.5 billion to £22 billion for the year ended 31 December 2015. Deposit balances originated through the Post Office network increased by £1.1 billion to £17.1 billion driven by sales of Fixed Rate Bonds and ISA products. Other Retail UK balances, including balances originated through the Group's Northern Ireland branch network have increased by £0.4 billion.

Deposits decreased by €0.6 billion in the Corporate and Treasury division.

Customer deposits of €80.2 billion for the year ended 31 December 2015 (31 December 2014: €75 billion) do not include €1.9 billion (31 December 2014: €2.3 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically five years) and consequently are an additional source of stable retail funding for the Group.

The Group's Loan to deposit ratio (LDR) improved by 4% to 106% for the year ended 31 December 2015.

The Group's customer deposits are covered by the Irish Deposit Guarantee Scheme in Ireland, the UK Financial Services Compensation Scheme in respect of deposits issued by Bank of Ireland (UK) plc, and the ELG Scheme in respect of eligible term deposits issued on or before the termination of the ELG Scheme and still outstanding.

At 31 December 2015, the majority of personal and SME customer deposits continue to be covered under the deposit protection schemes, while deposit balances covered by the ELG Scheme reduced to €0.7 billion during the year ended 31 December 2015.

Wholesale funding

TABLE: 10

Wholesale funding sources	31 December 2015 €bn	31 December 2015 %	31 December 2014 €bn	31 December 2014 %
Secured funding	10	69%	14	72%
- ECB Monetary Authority	*1*	*11%*	*4*	*22%*
- Covered bonds	*6*	*42%*	*6*	*31%*
- Securitisations	*3*	*16%*	*3*	*13%*
- Private market repo	*-*	*1%*	*1*	*6%*
Unsecured funding	4	31%	6	28%
- Senior debt	*3*	*25%*	*5*	*23%*
- Bank deposits	*1*	*6%*	*1*	*5%*
Total wholesale funding	**14**	**100%**	**20**	**100%**
Wholesale market funding < 1 year to maturity	2	16%	8	48%
Wholesale market funding > 1 year to maturity	11	84%	8	52%
ECB Monetary Authority funding < 1 year to maturity	1	-	3	-
ECB Monetary Authority funding > 1 year to maturity	-	-	1	-
Wholesale funding covered by ELG Scheme	-	-	2	-
Liquidity metrics				
Liquidity Coverage Ratio[1]		108%		103%
Net Stable Funding Ratio[2]		120%		114%
Loan to deposit ratio		106%		110%

[1] *The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015. The comparative period has been restated and has been calculated on the same basis.*
[2] *The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.*

The Group's wholesale funding requirement of €14 billion has decreased by c.€5.7 billion since 31 December 2014 primarily related to the impact of:
- higher customer deposits (c.€5.3 billion); and
- the issuance of AT1 securities of €750 million.

During the year ended 31 December 2015, the Group accessed the term debt markets issuing:
- €750 million of Irish Mortgage Asset Covered Securities (ACS debt) in a five-year transaction in January 2015 at 20 basis points over mid swaps;
- €750 million five-year senior unsecured debt in March 2015 at 100 basis points over mid swaps;
- €1 billion of Irish Mortgage ACS debt in a seven-year transaction in May 2015 at 5 basis points over mid swaps; and
- €750 million of Irish Mortgage ACS debt in a five-year transaction in October 2015 at 33 basis points over mid swaps.

The Group's funding from Monetary Authorities of €1.5 billion at 31 December 2015 has decreased by c.€2.9 billion since 31 December 2014. All ECB Monetary Authority funding is drawn under the Targeted Longer Term Refinancing Operation (TLTRO).

At 31 December 2015, €10.7 billion or 75% of wholesale funding had a term to maturity of greater than one year (31 December 2014: €9.5 billion or 48%). The increase since 31 December 2014 relates to the maturity during 2015 of borrowings via the ECB's Long Term Repo Operations (LTRO) and the new term issuances during the year. Wholesale funding (excluding ECB Monetary Authority funding) with a maturity of less than one year was €2 billion (31 December 2014: €8 billion) of which €0.5 billion is secured.

All wholesale funding guaranteed under the ELG Scheme as at 31 December 2014 (c.€1.9 billion) matured during the year ended 31 December 2015.

The Group's Liquidity Coverage Ratio (LCR) was 108% at 31 December 2015 (31 December 2014: 103% (restated)). Based on the Group's interpretation of the final Basel standard, the Group's Net Stable Funding Ratio (NSFR) was 120% at 31 December 2015 (31 December 2014: 114%).

The Group's Loan to Deposit ratio decreased from 110% at 31 December 2014 to 106% at 31 December 2015.

Other assets and other liabilities

TABLE: 11

Other assets and other liabilities	**31 December 2015 €bn**	31 December 2014 €bn
Other assets	6.1	7.0
- Derivative financial instruments	*3.1*	*3.7*
- Net deferred tax asset	*1.4*	*1.6*
- Other assets	*1.6*	*1.7*
Other liabilities	9.5	8.2
- Derivative financial instruments	*3.6*	*4.0*
- 2009 Preference Stock	*1.4*	*-*
- Pension deficit	*0.7*	*1.0*
- Other liabilities	*3.8*	*3.2*

Other assets at 31 December 2015 include **derivative financial instruments** with a positive fair value of €3.1 billion compared to a positive fair value of €3.7 billion at 31 December 2014. Other liabilities at 31 December 2015 include **derivative financial instruments** with a negative fair value of €3.6 billion compared to a negative fair value of €4.0 billion at 31 December 2014. The movement in the fair value of derivative assets and derivative liabilities is due to the impact of the movements in foreign exchange rates (particularly the euro / sterling exchange rate) and in interest rates during the year ended 31 December 2015.

At 31 December 2015, the Group's **net deferred tax asset** was €1.4 billion. This compares to a balance of €1.6 billion at 31 December 2014 with €116 million of the deferred tax asset being utilised against profits in the period offset by the impact of a strengthening sterling and movements in reserves. The net deferred tax asset of €1.4 billion at 31 December 2015 includes an amount of €1.4 billion in respect of trading losses which are available to relieve future profits from tax. Of these losses, €1.2 billion relates to Irish tax losses and €0.2 billion relates to UK tax losses. For further details on movements in the net deferred tax asset in the year see note 31 on page 136.

On 23 November 2015, the Group announced that it would exercise its discretion to redeem the remaining **2009 Preference Stock** with a nominal value of €1.3 billion at par, at the earliest possible date, on 4 January 2016 and served notice of redemption to holders of the stock. As a result a financial liability was recognised to redeem the stock and pay the final dividend of €116 million. The Group completed the redemption of the 2009 Preference Stock on 4 January 2016.

At 31 December 2015, the **pension deficit** was €0.7 billion, a net decrease of €0.3 billion from the position at 31 December 2014. The main drivers of this decrease are as follows:

- an increase in the value of pension scheme assets during the period of €0.3 billion including deficit reducing cash contributions made by the Group of €0.15 billion;
- an increase of 10 basis points in the RoI discount rate to 2.30% at 31 December 2015 from 2.20% at 31 December 2014, and an increase in the UK discount rate of 10 basis points to 3.80% at 31 December 2015. This decreased the deficit by c.€0.15 billion; partially offset by
- an increase of 10 basis points in the RoI inflation rate and 5 basis points in the UK inflation rate, increasing the deficit by c.€0.1 billion; and
- interest cost and current service cost less benefits paid which increased the deficit by c.€0.1 billion.

Subordinated liabilities

TABLE: 12

Subordinated liabilities	**31 December 2015 €m**	31 December 2014 €m
Convertible Contingent Capital Note (CCCN)	994	989
€750 million 4.25% Fixed Rate Notes	763	760
€250 million 10% Fixed Rate Notes	266	269
€1,002 million 10% Fixed Rate Notes	234	239
CAD $400 million Fixed / Floating Rate Subordinated Notes 2015	-	69
Undated loan capital	180	171
Other	3	3
Total	**2,440**	**2,500**

The CAD $400 million Fixed / Floating Rate Subordinated Notes 2015, were redeemed during the year. There were no other significant movements in subordinated liabilities during the year ended 31 December 2015.

Stockholders' equity

TABLE: 13

Movements in stockholders' equity	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m
Stockholders' equity at beginning of year	**8,753**	**7,889**
Movements:		
Profit attributable to stockholders	940	786
Reserve for 2009 Preference Stock to be redeemed	(1,297)	-
Dividends on preference stock	(257)	(141)
- Current year dividend payment	*(141)*	*(141)*
- Dividend accrued for payment on 4 January 2016	*(116)*	-
Remeasurement of the net defined benefit pension liability	91	(353)
Available for sale (AFS) reserve movements	(81)	133
Cash flow hedge reserve movement	(45)	159
Foreign exchange movements	255	275
Other movements	13	5
Stockholders' equity at end of year	**8,372**	**8,753**

Stockholders' equity decreased from €8,753 million at 31 December 2014 to €8,372 million at 31 December 2015.

The **profit attributable to stockholders** of €940 million for the year ended 31 December 2015 compares to the profit attributable to stockholders of €786 million for the year ended 31 December 2014.

On 23 November 2015, the Group announced that it would exercise its discretion to redeem the remaining **2009 Preference Stock** with a nominal value of €1.3 billion at par, at the earliest possible date, on 4 January 2016 and served notice of redemption to holders of the stock. As a result a financial liability was recognised to redeem the stock within the Group's Other liabilities at a fair value of €1,297 million with a corresponding reduction in Stockholders' equity through the creation of a reserve for 2009 Preference Stock to be redeemed within Other reserves. A liability was also recognised in respect of the obligation to pay the final **dividend** payment on 4 January 2016 of €116 million. This has been deducted from Retained earnings in the year ended 31 December 2015. The Group completed the redemption of the 2009 Preference Stock on 4 January 2016 see note 36 for further details.

On 20 February 2015, the Group paid a cash **dividend** of €133 million (20 February 2014: €133 million) on the 2009 Preference Stock. The Group also paid dividends of €4.7 million and £2.3 million on its other euro and sterling preference stock respectively.

The **remeasurement of the net defined benefit pension liability** is primarily driven by changes in actuarial assumptions, including the discount rates and inflation rates, and by asset returns.

Stockholders' equity (continued)

The RoI discount rate has increased by 10 basis points since 31 December 2014, from 2.20% to 2.30% at 31 December 2015, while there has been an increase in the RoI inflation rate of 10 basis points to 1.60% at 31 December 2015. The market value of pension scheme assets increased by 4.17% during the year ended 31 December 2015.

The **available for sale reserve movement** during 2015 is primarily due to transfers from the available for sale reserve during the year offset by the improvement / tightening of credit spreads, particularly on the portfolio of Irish Government bonds. Gains of €207 million were recognised on transfers from the available for sale reserve during the year and are included in other income on page 21.

The **cash flow hedge reserve movement** primarily reflects changes in the mark to market value of cash flow hedge accounted derivatives, driven by market rates and the amortisation of de-designated cash flow hedges. Over time, the reserve will flow through the income statement in line with the underlying hedged items.

Foreign exchange movements are driven by the translation of the Group's net investments in foreign operations. The movement in the period is due primarily to the 5.8% weakening of the euro against sterling for the year ended 31 December 2015.

Other equity instruments

TABLE: 14	**31 December 2015 €m**	31 December 2014 €m
Balance at the beginning of the year	-	-
Additional tier 1 securities issued	749	-
Transaction costs (net of tax)	(9)	-
Balance at the end of the year	**740**	**-**

In June 2015, the Group issued Additional tier 1 (AT1) securities, with a par value of €750 million, for a net consideration of €740 million. The securities carry an initial coupon of 7.375%. See note 37 for further information.

Capital

Regulatory capital and key capital ratios

CRD IV Restated[1] Transitional (excl. 2009 Preference Stock) 31 December 2014 €m		CRD IV Transitional (excl. 2009 Preference Stock) 31 December 2015 €m	CRD IV Fully loaded (excl. 2009 Preference Stock) 31 December 2015 €m
	Capital Base		
8,747	Total equity	9,113	9,113
(1,300)	- less 2009 Preference Stock and associated reserves	-	-
-	- less Additional tier 1 capital	(750)	(750)
7,447	**Total equity less equity instruments not qualifying as CET 1**	**8,363**	**8,363**
(329)	**Regulatory adjustments being phased in / out under CRD IV**	**(509)**	**(1,579)**
-	*- Deferred tax assets[2]*	*(134)*	*(1,345)*
-	*- 10% / 15% threshold deduction[3]*	*-*	*(45)*
714	*- Retirement benefit obligations[4]*	*391*	*-*
(609)	*- Available for sale reserve[5]*	*(466)*	*-*
(56)	*- Pension supplementary contributions[4]*	*(36)*	*-*
(29)	*- Capital contribution on CCCN[4]*	*(7)*	*-*
(349)	*- Other adjustments[6]*	*(257)*	*(189)*
(777)	**Other regulatory adjustments**	**(765)**	**(783)**
(10)	*- Expected loss deduction[7]*	*(17)*	*(35)*
(405)	*- Intangible assets and goodwill*	*(509)*	*(509)*
(115)	*- Dividend / coupon expected on preference stock and other equity instruments[8]*	*(30)*	*(30)*
(205)	*- Cash flow hedge reserve*	*(160)*	*(160)*
26	*- Own credit spread adjustment (net of tax)*	*13*	*13*
(68)	*- Securitisation deduction*	*(62)*	*(62)*
6,341	**Common equity tier 1**	**7,089**	**6,001**
	Additional tier 1		
75	Additional tier 1[9]	817	750
(5)	**Regulatory adjustments**	**(9)**	**-**
(5)	*- Expected loss deduction[7]*	*(9)*	*-*
6,411	**Total tier 1 capital**	**7,897**	**6,751**
	Tier 2		
1,525	Tier 2 dated debt	1,280	1,280
113	Tier 2 undated debt	126	170
(5)	**Regulatory adjustments**	**(9)**	**-**
(5)	*- Expected loss deduction[7]*	*(9)*	*-*
44	Standardised incurred but not reported (IBNR) provisions	34	-
-	Provisions in excess of expected losses on defaulted loans	216	216
53	Other adjustments	32	(80)
1,730	**Total tier 2 capital**	**1,679**	**1,586**
8,141	**Total capital**	**9,576**	**8,337**
51.6	**Total risk weighted assets (€bn)**	**53.3**	**53.2**
	Capital ratios		
12.3%	Common equity tier 1	13.3%	11.3%
12.4%	Tier 1	14.8%	12.7%
15.8%	Total capital	18.0%	15.7%
5.3%	Leverage ratio	6.6%	5.7%

Capital (continued)

Risk weighted assets (RWA)[10,11]

CRD IV Restated[1] Transitional (excl. 2009 Preference Stock) 31 December 2014 €bn		CRD IV Transitional (excl. 2009 Preference Stock) 31 December 2015 €bn	CRD IV Fully loaded (excl. 2009 Preference Stock) 31 December 2015 €bn
46.8	Credit risk[12]	47.8	47.7
0.5	Market risk	0.4	0.4
4.0	Operational risk	4.8	4.8
0.3	Credit valuation adjustment	0.3	0.3
51.6	**Total RWA**	**53.3**	**53.2**

CRD IV
The Capital Requirements Directive (CRD) IV legislation commenced implementation on a phased basis from 1 January 2014. The CRD IV transition rules result in a number of new deductions from Common equity tier 1 (CET 1) capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until full implementation by 2019 (with the exception of deferred tax assets (DTA) which are phased to 2024).

CRD IV includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). While some of these have not yet been published, it is not anticipated that there would be a material incremental impact on the Group's capital ratios.

The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including the Central Bank of Ireland (CBI) paper 'Implementation of Competent Authority discretions and options in CRD IV and CRR' published on 21 May 2014.

Capital requirements / buffers
The Group has received further clarity on its minimum regulatory capital requirements. The SSM has advised that the Group's SREP requirement for 2016 is to maintain the CET 1 ratio at a level of 10.25%, calculated on a transitional basis. The Central Bank of Ireland has advised that the Group will be required to maintain an O-SII buffer, which will be phased in as follows: 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. Both the SREP requirement and the O-SII buffer are subject to annual review by the SSM and the Central Bank of Ireland (CBI) respectively.

In addition, both the Central Bank of Ireland (RoI) and Financial Policy Committee (UK) have set the Countercyclical buffer (CCyB) at 0% from 1 January 2016.

The Group expects to maintain sufficient capital to meet at a minimum applicable

1 The CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 have been restated to exclude the benefit of the 2009 Preference Stock which the Group derecognised from regulatory capital in November 2015 (see note 36 for further details). Including the benefit of the 2009 Preference Stock the CRD IV transitional Common equity tier 1 and Total capital ratios at 31 December 2014 were 14.8% and 18.3% respectively.
2 Deduction for deferred tax assets (DTA) relates to DTA on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 10% in 2015.
3 The 10% / 15% threshold deduction is phased in at 40% in 2015 and increases by 20% per annum thereafter, and is deducted in full from CET 1 under fully-loaded rules.
4 Regulatory deductions applicable under CRD and phased out under CRD IV relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules.
5 CRD IV transitional rules in 2015 require phasing in 40% of unrealised losses and 40% of unrealised gains. Between 2016 and 2018 unrealised losses and gains will be phased in at the following rates 60%, 80%, 100%. The Group has opted to maintain its filter on both unrealised gains or losses on exposures to central governments classified in the 'available for sale' category. The reserve is recognised in capital under fully loaded CRD IV rules.
6 Includes technical items such as other national filters and non-qualifying CET 1 items.
7 Under CRD IV transitional rules, expected loss is phased in at 40% in 2015 however, the Central Bank of Ireland's (CBI) implementation of competent authority discretions requires at least 50% of expected loss to be deducted from CET 1 overall. Expected loss not deducted from CET 1 is deducted 50:50 from Tier 1 and Tier 2 capital. It is deducted in full from CET 1 under fully loaded rules.
8 Dividends expected for the year ended 31 December 2014 relate primarily to the 2009 Preference Stock and coupons for the year ended 31 December 2015 relate primarily to the Additional tier 1.
9 Non-qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 30% in 2015 and 10% per annum thereafter. Certain instruments are phased into Tier 2 capital from Tier 1 capital.
10 Risk weighted assets (RWA) reflect the application of certain Central Bank of Ireland required Balance Sheet Assessment (BSA) adjustments and the updated treatments of expected loss.
11 Further details on RWA as at 31 December 2015 can be found in the Group's Pillar III disclosures for the year ended 31 December 2015, which are published on the Group's website at the same time as the Group's Annual Report.
12 Includes RWA relating to non-credit obligation assets / other assets and RWA arising from the 10% / 15% threshold deduction.

Capital (continued)

regulatory capital requirements plus an appropriate management buffer of 100 to 150 basis points.

Capital actions
In June 2015, the Group successfully raised €750 million of new CRD IV compliant AT1 securities at an initial coupon of 7.375%. See note 37 for further information.

On 23 November 2015, the Group announced that it had received SSM approval to exercise its discretion to redeem the remaining €1.3 billion 2009 Preference Stock, that it would exercise this discretion on the earliest possible date of 4 January 2016 and served notice of redemption to Baggot Securities Limited, as current holder of the stock. The 2009 Preference Stock were derecognised from CET 1 regulatory capital in November 2015. See note 36 for further details.

Distributable items
As at 31 December 2015 the Bank had profits available for distribution in excess of €2.5 billion. The reduction in profits available for distribution of €0.8 billion during the year primarily relates to the impact of the 2009 Preference Stock redemption, dividends recognised on preference stock, movements in the AFS reserves which were partially offset by the profit recorded by the Bank.

Risk weighted assets
Risk weighted assets (RWA) at 31 December 2015 of €53.3 billion compares to RWA of €51.6 billion at 31 December 2014. Increases in RWA are primarily due to the impact of foreign exchange movements (€1.4 billion), an increase in operational risk RWA (€0.8 billion) and an increase in volumes due to new lending in excess of redemptions, partially offset by a decrease in volumes of defaulted loans and advances to customers.

Transitional ratio
The CET 1 ratio at 31 December 2015 of 13.3% compares to a pro-forma ratio at 31 December 2014 (excluding the 2009 Preference Stock) of 12.3%. The increase of c.100 basis points is primarily due to the impact of attributable profits (+c.180 basis points) for the period, partially offset by an additional year of phasing in of CRD IV deductions (-c.50 basis points), an increase in the intangible assets deduction (-c.20 basis points) and an increase in constant currency RWA (-c.10 basis points) (see RWA commentary above).

The ECB is currently undertaking a review of national discretions and options contained in the CRD IV with a view to harmonising the current treatments across its jurisdictions. As part of the review the ECB has published draft proposals (Regulation and Guide), which are currently at a consultation stage and are expected to be implemented during 2016. These proposals include a number of changes which may have a net negative impact on the Group's transitional capital ratios such as increasing the phase in of the DTA deduction (although partially offset by the removal of the AFS sovereign filter).

The pro-forma CET 1 ratio at 1 January 2016 is estimated at 12.9% reflecting the phasing in of CRD IV deductions for 2016. The pro-forma impact of the ECB review of national discretions on the Group's CET 1 on a transitional basis as at 1 January 2016 would, if implemented on that date, result in a further net reduction of c.10 basis points to 12.8%.

Fully loaded ratio
The Group's pro-forma fully loaded CET 1 ratio, excluding the 2009 Preference Stock is estimated at 11.3% as at 31 December 2015, which has increased from 9.3% as at 31 December 2014. The c.200 basis points increase is primarily due to the impact of attributable profits for the period (+c.180 basis points), a decrease in the pension deficit (+c.20 basis points) and a decrease in the DTA deduction (+c.20 basis points), partially offset by a decrease in the available for sale reserve (c.10 basis points), an increase in intangible assets (-c.20 basis points) and an increase in RWA on a constant currency basis (-c.10 basis points) (see RWA commentary above).

Leverage ratio[1]
The leverage ratio at 31 December 2015 is 6.6% on a CRD IV transitional basis, 5.7% on a pro-forma fully loaded basis. The Group expects to remain above the Basel committee indicated minimum level leverage ratio of 3%.

The Basel committee will monitor the proposed 3% minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar I treatment on 1 January 2018.

Individual Consolidation
The transitional CET 1 ratio of The Governor and Company of the Bank of Ireland calculated on an individual consolidated basis as referred to in Article 9 of the CRR is 14.6% as at 31 December 2015.

[1] *The leverage ratio reflects the delegated act implemented on 18 January 2015 which primarily removes Bank of Ireland Life assets from the calculation.*

Divisional performance

Divisional performance - on an underlying basis

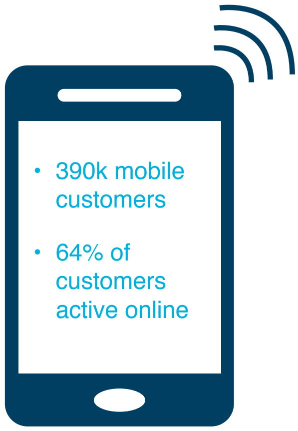
Divisional performance is presented on an underlying basis, which is the measure of profit or loss used to measure the performance of the divisions and the measure of profit or loss disclosed for each division under IFRS (see note 3).

Income statement - underlying profit before tax	**Table**	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change €m
Retail Ireland		507	328	179
Bank of Ireland Life		103	133	(30)
Retail UK		193	127	66
Corporate and Treasury		637	553	84
Group Centre		(223)	(220)	(3)
Other reconciling items[1]		(16)	-	(16)
Underlying profit before tax		**1,201**	**921**	**280**
Non-core items	7	31	(1)	32
Profit before tax		**1,232**	**920**	**312**

[1] *This relates to segmental income / (expense) on certain inter-segment transactions, which is eliminated at a Group level.*

Retail Ireland

Retail Ireland: Income statement	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m	Change %
Net interest income	1,062	1,004	6%
Net other income	373	318	17%
Operating income	**1,435**	**1,322**	**9%**
Operating expenses	(831)	(817)	(2%)
Operating profit before impairment charges on financial assets	**604**	**505**	**20%**
Impairment charges on loans and advances to customers	(95)	(226)	58%
Share of results of associates and joint ventures (after tax)	(2)	49	n/m
Underlying profit before tax	**507**	**328**	**55%**
Loans and advances to customers (net) (€bn)			
At 31 December	36.1	36.8	(2%)
Average in year	36.4	37.5	(3%)
Customer deposits (€bn)			
At 31 December	39.1	36.6	7%
Average in year	37.9	36.4	4%
Staff numbers at period end	4,258	4,525	

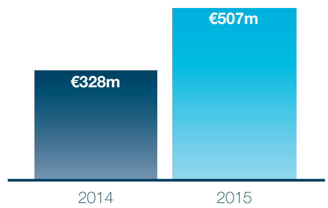


Consumer Banking Customers
>1.7 million

Wealth Customers
>600,000

Business Banking Customers
>200,000

Underlying profit before tax €m



Retail Ireland offers a broad range of financial products and services to all major sectors of the Irish economy. Through our network of branches in over 250 locations across the Republic of Ireland, we are one of the largest providers of financial services in the country. Our branches, embedded in local communities across Ireland, are complemented by our online, mobile and phone banking services.

Our comprehensive product suite includes deposits, mortgages, consumer and business lending, credit cards, current accounts, money transmission services, commercial finance, asset finance, general insurance, life assurance, protection, pensions and investment products. We believe in building strong relationships with our customers and investing in a leading multi-channel distribution platform to serve our customers' needs in order to ensure market leading positions in consumer, wealth management and business segments.

Our focus continues to be on serving our existing customers better while attracting new customers ensuring that we continue to add sustainable value to the Group. We continue to focus on getting to know our customers better as individuals, supporting them more in their communities and enterprises, and helping to make them more financially confident.

Creating financial confidence
We believe that this serves both the best long-term interests of our customers and those of the Bank. How are we doing this?

- **Certainty in home payments** - we have pursued a fixed rate led mortgage pricing strategy. Fixed rates give certainty and stability to both the customer and the Bank at a time when interest rates are at historic lows. 57% of new lending in 2015 was in fixed rate mortgages with 44% in H1 and 64% in H2.
- **Help with payments** - we also extended the innovative Instalment plan feature across our entire Consumer Credit Card portfolio (excluding students) which allows customers to convert larger purchases to a fixed repayment amount over 12

Retail Ireland (continued)

months at a substantially lower rate, helping create more certainty on future payments.

- **Save to borrow - in 2016** - we recently announced another innovation, our 'Mortgage Saver' offering, which provides First Time Buyers with a bonus of 10% on the Mortgage Saver account balance when they draw down a mortgage with Bank of Ireland (subject to applicable terms and conditions).
- **Continue to make banking easier for businesses** - we made business loans up to €100,000 available to SMEs through our Direct Channels 24/7. SMEs can now pick up the phone and get an immediate response. For our Agri Customers, we have greatly simplified the process through which regular stocking loans are provided.

Knowing our customers and demonstrating this knowledge through our actions

- **Digital adoption programmes** are helping our customers to have further 24/7 access to their accounts and we have appointed dedicated customer advisors to accelerate this process. This has supported a more than 20% increase in the numbers of our digitally active retail customers at the end of December 2015 compared to a year earlier with 43% of our sales now coming through direct (call centre and digital) which is up from 28% a year ago.
- **Youth Proposition** - our approach to Youth is a key investment in our future franchise. During 2015 we have developed CoderDojo, Junk Kouture, Biz World, dedicated Youth Weeks, campus recruitment, School banks and Bond Trader to name but a few.
- **Valuable Advice from sector specialists** - 2015 also saw the launch of our Sector Teams, they include agri, technology, healthcare and life sciences, motor, hospitality (hotels / pubs / restaurants), retail convenience, property and project finance / renewable energy each one led by an expert drawn from the relevant industry with a deep understanding of the specific needs and dynamics of the sector.

Support for Local Communities

We continue to demonstrate our support through action in the communities we operate in across Ireland.

- **Encouraging enterprise in local communities** - we have the largest national branch network in the country. During 2015, we also supported 50 Enterprise Towns across the country. This enabled 3,650 businesses, 2,025 community organisations and 203 schools to showcase their products and services in a local context. We intend to increase this number in 2016, in addition to our two national Enterprise Weeks.
- **Support for start-ups** - 2015 saw the launch of start-up Workbenches in Dublin and Galway, offering hot desking, meeting and event space to start-up companies and entrepreneurs (we have welcomed more than 13,000 visitors, hosted more than 240 events, and supported more than 120 start-up enterprises). The Workbench at Grand Canal Square was awarded second place at the Efma Innovation Awards, in the Sustainable Business category. Further Workbenches are being planned in additional city locations. In addition, the 'StartLab' in Eyre Square in Galway was opened, providing a dedicated workspace, education program and access to a wide range of supports designed to help scale their business and further 'Lab' locations are in planning. Sponsored Start-Up Gathering also took place in 2015, which delivered a week long programme of conferences and events in Dublin, Waterford, Cork, Limerick and Galway, with over 400 Gatherings taking place and over 16,500 attendees.
- **Helping everyone to 'think business'** We also launched a free advice portal for SME's called 'ThinkBusiness.ie' - a one-stop shop for start-ups and smaller companies to access resource and advice on an ongoing basis helping them to grow and flourish. The first six months saw 250,000 visitors.

We are starting to see the rewards for these investments both at a customer satisfaction level but also financially. This gives us the confidence to continue to focus on those areas that the customer has asked us to concentrate on - knowing them better as individuals, supporting them more in their communities and enterprises, and, ultimately, helping BoI customers become more financially confident.

Retail Ireland (continued)

Financial performance

Retail Ireland reported an **underlying profit before tax** of €507 million for the year which is an increase of 55% year on year. Operating profit before impairment charges grew by 20% to €604 million while impairment charges fell by €131 million resulting in underlying profit growth of €179 million.

Loans and advances to customers (after impairment provisions) are marginally down by €0.7 billion to €36.1 billion at 31 December 2015, however this is reflective of a gross reduction of c.€1.5 billion in Retail Ireland's low yielding tracker mortgage book and a gross reduction of €2.3 billion in Retail Ireland's Non-performing loan book. In addition during the year we acquired a number of performing loan portfolios including a mortgage portfolio and two SME loan portfolios. Mortgage drawdowns of €1.4 billion have increased by 12%, and at the end of 2015 we provided circa one in three new mortgages. SME lending approvals are more than 18% higher than in 2015 while Business Banking drawdowns of €2.7 billion have increased by 17% during the year.

Non-performing loan book
€2.3bn

Customer deposits of €39.1 billion have increased by €2.4 billion year on year. We have a strong customer deposit franchise with 27% market share. Within deposits, current account credit balances have grown by €2.8 billion while other deposits have declined by €0.4 billion.

Customer deposits
€2.4bn

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see pages 19 and 20).

Net interest income	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Net interest income	1,062	1,004	6%
IFRS income classifications	12	3	n/m
Net interest income (after IFRS income classifications)	**1,074**	**1,007**	**7%**

Year to date reduction in tracker book
€1.5bn

Net interest income (after IFRS income classifications) of €1,074 million is 7% higher than last year. This increase is primarily driven by the lower cost of customer deposits and other funding sources and the impact of higher lending margins on new lending. These factors have been partially offset by the continued negative impact of historically low official interest rates and lower average loan volumes in 2015 compared to 2014.

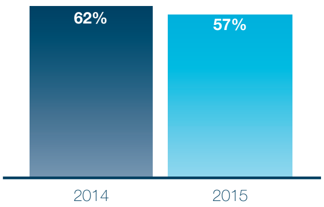
Net other income	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Net other income	373	318	17%
IFRS income classifications	(12)	(3)	n/m
Net other income (after IFRS income classifications)	**361**	**315**	**15%**
Comprised of:			
- Business income	*331*	*320*	*3%*
- Financial instrument valuation adjustments (CVA, DVA, FVA) and other	*-*	*(8)*	*100%*
- Gain / (loss) on disposal and revaluation of investment properties	*30*	*3*	*n/m*

Ireland's only banc-assurer, with life assurance market share
23%

Net other income (after IFRS income classifications) of €361 million for the year was 15% higher than the previous year, primarily due to gains on the disposal and revaluation of investment properties of €30 million. Business income has grown by 3%, primarily due to higher foreign exchange income and higher retail banking fees.

Retail Ireland (continued)

Cost / income ratio (%)

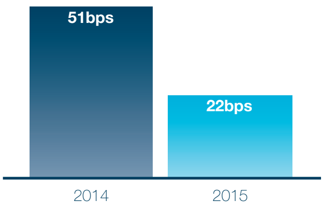


Operating expenses of €831 million for the year were 2% higher than the previous year. The impact of lower staff numbers in the second half of the year was offset by investment associated with strategic initiatives such as 'Smarter Banking', 'Enterprise Towns', 'Youth' and 'ThinkBusiness.ie'. Staff numbers have decreased by 6% from 4,525 at 31 December 2014 to 4,258 at 31 December 2015 and staff costs are also reflective of the costs associated with the Bank's career and reward framework.

The **share of results of associates and joint ventures (after tax)** was a loss of €2 million for the year compared to a gain of €49 million for the previous year. The gain in the prior year was primarily due to the sales of an international investment property and venture capital investments, in addition to increases in the value of other investment properties and investment funds.

Impairment charges / (reversals) on loans and advances to customers	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Residential mortgages	(84)	(140)	40%
Non-property SME and corporate	86	127	(32%)
Property and construction	111	233	(52%)
Consumer	(18)	6	n/m
Impairment charges / (reversals) on loans and advances to customers	**95**	**226**	**(58%)**

Impairment charges (bps)



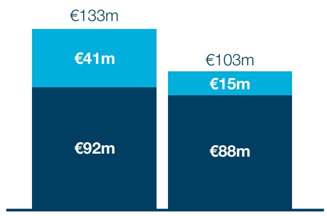
Impairment charges / (reversals) on loans and advances to customers of €95 million for the year 2015 were 58% lower compared to the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 58 to 84 and the supplementary asset quality and forbearance disclosures section on pages 166 to 220.

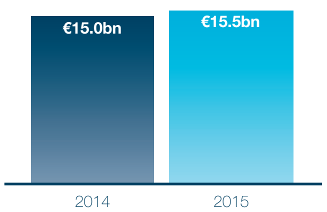
Bank of Ireland Life

Bank of Ireland Life: Income statement (IFRS performance)	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Net interest income	34	43	(21%)
Net other income	154	145	6%
Operating income	188	188	-
Operating expenses	(100)	(96)	(4%)
Operating profit	**88**	**92**	**(4%)**
Investment variance	11	17	(35%)
Economic assumption changes	4	24	(83%)
Underlying profit before tax	**103**	**133**	**(23%)**
Staff numbers period end	937	903	

Underlying profit before tax €m



Assets under management €bn



Bank of Ireland Life's business is to help customers;

- protect themselves and their families against the financial effects of early death and illness;
- manage and invest their savings; and
- manage and protect their income and assets in retirement.

The Group, through Bank of Ireland Life;

- is the second largest life assurance company in the Irish market;
- distributes across three core channels made up of;
  - the Group's branch network;
  - independent financial brokers; and
  - its own tied Financial Advisor network; and
- is the only bancassurer in the Irish Market.

Bank of Ireland Life, which includes New Ireland Assurance Company (NIAC) is focused predominantly on the retail and SME market. Bank of Ireland Life provides a range of protection, investment and pension products offering customers access to a wide range of investment markets and fund managers across its fund platform.

While challenges remain, the economic outlook for Ireland continues to improve. The labour market is increasing, disposable incomes and consumer confidence are growing. All of these factors will have a positive impact on the life assurance industry as the growing workforce look to increase their spend on protecting their longer term financial needs. The ageing population and reducing levels of State and employer led pension provision will encourage more of the working population to independently provide for their own financial needs.

Bank of Ireland Life with 23% market share, over 500,000 policyholders and in excess of €15 billion in assets under management, is well positioned to benefit from the growing investment and pension market. Reflecting the business' customer led proposition, NIAC has won the Professional Insurance Brokers Association award for service excellence in 2012, 2013, 2014 and 2015.

The business has performed well in 2015, with overall new business levels up 9% on the previous year, reflecting a stronger performance in the investment and pension business. New sales in 2015 consisted of €1.4 billion of new lump sum business and of €126.7 million of new regular premium business.

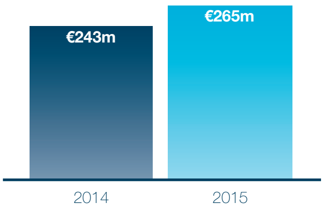
The iFunds investment range has seen strong inflows and returns since inception in February 2014 with assets under management in iFunds now close to €1 billion. Consistent with our bancassurance strategy, we have further enhanced our customer proposition through the launch of Life Online, a new portal that, for the first time in the market, gives customers rich and personalised information on their pension and investment portfolios integrated alongside their current account and other banking products.

Bank of Ireland Life (continued)

Financial performance

Bank of Ireland Life reported an **underlying profit before tax** of €103 million for the year ended 31 December 2015 compared to an underlying profit before tax of €133 million in the previous year. In the main the fall in total profits reflects a lower benefit from investment fund growth and interest rates. The total impact of this on underlying profits for the year ended 31 December 2015 is €15 million (31 December 2014: €41 million).

New business sales (Annual Premium Equivalent (APE)) €m



New business sales for Bank of Ireland Life grew by 9% over the year ended 31 December 2015 resulting in a 23% market share of new business. Sales were ahead in each channel compared to the previous year with single premium investment and regular premium pension sales in particular showing strong growth. The value of new business is in line with the previous year reflecting an increase in the volume of new business sales offset by changes in the mix of business and margins.

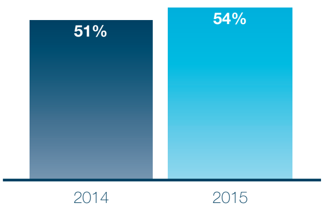
Profits from the book of existing business increased by 3% with increases in respect of persistency and operating assumption changes partly offset by lower profits from risk experience.

Operating profit of €88 million for the year ended 31 December 2015 was €4 million or 4% lower than the previous year. Income levels were broadly flat while operating expenses increased over the period.

Operating income of €188 million for the year ended 31 December 2015 is in line with the previous year. In new business, the strong growth in single premium Life and regular premium pension sales offset the reduction in protection volumes, while overall margins were slightly lower.

On the book of existing policies, mortality experience continued to be favourable though lower than last year, and the positive lapse experience improved further. Lower overall interest rates resulted in a lower return on planned profit and shareholder funds. In addition, the interest cost relating to the capital restructure increased compared to the prior year. The impact of these three items reduced operating profit by €7 million.

Cost / income ratio (%)



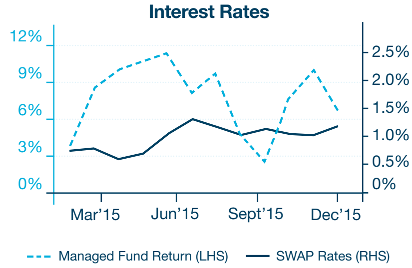
Operating expenses of €100 million for the year ended 31 December 2015 are €4 million or 4% higher than in 2014. The increase reflects the impact of the new career and reward framework, an increase of €1 million in pension costs together with the costs related to the development of the Life Online customer portal.

During the year ended 31 December 2015, the growth in equity markets meant that investment funds outperformed the unit growth assumption to give rise to a positive **investment variance**. The growth in investment funds, while lower than in 2014, resulted in a positive variance of €11 million (31 December 2014: €17 million).

In 2014 swap rates fell and bond spreads narrowed significantly. In 2015 the interest rate environment was more benign with swaps increasing marginally and spreads broadly remaining the same. The overall impact of the change in interest rates, including the impact on the **economic assumptions** was positive, resulting in €4 million gain for the year ended 31 December 2015 (31 December 2014: gain of €24 million).

The discount rate applied to future cash flows was increased to 6.13% at 31 December 2015, an increase of 0.19% when compared to 31 December 2014. The future growth rate on unit linked assets increased by 0.20% to 3.60% at 31 December 2015. These increases were driven by an increase in 10 year swap rates during 2015.

Investment Fund Returns and Interest Rates



Bank of Ireland Life (continued)

Embedded value (EV) performance

Bank of Ireland Life: income statement (Embedded value performance)	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
New business profits	27	27	-
Existing business profits	79	80	(1%)
- Expected return	*57*	*66*	*(14%)*
- Experience variance	*15*	*13*	*15%*
- Assumption changes	*7*	*1*	*n/m*
Intercompany payments	(13)	(13)	-
Interest payments	(6)	(3)	(100%)
Operating profit	**87**	**91**	**(4%)**
Investment variance	10	25	(60%)
Economic assumption changes	5	11	(55%)
Underlying profit before tax	**102**	**127**	**(20%)**

The Embedded Value method is widely used in the life assurance industry.

Operating profit for the year ended 31 December 2015 of €87 million was €4 million or 4% lower than the previous year.

New business profits of €27 million were in line with the previous year reflecting the strong growth in pension and single premium life sales offset by a change in the mix of business and margins.

Existing business profits of €79 million were in line with last year reflecting higher experience variances and assumption changes offset by the impact of lower interest rates on the planned profit and the lower earned return on shareholder funds.

Experience profits were higher with a strong improvement in the company's lapse experience, most notably with respect to protection and single premium life offset by lower risk experience profits.

The **underlying profit before tax**, on an embedded value basis, of €102 million for the year ended 31 December 2015 compares to €127 million for last year.

The underlying profit before tax has benefited from a positive investment variance while the impact of interest rate movements was also positive.

The table below summarises the overall balance sheet of Bank of Ireland Life on an EV basis at 31 December 2015 compared to the value at 31 December 2014.

	31 December 2015 €m	31 December 2014 €m
Net assets	522	386
Value of in Force	678	710
Less Tier 2 subordinated capital / debt	(200)	(200)
Less pension scheme deficit	(147)	(142)
Total embedded value	**853**	**754**

The Embedded Value, which does not include an allowance for any future new business, is made up of a significant portion of net assets, the pension scheme deficit, subordinated capital / debt and the value of in force asset. The Value of in Force (ViF) asset represents the after tax value of future income from the existing book. This asset is relatively short in term with 50% of the future cash flows emerging in the next five years, with a further c.30% of the future cash flows emerging in the five to ten years timescale.

The Embedded Value does not include an allowance for any future new business sales. Over 2015 the Group value of new business was €27 million based on APE Sales of €265 million.

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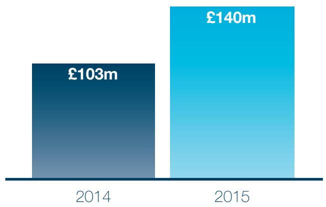
Retail UK (Sterling)

Retail UK: Income statement	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m	Change %
Net interest income	520	542	(4%)
Net other income	(2)	3	n/m
Operating income	**518**	**545**	**(5%)**
Operating expenses	(312)	(294)	(6%)
Operating profit before impairment charges on financial assets	**206**	**251**	**(18%)**
Impairment charges on loans and advances to customers	(101)	(183)	45%
Share of results of associates and joint ventures (after tax)	35	35	-
Underlying profit before tax	**140**	**103**	**37%**
Underlying profit before tax (€m equivalent)	**193**	**127**	**52%**
Loans and advances to customers (net) (£bn)			
At 31 December	26.0	26.1	(1%)
Average in year	26.0	27.4	(5%)
Customer deposits (£bn)			
At 31 December	21.6	20.2	7%
Average in year	20.8	20.9	(1%)
Staff numbers at period end	1,679	1,516	

Underlying profit before tax £m



c. 3m
UK customers through consumer banking franchises

> 80%
Growth in new mortgage lending

The Retail UK Division incorporates the financial services relationship and foreign exchange joint venture with the UK Post Office, the financial services partnership with the AA, the UK residential mortgage business, the Group's branch network in Northern Ireland (NI) and the Group's business banking business in NI. The Group also has a business banking business in Great Britain (GB) which is being run-down, in accordance with the EU Restructuring Plan. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary and NIIB Group, a car and asset finance and consumer lending group.

In the UK, through our partnership with the Post Office, we are one of the leading consumer banking franchises with c.3 million customers. During 2015, we also expanded our network of successful intermediary mortgage partners and entered into a new financial services partnership with the AA.

A key objective for 2015 was to continue to grow our mortgage business, building on the progress we made last year. In 2015, our new mortgage lending was £3.3 billion compared with £1.8 billion in 2014. We have enhanced our mortgage distribution capability by building a new market leading mortgage platform. This platform was successfully launched for the intermediary channel in June with roll out proceeding in line with our plans. The platform will be made available to other channels in due course.

Our foreign exchange joint venture with the Post Office remains the largest provider of consumer foreign exchange in the UK and our travel money card app has continued to win new customers.

On 30 September 2015, the Retail UK Division received £41 million on the sale of its insurance joint operation to the Post Office Limited. This is recognised as a non-core item as set out on page 25.

In July 2015, we announced a new long-term financial services partnership with the AA, with customer propositions focused on the provision of credit cards, unsecured personal loans, savings and mortgages in the UK. The partnership is complementary to our partnership with the Post Office and will combine our proven product

Retail UK (Sterling) (continued)

development capabilities with the strength of the AA brand and its extensive and attractive membership base. Credit cards, personal loans and savings products were all successfully launched during the second half of the year.

Financial performance

Retail UK reported an **underlying profit before tax** of £140 million for the year ended 31 December 2015 compared to a profit of £103 million in the previous year. The increase of £37 million is driven by lower impairment charges (which have declined by £82 million), partially offset by a £45 million reduction in operating profit before impairment charges, which is attributed to a decrease in income of £27 million and an increase in operating expenses of £18 million.

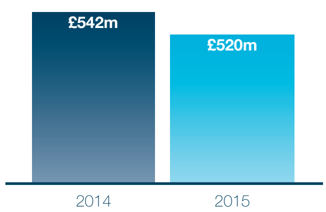
Loans and advances to customers (after impairment provisions) of £26.0 billion are broadly unchanged since 31 December 2014, with a net reduction of £0.1 billion. The full year decrease in loans and advances to customers reflects continued repayments and redemptions in the NI and GB business banking portfolios, partially offset by a net increase in UK Mortgages where the volume of new business exceeded redemptions in the period.

Non-performing loan book
£1.1bn

Customer deposits of £21.6 billion have increased by £1.4 billion since 31 December 2014. This increase is due to net growth in Post Office (PO) deposits of £1.1 billion given the successful launch of new and enhanced products and an increase in BoI branded deposits of £0.3 billion.

Customer deposits
£1.4bn

Net interest income (£m)

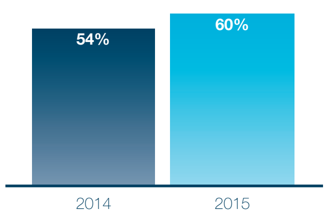


Net interest income of £520 million for the year ended 31 December 2015 is £22 million or 4% lower than the previous year. The decrease is largely due to the impact of business banking deleveraging and the continued negative impact resulting from historically low interest rates, partially offset by a reduction in the cost of deposits.

Net other income	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m	Change %
Business income	5	8	(38%)
Financial instrument valuation adjustments (CVA, DVA, FVA) and other	(7)	(5)	(40%)
Net other income	**(2)**	**3**	**n/m**

Net other income was a charge of £2 million for the year ended 31 December 2015 and has decreased by £5 million since the previous year reflecting lower transaction income.

Cost / income ratio (%)

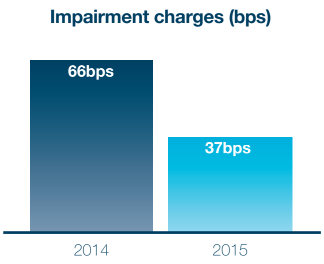


Operating expenses of £312 million for the year ended 31 December 2015 are £18 million higher than the previous year primarily reflecting the targeted investment in the consumer banking business through further investment in our people to support the Bank of Ireland (UK) plc growth strategy. The year to 31 December 2015 also saw specific investment to support the establishment of the recently announced partnership with the AA.

Retail UK (Sterling) (continued)

The **share of results of associates and joint ventures (after tax)** of £35 million, relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, and is in line with the result for the previous year.

Impairment charges / (reversals) on loans and advances to customers	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m	Change %
Residential mortgages	(9)	(6)	(50%)
Non-property SME and corporate	(2)	14	n/m
Property and construction	101	163	(38%)
Consumer	11	12	(8%)
Impairment charges / (reversals) on loans and advances to customers	**101**	**183**	**(45%)**



Impairment charges / (reversals) on loans and advances to customers of £101 million for the year ended 31 December 2015 were £82 million or 45% lower compared to the previous year. The reduction is primarily driven by reduced business banking impairment charges, particularly in GB where there has been some observed recovery in asset valuations.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 58 to 84 and the supplementary asset quality and forbearance disclosures section on pages 166 to 220.

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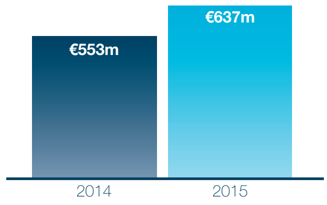
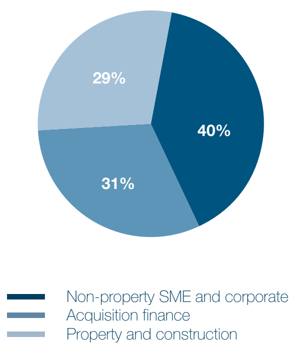
Corporate and Treasury

Corporate and Treasury: Income statement	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m	Change %
Net interest income	**600**	**602**	**-**
- On liquid asset bond portfolio	*65*	*114*	*(43%)*
- Other net interest income	*535*	*488*	*10%*
Net other income	**293**	**217**	**35%**
- On liquid asset bond portfolio	*127*	*176*	*(28%)*
- Other	*166*	*41*	*n/m*
Operating income	**893**	**819**	**9%**
- On liquid asset bond portfolio	*192*	*290*	*(34%)*
- Other	*701*	*529*	*33%*
Operating expenses	(194)	(178)	(9%)
Operating profit before impairment charges on financial assets	**699**	**641**	**9%**
Impairment charges on loans and advances to customers	(62)	(88)	30%
Underlying profit before tax	**637**	**553**	**15%**
Loans and advances to customers (net) (€bn)			
At 31 December	12.9	11.5	12%
Average in year	12.1	11.5	5%
Customer deposits (€bn)			
At 31 December	11.7	12.2	(4%)
Average in year	12.5	12.2	2%
Liquid asset bond portfolio (€bn)			
At 31 December	10.7	12.9	(17%)
Average in year	11.5	13.5	(15%)
Staff numbers at period end	615	586	

Underlying profit before tax €m



Customer lending portfolio composition



+c.18%
New business lending

Corporate and Treasury incorporates the Group's corporate banking, treasury, specialised acquisition finance and large transaction property lending, across the Republic of Ireland, UK and internationally, with offices in eight locations - Dublin, Belfast, London, Bristol, Paris, Frankfurt, Chicago and Stamford, Connecticut. It also manages the Group’s euro liquid asset bond portfolio.

Within the Republic of Ireland, Corporate and Treasury enjoys market leading positions in its market sectors, including corporate banking, commercial property, foreign direct investment, treasury and corporate finance, while its acquisition finance business is among the top players in its targeted segments of the European and US markets.

The Division delivered a strong result for the year ended 31 December 2015:

- new lending up c.18% compared to the previous year;
- we retain our position as Ireland’s number one corporate bank and we continue to achieve a market share in excess of 50% of banking relationships arising from new foreign direct investment in Ireland;

Corporate and Treasury (continued)

- in our treasury business, our foreign exchange volumes were boosted by the volatility in currency markets and increased customer activity. The recent launch of *FXPay*, the Group's new online foreign exchange trading platform, has been well received by our customers;
- we continue to support the recovery in the Irish property market, funding c.30% of the larger debt funded investment property transactions in 2015 and adding a number of top tier international clients to the portfolio; and
- our international acquisition finance business has delivered another excellent performance, arranging deals in a range of jurisdictions, selectively growing the loan book while maintaining asset quality and margins.

Financial performance

The division reported an **underlying profit before tax** of €637 million for the year ended 31 December 2015 an increase of €84 million or 15% compared to underlying profit of €553 million in 2014.

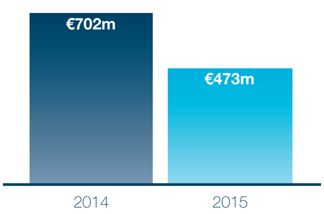
This increase is primarily due to:

- movements in the value of derivatives which did not meet the required criteria for hedge accounting and certain liabilities carried on the balance sheet at fair value through profit and loss;
- lower impairment charges;
- a reduction in the cost of deposits;
- higher equity income; and
- the benefit of the weaker euro on the translation of the income from overseas offices;

partially offset by

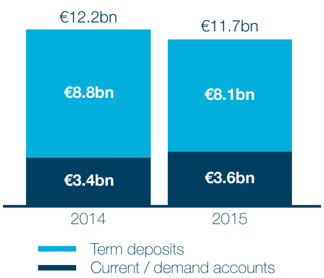
- lower gains from the sale of bonds arising through the rebalancing of the Group's available for sale liquid asset portfolio;
- the negative impact on interest income from crystallised gains driven by the sale of bonds acquired at relatively higher credit spreads and their replacement with bonds at lower current market credit spreads; coupled with
- the continued negative impact of historically low official interest rates.

Non-performing loans (€m)



Loans and advances to customers (after impairment provisions) of €12.9 billion at 31 December 2015 were €1.4 billion higher than at 31 December 2014. The increase is primarily reflective of net new lending in each of our core-loan books, together with the translation impact of a weaker euro, partially offset by the continued deleveraging of non-core loan books and the proceeds of the resolution of impaired loans.

Customer deposits (€bn)



Customer deposits of €11.7 billion were €0.5 billion lower than at 31 December 2014. The deposit book primarily comprises a mixture of corporate, State, SME and retail customer accounts.

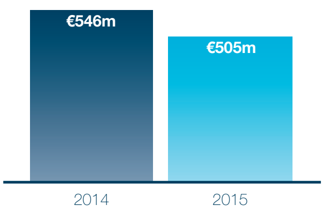
The **liquid asset** bond portfolio of €10.7 billion at 31 December 2015 was €2.2 billion lower than at 31 December 2014, primarily due to repayments of €1.0 billion of NAMA senior bonds.

Corporate and Treasury (continued)

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see pages 19 and 20).

Net interest income	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Net interest income	600	602	-
IFRS income classifications	(95)	(56)	(70%)
Net interest income (after IFRS income classifications)	**505**	**546**	**(8%)**
Comprised of:			
- On liquid asset bond portfolio	*65*	*114*	*(43%)*
- Other net interest income	*440*	*432*	*2%*

Net interest income (after IFRS classifications) of €505 million for the year ended 31 December 2015 has decreased by €41 million or 8% compared to the previous year. The decrease in net interest income is primarily due to:



- the impact on liquid asset and interest rate swap margins of the rebalancing of the Group's liquid asset portfolio, together with lower re-investment rates, some of which is offset in net other income below;
- historically low official interest rates; and
- gains in H1 2014 from re-estimating the timing of cash flows on NAMA senior bonds;

partially offset by

- improved loan and deposit margins;
- higher loan volumes, with net new lending in each of our core loan books; and
- the benefit of the weaker euro on the translation of the income from overseas offices.

Net other income	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Net other income	293	217	35%
IFRS income classifications	95	56	70%
Net other income (after IFRS income classifications)	**388**	**273**	**42%**
Comprised of:			
- Business income	*153*	*152*	*1%*
- Financial instrument valuation adjustments (CVA, DVA, FVA) and other	*74*	*(71)*	*n/m*
- Transfer from available for sale reserve on asset disposal;			
- on liquid asset bond portfolio	*127*	*176*	*(28%)*
- on equity investments	*34*	*16*	*n/m*

Corporate and Treasury (continued)

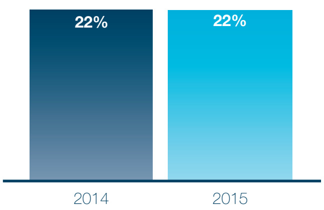
Net other income (after IFRS income classifications)
+42%

Net other income (after IFRS classifications) of €388 million for the year ended 31 December 2015 has increased by €115 million or 42% compared to the previous year.

This increase is primarily due to:
- movements in the value of:
  - derivatives which did not meet the required criteria for hedge accounting, including interest rate swaps economically hedging the 'held to maturity' bond portfolio; and
  - certain liabilities carried on the balance sheet at fair value through profit and loss;
- the impact on interest rate swap margins of the rebalancing of the Group's liquid asset portfolio, which is offset in net interest income above;
- higher gains on the sale of equity holdings; and
- higher fee income;

partially offset by
- lower transfers from the available for sale reserve on the sale of sovereign bonds as part of the rebalancing of the Group's liquid asset portfolio.

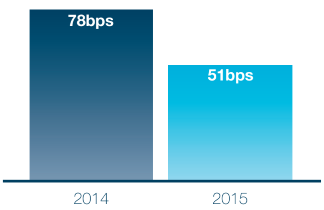
Cost / income ratio (%)



Operating expenses of €194 million for the year ended 31 December 2015 were €16 million higher than the previous year. This increase is primarily due to:
- the impact of the weaker euro on the translation of the costs of overseas offices and other non-euro expenditure;
- increased pension costs;
- the new career and reward framework introduced for employees during 2014; and
- investment in people, infrastructure and technology.

Impairment charges / (reversals) on loans and advances to customers	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Non-property SME and corporate	65	75	(13%)
Property and construction	(3)	13	n/m
Total impairment charges / (reversals) on loans and advances to customers	**62**	**88**	**(30%)**

Impairment charges (bps)



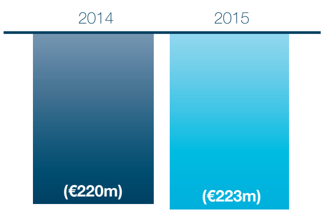
Impairment charges / (reversals) on loans and advances to customers of €62 million for the year ended 31 December 2015 have decreased by €26 million or 30% compared to the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 58 to 84 and the supplementary asset quality and forbearance disclosures section on pages 166 to 220.

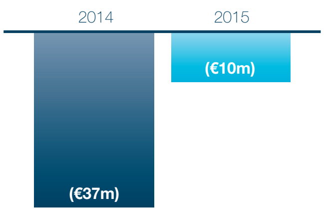
Group Centre

Group Centre: Income statement	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m	Change %
ELG fees	**(10)**	**(37)**	**73%**
Other income	52	(31)	n/m
Net operating income / (expense)	**42**	**(68)**	**n/m**
Operating expenses (before Irish bank levy and regulatory costs)	(205)	(166)	(24%)
Regulatory costs	(22)	(18)	(22%)
- BIFR fund costs	*(7)*	*-*	*(100%)*
- FSCS costs	*(15)*	*(18)*	*17%*
Irish bank levy	(38)	(38)	-
Operating loss before impairment charges on financial assets	**(223)**	**(290)**	**23%**
Reversal of impairment charge on available for sale (AFS) financial assets	-	70	(100%)
Underlying loss before tax	**(223)**	**(220)**	**(1%)**
Staff numbers at period end	3,656	3,556	

Underlying loss before tax €m



ELG fees €m



The Group Centre comprises Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk and Group Human Resources. The Group's central functions, through Group Centre, establish and oversee policies, and provide and manage certain processes and delivery platforms for the divisions.

Group Centre's income and costs comprises income from capital and other management activities, unallocated Group support costs and the cost associated with schemes such as the ELG Scheme, the Irish bank levy and the UK Financial Services Compensation Scheme (FSCS), along with contributions to the newly established Bank and Investment Firm Resolution (BIFR) fund.

Financial performance

Group Centre reported an **underlying loss before tax** of €223 million for the year ended 31 December 2015 compared to a loss of €220 million for the previous year.

Net operating income / (expense) was a gain of €42 million for the year ended 31 December 2015 compared to a charge of €68 million for 2014. The improvement of €110 million in the year is driven primarily by a combination of lower ELG fees, gains realised from the sale of sovereign bonds in the liquid asset portfolio of €46 million and fair value and valuation adjustments.

ELG fees were €10 million for the year ended 31 December 2015 compared to €37 million for the previous year. The total liabilities covered by the ELG Scheme are €0.7 billion at 31 December 2015 compared to €3 billion at 31 December 2014. Final maturity of the covered liabilities is expected to occur by December 2017, with c.50% of the covered liabilities of €0.7 billion expected to mature by 31 December 2016.

Other income was a gain of €52 million for the year ended 31 December 2015 and is €83 million higher than the in 2014. The increase is primarily due to gains of €46 million realised on the sale of sovereign bonds as part of the rebalancing of the Group's liquid asset portfolio, along with fair value and other valuation adjustments on the Convertible Contingent Capital Note embedded derivative and other derivatives that hedge the Group's balance sheet.

Operating expenses of €205 million for the year ended 31 December 2015 are €39 million higher than the previous year. The increase is reflective of investment in strategic initiatives, including technology and infrastructure, along with increased costs associated with compliance with regulatory expectations. The increase also reflects the impact of the new career and reward framework and higher pension costs.

Regulatory and Bank levies

The Group incurred a cost of €38 million in relation to the **Irish bank levy** during the year ended 31 December 2015. This

Group Centre (continued)

cost was in line with the charge incurred during 2014. The Group's contribution to the **Financial Services Compensation Scheme** levy was €15 million during 2015, compared to €18 million in the year ending December 2014.

The Group also incurred costs of €7 million in relation to the newly established **Bank and Investment Firm Resolution (BIFR)** fund, under the Bank Recovery and Resolution Directive. The Group's 2015 contribution will transfer to the EU Single Resolution Fund in 2016.

The Group expects an increase in regulatory costs in 2016 in the range of €40-45 million, primarily driven by additional contributions to the EU Single Resolution Fund as well as anticipated contributions to the newly established Deposit Guarantee Scheme fund.

The **reversal of an impairment charge on available for sale financial assets** of €70 million during 2014 related to the NAMA subordinated bonds, the valuation of which was updated following the payment of a discretionary coupon on these bonds and NAMA's updated outlook for its long-term performance. There was no such reversal in the current year.

Income statement - Operating segments

Year ended 31 December 2015	Net interest income €m	Net insurance premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses (before Irish bank levy) €m	Irish bank levy €m	**Operating profit / (loss) before impairment charges on financial assets €m**	Impairment charge on loans and advances to customers €m	Share of results of associates and joint ventures (after tax) €m	Gain on disposal / liquidation of business activities €m	**Profit / (loss) before taxation €m**
Retail Ireland	1,062	-	373	**1,435**	-	**1,435**	(831)	-	**604**	(95)	(2)	-	**507**
BIL	34	1,343	330	**1,707**	(1,504)	**203**	(100)	-	**103**	-	-	-	**103**
Retail UK	716	-	(1)	**715**	-	**715**	(431)	-	**284**	(139)	48	-	**193**
Corporate & Treasury	600	-	293	**893**	-	**893**	(194)	-	**699**	(62)	-	-	**637**
Group Centre	22	7	20	**49**	(7)	**42**	(227)	(38)	**(223)**	-	-	-	**(223)**
Other reconciling items	10	-	(26)	**(16)**	-	**(16)**	-	-	**(16)**	-	-	-	**(16)**
Group - underlying[1]	**2,444**	**1,350**	**989**	**4,783**	**(1,511)**	**3,272**	**(1,783)**	**(38)**	**1,451**	**(296)**	**46**	**-**	**1,201**
Total non-core items													
- Gain on disposal / liquidation of business activities	-		-	**-**	-	**-**	-	-	**-**	-	-	51	**51**
- Cost of Restructuring Programme	-		-	**-**	-	**-**	(43)	-	**(43)**	-	-	-	**(43)**
- Gain arising on movement in the Group's credit spreads	-		11	**11**	-	**11**	-	-	**11**	-	-	-	**11**
- Gross-up for policyholder tax in the Life business	-		11	**11**	-	**11**	-	-	**11**	-	-	-	**11**
- Impact of changes to pension benefits in the Group sponsored defined benefit schemes	-		-	**-**	-	**-**	4	-	**4**	-	-	-	**4**
- Payments in respect of the career and reward framework	-		-	**-**	-	**-**	(2)	-	**(2)**	-	-	-	**(2)**
- Loss on liability management exercises	-		(1)	**(1)**	-	**(1)**	-	-	**(1)**	-	-	-	**(1)**
- Investment return on treasury stock held for policyholder	-		-	**-**	-	**-**	-	-	**-**	-	-	-	**-**
Group total	**2,444**	**1,350**	**1,010**	**4,804**	**(1,511)**	**3,293**	**(1,824)**	**(38)**	**1,431**	**(296)**	**46**	**51**	**1,232**

[1] *Underlying performance excludes the impact of non-core items (see page 25).*

Income statement - Operating segments

Year ended 31 December 2014	Net interest income €m	Net insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses (before Irish bank levy) €m	Irish bank levy €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charge on loans and advances to customers €m	Reversal of impairment charge on available for sale (AFS) financial assets €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	Profit / (loss) before taxation €m
Retail Ireland	1,004	-	318	1,322	-	1,322	(817)	-	505	(226)	-	49	-	328
Bank of Ireland Life	43	1,340	924	2,307	(2,078)	229	(96)	-	133	-	-	-	-	133
Retail UK	674	-	2	676	-	676	(364)	-	312	(228)	-	43	-	127
Corporate and Treasury	602	-	217	819	-	819	(178)	-	641	(88)	-	-	-	553
Group Centre	(7)	4	(59)	(62)	(6)	(68)	(184)	(38)	(290)	-	70	-	-	(220)
Other reconciling items	5	-	(9)	(4)	-	(4)	4	-	-	-	-	-	-	-
Group - underlying[1]	2,321	1,344	1,393	5,058	(2,084)	2,974	(1,635)	(38)	1,301	(542)	70	92	-	921
Total non-core items														
- Impact of changes to pension benefits in the Group sponsored defined benefit schemes	-	-	-	-	-	-	93	-	93	-	-	-	-	93
- Cost of restructuring programme	-	-	-	-	-	-	(56)	-	(56)	-	-	-	-	(56)
- Payment in respect of the career and reward framework	-	-	-	-	-	-	(32)	-	(32)	-	-	-	-	(32)
- Charge arising on the movement - in the Group's credit spreads	-	-	(15)	(15)	5	(10)	-	-	(10)	-	-	-	-	(10)
- Gross-up for policyholder tax in the Life business	-	-	14	14	-	14	-	-	14	-	-	-	-	14
- Loss on disposal / liquidation of business activities	-	-	-	-	-	-	-	-	-	-	-	-	(4)	(4)
- Loss on deleveraging of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Loss on liability management exercises	-	-	(5)	(5)	-	(5)	-	-	(5)	-	-	-	-	(5)
- Investment return on treasury stock held for policyholders	-	-	(1)	(1)	-	(1)	-	-	(1)	-	-	-	-	(1)
Group total	2,321	1,344	1,386	5,051	(2,079)	2,972	(1,630)	(38)	1,304	(542)	70	92	(4)	920

[1] *Underlying performance excludes the impact of non-core items (see page 25).*

Risk Management

Credit risk

Key points:

- The macroeconomic environment and outlook in Ireland and the UK, which are the Group's key markets, continued to be favourable in 2015.
- Asset quality trends have continued to improve in line with expectations.
- Total loans and advances to customers (before impairment provisions) increased to €90.6 billion at 31 December 2015 from €89.5 billion at 31 December 2014, primarily reflecting the strength of sterling during the year.
- The Group has expanded its risk disclosures for mortgage loans. In addition to the traditional disclosure of 'defaulted' and 'non-defaulted' loans, the Group has provided additional information on probationary residential mortgages - primarily mortgages that were previously 'defaulted' but which are no longer 'defaulted' at the reporting date; the mortgages are awaiting the successful completion of a 12 month probation period.
- The Group has also provided additional information on Non-performing loans which comprises both defaulted loans and the additional category of probationary mortgages (as defined on page 67).
- Non-performing loans have reduced by €3.8 billion to €12.0 billion at 31 December 2015, with reductions across all asset classes. Non-performing loans comprise defaulted loans of €10.6 billion (down from €14.3 billion at 31 December 2014) and probationary residential mortgages of €1.4 billion (down from €1.5 billion at 31 December 2014).
- The significant reductions in both Non-performing loans and defaulted loans in 2015 reflect the Group's ongoing progress with resolution strategies that include appropriate and sustainable support to customers who are in financial difficulty. This resolution activity has been aided by the continued recovery in economic and property market conditions.
- Provision cover on Non-performing loans was 49% at 31 December 2015 compared to 47% at 31 December 2014. Likewise, provision cover on defaulted loans also increased in the year, from 52% at 31 December 2014 to 56% at 31 December 2015.
- Total impairment charges on loans and advances to customers of €296 million have fallen significantly on the prior year (31 December 2014: €542 million).

Definition of Credit Risk

Credit Risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk comprises country risk, default risk, recovery risk, exposure risk, the credit risk in securitisation, cross border (or transfer) risk, concentration risk and settlement risk. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration to inform the setting of appropriate risk mitigation and transfer mechanisms, and to assess risk capital requirements. Credit risk appetite limits are set by the Court with respect to maximum drawn exposures by credit category, by region and single name. The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it and the methods used to measure and monitor it are set out below.

How Credit Risk arises

Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions. It comprises both drawn exposures and exposures the Group has committed to extend. While the Group could potentially suffer loss to an amount equivalent to its undrawn commitments, the Group does not expect to incur losses to that extent as most consumer related commitments can be cancelled by the Group and non-consumer related commitments are entered into subject to the customer continuing to achieve specific credit standards.

The Group is also exposed to credit risk from its derivatives, available for sale financial assets, other financial assets and from its reinsurance activities in NIAC.

Country risk

Country risk is the risk that sovereign or other counterparties within a country may be unable, unwilling or precluded from fulfilling their cross-border obligations due to changing political, financial or economic circumstances such that a loss to the Group may arise. This also includes credit transfer risk which is the risk of loss due to restrictions on the international transfer of funds. The Group is exposed to country risk. Exposures are managed in line with approved policy and country maximum exposure limits.

Country risk is governed by the Group Country Risk Policy which is approved by the Court. Limits are set and monitored for countries and for sovereign obligors in accordance with this policy.

Settlement risk

Settlement risk arises in any situation where a payment in cash, securities or

Credit risk (continued)

Definition of Credit Risk (continued)

equities is made in expectation of a corresponding receipt in cash, securities or equities. Appropriate policies exist and settlement limits are monitored.

Credit concentration risk
Credit concentration risk is the risk of loss due to exposures to a single entity or group of entities engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Undue concentrations could lead to increased volatility in the Group's impairment charges on financial assets, earnings, capital requirements and financial prospects. Management of risk concentrations is an integral part of the Group's approach to risk management. Target levels and, where appropriate, limits are defined by the Court for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Court. These target levels and, where appropriate, limits, are informed by the Group's Risk Appetite Statement. Single name concentrations are also subject to limits.

Large exposures
The Group's Risk Appetite Statement and regulatory requirements set out maximum exposure limits to a customer or a group of connected customers. The limits and regulatory requirements cover both bank and non-bank counterparties.

The Group's Risk Appetite Statement specifies a range of exposure limits for credit concentration risk.

The Group also monitors single customer exposure against regulatory requirements. As at 31 December 2015, the Group's 20 largest exposures (excluding exempt exposures) reported under the Capital Requirements Regulation (CRR) large customer exposures regulatory regime amounted to €5.1 billion.

Credit related commitments
The Group manages credit related commitments that are not reflected as loans and advances on the balance sheet on the same basis as loans for credit approval and management purposes.

These include:
- guarantees and standby letters of credit;
- performance or similar bonds and guarantees;
- documentary and commercial letters of credit;
- commitments; and
- letters of offer.

Further information on the Group's exposures is set out in note 34.

Credit risk management

The Group's approach to the management of credit risk is focused on a detailed credit analysis at origination followed by early intervention and active management of accounts where creditworthiness has deteriorated. The Credit & Market Risk function has responsibility for the independent oversight of Credit & Market Risk, and for overall risk reporting to the GRPC, the CRC and the Court on developments in these risks and compliance with specific risk limits. It is led by the CCMRO who reports directly to the Group Chief Executive. The function provides independent oversight and management of the Group's credit risk strategy, credit risk management information and credit risk underwriting as well as strategic oversight and management of certain challenged portfolios.

Credit policy
The core values and principles governing the provision of credit are contained in Group Credit Policy which is approved by the Court. Individual business unit credit policies define in greater detail the credit approach appropriate to the units concerned. These policies are aligned with and have regard to, the Group's Risk Appetite Statement and applicable credit limits, the lessons learned from the Group's loss history, the markets in which the business units operate and the products which they provide. In a number of cases business unit policies are supplemented by sectoral / product credit policies.

Each staff member involved in developing banking relationships and / or in assessing or managing credit has a responsibility to ensure compliance with these policies. There are procedures for the approval and monitoring of exceptions to policy.

Lending authorisation
The Group's credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings. All exposures above certain levels require approval by the Group Credit Committee (GCC). Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgment and experience. Material lending proposals are referred to credit units for independent assessment / approval or formulation of a recommendation for subsequent adjudication by the applicable approval authority.

Counterparty credit risk arising from derivatives
Credit risk exposure arising from derivative instruments is managed as part of the overall lending limits to customers and financial institutions. Credit risk exposure on derivative transactions is

Credit risk (continued)

Credit risk measurement

calculated using the current value of the contract (on a mark to market basis) and an estimate of the maximum cost of rewriting the contract in the event of counterparty default. The credit process also limits gross derivative positions.

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 79 and 80.

Loan loss provisioning
Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working out loans.

The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. This may involve implementing forbearance solutions, entering into restructuring arrangements or action to enforce security.

Other factors taken into consideration in estimating provisions include domestic and international economic climates, changes in portfolio risk profile, and the effect of any external factors such as legal or competition requirements. Whilst provisioning is an ongoing process, all business units formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a half yearly basis. Their conclusions are reviewed by the Credit & Market Risk function and the GRPC.

Under delegated authority from the Court, the Group's provisioning methodology is approved by the GRPC on a half yearly basis, details of which are set out in credit risk methodologies on page 80. On an annual basis, the CRC provides observations on the Group's asset quality management and profile to the GAC as an input into the GAC's assessment of year end impairment provisions.

The quantum of the Group's impairment charge, Non-performing loans, defaulted loans and impairment provisions are also reviewed by the GRPC in advance of providing a recommendation to the GAC.

An analysis of the Group's impairment provisions at 31 December 2015 is set out in note 25.

Credit risk mitigation

An assessment of the borrower's ability to service and repay the proposed level of debt (principal repayment source) is undertaken for credit requests and is a key element in the Group's approach to mitigating risk. In addition, the Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks should these materialise, including hedging, securitisation and the taking of collateral (which acts as a secondary repayment source).

Controls and limits
The Group imposes credit risk control limits and guide points to mitigate significant concentration risk. These limits and guide points are informed by the Group's Risk Appetite Statement which is approved annually by the Court.

The Court approves country maximum exposure guide points based on the Group's country risk rating models which are supported by external ratings. Maximum exposure limits for exposures to banks are also approved by the GRPC for each rating category based on credit risk modelling techniques combined with expert judgement.

Risk transfer and financing strategies
The objective of risk mitigation / transfer is to limit the risk impact to acceptable (quantitative and qualitative) levels. Where the risk review process indicates the possible emergence of undue risk concentrations, appropriate risk transfer and mitigation options are explored and recommended to the Portfolio Review Committee (PRC).

Collateral
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or Probability of Default (PD). The Group

Credit risk (continued)

Credit risk mitigation (continued)

takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

Various types of collateral are accepted, including property, securities, cash, guarantees and insurance, grouped broadly as follows:

- financial collateral (lien over deposits, shares, etc.);
- residential and commercial real estate;
- physical collateral (plant and machinery, stock, etc.); and
- other collateral (debtors, guarantees, insurance, etc.).

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in table 3c on pages 173 and 192.

Counterparty credit risk arising from derivatives

The Group has executed standard internationally recognised documents such as International Swaps and Derivative Association (ISDA) agreements and Credit Support Annexes (CSAs) with its principal interbank derivative counterparties. The purpose of a CSA is to limit the potential cost of replacing derivative contracts at market prices in the event of default by the counterparty. A very high proportion of the Group's interbank derivatives book is covered by CSAs and is hence collateralised, primarily through cash.

Credit risk reporting / monitoring

It is the Group's policy to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk at a Group, divisional and significant operating unit / product type level is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book (credit grade and PD profiles and risk weighted assets) and loan impairment provisions including individual large impaired exposures. Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on exceptions to credit policy is presented to and reviewed by the GRPC, CRC and the Court on a quarterly basis. The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

The PRC considers and recommends to the GRPC, on a quarterly basis, credit concentration reports which track changes in sectoral and single name concentrations measured under agreed parameters. Credit risk, including compliance with key credit risk limits, is reported monthly in the Court Risk Report. This report is presented to and discussed by the GRPC and the Court. The quarterly Court Risk Report is also presented to and discussed by the CRC.

In addition other reports are submitted to senior management and the Court as required.

Group Credit Review (GCR), an independent function within Group Internal Audit, reviews the quality and management of credit risk assets across the Group. Using a risk based approach, GCR carries out periodic reviews of Group lending portfolios, lending units and credit units.

Credit risk (continued)

Management of challenged assets

The Group has in place a range of initiatives to manage challenged and vulnerable credit. These include:

- enhanced collections and recoveries processes;
- specialist work-out teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions;
- support from central teams in managing 'at risk' portfolios at a business unit level; and
- modified and tighter lending criteria for specific sectors.

The segregation of certain challenged portfolios and the realignment of resources to manage these assets allows the remaining portfolio managers to focus on the loan book classified as 'Acceptable quality' or better and to work closely with those customers.

Group forbearance strategies

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. If the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A loan which has an active 'forbearance measure' is a 'forborne loan'. The Group definition of forbearance is consistent with the CBI regulatory definition of forbearance.

A range of forbearance strategies are used by the Group for customers in arrears or facing potential arrears on contracted loan repayments, in order to arrange, where viable, sustainable short-term or longer term repayment solutions as appropriate. A forbearance strategy may include, but is not necessarily limited to, one or more of the following measures:

- adjustment or non-enforcement of covenants: an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjust the covenant(s) to reflect the changed circumstances of the borrower;
- facilities in breach of terms placed on demand: an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, pending a more long-term resolution;
- reduced payments (full interest): an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- reduced payment (greater than full interest) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- capitalisation of arrears: an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- term extension: an arrangement where the original term of the loan is extended.

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. The Group has an operating infrastructure in place to assess and, where appropriate, implement such options on a case-by-case basis. Group Credit Policy outlines the core principles and parameters underpinning the Group's approach to forbearance with individual business unit policies defining in greater detail the forbearance strategies appropriate to each unit.

Forbearance requests are assessed on a case-by-case basis taking due consideration of the individual circumstances and risk profile of the customer to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place. Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed; and, where impairment is deemed to have occurred, will result in a specific provision. Where appropriate, and in accordance with the Group's credit risk management structure, forbearance requests are referred to credit units for independent assessment prior to approval by the relevant approval authority.

Forborne loans are reviewed in line with the Group's credit management processes, which include monitoring borrower compliance with the revised terms and conditions of the forbearance arrangement. Loans to which forbearance has been applied continue to be classified as forborne until the forbearance measure expires. The Group does not currently apply a set time period after which the forbearance classification on a performing forborne loan is discontinued but may do so in future. Borrower compliance with revised terms and conditions may not be achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continue to deteriorate, or fail to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met. In the event of non-compliance, a request for

Credit risk (continued)

Management of challenged assets (continued)

further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken - this could for example arise where the value of security held in respect of a loan diminishes over the period of a forbearance arrangement which ultimately proves unsustainable.

It is the Group's policy to measure the effectiveness of forbearance arrangements over the lifetime of those arrangements. A forbearance arrangement is considered to be effective where the risk profile of the affected borrower stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the borrower. The measurement of effectiveness takes account of the nature and intended outcome of the forbearance arrangement and the period over which it applies.

Book profile - Loans and advances to customers

Loans and advances to customers are shown in the tables below and in the tables on pages 68 to 77.

Geographical and industry analysis of loans and advances to customers including held for sale
The following table gives the geographical and industry breakdown of total loans (before impairment provisions).

31 December 2015 **Geographical / industry analysis[1]**	**RoI** **€m**	**UK** **€m**	**RoW** **€m**	**Total** **€m**
Personal	26,549	29,695	-	56,244
- Residential mortgages	*24,991*	*27,914*	-	*52,905*
- Other consumer lending	*1,558*	*1,781*	-	*3,339*
Property and construction	8,130	5,227	-	13,357
- Investment	*6,884*	*4,504*	-	*11,388*
- Land and development	*1,246*	*723*	-	*1,969*
Business and other services	5,932	2,514	502	8,948
Distribution	2,720	254	20	2,994
Manufacturing	2,881	561	555	3,997
Transport	1,340	134	75	1,549
Financial	839	120	13	972
Agriculture	1,624	412	-	2,036
Energy	463	35	-	498
Total	**50,478**	**38,952**	**1,165**	**90,595**

[1] *The geographical breakdown is primarily based on the location of the business unit where the asset is booked.*

Credit risk (continued)

Book profile - Loans and advances to customers (continued)

31 December 2014 Geographical / industry analysis[1]	RoI €m	UK €m	RoW €m	Total €m
Personal	27,072	26,865	-	53,937
- Residential mortgages	*25,588*	*25,395*	-	*50,983*
- Other consumer lending	*1,484*	*1,470*	-	*2,954*
Property and construction	8,762	6,457	-	15,219
- Investment	*7,150*	*5,372*	-	*12,522*
- Land and development	*1,612*	*1,085*	-	*2,697*
Business and other services	6,332	2,310	299	8,941
Distribution	2,736	147	-	2,883
Manufacturing	2,798	728	525	4,051
Transport	1,267	101	23	1,391
Financial	569	87	26	682
Agriculture	1,454	496	-	1,950
Energy	456	30	-	486
Total	51,446	37,221	873	89,540

[1] *The geographical breakdown is primarily based on the location of the business unit where the asset is booked.*

The Group's primary markets are Ireland and the UK and exposures originated and managed in these countries represent a material concentration of credit risk. Similarly, the Group exhibits a material concentration in Residential mortgages and in the Property and construction sector.

The Group's Residential mortgage portfolio is widely diversified by individual borrower and amounted to 58% of total loans and advances to customers at 31 December 2015 (31 December 2014: 57%). 47% of Residential mortgages related to Ireland (31 December 2014: 50%) and 53% related to the UK at 31 December 2015 (31 December 2014: 50%) with the change in mix driven in part by the euro / sterling exchange rate. At 31 December 2015, the Group's UK Residential mortgage book amounted to £20.5 billion (31 December 2014: £19.8 billion) (before impairment provisions).

The Property and construction sector accounted for 15% or €13.4 billion of total loans and advances to customers at 31 December 2015 (31 December 2014: 17% or €15.2 billion), reflecting the Group's ongoing resolution activity in this sector (Property and construction Non-performing loans reduced by €2.2 billion in the year). The Group's Property and construction loan book consists primarily of Investment property loans.

Credit risk (continued)

Impairment charges / (reversals) on loans and advances to customers

For an analysis of the Group's impairment charge on forborne loans and advances to customers see page 219 in the supplementary asset quality and forbearance disclosures.

Impairment charges / (reversals) on loans and advances to customers Composition	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m	Change %
Residential mortgages	(96)	(148)	35%
- Retail Ireland	*(84)*	*(140)*	*40%*
- Retail UK	*(12)*	*(8)*	*(50%)*
Non-property SME and corporate	149	218	(32%)
- Republic of Ireland SME	*86*	*127*	*(32%)*
- UK SME	*(2)*	*17*	*n/m*
- Corporate	*65*	*74*	*(12%)*
Property and construction	246	451	(45%)
- Investment	*173*	*307*	*(44%)*
- Land and development	*73*	*144*	*(49%)*
Consumer	(3)	21	n/m
Total impairment charges / (reversals) on loans and advances to customers	**296**	**542**	**(45%)**

Impairment charges on loans and advances to customers of €296 million for the period ended 31 December 2015 were €246 million or 45% lower than the previous year. The impairment charges for the previous year incorporated an estimated €280 million net reduction in collective impairment provisions for Retail Ireland mortgages, reflecting the combined impact of the updated collective provisioning model parameters and assumptions and improved portfolio performance and economic conditions in 2014.

The significant reduction in impairment charges for 2015 reflects the strong performance of the Group's loan portfolios, the continued reductions in both non-performing and defaulted loans, and improvements in the economic environment in the countries in which the Group's portfolios are located.

The significant reductions in both non-performing and defaulted loans reflect our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

Impairment charges across all of the Group's asset classes were lower in 2015 as compared to the previous year.

The impairment reversal on **Residential mortgages** of €96 million for the year ended 31 December 2015 compares to an impairment reversal of €148 million in the previous year.

The impairment reversal on the Retail Ireland mortgage portfolio of €84 million for the year ended 31 December 2015 compares to an impairment reversal of €140 million in the previous year. The Retail Ireland mortgage impairment reversal in 2014 incorporated an estimated €280 million net reduction in collective impairment provisions, reflecting the combined impact of the updated collective provisioning model parameters and assumptions and improved portfolio performance and economic conditions in 2014. The Retail Ireland mortgage impairment reversal is lower in the current year compared to the previous year due to the more impactful update of the collective provisioning model parameters and assumptions in 2014.

The impairment reversal in the current year reflects improvements in book performance, in particular lower default rates and higher cures on foot of resolution activity, and improved economic conditions. Retail Ireland mortgage default arrears reduced significantly in 2015 in both the Owner occupied and Buy to let market segments. Retail Ireland mortgage default arrears are at their lowest level, in terms of reporting periods, since December 2011, and have reduced by over 40% from peak levels in 2013.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €149 million for the year ended 31 December 2015 has decreased by €69 million or 32% from the previous year. Impairment charges have reduced across each of the Group's non-property portfolios, reflecting improved macroeconomic and trading conditions in both the domestic Irish and international markets.

The impairment charge on the **Property and construction** loan portfolio of €246 million for the year ended 31 December

Credit risk (continued)

Impairment charges / (reversals) on loans and advances to customers (continued)

2015 has decreased by €205 million or 45% from the previous year. The impairment charge on the Investment property element of the Property and construction portfolio was €173 million for the year ended 31 December 2015 compared to €307 million in the previous year. Lower impairment charges reflect the continued recovery in investment property markets in both RoI and the UK. Similar to the Non-property SME and corporate portfolio, current year impairment charges relate to individual case specific events and continued resolution activity. Significantly lower impairment charges on the Land and development element of the Property and construction portfolio reflects the already substantially provisioned nature of this portfolio.

The impairment reversal of €3 million on **Consumer** loans for the year ended 31 December 2015 reflects the benefits of the recovery in macroeconomic conditions, and thus lower levels of default and higher cures particularly in the Retail Ireland Consumer portfolios.

Impairment charge by nature of impairment provision	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m
Specific charge individually assessed	541	865
Specific charge collectively assessed	(136)	(126)
Incurred but not reported	(109)	(197)
Total impairment charge	**296**	**542**

Impairment provision by nature of impairment provision	**31 December 2015 €m**	31 December 2014 €m
Specific provisions individually assessed	4,647	5,838
Specific provisions collectively assessed	628	878
Incurred but not reported	611	707
Total impairment provision	**5,886**	**7,423**

Individual and collective specific provisions at 31 December 2015 are after provisions utilised in the year of €2.1 billion as set out in note 25 on page 131.

The decrease in individual specific provisions in 2015 reflects the impact of provisions utilised during the year, partially offset by new, and increases to existing, specific provisions attaching to individually assessed Residential mortgage, Non-property SME and corporate and Property and construction exposures.

The decrease in collective specific provisions in the year reflects the impact of provisions utilised activity in collectively assessed portfolios, the update of collective provisioning models (reflecting improved book performance and economic conditions) and, to a lesser extent, an increase in the volume of Irish mortgage loans subject to individual, rather than collective, assessment for provisioning.

Incurred but not reported (IBNR) impairment provisions decreased by €96 million to €611 million at 31 December 2015. The reduction in IBNR impairment provisions is primarily related to Retail Ireland Residential mortgages, taking account of improved book performance and economic conditions during the year.

Credit risk (continued)

Asset Quality - Loans and advances to customers

The Group classifies forborne and non-forborne loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of IFRS 7.

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan (forbearance measure), for reasons relating to the actual or apparent financial stress or distress of that borrower. A loan which has an active forbearance measure is a 'forborne loan'. Loans which do not have an active forbearance measure are 'non-forborne loans'.

The Group applies internal ratings to both forborne and non-forborne loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A thirteen point credit grade rating scale is used for more complex, individually managed loans, including wholesale, corporate and business lending. A seven point credit grade rating scale is used for standard products (including mortgages, personal and small business loans). Both credit scales have a defined relationship with the Group's Probability of Default (PD) scale.

'Neither past due nor impaired' ratings are summarised as set out below:
Mappings to external rating agencies are indicative only, as additional factors such as collateral will be taken into account by the Group in assigning a credit grade to a counterparty:

- high quality ratings apply to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group has an excellent repayment experience. For both forborne and non-forborne loans, high quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality loans that are performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven point grade scale and external ratings equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage forbearance arrangements that are neither past due nor impaired;
- Acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, Acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale, grade 4 outstandings within the seven point scale and external ratings equivalent to B+. In addition, Acceptable quality ratings apply to 'Self-cure' probationary residential mortgages (as defined below) and to certain temporary mortgage forbearance arrangements that are neither past due nor impaired;
- the lower quality but neither past due nor impaired rating applies to those loans that are neither in arrears nor impaired but where the Group requires a work down or work out of the relationship unless an early reduction in risk is achievable. For both forborne and non-forborne loans, lower quality ratings are derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale, grade 5 on the seven point grade scale and external ratings equivalent to B or below. In addition, the lower quality but neither past due nor impaired ratings apply to 'Forborne' probationary residential mortgages (as defined below) and to certain temporary mortgage forbearance arrangements that are neither past due nor impaired.

'Past due but not impaired' loans, whether forborne or not, are defined as follows:

- loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

'Impaired' loans are defined as follows:

- loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are greater than 90 days in arrears. For Residential mortgages, forborne loans with a specific provision attaching to them are reported as both forborne and impaired. Forborne loans (excluding Residential mortgages) with a specific provision attaching to them are reported as impaired and are not reported as forborne.

'Defaulted' loans are defined as follows:

- impaired loans together with Residential mortgages which are greater than 90 days in arrears. Defaulted loans are derived from grades 11 and 12 on the thirteen point grade scale and grades 5 and 6 on the seven point grade scale.

'Probationary' residential mortgages comprise both 'Self-cure' and 'Forborne' probationary residential mortgages defined as follows:

- 'Self-cure' probationary residential mortgages are non-forborne mortgages which were previously defaulted, did not require forbearance to exit defaulted status, and are now,

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

or will be, subject to the successful completion of a 12 month probation period prior to returning to performing status.

- 'Forborne' probationary residential mortgages are mortgages which were previously defaulted, required forbearance to exit defaulted status, and are now, or will be, subject to the successful completion of a 12 month probation period prior to returning to performing status. 'Forborne' probationary also includes mortgages which were previously defaulted, are in a 'full interest' forbearance arrangement and, despite having successfully completed a 12 month probation period, will not be returned to performing status.

'Non-performing' loans (NPL's) are defined as:

- defaulted loans together with probationary residential mortgages.

'Performing' loans comprise loans that are 'neither past due nor impaired' and loans that are up to and including 90 days past due, excluding any 'probationary' residential mortgages.

Composition of loans and advances to customers

The tables and analysis below summarise the composition of the Group's loans and advances to customers and includes loans classified as held for sale. Exposures are before provisions for impairment.

Loans and advances to customers including held for sale composition (before impairment provisions)	**31 December 2015** €m	**31 December 2015** %	31 December 2014 €m	31 December 2014 %
Residential mortgages	52,905	59%	50,983	57%
- Retail Ireland	*24,991*	*28%*	*25,588*	*29%*
- Retail UK	*27,914*	*31%*	*25,395*	*28%*
Non-property SME and corporate	20,994	23%	20,384	23%
- Republic of Ireland SME	*9,285*	*10%*	*9,628*	*11%*
- UK SME	*2,386*	*3%*	*2,498*	*3%*
- Corporate	*9,323*	*10%*	*8,258*	*9%*
Property and construction	13,357	15%	15,219	17%
- Investment	*11,388*	*13%*	*12,522*	*14%*
- Land and development	*1,969*	*2%*	*2,697*	*3%*
Consumer	3,339	3%	2,954	3%
Total loans and advances to customers	**90,595**	**100%**	**89,540**	**100%**

The Group's loans and advances to customers before impairment provisions at 31 December 2015 were €90.6 billion compared to €89.5 billion at 31 December 2014, an increase of €1.1 billion. On a constant currency basis, loans and advances to customers (before impairment provisions) decreased by €1.5 billion or 2%. New lending and portfolio acquisitions during the year were offset by redemptions and repayments, which included a reduction of €3.8 billion in the Group's Non-performing loans.

The distribution of the Group's loans and advances to customers by loan portfolio was broadly similar at 31 December 2015 and at 31 December 2014, with a slightly higher proportion of the Group's loan book in UK mortgages and a slightly lower proportion in Property and construction at 31 December 2015.

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

For an analysis of the Group's Risk profile of loans and advances to customers including held for sale (before impairment provisions) between 'non-forborne' and 'forborne' see table 1 on pages 214 and 215 in the supplementary asset quality and forbearance disclosures.

Risk profile of loans and advances to customers
The tables and analysis below summarise the Group's loans and advances to customers over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

31 December 2015 **Risk profile of loans and advances to customers including held for sale (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
Total loans and advances to customers						
High quality	45,548	5,508	2,702	2,895	56,653	63%
Satisfactory quality	1,324	9,431	2,163	205	13,123	14%
Acceptable quality	1,289	1,981	1,593	30	4,893	5%
Lower quality but neither past due nor impaired	549	1,240	1,608	-	3,397	4%
Neither past due nor impaired	**48,710**	**18,160**	**8,066**	**3,130**	**78,066**	**86%**
Past due but not impaired	1,994	105	374	73	2,546	3%
Impaired	2,201	2,729	4,917	136	9,983	11%
Total loans and advances to customers	**52,905**	**20,994**	**13,357**	**3,339**	**90,595**	**100%**

31 December 2014 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages[1] €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Total loans and advances to customers						
High quality	42,961	4,299	1,777	2,429	51,466	57%
Satisfactory quality	994	8,879	2,195	210	12,278	14%
Acceptable quality	1,193	2,298	2,072	31	5,594	6%
Lower quality but neither past due nor impaired	467	1,398	1,765	-	3,630	4%
Neither past due nor impaired	45,615	16,874	7,809	2,670	72,968	81%
Past due but not impaired	2,584	159	336	95	3,174	4%
Impaired	2,784	3,351	7,074	189	13,398	15%
Total loans and advances to customers	50,983	20,384	15,219	2,954	89,540	100%

[1] *In line with the revised asset quality definitions set out on pages 67 and 68, certain comparative figures have been restated.*

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Loans and advances to customers classified as **'neither past due nor impaired'** amounted to €78.1 billion at 31 December 2015 compared to €73.0 billion at 31 December 2014.

The **'past due but not impaired'** category amounted to €2.5 billion at 31 December 2015, a reduction of €0.7 billion compared to €3.2 billion at 31 December 2014.

'Impaired' loans decreased to €10.0 billion at 31 December 2015 from €13.4 billion at 31 December 2014. This reduction in impaired loans reflects the Group's ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers in financial difficulty, including realisation of cash proceeds from both portfolio and individual property asset sales activity. This resolution activity has been aided by the continued recovery in both economic and property market conditions and, where appropriate, has given rise to the utilisation of provisions.

For an analysis of the Group's risk profile of loans and advances to customers (before impairment provisions) between 'non-forborne' and 'forborne' see pages 214 and 215 in the supplementary asset quality and forbearance disclosures.

'Past due and / or impaired'

The tables below provide an aged analysis of loans and advances to customers 'past due and / or impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

31 December 2015 **Risk profile of loans and advances to customers including held for sale - past due and / or impaired**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Total loans and advances to customers					
Past due up to 30 days	585	74	51	41	751
Past due 31 - 60 days	631	24	181	23	859
Past due 61 - 90 days	217	7	142	9	375
Past due greater than 90 days but not impaired	561	-	-	-	561
Past due but not impaired	**1,994**	**105**	**374**	**73**	**2,546**
Impaired	2,201	2,729	4,917	136	9,983
Total loans and advances to customers - past due and / or impaired	**4,195**	**2,834**	**5,291**	**209**	**12,529**

31 December 2014 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	643	93	61	55	852
Past due 31 - 60 days	728	37	242	28	1,035
Past due 61 - 90 days	271	29	33	12	345
Past due greater than 90 days but not impaired	942	-	-	-	942
Past due but not impaired	2,584	159	336	95	3,174
Impaired	2,784	3,351	7,074	189	13,398
Total loans and advances to customers - past due and / or impaired	5,368	3,510	7,410	284	16,572

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Loans and advances to customers classified as 'past due and / or impaired' amounted to €12.5 billion at 31 December 2015 compared to €16.6 billion at 31 December 2014. The significant reduction in 'past due and / or impaired' loans in the year reflects improvements in default arrears and the Group's ongoing progress with restructure and resolution activities.

For an analysis of the Group's risk profile of loans and advances to customers - past due and / or impaired between 'non-forborne' and 'forborne' see pages 216 and 217 in the supplementary asset quality and forbearance disclosures.

Non-performing loans

The tables below provide an analysis of Non-performing loans and advances to customers by asset classification.

31 December 2015 **Risk profile of loans and advances to customers including held for sale - Non-performing loans**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Total loans and advances to customers					
Probationary mortgages	1,429				
- Self-cure	*789*				
- Forborne	*640*				
Defaulted loans	2,762	2,729	4,917	136	10,544
- Past due greater than 90 days but not impaired	*561*	*-*	*-*	*-*	*561*
- Impaired	*2,201*	*2,729*	*4,917*	*136*	*9,983*
Total loans and advances to customers - Non-performing	**4,191**	**2,729**	**4,917**	**136**	**11,973**

31 December 2014 Risk profile of loans and advances to customers - Non-performing loans	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Probationary mortgages	1,468				
- Self-cure	*897*				
- Forborne	*571*				
Defaulted loans	3,726	3,351	7,074	189	14,340
- Past due greater than 90 days but not impaired	*942*	*-*	*-*	*-*	*942*
- Impaired	*2,784*	*3,351*	*7,074*	*189*	*13,398*
Total loans and advances to customers - Non-performing	5,194	3,351	7,074	189	15,808

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Composition and impairment

The table below summarises the composition, Non-performing loans and impairment provisions of the Group's loans and advances to customers.

31 December 2015 **Total loans and advances to customers including held for sale Composition and impairment**	**Advances (pre-impairment) €m**	**Non-performing loans[1] €m**	**Non-performing loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of Non-performing loans %**
Residential mortgages	52,905	4,191	7.9%	1,297	31%
- Retail Ireland	*24,991*	*3,049*	*12.2%*	*1,199*	*39%*
- Retail UK	*27,914*	*1,142*	*4.1%*	*98*	*9%*
Non-property SME and corporate	20,994	2,729	13.0%	1,445	53%
- Republic of Ireland SME	*9,285*	*2,038*	*21.9%*	*1,059*	*52%*
- UK SME	*2,386*	*264*	*11.1%*	*135*	*51%*
- Corporate	*9,323*	*427*	*4.6%*	*251*	*59%*
Property and construction	13,357	4,917	36.8%	3,001	61%
- Investment	*11,388*	*3,248*	*28.5%*	*1,737*	*53%*
- Land and development	*1,969*	*1,669*	*84.8%*	*1,264*	*76%*
Consumer	3,339	136	4.1%	143	105%
Total loans and advances to customers	**90,595**	**11,973**	**13.2%**	**5,886**	**49%**

31 December 2014 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Non-performing loans[1] €m	Non-performing loans as % of advances %	Impairment provisions €m	Impairment provisions as % of Non-performing loans %
Residential mortgages	50,983	5,194	10.2%	1,604	31%
- Retail Ireland	*25,588*	*3,913*	*15.3%*	*1,487*	*38%*
- Retail UK	*25,395*	*1,281*	*5.0%*	*117*	*9%*
Non-property SME and corporate	20,384	3,351	16.4%	1,699	51%
- Republic of Ireland SME	*9,628*	*2,468*	*25.6%*	*1,264*	*51%*
- UK SME	*2,498*	*421*	*16.9%*	*186*	*44%*
- Corporate	*8,258*	*462*	*5.6%*	*249*	*54%*
Property and construction	15,219	7,074	46.5%	3,935	56%
- Investment	*12,522*	*4,660*	*37.2%*	*2,138*	*46%*
- Land and development	*2,697*	*2,414*	*89.5%*	*1,797*	*74%*
Consumer	2,954	189	6.4%	185	98%
Total loans and advances to customers	89,540	15,808	17.7%	7,423	47%

[1] *'Non-performing' loans includes probationary residential mortgages of €1,429 million (31 December 2014: €1,468 million) across Retail Ireland €727 million (31 December 2014: €694 million) and Retail UK €702 million (31 December 2014: €774 million). Retail Ireland probationary residential mortgages comprise €171 million 'Self-cure' and €556 million 'Forborne' probationary mortgages (31 December 2014: €204 million and €490 million respectively). Retail UK probationary residential mortgages comprise €618 million 'Self-cure' and €84 million 'Forborne' probationary mortgages (31 December 2014: €693 million and €81 million respectively).*

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Loans and advances to customers (pre-impairment) increased by €1.1 billion or 1% from €89.5 billion at 31 December 2014 to €90.6 billion at 31 December 2015. On a constant currency basis, loans and advances to customers (before impairment provisions) decreased by €1.5 billion or 2%. New lending and portfolio acquisitions during the year were offset by redemptions and repayments, which included a reduction of €3.8 billion in the Group's Non-performing loans.

Non-performing loans decreased to €12.0 billion at 31 December 2015 from €15.8 billion at 31 December 2014, with reductions evident across all of the Group's portfolios. Non-performing loans comprise defaulted loans of €10.6 billion, compared to €14.3 billion at 31 December 2014, and probationary mortgages of €1.4 billion, compared to €1.5 billion at 31 December 2014.

The €1.4 billion of probationary residential mortgages at 31 December 2015 includes a significant proportion of 'self-cure' probationary mortgages (€0.8 billion).

The significant reduction in Non-performing loans, and consequently defaulted loans, in 2015 reflects the Group's ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers in financial difficulty, including realisation of cash proceeds from both portfolio and individual property asset sales activity. This resolution activity has been aided by the continued recovery in both economic and property market conditions and, where appropriate, has given rise to the consequent utilisation of provisions.

The stock of **impairment provisions** decreased from €7.4 billion at 31 December 2014 to €5.9 billion at 31 December 2015, however impairment provisions as a percentage of Non-performing loans increased from 47% at 31 December 2014 to 49% at 31 December 2015. Impairment provisions of €5.9 billion at 31 December 2015 are after provisions utilised in the year of €2.1 billion as set out in note 25 on page 131.

The Group's Non-performing loans **provision coverage ratio** increased from 47% at 31 December 2014 to 49% at 31 December 2015 reflecting a combination of: the significant reduction in defaulted loans; impairment charges recognised during the year; and provision utilised activity. Coverage ratios have increased across all of the Group's key portfolios in 2015; with the exception of Retail UK mortgages where coverage levels remain unchanged in the year. The Retail UK mortgage Non-performing loans provision coverage ratio reflects relatively low levels of default arrears, strong house price growth (with the majority of the portfolio in positive equity) and low volumes of forbearance (and consequently high levels of 'Self-cure' activity).

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

The tables below summarise the composition, defaulted loans and total impairment provisions of the Group's loans and advances to customers.

31 December 2015 **Total loans and advances to customers including held for sale Composition and impairment**	**Advances (pre-impairment) €m**	**Defaulted loans €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**
Residential mortgages	52,905	2,762	5.2%	1,297	47%
- Retail Ireland	*24,991*	*2,322*	*9.3%*	*1,199*	*52%*
- Retail UK	*27,914*	*440*	*1.6%*	*98*	*22%*
Non-property SME and corporate	20,994	2,729	13.0%	1,445	53%
- Republic of Ireland SME	*9,285*	*2,038*	*21.9%*	*1,059*	*52%*
- UK SME	*2,386*	*264*	*11.1%*	*135*	*51%*
- Corporate	*9,323*	*427*	*4.6%*	*251*	*59%*
Property and construction	13,357	4,917	36.8%	3,001	61%
- Investment	*11,388*	*3,248*	*28.5%*	*1,737*	*53%*
- Land and development	*1,969*	*1,669*	*84.8%*	*1,264*	*76%*
Consumer	3,339	136	4.1%	143	105%
Total loans and advances to customers	**90,595**	**10,544**	**11.6%**	**5,886**	**56%**

31 December 2014 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %
Residential mortgages	50,983	3,726	7.3%	1,604	43%
- Retail Ireland	*25,588*	*3,219*	*12.6%*	*1,487*	*46%*
- Retail UK	*25,395*	*507*	*2.0%*	*117*	*23%*
Non-property SME and corporate	20,384	3,351	16.4%	1,699	51%
- Republic of Ireland SME	*9,628*	*2,468*	*25.6%*	*1,264*	*51%*
- UK SME	*2,498*	*421*	*16.9%*	*186*	*44%*
- Corporate	*8,258*	*462*	*5.6%*	*249*	*54%*
Property and construction	15,219	7,074	46.5%	3,935	56%
- Investment	*12,522*	*4,660*	*37.2%*	*2,138*	*46%*
- Land and development	*2,697*	*2,414*	*89.5%*	*1,797*	*74%*
Consumer	2,954	189	6.4%	185	98%
Total loans and advances to customers	89,540	14,340	16.0%	7,423	52%

The movements in defaulted loans in the year are consistent with the movements in Non-performing loans as set out on page 72. The Group's defaulted loans provision coverage ratio increased from 52% at 31 December 2014 to 56% at 31 December 2015, with defaulted loans provision coverage ratios increasing across the Group's key portfolios in 2015.

Credit risk (continued)

Asset Quality - Segmental analysis

31 December 2015

Risk profile of loans and advances to customers including held for sale (before impairment provisions)	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
High quality	22,334	28,937	5,382	56,653
Satisfactory quality	6,116	1,610	5,397	13,123
Acceptable quality	2,608	1,051	1,234	4,893
Lower quality but neither past due nor impaired	1,655	1,327	415	3,397
Neither past due nor impaired	**32,713**	**32,925**	**12,428**	**78,066**
Past due but not impaired	1,038	1,427	81	2,546
Impaired	7,105	2,405	473	9,983
Total loans and advances to customers	**40,856**	**36,757**	**12,982**	**90,595**

31 December 2014

Risk profile of loans and advances to customers (before impairment provisions)	Retail Ireland[1] €m	Retail UK[1] €m	Corporate and Treasury €m	Total Group €m
High quality	21,958	25,764	3,744	51,466
Satisfactory quality	5,556	1,871	4,851	12,278
Acceptable quality	2,792	1,118	1,684	5,594
Lower quality but neither past due nor impaired	1,654	1,369	607	3,630
Neither past due nor impaired	31,960	30,122	10,886	72,968
Past due but not impaired	1,540	1,620	14	3,174
Impaired	9,149	3,547	702	13,398
Total loans and advances to customers	42,649	35,289	11,602	89,540

[1] *In line with the revised asset quality definitions set out on pages 67 and 68, certain comparative figures have been restated.*

Credit risk (continued)

Asset Quality - Segmental analysis (continued)

The table below provides an aged analysis of loans and advances to customers 'past due and / or impaired' by division:

31 December 2015

Loans and advances to customers including held for sale - past due and / or impaired (before impairment provisions)	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
Past due up to 30 days	430	321	-	751
Past due 31 - 60 days	166	612	81	859
Past due 61 - 90 days	81	294	-	375
Past due greater than 90 days but not impaired	361	200	-	561
Past due but not impaired	**1,038**	**1,427**	**81**	**2,546**
Impaired	7,105	2,405	473	9,983
Total loans and advances to customers - past due and / or impaired	**8,143**	**3,832**	**554**	**12,529**

31 December 2014

Loans and advances to customers - past due and / or impaired (before impairment provisions)	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
Past due up to 30 days	514	328	10	852
Past due 31 - 60 days	205	829	1	1,035
Past due 61 - 90 days	144	198	3	345
Past due greater than 90 days but not impaired	677	265	-	942
Past due but not impaired	1,540	1,620	14	3,174
Impaired	9,149	3,547	702	13,398
Total loans and advances to customers - past due and / or impaired	10,689	5,167	716	16,572

The table below provides an analysis of Non-performing loans and advances to customers by division:

31 December 2015

Loans and advances to customers including held for sale - Non-performing (before impairment provisions)	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
Total loans and advances to customers				
Probationary mortgages	727	702	-	1,429
- Self-cure	*171*	*618*	-	*789*
- Forborne	*556*	*84*	-	*640*
Defaulted loans	7,466	2,605	473	10,544
- Past due greater than 90 days but not impaired	*361*	*200*	-	*561*
- Impaired	*7,105*	*2,405*	*473*	*9,983*
Total loans and advances to customers - Non-performing	**8,193**	**3,307**	**473**	**11,973**

Credit risk (continued)

Asset Quality - Segmental analysis (continued)

31 December 2014

Loans and advances to customers - Non-performing (before impairment provisions)	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
Total loans and advances to customers				
Probationary mortgages	694	774	-	1,468
- Self-cure	*204*	*693*	-	*897*
- Forborne	*490*	*81*	-	*571*
Defaulted loans	9,826	3,812	702	14,340
- Past due greater than 90 days but not impaired	*677*	*265*	-	*942*
- Impaired	*9,149*	*3,547*	*702*	*13,398*
Total loans and advances to customers - Non-performing	10,520	4,586	702	15,808

Repossessed collateral

At 31 December 2015, the Group had collateral held as security, as follows:

Repossessed collateral	**31 December 2015 €m**	31 December 2014 €m
Residential properties:		
Ireland	22	20
UK and other	16	38
	38	**58**
Other	1	3
Total	**39**	**61**

Repossessed collateral is sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

Credit risk (continued)

Asset Quality - Other financial instruments

Asset quality: Other financial instruments
Other financial instruments include trading securities, derivative financial instruments, other financial instruments at fair value through profit or loss (excluding equity instruments), loans and advances to banks, held to maturity financial assets, available for sale financial assets (excluding equity instruments), NAMA senior bonds, interest receivable and any reinsurance assets. The table below sets out the Group's exposure to Other financial instruments based on the gross amount before provisions for impairment.

Other financial instruments are rated using external ratings attributed to external agencies or are assigned an internal rating based on the Group's internal models, or a combination of both. Mappings to external ratings agencies in the table below are therefore indicative only.

Asset quality:	**31 December 2015**		31 December 2014	
Other financial instruments with ratings equivalent to:	**€m**	**%**	€m	%
AAA to AA-	12,084	44%	9,817	33%
A+ to A-	12,281	45%	17,781	59%
BBB+ to BBB-	1,743	7%	1,549	5%
BB+ to BB-	561	2%	509	1%
B+ to B-	288	1%	168	1%
Lower than B-	279	1%	246	1%
Total	**27,236**	**100%**	**30,070**	**100%**

Other financial instruments at 31 December 2015 amounted to €27.2 billion, a decrease of €2.9 billion as compared with €30.1 billion at 31 December 2014. The decrease primarily reflects the redemption of NAMA senior bonds and reductions in the holdings of sovereign and other bonds.

Credit risk (continued)

Credit risk methodologies

Internal credit rating models
The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group.

The primary model measures used are:
- Probability of Default (PD): the probability of a given counterparty defaulting on any of its borrowings from the Group within the next twelve months;
- Exposure at Default (EAD): the exposure the Group has to a defaulting borrower at the time of default;
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD; and
- Maturity: the contractual or estimated time period until an exposure is fully repaid or cancelled.

These measures are used to calculate expected loss and are fully embedded in, and form an essential component of, the Group's operational and strategic credit risk management and credit pricing practices.

For the Group's retail consumer and smaller business portfolios, which are characterised by a large volume of customers with smaller individual exposures, the credit risk assessment is grounded on application and behavioural scoring tools. For larger commercial and corporate customers, the risk assessment is underpinned by statistical risk rating models which incorporate quantitative information from the customer (e.g. financial accounts) together with a qualitative assessment of non-financial risk factors such as management quality and market / trading outlook. Other financial assets are assigned an internal rating supported by external ratings of the major rating agencies.

The credit risk rating systems employed within the Group use statistical analysis combined, where appropriate, with external data and the judgement of professional lenders.

An independent unit annually validates internal credit risk models from a performance and compliance perspective. This unit provides reports to the Risk Measurement Committee (RMC).

Risk modelling is also applied at a portfolio level in the Group's credit businesses to guide economic capital allocation and strategic portfolio management.

The measures to calculate credit risk referred to above are used to calculate expected loss on a regulatory basis. A different basis is used to derive the amount of incurred credit losses for financial reporting purposes. For financial reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the balance sheet date based on objective evidence of impairment.

Regulatory approval of approaches
The Group has regulatory approval to use its internal credit models in the calculation of its capital requirements. As at 31 December 2015, 81% of credit risk weighted assets (excluding non-credit obligations) were calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures.

The structure of internal rating systems
The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate PD estimates into eleven grades in addition to the category of default. For both non-retail and retail internal rating systems, default is defined based on the likelihood of non-payment indicators that vary between borrower types. In all cases, exposures 90 days or more past due are considered to be in default.

PD calculation
The Group produces estimates of PD on either or both of the following bases:
- Through-the-Cycle (TtC) estimates are estimates of default over an entire economic cycle, averaged to a twelve month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle; and
- Cyclical estimates are estimates of default applicable to the next immediate twelve months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Non-Retail internal rating systems
The Group has adopted the Foundation IRB approach for certain of its non-retail exposures. Under this approach, the Group calculates its own estimates for PD and uses supervisory estimates of LGD, typically 45%, and credit conversion factors. To calculate PD, the Group assesses the credit quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration. In the case of financial institutions, external credit agency ratings are used to provide a significant challenge within the Group's ratings approach. For exposures other than financial institutions, external ratings, when available for borrowers, play a role in the independent validation of internal estimates.

Retail internal rating systems
The Group has adopted the Retail IRB approach for the majority of its retail

Credit risk (continued)

Credit risk methodologies (continued)

exposures. Under this approach, the Group calculates its own estimates for PD, LGD and credit conversion factors. External ratings do not play a role within the Group's retail internal rating systems, however, external credit bureau data does play a significant role in assessing UK retail borrowers. To calculate LGD and credit conversion factors, the Group assesses the nature of the transaction and underlying collateral. Both LGD and credit conversion factors estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn.

Other uses of Internal Estimates
Internal estimates play an essential role in risk management and decision making processes, the credit approval functions, the internal capital allocation function and the corporate governance functions of the Group. The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:

- internal reporting;
- credit management;
- calculation of Risk Adjusted Return on Capital (RAROC);
- credit decisioning / automated credit decisioning;
- borrower credit approval; and
- internal capital allocation between businesses of the Group.

For non-retail exposures, through-the-cycle PD estimates are used to calculate internal economic capital.

For other purposes, the cyclical PD estimates typically are used. Both estimates feature within internal management reporting.

Control mechanisms for rating systems
The control mechanisms for rating systems are set out in the Group's Credit IRB Model Policy and Standards. Model risk is one of the ten key risk types identified by the Group, the governance of which is outlined in the Group's Model Risk Policy. RMC approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk as follows:

- model development standards: the Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception;
- model governance: the Group adopts a uniform approach to the governance of all model related activities. This ensures the appropriate involvement of stakeholders, ensuring that responsibilities and accountabilities are clear;
- model performance monitoring: all models are subject to testing on a quarterly basis. The findings are reported to, and appropriate actions, where necessary, approved by RMC; and
- independent validation: all models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit (ICU)). It is independent of credit origination and management functions.

In addition, Group Internal Audit regularly reviews the risk control framework, including policies and standards, to ensure that these are being adhered to, meet industry good practices and are compliant with regulatory requirements. The ICU function is independently audited on an annual basis.

Where models are found to be inadequate, they are remediated on a timely basis or are replaced.

Methodology for loan loss provisioning
All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. The criteria used to determine if there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- granting a concession to a borrower, for economic or legal reasons, relating to the borrower's financial difficulty that would otherwise not be considered;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; or
- initiation of bankruptcy proceedings.

At 31 December 2015, each of the following portfolio specific events requires the completion of an impairment assessment to determine whether a loss event has occurred at the balance sheet date that may lead to recognition of impairment losses:

Residential mortgages

- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- notification of, or intended application for, bankruptcy proceedings, debt settlement or personal insolvency arrangement or similar; or

Credit risk (continued)

Credit risk methodologies (continued)

- offer of voluntary sale at possible shortfall or voluntary surrender of property security.

Non-property SME and corporate
- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;
- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and / or a negative net assets position;
- borrower has ceased trading; or
- initiation of bankruptcy / insolvency proceedings.

Property and construction
- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;
- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and / or a negative net assets position;
- initiation of bankruptcy / insolvency proceedings;
- a fall in the assessed current value of security such that the loan to value ratio is greater than or equal to 120%;
- a fall in net rent such that it is inadequate to cover interest with little / no other income to support debt service capacity (Investment property exposures only); or
- a fall in the assessed gross development value such that sale proceeds are no longer expected to fully repay debt (development exposures only).

Consumer
- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed; or
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress.

Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure or group of exposures.

For financial reporting purposes, loans on the balance sheet that become impaired are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge in the income statement.

Loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are greater than 90 days in arrears are included as impaired loans.

The Group's impairment provisioning methodologies are compliant with IFRS. International Accounting Standard (IAS) 39 requires objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or 'events') has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Methodology for individually assessing impairment

An individual impairment assessment is performed for any exposure for which there is objective evidence of impairment and where the exposure is above an agreed threshold. For Residential mortgage, Non-property SME and corporate, and Property and construction exposures, a de-minimis total customer exposure level of €1 million applies for the mandatory completion of a discounted cash flow analysis for the assessment of impairment. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) is calculated using a discounted cash flow analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows include forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

A significant element of the Group's credit exposures are assessed for impairment on an individual basis. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 66.

Credit risk (continued)

Credit risk methodologies (continued)

Methodology for collectively assessing impairment
Where exposures fall below the threshold for individual assessment of impairment by way of discounted cash flow analysis, such exposures are subject to individual lender assessment to assess for impairment (which may involve the completion of a discounted cash flow analysis to quantify the specific provision amount), or are automatically included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics (e.g. portfolio of consumer personal loans) are pooled together and a provision is calculated by estimating the future cash flows of a group of exposures. In pooling exposures based on similar credit risk characteristics, consideration is given to features including: asset type; industry; past due status; collateral type; and forbearance classification. The provision estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which are based on historical experience (i.e. amount and timing of cash flows / Loss Given Default), are regularly compared against current experience in the loan book and current market conditions.

For example, Retail Ireland Residential mortgage customer exposures less than €1 million are provisioned for impairment on a collective basis. These mortgage exposures are pooled based on similar credit risk characteristics such as: asset type, geographical location, origination channel, and forbearance classification. The Retail Ireland Residential mortgage collective specific provisioning model parameters and assumptions have been updated in the current year, informed by the Group's recent observed experience (including updated residential property sales data).

Some of the key parameters used in the Retail Ireland Residential mortgage collective specific provisioning model include assumptions in relation to: residential property valuation (31 December 2015: 10% discount to indexed value[1] for both Dublin and Non-Dublin properties); forced sale discount (31 December 2015: 10% to 42%); workout costs (31 December 2015: 6%); weighted average cure rate (31 December 2015: 13.76% over two and a half years, with cure assumptions segmented by: forbearance classification, LTV and type of residential property (for relevant cohorts)), weighted average repayment rate (31 December 2015: 4.64% over two and a half years) and time to sale (31 December 2015: two and a half years from the reporting date).

The provisioning model assumptions and parameters use historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflect the definition of cure per the CBI 'Impairment Provisioning and Disclosure Guidelines' (May 2013) which requires satisfactory completion of a twelve month probation period, while being less than 30 days past due. All provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, as appropriate, based on recent observed experience.

The Group's critical accounting estimates and judgements which are set out in note 2, include sensitivity analysis disclosure on some of the key judgmental areas, including Residential mortgages, in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision ('collective specific') in line with individually assessed loans. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 66.

Methodology for establishing incurred but not reported (IBNR) provisions
Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio / group of exposures at the date of assessment. These are described as incurred but not reported provisions. Statistical models are used to determine the appropriate level of IBNR provisions for a portfolio / group of exposures with similar credit risk characteristics (e.g. asset type, geographical location, forbearance classification etc.). These models estimate latent losses taking into account three observed and / or estimated parameters / assumptions:

- loss emergence rates (based on historic grade migration experience and current PD grades, offset by cure expectations where appropriate);
- the emergence period (historic experience adjusted to reflect current conditions); and
- LGD rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

Account performance is reviewed periodically to confirm that the credit grade or PD assigned remains appropriate and to determine if impairment has arisen. For consumer and smaller ticket commercial exposures, the review is largely based on account behaviour and is

[1] *Indexed value with reference to end September 2015 CSO residential property price index for 'Dublin – all residential properties' and 'National excluding Dublin – all residential properties' (hereafter 'Non-Dublin'). At that date, the Dublin index was 35.6% lower than its peak and the non-Dublin index was 37.7% lower than its peak. The end September CSO index was published on 28 October 2015 and was used in the updating of the Retail Ireland mortgage collective impairment provisioning parameters and assumptions, which were approved internally in December 2015.*

Credit risk (continued)

Credit risk methodologies (continued)

highly automated. Where there are loan arrears, excesses, dormancy, etc. the account is downgraded to reflect the higher underlying risk.

A significant element of the Group's IBNR provisions relate to the Retail Ireland Residential mortgage portfolio. A key assumption used in the calculation of the IBNR impairment provisions for defaulted (but not impaired) Retail Ireland Residential mortgages is the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions have been reviewed during the year informed by the Group's most recent observed experience (including updated residential property sales data). The resulting updates, particularly in relation to the residential property value assumptions, the forced sale discounts and work-out costs used in the IBNR provisioning model, are the same as those outlined above in respect of the Retail Ireland Residential mortgage collective specific provisioning methodology. The default (but not impaired) IBNR model cure assumptions are segmented by: forbearance classification; market segment; and LTV (for relevant cohorts), and have been updated for recent observed experience. At 31 December 2015 the cure assumptions reflect a weighted average cure rate of 32.87% over a two and a half year period. At 31 December 2015 the weighted average repayment rate applied in the default (but not impaired) IBNR model is 8.33% over two and a half years.

For larger commercial loans the relationship manager reassesses the risk at least annually (more frequently if circumstances or grade require) and reaffirms or amends the grade (credit and PD grade) in light of new information or changes (e.g. up to date financials or changed market outlook). Adjusted PD grades are analysed and included in the loss model.

Emergence period refers to the period of time between the occurrence and reporting of a loss event. Emergence periods are reflective of the characteristics of the particular portfolio. For example, at 31 December 2015, emergence periods are in the following ranges: forborne 7 to 14 months, non-forborne 8 to 9 months for Retail Ireland Residential mortgages and 3 to 4 months for both forborne and non-forborne larger SME / Corporate and Property loans. Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling. Emergence periods are reviewed and back tested half-yearly and updated as appropriate.

The LGD is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of any changes in the property sector, discounted collateral values and repayment prospects, etc.).

While loss emergence rates have been assessed in light of the Group's recent grade migration experience and current PD grades, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2014. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, as appropriate, based on recent observed experience. Increasing the emergence period or LGD factors in the IBNR model would give rise to an increase in the level of IBNR provisions for a portfolio.

The Group's critical accounting estimates and judgements, which are set out in note 2, include sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

Methodology for loan loss provisioning and forbearance

Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed; and, where impairment is deemed to have occurred, will result in a specific provision.

Individually assessing impairment and forbearance

The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis). The underlying credit risk rating of the exposure, and ultimately the individual impairment assessment, takes into account the specific credit risk characteristics of the exposure.

Collectively assessing impairment and forbearance

Forborne exposures are pooled together for collective impairment provisioning, including IBNR provision calculations, as detailed above. Assumptions and parameters used to create the portfolio provision(s) take into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period etc.), adjusted where appropriate to reflect current conditions, and require the satisfactory completion of a twelve month probation period, while being less than 30 days past due. Management adjustments are also applied, as appropriate, where historical observable data on forborne assets may be limited. Impairment provisioning methodologies and provisioning model parameters and assumptions applied to forborne loan pools are reviewed regularly, and revised as necessary, to ensure that they remain

Credit risk (continued)

Credit risk methodologies (continued)

reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This includes a comparison of actual experience to expected outcome.

Provisioning and forbearance
For Residential mortgages, exposures which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision book cover on the Retail Ireland Residential mortgage portfolio which is subject to forbearance is higher (typically c.3 times higher) than that of the similar portfolio of Residential mortgage exposures which are not subject to forbearance. For non-residential mortgage exposures which are subject to forbearance and where a specific provision is required, the exposure is reported as 'impaired' and is not reported as 'forborne'. The IBNR provision book cover on the non-residential mortgage portfolio which is subject to forbearance is higher (typically c.5 times higher) than that of the similar portfolio of non-residential mortgage exposures which are not subject to forbearance. In both cases, the higher provision cover is reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and / or re-default.

Impaired loans review
Irrespective of the valuation methodology applied, it is Group policy to review impaired loans above agreed thresholds semi-annually, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision.

Where information is obtained between reviews that impacts expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions, etc.), an immediate review and assessment of the required impairment provision is undertaken.

An impaired loan is restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible. Typically, a loan is deemed to be fully collectible based on an updated assessment by the Group of the borrower's financial circumstances. The assessment includes a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may be agreed with the Group as part of a sustainable forbearance arrangement.

Methodologies for valuation of property collateral
Retail Ireland mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Residential Property Price Index published by the CSO. Retail UK mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index.

In relation to commercial property valuations, there is a Court approved policy which sets out the Group's approach to the valuation of commercial property collateral and the key principles applying in respect of the type and frequency of valuation required. This policy is consistent with the CBI regulatory guidance. In line with the policy, valuations may include formal written valuations from external professionals or internally assessed valuations.

Internally assessed valuations are informed by the most appropriate sources available for the assets in question. This may include property specific information / characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof, in line with more detailed guidance and metrics which are approved at least annually by GRPC. These guidelines and metrics are informed by both internal and externally sourced market data / valuation information, including input from the Group's Real Estate Advisory Unit (REAU).

For internally assessed valuations, the appropriate valuation methodology applied is informed by a range of factors, including the risk profile of the underlying loan. For challenged assets, the appropriate methodology applied depends in part on the options available to management to maximise recovery which are driven by the particular circumstances of the loan and underlying collateral, e.g. the degree of liquidity and recent transactional evidence in the relevant market segment, the type, size and location of the property asset and its development potential and marketability. In all cases where the valuations for property collateral are used, the initial recommendation of the realisable value and the timeline for realisation are arrived at by specialist work-out units.

These estimated valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Credit & Market Risk function and are ultimately approved in line with delegated authority upon the recommendation of the credit underwriting unit. At all approval levels, the impairment provision and the underlying valuation methodology is reviewed and challenged for appropriateness, adequacy and consistency.

Credit risk (continued)

Credit risk methodologies (continued)

IFRS 9 'Financial Instruments'
The Group's existing approach to impairment provisioning is based on an IAS 39 'incurred loss' model as set out in detail on pages 79 to 84 of Risk Management. In summary, IAS 39 requires an incurred loss impairment approach for financial assets measured at amortised cost, and expected future credit losses, no matter how likely, are not permitted to be recognised until a loss event has occurred.

In contrast to IAS 39, IFRS 9, which is expected to be effective for annual reporting periods beginning on or after 1 January 2018[1], requires an 'expected credit loss' (ECL) approach to impairment provisioning, even if a loss event has not occurred. This approach, which is essentially a more forward-looking provisioning model, aims to be responsive to changes in the credit quality of financial assets based on the concept of 'significant increase in credit risk since initial recognition' (referred to as 'significant' in the table below). Principally, for ECL recognition, assets are grouped into three stages[2] based on deterioration in credit quality since initial recognition / origination as set out in the table below.

Assets can move between stages as credit quality deteriorates or improves with the exception of assets considered credit impaired on initial recognition which must always be subject to Lifetime ECL. In contrast to IAS 39, IFRS 9 requires a combination of historical, current and future expectations / forecasted conditions to be taken into account in the assessment of credit impairment. Current IAS 39 based impairment provisioning is based on historical information adjusted, as appropriate, for current observed conditions.

The introduction of twelve month ECL from the first period of initial recognition for 'Stage 1' assets together with Lifetime ECL for 'Stage 2' assets, which will include assets currently not classified as 'defaulted' and / or 'impaired', will likely result in higher and earlier recognition of impairment provisions than those currently reported under IAS 39, and will potentially be one of the key areas of change under IFRS 9. Relative to IAS 39, IFRS 9 contains a number of complex judgemental areas which will take time to fully implement.

In addition to the impairment aspects of the Standard, IFRS 9 also introduces changes in relation to the classification and measurement of financial instruments, as well as hedge accounting. For classification and measurement, IFRS 9 introduces a single classification and measurement model for financial assets which is dependent on both an entity's overall business model objective for managing financial assets ('business model assessment') and the contractual cash flow characteristics of each asset at initial recognition ('contractual cash flow characteristics'). This model, absent an accounting mismatch, is to be used to determine the most appropriate of the three principal financial asset classifications allowed under IFRS 9:
- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

The hedge accounting requirements in IFRS 9 are designed to align hedge accounting more closely with risk

IFRS 9 ECL Impairment Model: '3 stage' Approach	
Stage 1	• Assets that have not experienced a 'significant' deterioration in credit quality since initial recognition / origination. • 12-month ECL recognition - expected credit losses resulting from default events that may occur within 12 months of the reporting date (i.e. credit loss weighted by the probability that the loss will occur in the next 12 months).[3] • Interest revenue calculated on the gross carrying amount of the asset.
Stage 2	• Assets that have experienced a 'significant' deterioration in credit quality since initial recognition / origination, but are not credit-impaired. • Lifetime ECL recognition - expected credit losses resulting from all possible default events over the expected life of the asset (i.e. credit losses weighted by the probability of default occurring over the expected life of the asset). • Interest revenue calculated on the gross carrying amount of the asset.
Stage 3	• Assets that are 'credit impaired' - there is objective evidence of impairment at the reporting date. 'Credit impaired' is defined in IFRS 9 as when one or more events that have a detrimental impact on the estimated cash flow of the asset has occurred. • Lifetime ECL recognition. • Interest revenue calculated on the net carrying amount of the asset (net of credit loss allowance).

[1] IFRS 9 remains subject to EU endorsement, which is anticipated in the second half of 2016.
[2] While IFRS 9 does not use 'staging' terminology, the concept of 'staging' is evolving as the generally accepted market terminology.
[3] 12-month ECL is the portion of Lifetime ECL associated with the possibility of default in the next 12 months.

Credit risk (continued)

Credit risk methodologies (continued)

management activities, include enhanced disclosure requirements, and involve moving from a rules-based approach under IAS 39 to a more principles based approach in IFRS 9[1].

Following publication of the complete version of IFRS 9 in 2014 and the Group's preliminary assessment of its requirements, a Group IFRS 9 Programme was established during 2015. The CCMRO is the Group's IFRS 9 Programme sponsor and the CCMRO and the Group Chief Financial Officer report regularly to the Group Audit Committee on the Group's IFRS 9 Programme. Recognising the highly collaborative Risk, Finance, and Business approach required for the successful implementation of IFRS 9, the membership of the IFRS 9 programme Steering Committee, and other IFRS 9 decision making authorities subordinate to the Steering Committee, are cross-functional.

The Chair of the IFRS 9 Programme Steering Committee is the CCMRO and the alternate Chair is the Group Chief Financial Officer. Reflecting the scale and complexity of the IFRS 9 implementation plan, the Programme has been established to comprise of a number of individual dedicated work streams each responsible for the assessment and implementation of the various elements of the Standard. These teams are supported by a central programme management office and appropriate external advisors.

The Group estimates an overall two year implementation timeframe (from the end of 2015) for IFRS 9. This is reflective of the fact that this is a large, complex programme with multiple interdependencies and significant cross-functional reliance. Following its establishment in 2015, the Programme has transitioned from mobilisation and planning into design. As part of the design phase of the implementation plan, programme activities are currently focused on interpretation, policy, and design decisions, while also assessing the internal system, process and data requirements for the delivery of IFRS 9.

Key concepts within the IFRS 9 ECL impairment provisioning approach are judgemental in nature and, to facilitate practical implementation, will require interpretation by the Group. The Group is advancing this interpretation work in conjunction with the analysis and design of the impairment modelling approach, including the development of key model components, for the calculation of ECL provisions.

During 2016, the Programme is expected to transition into the build phase, which will include the construction of an impairment ECL model suite and detailed development work on the 'To-be' operating model and governance framework. It is currently intended that the build phase will be substantially completed during the first half of 2017, allowing parallel run activities in advance of full deployment for 1 January 2018.

All of these interpretation and design activities and decisions are integral to the Group's informed and reliable assessment of the estimated financial impact of the implementation of IFRS 9. Furthermore, given the complexity of the standard and scale of IFRS 9 implementation, which is likely to require changes and / or enhancements to Group systems, processes, policies, modelling approaches etc., the quantitative impact on impairment provisions and capital on initial application on 1 January 2018, or the potential volatility in impairment provisions and capital thereafter, cannot be reliably estimated at this stage.

The Group will progressively enhance its IFRS 9 reporting during the transition period, to provide more detailed and specific disclosure as implementation progresses, on the basis it is practical and reliable to do so.

[1] *IFRS 9 contains the option for banks to continue to apply the hedge accounting requirements of IAS 39.*

Liquidity risk

Key points

- Group customer deposits of €80 billion have increased by €5.3 billion since 31 December 2014. Volume growth has been across the Group's primary retail channels (Retail Ireland and Retail UK), with the strength of sterling over the period also contributing.
- The Group's Loan to Deposit Ratio (LDR) reduced by 4% to 106% at end December 2015.
- The Group's Liquidity Coverage Ratio (LCR) at end December 2015 was 108%. The Group has issued €3.7 billion of senior funding during 2015, in both secured and unsecured formats.
- The Group's Net Stable Funding Ratio at 31 December 2015 was 120%. The Net Stable Funding requirements are expected to come into effect from January 2018.

Definition of Liquidity Risk

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven, inter alia, by the maturity structure of loans and investments held by the Group, while cash outflows are driven, inter alia, by the term of the debt issued by the Group and the outflows from deposit accounts held for customers. Liquidity risk can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt. These factors are often associated with times of distress or adverse events such as a credit rating downgrade(s) or economic or financial turmoil.

Liquidity Risk Framework

The Group has established a liquidity risk management framework which encompasses the liquidity policies, systems and controls that are in place to ensure that the Group is positioned to address its daily liquidity obligations and to withstand a period of liquidity stress. This framework is informed inter alia by the Basel Committee on Banking Supervision recommendations for 'Principles for Sound Liquidity Risk Management and Supervision' 2008, the Central Bank of Ireland's 'Requirements for the Management of Liquidity Risk' 2009 and the European Banking Authority Guidelines on common procedures and methodologies for the supervisory review and evaluation process 2014.

Principal components of this framework are the Group's Risk Appetite Statement and associated limits and the Group's Funding and Liquidity Policy, both of which are approved by the Court on the recommendation of the GRPC and the CRC.

The Group's Liquidity Risk Appetite is developed through a risk assessment of the Group's activities within a spectrum of business models and market opportunities. In addition, it takes account of external regulatory requirements including, for example, regulatory liquidity standards arising from the implementation of the Commission Delegated Regulation published 10 October 2014 to supplement Regulation (EU) 575/2013 (the 'Delegated Act').

The Group Funding and Liquidity Policy identifies the Group's governance process with respect to Funding and Liquidity Risk, and sets out the core principles that govern the manner in which the risk is mitigated, monitored and managed. The operation of this policy is delegated to the Group's Asset and Liability Committee (ALCO).

These principal components are supported by further liquidity policies, systems and controls which the Group has to manage funding and liquidity risk. These include the Group's Internal Funds Transfer Pricing mechanism, Liquidity Stress Testing process, contingency funding plans and a suite of early warning indicators in place to identify the potential emergence of a liquidity stress.

Liquidity risk management

Liquidity risk management within the Group focuses on the control, within prudent limits, of risk arising from the mismatch in contracted maturities of assets and liabilities and the risks arising from undrawn commitments and other contingent liabilities.

Liquidity risk management consists of two main activities:

- Structural liquidity management focuses on the balance sheet structure funding mix account of the expected maturity profile of assets and liabilities and the Group's debt issuance strategy; and
- Tactical liquidity management focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs can be met. This takes account of the Group's access to unsecured funding (customer deposits and wholesale funding), the liquidity value of a portfolio of highly marketable assets and a portfolio of secondary assets that can be converted into liquidity to cover unforeseen cash outflows with market counterparties and / or Monetary Authorities.

The Group must comply with the regulatory liquidity requirements of the Single Supervisory Mechanism (SSM) and the requirements of local regulators in those jurisdictions where such requirements apply to the Group.

Liquidity risk (continued)

SSM requirements include compliance with the Delegated Act which is a comprehensive set of measures to strengthen the regulation, supervision and risk management of the banking sector. These regulations introduce minimum liquidity requirements for regulated entities including:

- Liquidity Coverage Ratio - the liquidity coverage ratio (LCR) requires banks to have sufficient high-quality liquid assets to withstand a 30-day stressed funding scenario. The requirement is being introduced on a phased basis. A minimum 60% ratio applied from October 2015 rising to a minimum 100% ratio to apply from January 2018;
- Net Stable Funding Ratio - the net stable funding ratio (NSFR) requires banks to have sufficient quantities of funding from stable sources. The ratio is proposed to come into effect from January 2018; and
- Additional Pillar II liquidity requirements may also apply. The Group will continue to target a buffer above minimum applicable regulatory liquidity requirements.

The Central Bank of Ireland requires that banks have sufficient resources (cash inflows and marketable assets) to cover 100% of expected cash outflows in the 0 to 8 day time horizon and 90% of expected cash outflows in the 9 to 30 day time horizon.

The Group has remained in full compliance with the regulatory liquidity requirements throughout 2015, and as at 31 December 2015 maintained a buffer significantly in excess of regulatory minima.

Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority (PRA) and is subject to the regulatory liquidity regime of the PRA. Bank of Ireland (UK) plc has remained in full compliance with the regulatory liquidity regime in the UK throughout 2015, and as at 31 December 2015 maintained a buffer significantly in excess of regulatory liquidity requirements.

The Group completes an Internal Liquidity Adequacy Assessment Process (ILAAP) which assesses the key liquidity and funding risks to which it is exposed and details the Group's approach to determining the level of Liquidity Buffer (both Liquid Assets and Contingent Liquidity) required to be maintained.

The Group performs stress testing and scenario analysis to evaluate the impact of stresses on its liquidity position. These stress tests incorporate Group specific risks and systemic risks and are run at different levels of possible, even if unlikely, severity. Actions and strategies available to mitigate the stress scenarios are evaluated as to their appropriateness. Stress test results are reported to ALCO, the GRPC, the CRC and the Court.

The Group also monitors a suite of early warning indicators in order to identify the potential emergence of a liquidity stress. As part of its contingency planning the Group has identified a suite of potential contingency funding and liquidity options which could be exercised to help the Group to restore its liquidity position on the occurrence of a major stress event.

Liquidity risk reporting

The Group's liquidity risk appetite is defined by the Court to ensure that funding and liquidity are managed in a prudent manner.

The Court monitors adherence to the liquidity risk appetite through the monthly Court Risk Report.

Management inform the Court in the Court Risk Report of any significant changes in the Group's funding or liquidity position. The Court Risk Report includes the results of liquidity stress tests which estimate the potential impact on Group liquidity in a range of stress scenarios. The Court is also advised in the monthly CEO Report of emerging developments in the area of funding and liquidity in the markets in which the Group operates.

An annual review process is in place to enable the Court to assess the adequacy of the Group's liquidity risk management framework.

Management receives daily, weekly and monthly funding and liquidity reports and stress testing results which are monitored against the Group's Risk Appetite Statement. It is the responsibility of ALCO to ensure that the measuring, monitoring and reporting of funding and liquidity is adequately performed and complies with the governance framework.

Liquidity risk measurement

The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on-balance sheet and off-balance sheet transactions. The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2015 and 31 December 2014. These maturity profiles are based on the remaining contractual maturity period at the balance sheet date (discounted). Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,729 million and €10,403 million respectively (31 December 2014: €5,680 million and €9,918 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on deposit books to reflect their inherent stability.

Customer accounts include a number of term accounts that contain access features. These allow the customer to access a portion or all of their deposits notwithstanding that this withdrawal could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table on the next page.

Liquidity risk (continued)

31 December 2015 **Maturities of financial assets and liabilities**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Assets						
Cash and balances at central banks	6,603	-	-	-	-	6,603
Trading securities	-	-	-	-	3	3
Derivative financial instruments	274	244	222	1,179	1,145	3,064
Other financial assets at fair value through profit or loss[1]	1,054	25	64	1,342	2,129	4,614
Loans and advances to banks	588	3,551	437	-	2	4,578
Available for sale financial assets[1]	-	337	685	5,716	3,282	10,020
Held to maturity financial assets	-	-	-	-	1,922	1,922
NAMA senior bonds[2]	-	157	471	786	-	1,414
Loans and advances to customers including assets classified as held for sale (before impairment provisions)	3,907	6,157	7,861	27,366	45,304	90,595
	12,426	**10,471**	**9,740**	**36,389**	**53,787**	**122,813**
Liabilities						
Deposits from banks	75	856	-	-	-	931
Drawings from Monetary Authorities (gross)	-	7	1,508	-	-	1,515
Customer accounts	51,746	14,747	9,258	4,042	371	80,164
Derivative financial instruments	284	375	420	883	1,657	3,619
Debt securities in issue	-	858	1,366	5,246	4,278	11,748
Subordinated liabilities	-	-	980	725	735	2,440
Total	**52,105**	**16,843**	**13,532**	**10,896**	**7,041**	**100,417**

31 December 2014 Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	4,991	-	-	-	-	4,991
Trading securities	-	-	-	-	12	12
Derivative financial instruments	356	94	212	1,324	1,706	3,692
Other financial assets at fair value through profit or loss[1]	988	27	37	544	2,321	3,917
Loans and advances to banks	913	3,553	381	-	4	4,851
Available for sale financial assets[1]	-	1,144	393	5,624	6,419	13,580
NAMA senior bonds[2]	-	183	548	1,643	-	2,374
Loans and advances to customers[3] (before impairment provisions)	5,766	5,399	8,023	26,035	44,318	89,541
	13,014	10,400	9,594	35,170	54,780	122,958
Liabilities						
Deposits from banks	153	1,484	408	86	-	2,131
Drawings from Monetary Authorities (gross)	-	2,924	20	1,495	-	4,439
Customer accounts	43,671	15,578	9,741	5,600	247	74,837
Derivative financial instruments	275	264	129	1,281	2,089	4,038
Debt securities in issue	-	2,041	3,039	4,547	3,698	13,325
Subordinated liabilities	-	-	70	1,005	1,425	2,500
Total	44,099	22,291	13,407	14,014	7,459	101,270

1 Excluding equity shares which have no contractual maturity.
2 The maturity date of the NAMA senior bonds is based on their assessed behavioural maturity.
3 Comparative figures for the profile of loans and advances to customers have been adjusted to reflect a change in assessment of maturity dates in the current year. The total amount remains unchanged.

Liquidity risk (continued)

Funding Strategy
The Group seeks to maintain a stable funding base with core loan portfolios substantially funded by customer deposits and term wholesale funding.

Customer deposits
The Group's customer deposit strategy is focused on growing high quality, stable deposits at acceptable pricing by leveraging the Group's extensive customer franchises in Ireland and the UK. The Group continues to focus on the growth of retail deposits and relationship-based corporate deposits which arise from the Group's broader lending and treasury risk management activities.

In Ireland, customer deposits are gathered and retained through the Group's extensive omni-channels - branch network, digital and telephone banking via consumer, business and corporate banking services. In the UK customer deposits are primarily gathered through the Group's strategic partnership with the UK Post Office and established branch network in Northern Ireland. During 2015, the Group established a new partnership in the UK with the AA allowing it to target UK deposit growth via both its existing partnership with the UK Post Office and the new AA partnership.

Group customer deposits of €80 billion have increased by €5.3 billion since 31 December 2014. Notwithstanding actions to further reduce the cost of deposits, balances in the Retail Ireland division have grown by €2.5 billion. In line with the overall trend in the European market, current account credit balances have increased offsetting a reduction in term deposit balances. Bank of Ireland (UK) plc deposits have increased by £1.5 billion, mainly due to increased volumes generated through the partnership with the Post Office. Deposits in the Corporate and Treasury division were lower in the year by €0.6 billion.

Deposits include €0.1 billion which relate to sale and repurchase agreements with financial institutions that do not hold a banking licence.

Customer deposits of €80 billion at 31 December 2015 (31 December 2014: €75 billion) do not include €1.9 billion (31 December 2014: €2.3 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (up to seven years) and consequently are an additional source of stable funding for the Group.

The majority of personal and small business customer deposits continue to be guaranteed under statutory deposit guarantee schemes.

Customer deposits	**31 December 2015 €bn**	31 December 2014 €bn
Retail Ireland	39	37
- Deposits	*22*	*22*
- Current account credit balances	*17*	*15*
Retail UK	29	26
Retail UK (Stg£bn equivalent)	22	20
- UK Post Office	*17*	*16*
- Other Retail UK	*5*	*4*
Corporate and Treasury	12	12
Total customer deposits	**80**	**75**
Loan to deposit ratio	**106%**	**110%**

Liquidity risk (continued)

Wholesale funding
The Group in the normal course aims to maintain funding diversification, minimise concentrations across funding sources and minimise refinancing maturity concentrations.

Wholesale funding of €14 billion has decreased by c.€5.7 billion since 31 December 2014 primarily related to the impact of:

- higher customer deposits (c.€5.3 billion);
- the issue of an AT1 security (c.€0.75 billion); and
- retained earnings c.€0.8 billion,
- lower holdings of NAMA bonds (c.€1.0 billion); partially offset by
- an increase in loans and advances to customers (c.€2.6 billion).

The Group's funding from Monetary Authorities of €1.5 billion at 31 December 2015 has decreased by c.€2.9 billion since 31 December 2014. All ECB Monetary Authority funding is drawn under the Targeted Longer Term Refinancing Operation (TLTRO).

At 31 December 2015, €10.7 billion or 75% of wholesale funding had a term to maturity of greater than one year (31 December 2014: €9.5 billion or 48%). The increase since 31 December 2014 relates to the maturity during 2015 of borrowings via the ECB's Long Term Repo Operations (LTRO) and new term issuances during the year. Wholesale funding (excluding ECB Monetary Authority funding) with a maturity of less than one year was €2 billion (31 December 2014: €8 billion) of which €0.5 billion is secured.

During the year ended 31 December 2015, the Group accessed the term debt markets issuing:

- €750 million of Irish Mortgage Asset Covered Securities (ACS debt) in a five-year transaction in January 2015 at 20 basis points over mid swaps;
- €750 million five-year senior unsecured debt in March 2015 at 100 basis points over mid swaps;
- €1 billion of Irish Mortgage ACS debt in a seven-year transaction in May 2015 at 5 basis points over mid swaps; and
- €750 million of Irish Mortgage ACS debt in a five-year transaction in October 2015 at 33 basis points over mid swaps.

Eligible Liabilities Guarantee Scheme
As described in note 38(b), the Group participated in the ELG Scheme, which guaranteed certain liabilities of Irish financial institutions. The scheme was withdrawn effective 28 March 2013. Any existing qualifying liabilities (i.e. liabilities originated from 11 January 2010 up to and including 28 March 2013 and having a contractual maturity of five years or less) will continue to be covered until maturity.

Deposit balances covered by the ELG scheme reduced to €0.7 billion during the year ended 31 December 2015 in line with the maturity profile.

Liquidity risk (continued)

Wholesale funding sources	31 December 2015 €bn	31 December 2015 %	31 December 2014 €bn	31 December 2014 %
Secured funding	10	69%	14	72%
- ECB Monetary Authority	*1*	*11%*	*4*	*22%*
- Covered bonds	*6*	*42%*	*6*	*31%*
- Securitisations	*3*	*16%*	*3*	*13%*
- Private market repo	*-*	*1%*	*1*	*6%*
Unsecured funding	4	31%	6	28%
- Senior debt	*3*	*25%*	*5*	*23%*
- Bank deposits	*1*	*6%*	*1*	*5%*
Total Wholesale funding	**14**	**100%**	**20**	**100%**
Wholesale market funding < 1 year to maturity	2	16%	8	48%
Wholesale market funding > 1 year to maturity	11	84%	8	52%
ECB Monetary Authority funding < 1 year to maturity	1	-	3	-
ECB Monetary Authority funding > 1 year to maturity	-	-	1	-
Wholesale funding covered by ELG Scheme	-	-	2	-
Liquidity metrics				
Liquidity Coverage Ratio[1]		108%		103%
Net Stable Funding Ratio[2]		120%		114%
Loan to deposit ratio		106%		110%

[1] The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015. The comparative period has been restated and has been calculated on the same basis.
[2] The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.

Wholesale funding maturity analysis[2]	At 31 December 2015[1] Unsecured funding €bn	Secured funding from Monetary Authorities €bn	Secured funding private sources €bn	Total wholesale funding €bn	At 31 December 2014 Unsecured funding €bn	Secured funding from Monetary Authorities €bn	Secured funding private sources €bn	Total wholesale funding €bn
Less than three months	1	-	-	1	3	3	1	7
3 months to one year	1	1	-	2	-	-	4	4
One to five years	2	-	5	7	2	1	3	6
More than five-years	-	-	4	4	1	-	2	3
Wholesale funding	**4**	**1**	**9**	**14**	**6**	**4**	**10**	**20**

[1] The ECB has committed to full allotment in its monetary policy operations at least until the end of the reserve maintenance period ending in December 2016.
[2] The maturity analysis has been prepared using the expected maturity of the liabilities.

Liquidity risk (continued)

Funding and liquidity position

S&P and Moody's raised the Group's senior debt credit rating to BBB- and Baa2 respectively, revising the outlook on the Group's senior debt to positive (S&P) and stable (Moody's).

During 2015, Fitch reduced the Group's senior debt credit rating to BB+ following a review of sovereign support for banks globally before raising it to BBB- with a positive outlook in advance of year end.

The Group's credit ratings from DBRS have remained stable during 2015 at BBB (High).

The Group is now rated as Investment grade from all four rating agencies.

Ireland - Senior debt	**31 December 2015**	31 December 2014
Standard & Poor's	A+ (Stable)	A (Stable)
Moody's	Baa1 (Positive)	Baa1 (Stable)
Fitch	A- (Positive)[1]	A- (Stable)
DBRS	A (Positive trend)	A (Low) (Positive trend)

BoI - Senior debt	**31 December 2015**	31 December 2014
Standard & Poor's	BBB- (Positive)	BB+ (Positive)
Moody's	Baa2 (Positive)	Ba1 (Stable)
Fitch	BBB- (Positive)	BBB (Negative)
DBRS	BBB (High) (Stable trend)	BBB (High) (Negative trend)

[1] *Fitch upgraded its rating on Irish sovereign debt from A- to A on 5 February 2016.*

Balance sheet encumbrance

Consistent with the European Banking Authority guidelines (EBA Guidelines on Disclosure of encumbered and unencumbered assets, June 2014) the Group treats an asset as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It is Group policy to maximise the amount of assets available for securitisation / pledging through the standardisation of loan structures and documentation.

For the purposes of liquidity risk management the Group monitors and manages balance sheet encumbrance via risk appetite. The Group's overall encumbrance level at year ended 31 December 2015 was 18% (31 December 2014: 24%) with c.€21 billion of the Group's assets encumbered (31 December 2014: €28 billion). The decrease in encumbered assets is primarily related to the repayment of the Group's borrowings via the ECB's Long Term Repo Operations.

Capital management

Key points:
- Common equity tier 1 (CET 1) ratio is 13.3% under CRD IV transitional rules at 31 December 2015.
- The Group notes that the current SSM CET 1 SREP requirement is 10.25%, calculated on a transitional basis, and that the Group will have a requirement to maintain an O-SII buffer phased in as follows: 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. The calibration of SREP, O-SII requirements are subject to annual review by the Group's regulators.
- In addition, both the Central Bank of Ireland (RoI) and Financial Policy Committee (UK) have set the Countercyclical buffer (CCyB) at 0% from 1 January 2016.
- The Group expects to maintain sufficient capital to meet at a minimum applicable regulatory capital requirements plus an appropriate management buffer of 100 to 150 basis points.
- CET 1 ratio is 12.9% on a pro-forma basis under the CRD IV transitional rules at 1 January 2016.
- Total capital ratio is 18.0% under CRD IV transitional rules at 31 December 2015.
- On a pro-forma full implementation basis, the CET 1 ratio is 11.3% at 31 December 2015.
- In June 2015, the Group successfully raised €750 million of new CRD IV compliant AT1 securities at an initial coupon of 7.375%. See note 37 for further information.
- On 23 November 2015, the Group announced that it had received SSM approval to exercise its discretion to redeem the remaining €1.3 billion 2009 Preference Stock, that it would exercise this discretion on the earliest possible date of 4 January 2016 and served notice of redemption to Baggot Securities Limited, as current holder of the stock. The 2009 Preference Stock were derecognised from CET 1 regulatory capital in November 2015. See note 36 for further details.
- Leverage ratio is 6.6% on a CRD IV transitional basis and 5.7% on a pro-forma full implementation basis as at 31 December 2015.

Capital management objectives and policies

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised. The capital adequacy requirements set by the SSM / ECB and economic capital based on internal models, are used by the Group as the basis for its capital management. The Group seeks to maintain sufficient capital to ensure that these requirements are met.

CRD IV

The Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states while the CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013.

CRD IV is divided into three sections commonly referred to as Pillars. Pillar I contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

Pillar II is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks. Risks not considered under Pillar I are considered under this Pillar.

Pillar III is intended to complement Pillar I and Pillar II. It requires that financial institutions disclose information annually on the scope of application of CRD IV requirements, particularly covering capital requirements / risk weighted assets (RWA) and resources, risk exposures and risk assessment processes.

The Group's Pillar III disclosures for year ended 31 December 2015 should be read in conjunction with this section of the report.

CRD IV Legislation commenced implementation on a phased basis from 1 January 2014. The CRD IV transition rules result in a number of new deductions from CET 1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until full implementation by 2019 (with the exception of deferred tax assets which are phased to 2024). CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). While some of these have not yet been published, it is not anticipated that there would be a material incremental impact on the Groups capital ratios. The Central Bank of Ireland (CBI) published its 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 21 May 2014 which clarified the application of transitional rules in Ireland under CRD IV.

The ECB is currently undertaking a review of national discretions and options contained in the CRD IV with a view to harmonising the current treatments across

Capital management (continued)

its jurisdictions. As part of the review the ECB has published draft proposals (Regulation and Guide), which are currently at a consultation stage and are expected to be implemented during H1 2016. These proposals include a number of changes which may have a net negative impact on the Group's transitional capital ratios such as increasing the phase in of the DTA deduction (although partially offset by the removal of the AFS sovereign filter). The pro-forma impact of the ECB review of national discretions on the Group's CET 1 ratio on a transitional basis as at 1 January 2016 would, if implemented on that date, result in a net reduction of c.10 basis points.

Capital requirements / buffers
The Group's key capital ratios are set out on pages 34 to 36.

The Group has received further clarity on its minimum regulatory capital requirements. The SSM has advised that the Group's SREP requirement for 2016 is to maintain the CET 1 ratio at a level of 10.25%, calculated on a transitional basis. The Central Bank of Ireland has advised that the Group will be required to maintain an O-SII buffer, which will be phased in as follows: 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. Both the SREP requirement and the O-SII buffer are subject to annual review by the SSM and the Central Bank of Ireland (CBI) respectively.

In addition, both the Central Bank of Ireland (RoI) and Financial Policy Committee (UK) have set the Countercyclical buffer (CCyB) at 0% from 1 January 2016.

The Group expects to maintain sufficient capital to meet, at a minimum, applicable regulatory capital requirements plus an appropriate management buffer of 100 - 150 basis points.

Capital actions completed in 2015
Additional tier 1 issuance (AT1)
In June 2015, the Group successfully raised €750 million of new CRD IV compliant AT1 securities at an initial coupon of 7.375%. See note 37 for further information.

2009 Preference Stock derecognition
On 23 November 2015, the Group:
- announced that it had received SSM approval to exercise its discretion to redeem the remaining €1.3 billion 2009 Preference Stock;
- announced that it would exercise this discretion on 4 January 2016, the earliest possible date consistent with the Group's announcement in December 2013 of the sale of the 2009 Preference Stock to private investors; and
- served notice of redemption to Baggot Securities Limited, as current holder of the stock.

The 2009 Preference Stock was derecognised from CET 1 regulatory capital in November 2015. See note 36 for further details.

Capital resources
The following table sets out the Group's capital resources.

Group capital resources	**31 December 2015 €m**	31 December 2014 €m
Other equity (including equity reserves)	8,372	7,453
Nominal amount outstanding of 2009 Preference Stock	-	1,300
Stockholders' equity	8,372	8,753
Other equity instruments	740	-
Non-controlling interests - equity	1	(6)
Total equity	**9,113**	**8,747**
Undated subordinated loan capital	180	171
Dated subordinated loan capital	2,260	2,329
Total capital resources	**11,553**	**11,247**

In the year ended 31 December 2015 the Group's total capital resources increased by €0.3 billion to €11.6 billion due primarily to:
- attributable profit generated during the year; and
- the issuance of €750 million of AT1 securities in June 2015; offset by
- the derecognition of the 2009 Preference Stock in November 2015.

Financial information

Consolidated income statement
for the year ended 31 December 2015

	Note	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Interest income	4	3,269	3,432
Interest expense	5	(825)	(1,111)
Net interest income		**2,444**	**2,321**
Net insurance premium income	6	1,350	1,344
Fee and commission income	7	561	558
Fee and commission expense	7	(242)	(214)
Net trading income / (expense)	8	58	(42)
Life assurance investment income, gains and losses	9	334	814
Other operating income	10	299	270
Total operating income		**4,804**	**5,051**
Insurance contract liabilities and claims paid	11	(1,511)	(2,079)
Total operating income, net of insurance claims		**3,293**	**2,972**
Other operating expenses	12	(1,823)	(1,705)
Impact of amendments to defined benefit pension schemes	32	4	93
Cost of restructuring programme	13	(43)	(56)
Operating profit before impairment charges on financial assets		**1,431**	**1,304**
Impairment charges on financial assets	14	(296)	(472)
Operating profit		**1,135**	**832**
Share of results of associates and joint ventures (after tax)		46	92
Profit / (loss) on disposal / liquidation of business activities	15	51	(4)
Profit before tax		**1,232**	**920**
Taxation charge	16	(285)	(134)
Profit for the year		**947**	**786**
Attributable to stockholders		940	786
Attributable to non-controlling interests		7	-
Profit for the year		**947**	**786**
Earnings per unit of €0.05 ordinary stock	17	2.3c	2.0c
Diluted earnings per unit of €0.05 ordinary stock	17	2.3c	2.0c

Consolidated statement of comprehensive income for the year ended 31 December 2015

	Note	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Profit for the year		**947**	**786**
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss in subsequent years:			
Available for sale reserve, net of tax:			
Changes in fair value		110	301
Transfer to income statement			
- Asset disposal		(181)	(168)
- Amortisation		(10)	-
Net change in available for sale reserve		**(81)**	**133**
Cash flow hedge reserve, net of tax:			
Changes in fair value		(258)	(250)[1]
Transfer to income statement		213	409[1]
Net change in cash flow hedge reserve		**(45)**	**159**
Foreign exchange reserve:			
Foreign exchange translation gains		249	275
Transfer to income statement on liquidation of non-trading entities	15	6	-
Net change in foreign exchange reserve		**255**	**275**
Total items that may be reclassified to profit or loss in subsequent years		**129**	**567**
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement of the net defined benefit pension liability		91	(353)
Revaluation of property, net of tax		11	1
Total items that will not be reclassified to profit or loss in subsequent years		**102**	**(352)**
Other comprehensive income for the year, net of tax		**231**	**215**
Total comprehensive income for the year, net of tax		**1,178**	**1,001**
Total comprehensive income attributable to equity stockholders		1,171	1,001
Total comprehensive income attributable to non-controlling interests		7	-
Total comprehensive income for the year, net of tax		**1,178**	**1,001**

[1] *Comparative figures have been adjusted in the cash flow hedge reserve resulting in a change of €142 million in 'changes in fair value' with an offsetting increase in 'transfer to income statement'.*

The effect of tax on these items is shown in note 16.

Consolidated balance sheet as at 31 December 2015

	Note	31 December 2015 €m	31 December 2014 €m
Assets			
Cash and balances at central banks		6,603	4,991
Items in the course of collection from other banks		294	435
Trading securities		3	12
Derivative financial instruments		3,064	3,692
Other financial assets at fair value through profit or loss	18	12,280	11,528
Loans and advances to banks	19	4,578	4,851
Available for sale financial assets	20	10,128	13,580
Held to maturity financial assets	21	1,922	-
NAMA senior bonds	22	1,414	2,374
Loans and advances to customers	23	84,689	82,118
Assets classified as held for sale	24	20	135
Interest in associates		56	56
Interest in joint ventures		83	233
Intangible assets		526	410
Investment properties		841	701
Property, plant and equipment		334	324
Current tax assets		13	11
Deferred tax assets	31	1,453	1,638
Other assets		2,640	2,705
Retirement benefit assets	32	19	6
Total assets		**130,960**	**129,800**
Equity and liabilities			
Deposits from banks	26	952	3,855
Customer accounts	27	80,164	74,837
Items in the course of transmission to other banks		239	379
Derivative financial instruments		3,619	4,038
Debt securities in issue	28	13,243	16,040
Liabilities to customers under investment contracts		5,729	5,680
Insurance contract liabilities		10,403	9,918
Other liabilities	29	4,103	2,628
Current tax liabilities		35	30
Provisions	30	97	85
Deferred tax liabilities	31	68	71
Retirement benefit obligations	32	755	992
Subordinated liabilities	33	2,440	2,500
Total liabilities		**121,847**	**121,053**
Equity			
Capital stock	35	2,558	2,558
Stock premium account		1,135	1,135
Retained earnings		4,950	4,196
Other reserves		(260)	876
Own stock held for the benefit of life assurance policyholders		(11)	(12)
Stockholders' equity		**8,372**	**8,753**
Other equity instruments	37	740	-
Total equity excluding non-controlling interests		**9,112**	**8,753**
Non-controlling interests		1	(6)
Total equity		**9,113**	**8,747**
Total equity and liabilities		**130,960**	**129,800**

Consolidated statement of changes in equity for the year ended 31 December 2015

	Note	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m
Capital stock	35	**2,558**	**2,558**
Stock premium account		**1,135**	**1,135**
Retained earnings			
Balance at the beginning of the year		4,196	3,805
Profit retained		683	645
- Profit for year attributable to stockholders		*940*	*786*
- Dividends on 2009 Preference Stock		*(249)*	*(133)*
- Dividends on other preference equity interests paid in cash		*(8)*	*(8)*
Transfer (to) / from capital reserve		(22)	94
Remeasurement of the net defined benefit pension liability	16	91	(353)
Transfer from share based payment reserve		1	2
Other movements		1	3
Balance at the end of the year		**4,950**	**4,196**
Other Reserves:			
Available for sale reserve			
Balance at the beginning of the year		600	467
Net changes in fair value		143	342
Transfer to income statement (pre tax)			
- Asset disposal	10	(207)	(192)
- Amortisation	4	(11)	-
Deferred tax on reserve movements		(6)	(17)
Balance at the end of the year		**519**	**600**
Cash flow hedge reserve			
Balance at the beginning of the year		205	46
Changes in fair value		(316)	(287)[1]
Transfer to income statement (pre tax)			
- Net trading expense (foreign exchange)		321	551[1]
- Net interest income	4	(63)	(81)
Deferred tax on reserve movements		13	(24)
Balance at the end of the year		**160**	**205**

[1] *Comparative figures have been adjusted in the cash flow hedge reserve resulting in a change of €162 million in 'changes in fair value' with an offsetting increase in 'transfer to income statement'.*

Consolidated statement of changes in equity for the year ended 31 December 2015 (continued)

	Note	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Foreign exchange reserve			
Balance at the beginning of the year		(532)	(807)
Exchange adjustments during the year		249	275
Transfer to income statement on liquidation of non-trading entities	15	6	-
Balance at the end of the year		**(277)**	**(532)**
Capital contribution		**116**	**116**
Capital reserve			
Balance at the beginning of the year		480	574
Transfer from / (to) retained earnings		22	(94)
Balance at the end of the year		**502**	**480**
Share based payment reserve			
Balance at the beginning of the year		1	3
Transfer to retained earnings		(1)	(2)
Balance at the end of the year		**-**	**1**
Revaluation reserve			
Balance at the beginning of the year		6	5
Revaluation of property		14	1
Deferred tax on reserve movements		(3)	-
Balance at the end of the year		**17**	**6**
Reserve for 2009 Preference Stock to be redeemed			
Balance at the beginning of the year		-	-
Redemption of 2009 Preference Stock	36	(1,297)	-
Balance at the end of the year		**(1,297)**	**-**
Total other reserves		**(260)**	**876**
Own stock held for the benefit of life assurance policyholders			
Balance at the beginning of the year		(12)	(13)
Changes in value and amount of stock held		1	1
Balance at the end of the year		**(11)**	**(12)**
Total stockholders' equity excluding other equity instruments and non-controlling interests		**8,372**	**8,753**
Other equity instruments			
Balance at the beginning of the year		-	-
Issue of other equity instruments	37	740	-
Balance at the end of the year		**740**	**-**
Non-controlling interests			
Balance at the beginning of the year		(6)	(6)
Share of net profit		7	-
Balance at the end of the year		**1**	**(6)**
Total equity		**9,113**	**8,747**

Consolidated cash flow statement
for the year ended 31 December 2015

	Note	**Year ended 31 December 2015 €m**	Year ended 31 December 2014 €m
Cash flows from operating activities			
Profit before tax		1,232	920
Share of results of associates and joint ventures		(46)	(92)
(Profit) / loss on disposal / liquidation of business activities	15	(51)	4
Depreciation and amortisation	12	130	118
Impairment charges on financial assets	14	296	472
Reversal of impairment on property	12	(6)	(9)
Revaluation of investment property		(80)	(94)
Gain on sale of assets classified as held for sale	24	(23)	-
Interest expense on subordinated liabilities		218	200
Charge for pension and similar obligations	12	158	138
Impact of amendments to defined benefit pension schemes	12	(4)	(93)
Loss on liability management exercises	10	1	5
(Gains) / charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	8	(11)	10
Net change in accruals and interest payable		(148)	(220)
Net change in prepayments and interest receivable		63	38
Other non-cash items		12	(191)
Cash flows from operating activities before changes in operating assets and liabilities		**1,741**	**1,206**
Net change in items in the course of collection from other banks		5	163
Net change in trading securities		9	240
Net change in derivative financial instruments		220	512
Net change in other financial assets at fair value through profit or loss		(752)	(1,222)
Net change in loans and advances to banks		288	132
Net change in loans and advances to customers		(762)	4,048
Net change in NAMA senior bonds		968	1,602
Net change in other assets		70	(257)
Net change in deposits from banks		(2,916)	(8,381)
Net change in customer accounts		3,691	(886)
Net change in debt securities in issue		(2,881)	1,308
Net change in liabilities to customers under investment contracts		49	220
Net change in insurance contract liabilities		485	1,416
Net change in other operating liabilities		(362)	(518)
Net cash flow from operating assets and liabilities		**(1,888)**	**(1,623)**
Net cash flow from operating activities before tax		**(147)**	**(417)**
Tax paid		(67)	(25)
Net cash flow from operating activities		**(214)**	**(442)**
Investing activities (section a below)		1,772	(345)
Financing activities (section b below)		361	(253)
Effect of exchange translation and other adjustments[1]		(401)	(257)
Net change in cash and cash equivalents		**1,518**	**(1,297)**
Opening cash and cash equivalents		9,457	10,754
Closing cash and cash equivalents		**10,975**	**9,457**

[1] *The presentation of foreign exchange translation adjustments in the Consolidated cash flow statement has been amended to more closely reflect how foreign exchange is managed by the Group.*

Consolidated cash flow statement
for the year ended 31 December 2015 (continued)

	Note	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
(a) Investing activities			
Additions to available for sale financial assets	20	(2,648)	(3,844)
Disposal / redemption of available for sale financial assets	20	4,309	3,220
Additions to property, plant and equipment		(23)	(25)
Disposal of property, plant and equipment		2	2
Additions to intangible assets		(202)	(112)
Disposal of investment property		34	140
Additions to investment property		(80)	(57)
Disposal of assets held for sale		158	-
Dividends received from joint ventures		48	36
Proceeds received from joint ventures		124	-
Additions to joint ventures		(15)	-
Net change in interest in associates		8	72
Net proceeds from disposal of business activity		57	223
Cash flows from investing activities		**1,772**	**(345)**
(b) Financing activities			
Net proceeds from issue of new subordinated liabilities		-	750
Interest paid on subordinated liabilities		(192)	(159)
Dividend paid on 2009 Preference Stock and other preference equity interests		(141)	(141)
Consideration paid in respect of liability management exercises		(46)	(703)
Net proceeds from the issue of other equity instruments	37	740	-
Cash flows from financing activities		**361**	**(253)**

Index to selected note information

1 Basis of preparation, going concern and other information

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations, 2015. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments - Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and land and buildings.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out in note 2.

There have been no significant changes to the Group's accounting policies as set out on page 165 to 185 of the Annual Report for the year ended 31 December 2014, except for the adoption of the following policies:

Financial assets - held to maturity
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:
- those that the Group upon initial recognition designates as at fair value though profit or loss;
- those that the Group designates as available for sale; and
- those that meet the definition of loans and receivables.

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

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to available-for-sale financial assets.

Financial assets - reclassifications
Available for sale financial assets may be reclassified to held to maturity if there is a change in intention or ability to hold those assets to maturity.

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

The financial statements in this preliminary announcement are not the statutory financial statements of the Group, a copy of which is required to be annexed to The Governor and Company of the Bank of Ireland's (the 'Bank') annual return to the Companies Registration Office in Ireland. A copy of the statutory financial statements required to be annexed to the Bank's annual return in respect of the year ended 31 December 2014 has in fact been so annexed. The auditors of the Group have made a report, without any qualification, on their audit of those statutory financial statements. A copy of the statutory financial statements in respect of the year ended 31 December 2015 will be annexed to the next annual return. The directors approved the Group's statutory financial statements for the year ended 31 December 2015 on 19 February 2016 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

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

1 Basis of preparation, going concern and other information (continued)

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2015 is a period of twelve months from the date of approval of these financial statements (the 'period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, taking due account of the availability of collateral to access the Eurosystem along with ongoing developments in the eurozone.

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

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

Funding and liquidity
The Directors have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment, including sufficient collateral for funding if required from the relevant Monetary Authorities.

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

Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

Foreign exchange rates

Foreign exchange rates used during the year are as follows:

	31 December 2015		31 December 2014	
	Average	**Closing**	Average	Closing
€ / Stg£	0.7259	0.7340	0.8061	0.7789
€ / US$	1.1095	1.0890	1.3285	1.2141

2 Critical accounting estimates and judgements

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

(a) Impairment charges on financial assets

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of impairment losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience. The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the credit risk methodologies section on pages 79 to 84 of Risk Management.

At 31 December 2015, the Retail Ireland Residential mortgage portfolio before impairment provisions amounted to €25 billion (31 December 2014: €26 billion), against which the Group held provisions for impairment of €1.2 billion (31 December 2014: €1.5 billion), which comprised of collectively assessed provisions of €0.6 billion and individually assessed provisions of €0.6 billion. A key assumption used in the calculation of the impairment charge for Retail Ireland Residential mortgages is the value of the underlying residential properties securing the loans (i.e. the 'assumed value' for collective provisioning purposes).

As set out on page 82, at 31 December 2015, the assumption adopted by the Group in respect of the value of Irish residential properties for collective provisioning (i.e. collective specific and IBNR provisioning) reflected the indexed value[1] discounted (i.e. adjusted downwards) by 10% for both Dublin and Non-Dublin properties. The discounted index value was then further adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The 'Forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the discounted indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Group's most recent property sales experience. The disposal costs assumptions reflect the estimated costs associated with selling the underlying residential properties,

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

The collective impairment charges on the Retail Ireland mortgage portfolio can be sensitive to movements in any one of these assumptions, or a combination thereof. The sensitivities and estimated impacts set out below are based on movements in each of these individual assumptions in isolation.

[1] *Indexed value with reference to end September 2015 CSO residential property price index for 'Dublin – all residential properties' and 'National excluding Dublin – all residential properties'.*

2 Critical accounting estimates and judgements (continued)

- A 1% decrease in the discounted index values would give rise to estimated additional collective impairment provisions of c.€9 million to €12 million;
- A 1% increase in the 'forced sale discount' assumptions would give rise to estimated additional collective impairment provisions of c.€6 million to €8 million;
- A 1% increase in the 'disposal costs' assumption would give rise to estimated additional collective impairment provisions of c.€6 million to €8 million;
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would give rise to estimated additional collective impairment provisions of c.€4 million to €5 million;
- An increase of one month in the assumed 'loss emergence period' (i.e. the period of time between the occurrence and reporting of a loss event) would give rise to estimated additional collective impairment provisions of c.€2 million;
- A 1% increase in the 'weighted average cure rate' assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would give rise to estimated reduced collective impairment provisions of c.€3 million; and
- A 1% increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would give rise to estimated reduced collective impairment provisions of c.€8 million to €11 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. Property and construction loans before impairment provisions at 31 December 2015 amounted to €13.4 billion (31 December 2014: €15.2 billion) including Non-performing loans of €4.9 billion (31 December 2014: €7.1 billion), against which the Group held provisions for impairment of €3.0 billion (31 December 2014: €3.9 billion).

In the case of the Property and construction portfolio a collective impairment provision is made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. At 31 December 2015 emergence periods for Property and construction loans range from three to four months. An increase of one month in this emergence period beyond the assumed level would give rise to estimated additional impairment provisions of c.€32 million to €37 million.

In the case of the Non-property SME and corporate portfolio a collective impairment provision is made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. At 31 December 2015 emergence periods for Non-property SME and corporate loans loans range from three to four months. An increase of one month in this emergence period beyond the assumed level would give rise to estimated additional impairment provisions of c.€22 million to €27 million.

(b) Taxation

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

At 31 December 2015, the Group had a net deferred tax asset of €1,385 million (31 December 2014: €1,567 million), of which €1,416 million (31 December 2014: €1,595 million) related to trading losses. See note 31.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses.

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

2 Critical accounting estimates and judgements (continued)

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

As set out in note 31, the UK Finance Act 2015 enacted a new loss restriction whereby UK banks will only be able to offset 50% of their taxable profits arising from 1 April 2015 with trading losses brought forward from before that date. This has the effect of significantly lengthening the period over which the Group could use its UK trading losses.

Notwithstanding the absence of any expiry date for trading losses in the UK, the Group has concluded that for the valuation of deferred tax asset purposes its brought forward trading losses within the Bank's UK branch (the 'UK branch') will be limited by reference to a 10 year period of projected UK branch profits at the prevailing UK tax rates. Any remaining unutilised UK branch carried forward trading losses have been recognised for deferred tax asset purposes at the Irish tax rate on the basis that it is expected that these will be utilised against future Bank profits in Ireland as permitted by current tax legislation. This 10 year timescale is the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the UK branch. As a consequence, the carrying value of deferred tax assets relating to the UK branch trading losses reduced by €52 million as at 31 December 2015.

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

The Group expects to recover the majority of the deferred tax asset within ten years of the balance sheet date. Under current Irish and UK tax legislation there is no time restriction on the utilisation of these losses. Of the Group's total deferred tax asset relating to trading losses of c.€1.4 billion at 31 December 2015, c.€1.2 billion related to Irish trading losses and c.€0.2 billion related to the UK trading losses.

(c) Retirement benefits

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, employee mortality and other demographic assumptions. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 32 on pension and similar obligations.

(d) Life assurance operations

The Group accounts for the value of the stockholders' interest in its long-term assurance business using the embedded value basis of accounting. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the present value of in force business. The value of in force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written up to the balance sheet date and discounting the result at a rate which reflects the shareholder's overall risk premium, before provision has been made for taxation.

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

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

3 Operating segments

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

Retail Ireland
Retail Ireland is managed through a number of business units namely Distribution Channels, Consumer Banking (including Bank of Ireland Mortgage Bank), Business Banking (including Bank of Ireland Finance) and Customer and Wealth Management.

Bank of Ireland Life
Bank of Ireland Life (which includes the Group's life assurance subsidiary New Ireland Assurance Company plc) distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network.

Retail UK
The Retail UK Division incorporates the financial services relationship and foreign exchange joint venture with the UK Post Office, the financial services partnership with the AA, the UK residential mortgage business, the Group's branch network in Northern Ireland (NI) and the Group's business banking business in NI. The Group also has a business banking business in Great Britain (GB) which is being run-down, in accordance with the EU Restructuring Plan. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary and NIIB Group, a car and asset finance and consumer lending group.

Corporate and Treasury
The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. It also includes the Group's euro liquid asset bond portfolio.

Group Centre
Group Centre comprises capital and other management activities, unallocated Group support costs and the cost associated with schemes such as the ELG Scheme, the Bank and Investment Firm Resolution (BIFR) fund, the Irish bank levy and the UK Financial Services Compensation Scheme (FSCS).

Other reconciling items
Other reconciling items represent inter segment transactions which are eliminated upon consolidation.

Basis of preparation of segmental information
The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. During the year ended 31 December 2013, the Group amended the allocation of funding and liquidity costs across the divisions which resulted, in a reduction of net interest income for the year ended 31 December 2015 in the Retail UK division of €26 million, with a corresponding increase in net interest income in the Retail Ireland and Corporate and Treasury divisions of €20 million and €6 million respectively.

Gross external revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other operating income and share of results of associates and joint ventures.

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

3 Operating segments (continued)

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit excludes:

- Gain / loss on disposal / liquidation of business activities;
- Cost of restructuring programme;
- Gains / charges arising on the movement in the Group's credit spreads;
- Gross-up for policyholder tax in the Life business;
- Impact of changes to pension benefits in the Group sponsored defined benefit schemes;
- Payment in respect of the career and reward framework;
- Loss on liability management exercises; and
- Investment return on treasury stock held for policyholders.

3 Operating segments (continued)

Year ended 31 December 2015	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[1] €m	Group €m
Net interest income	**1,062**	**34**	**716**	**600**	**22**	**10**	**2,444**
Other income, net of insurance claims	373	169	(1)	293	20	(26)	828
Total operating income, net of insurance claims	**1,435**	**203**	**715**	**893**	**42**	**(16)**	**3,272**
Other operating expenses	(783)	(96)	(396)	(185)	(231)	-	(1,691)
- Other operating expenses excluding Irish bank levy and regulatory costs	*(781)*	*(95)*	*(392)*	*(185)*	*(163)*	-	*(1,616)*
- Irish bank levy	-	-	-	-	*(38)*	-	*(38)*
- Regulatory levy costs:							
- FSCS levy	-	-	-	-	*(15)*	-	*(15)*
- BIFR fund cost	-	-	-	-	*(7)*	-	*(7)*
- Other levies	*(2)*	*(1)*	*(4)*	-	*(8)*	-	*(15)*
Depreciation and amortisation	(48)	(4)	(35)	(9)	(34)	-	(130)
Total operating expenses	**(831)**	**(100)**	**(431)**	**(194)**	**(265)**	**-**	**(1,821)**
Underlying operating profit / (loss) before impairment charges on financial assets	**604**	**103**	**284**	**699**	**(223)**	**(16)**	**1,451**
Impairment (charges) / reversals on financial assets	(95)	-	(139)	(62)	-	-	(296)
Share of results of associates and joint ventures	(2)	-	48	-	-	-	46
Underlying profit / (loss) before tax	**507**	**103**	**193**	**637**	**(223)**	**(16)**	**1,201**

Reconciliation of underlying profit before tax to profit before tax	**Group €m**
Underlying profit before tax	1,201
Gain on disposal / liquidation of business activities	51
Cost of restructuring programme	(43)
Gain arising on the movement in the Group's credit spreads	11
Gross-up for policyholder tax in the Life business	11
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	4
Payment in respect of the career and reward framework	(2)
Loss on liability management exercises	(1)
Profit before tax	**1,232**

[1] *This relates to segmental income / (expense) on certain inter-segment transactions, which is eliminated at a Group level.*

3 Operating segments (continued)

Year ended 31 December 2014	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[1] €m	Group €m
Net interest income	1,004	43	674	602	(7)	5	2,321
Other income, net of insurance claims	318	186	2	217	(61)	(9)	653
Total operating income, net of insurance claims	1,322	229	676	819	(68)	(4)	2,974
Other operating expenses	(776)	(93)	(332)	(168)	(190)	4	(1,555)
- Other operating expenses excluding Irish bank levy and regulatory costs	*(773)*	*(92)*	*(329)*	*(168)*	*(125)*	*4*	*(1,483)*
- Irish bank levy	*-*	*-*	*-*	*-*	*(38)*	*-*	*(38)*
- Regulatory levy costs:							
- FSCS levy	*-*	*-*	*-*	*-*	*(18)*	*-*	*(18)*
- Other levies	*(3)*	*(1)*	*(3)*	*-*	*(9)*	*-*	*(16)*
Depreciation and amortisation	(41)	(3)	(32)	(10)	(32)	-	(118)
Total operating expenses	(817)	(96)	(364)	(178)	(222)	4	(1,673)
Underlying operating profit / (loss) before impairment charges on financial assets	505	133	312	641	(290)	-	1,301
Impairment (charges) / reversals on financial assets	(226)	-	(228)	(88)	70[2]	-	(472)
Share of results of associates and joint ventures	49	-	43	-	-	-	92
Underlying profit / (loss) before tax	328	133	127	553	(220)	-	921

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	921
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	93
Cost of restructuring programme	(56)
Payment in respect of the career and reward framework	(32)
Charge arising on the movement in the Group's credit spreads	(10)
Gross-up for policyholder tax in the Life business	14
Loss on disposal / liquidation of business activities	(4)
Loss on liability management exercises	(5)
Investment return on treasury stock held for policyholders	(1)
Profit before tax	920

[1] This relates to segmental income / (expense) on certain inter-segment transactions, which is eliminated at a Group level.
[2] During the year ended 31 December 2014, NAMA revised its outlook and paid the Group a discretionary coupon of €15 million on the bonds. As a consequence, the Group revised its assumption as to future expected cash flows on the bonds, resulting in a reversal of impairment of €70 million (year ended 31 December 2013: €nil).

3 Operating segments (continued)

Year ended 31 December 2015 **Analysis by operating segment**	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Investment in associates and joint ventures	56	-	83	-	-	-	139
External assets	37,616	15,585	44,244	29,416	4,100	(1)	130,960
Inter segment assets	58,336	2,097	11,530	84,297	20,646	(176,906)	-
Total assets	**95,952**	**17,682**	**55,774**	**113,713**	**24,746**	**(176,907)**	**130,960**
External liabilities	47,947	16,645	32,905	19,971	4,368	11	121,847
Inter segment liabilities	46,673	230	19,656	92,339	17,976	(176,874)	-
Total liabilities	**94,620**	**16,875**	**52,561**	**112,310**	**22,344**	**(176,863)**	**121,847**

Year ended 31 December 2014 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	172	40	77	-	-	-	289
External assets	38,548	14,725	41,735	30,305	4,487	-	129,800
Inter segment assets	55,875	2,358	13,386	93,762	30,825	(196,206)	-
Total assets	94,423	17,083	55,121	124,067	35,312	(196,206)	129,800
External liabilities	46,817	16,095	29,750	25,336	3,061	(6)	121,053
Inter segment liabilities	46,749	278	22,433	97,404	29,286	(196,150)	-
Total liabilities	93,566	16,373	52,183	122,740	32,347	(196,156)	121,053

3 Operating segments (continued)

Year ended 31 December 2015 **Gross revenue by operating segments**	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Gross external revenue	**1,515**	**1,723**	**1,548**	**1,037**	**103**	**(9)**	**5,917**
Inter segment revenues	719	62	115	699	421	(2,016)	-
Gross revenue	**2,234**	**1,785**	**1,663**	**1,736**	**524**	**(2,025)**	**5,917**
Insurance contract liabilities and claims paid	-	(1,504)	-	-	(7)	-	(1,511)
Gross revenue after claims paid	**2,234**	**281**	**1,663**	**1,736**	**517**	**(2,025)**	**4,406**
Capital expenditure	**68**	**2**	**29**	**4**	**122**	**-**	**225**

Year ended 31 December 2014 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,618	2,240	1,492	1,213	(80)	(15)	6,468
Inter segment revenues	829	144	303	841	470	(2,587)	-
Gross revenue	2,447	2,384	1,795	2,054	390	(2,602)	6,468
Insurance contract liabilities and claims paid	-	(2,078)	-	-	(1)	-	(2,079)
Gross revenue after claims paid	2,447	306	1,795	2,054	389	(2,602)	4,389
Capital expenditure	40	1	17	6	73	-	137

3 Operating segments (continued)

The analysis below is on a geographical basis - based on the location of the business unit where revenues are generated.

Year ended 31 December 2015 Geographical analysis	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
Gross external revenue	**4,236**	**1,533**	**157**	**(9)**	**5,917**
Inter segment revenues	282	137	11	(430)	-
Gross revenue	**4,518**	**1,670**	**168**	**(439)**	**5,917**
Insurance contract liabilities and claims paid	(1,504)	-	(7)	-	(1,511)
Gross revenue after claims paid	**3,014**	**1,670**	**161**	**(439)**	**4,406**
Capital expenditure	**192**	**33**	**-**	**-**	**225**
External assets	82,166	47,037	1,757	-	130,960
Inter segment assets	21,313	11,776	900	(33,989)	-
Total assets	**103,479**	**58,813**	**2,657**	**(33,989)**	**130,960**
External liabilities	86,998	34,610	239	-	121,847
Inter segment liabilities	10,773	21,169	2,047	(33,989)	-
Total liabilities	**97,771**	**55,779**	**2,286**	**(33,989)**	**121,847**

Year ended 31 December 2014 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
Gross external revenue	4,790	1,591	102	(15)	6,468
Inter segment revenues	256	280	17	(553)	-
Gross revenue	5,046	1,871	119	(568)	6,468
Insurance contract liabilities and claims paid	(2,078)	-	(1)	-	(2,079)
Gross revenue after claims paid	2,968	1,871	118	(568)	4,389
Capital expenditure	121	16	-	-	137
External assets	83,907	44,503	1,390	-	129,800
Inter segment assets	24,638	11,981	1,246	(37,865)	-
Total assets	108,545	56,484	2,636	(37,865)	129,800
External liabilities	88,151	32,372	530	-	121,053
Inter segment liabilities	14,801	21,255	1,809	(37,865)	-
Total liabilities	102,952	53,627	2,339	(37,865)	121,053

4 Interest income

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Loans and advances to customers	2,870	2,907
Available for sale financial assets[1]	209	379
Finance leases and hire purchase receivables	136	111
Loans and advances to banks	33	35
Held to maturity financial assets[2]	21	-
Interest income	**3,269**	**3,432**

[1] *Includes €11 million (31 December 2014: €30 million) of interest income on NAMA senior bonds.*
[2] *Includes €11 million (31 December 2014: €nil) of amortisation transferred from the available for sale reserve in relation to the assets reclassified from available for sale to held to maturity (see note 21).*

Interest income recognised on loans and advances to customers

For the year ended 31 December 2015:

- €148 million (year ended 31 December 2014: €201 million) of interest recognised on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end. Of this amount €111 million (year ended 31 December 2014: €157 million) relates to loans on which specific provisions have been individually assessed and €37 million (year ended 31 December 2014: €44 million) relates to loans on which specific provisions have been collectively assessed;
- €76 million (31 December 2014: €97 million) of interest recognised on loans and advances to customers classified as Non-performing but on which a specific impairment provision has not been recognised at the year end; and
- €270 million (31 December 2014: €256 million) of interest recognised on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2015, interest recognised on total forborne loans and advances to customers was €317 million (31 December 2014: €314 million).

Interest income received on loans and advances to customers

For the year ended 31 December 2015:

- €144 million (31 December 2014: €213 million) of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €72 million (31 December 2014: €90 million) of interest income was received on loans and advances to customers classified as Non-performing but on which a specific impairment provision has not been recognised at the year end; and
- €268 million (31 December 2014: €251 million) of interest income was received on arising on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2015, interest income received on total forborne loans and advances to customers was €314 million (31 December 2014: €293 million).

Interest income recognised on available for sale financial assets

Interest income on available for sale assets is recognised net of interest of €115 million (31 December 2014: €143 million) on derivatives which are in a hedge relationship with the relevant asset.

Transferred from cash flow hedge reserve

Net interest income also includes a gain of €63 million (year ended 31 December 2014: €81 million) transferred from the cash flow hedge reserve (see page 99).

5 Interest expense

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Customer accounts	469	660
Subordinated liabilities	179	168[1]
Debt securities in issue	164	244[1]
Deposits from banks	10	39
2009 Preference Stock fair value unwind	3	-
Interest expense	**825**	**1,111**

[1] *Comparative figures have been adjusted to reflect the interest on derivatives which are in a hedging relationship with the relevant liability. An expense of €32 million has been reclassified from subordinated liabilities to debt securities in issue, with no change to total interest expense.*

Included within interest expense for the year ended 31 December 2015 is an amount of €10 million (year ended 31 December 2014: €37 million) relating to the cost of the ELG. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 38(b).

Interest expense recognised on subordinated liabilities
Interest expense on subordinated liabilities is recognised net of interest of €39 million (31 December 2014: €32 million) on derivatives which are in a hedge relationship with the relevant liability.

Interest expense recognised on debt securities in issue
Interest expense on debt securities in issue is recognised net of interest of €67 million (31 December 2014: €155 million) on derivatives which are in a hedge relationship with the relevant liability.

6 Net insurance premium income

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Gross premiums written	1,438	1,447
Ceded reinsurance premiums	(88)	(103)
Net insurance premium income	**1,350**	**1,344**

7 Fee and commission income and expense

Income	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Retail banking customer fees	472	443
Insurance commissions	23	26
Credit related fees	30	45
Asset management fees	3	3
Brokerage fees	3	3
Other	30	38
Fee and commission income	**561**	**558**

Expense
Fee and commission expense of €242 million (year ended 31 December 2014: €214 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

8 Net trading income / (expense)

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Financial assets designated at fair value	-	3
Financial liabilities designated at fair value		
- Credit spreads relating to the Group's liabilities designated at fair value through profit or loss (see table below)	11	(16)
- Other	(51)	(136)
Related derivatives held for trading	9	64
	(31)	**(85)**
Other financial instruments held for trading	86	41
Net fair value hedge ineffectiveness	3	1
Cash flow hedge ineffectiveness	-	1
Net trading income / (expense)	**58**	**(42)**

Net trading income / (expense) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €24 million (year ended 31 December 2014: €9 million) in relation to net gains arising from foreign exchange.

Net trading income / (expense) includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on assets held at amortised cost, which are funded by those liabilities, is reported in net interest income.

Net trading income / (expense) also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €28 million (year ended 31 December 2014: €53 million).

Net fair value hedge ineffectiveness reflects a net charge from hedging instruments of €24 million (year ended 31 December 2014: net charge of €279 million) offsetting a net gain from hedged items of €27 million (year ended 31 December 2014: net gain of €280 million).

The table below sets out the impact on the Group's income statement of the (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits:

Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Recognised in		
- Net trading expense	11	(16)
- Insurance contract liabilities and claims paid	-	5
- Other operating income	-	1
	11	**(10)**
Cumulative charges arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss	(27)	(38)

9 Life assurance investment income, gains and losses

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Gross life assurance investment income, gains and losses	334	814
Life assurance investment income, gains and losses	**334**	**814**

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

10 Other operating income

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Transfer from available for sale reserve on asset disposal (note 20)	207	192
Other insurance income	39	25
Dividend income	11	11
Movement in value of in force asset	(3)	50
Loss on liability management exercises	(1)	(5)
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	-	(1)
Other income	46	(2)
Other operating income	**299**	**270**

Other income includes gains on investment property disposals and revaluations of €30 million.

11 Insurance contract liabilities and claims paid

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Claims paid		
Policy surrenders	825	785
Death and critical illness claims	143	141
Annuity payments	76	72
Policy maturities	1	1
Other claims	66	38
Gross claims paid	**1,111**	**1,037**
Recovered from reinsurers	(84)	(75)
Net claims paid	**1,027**	**962**
Change in insurance contract liabilities		
Change in gross liabilities	485	1,416
Change in reinsured liabilities	(1)	(299)
Net change in insurance contract liabilities	**484**	**1,117**
Insurance contract liabilities and claims paid	**1,511**	**2,079**

12 Other operating expenses

Administrative expenses and staff costs	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Staff costs excluding cost of restructuring programme	898	855
Amortisation of intangible assets	92	82
Depreciation of property, plant and equipment	38	36
Irish bank levy	38	38
Regulatory levy costs		
- Financial Services Compensation Scheme (FSCS) levy	15	18
- Bank and Investment Firm Resolution (BIFR) fund cost	7	-
- Other levies	15	16
Reversal of impairment on property	(6)	(9)
Other administrative expenses excluding cost of restructuring programme	726	669
Total	**1,823**	**1,705**
Aggregate staff costs are analysed as follows:		
Wages and salaries	659	619
Social security costs	71	67
Retirement benefit costs (defined benefit plans) (note 32)	148	137
Retirement benefit costs (defined contribution plans) (note 32)	10	1
Payment in respect of the career and reward framework	2	32
Other staff expenses	13	7
	903	**863**
Staff costs capitalised	(5)	(8)
Staff costs excluding cost of restructuring programme	**898**	**855**
Staff costs included in cost of restructuring programme (note 13)	47	58
Total staff costs	**945**	**913**
Retirement benefit gain (note 32)	(4)	(93)
Total staff costs including retirement benefit gain	**941**	**820**

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12 Other operating expenses (continued)

During the year ended 31 December 2015, the Group incurred costs of €7 million in relation to the newly established Bank and Investment Firm Resolution (BIFR) fund.

During the year ended 31 December 2014, the Group agreed a new career and reward framework, across the Group, giving transparency and flexibility around change and career development in the Group and consequently a change to certain historical employment contracts and practices. The majority of the Group employees accepted the implementation of the career and reward framework during 2014 (which resulted in a one-off charge of €32 million) and a small number of Group employees accepted the framework in 2015 (resulting in a one-off charge of €2 million).

Defined benefit retirement benefit costs of €148 million for the year ended 31 December 2015 (year ended 31 December 2014: €137 million) exclude a gain of €4 million in relation to the impact of amendments to a Group sponsored defined benefit pension scheme (year ended 31 December 2014: gain of €93 million) which has been recognised within the income statement as a separate line item, net of any directly related expenses. Further details are set out in note 32.

Defined benefit retirement benefit costs includes a recovery of €1 million in respect of the Irish pension levy for a number of schemes (year ended 31 December 2014: €4 million). Further details are set out in note 32.

Other administrative expenses includes an amount of €49 million (31 December 2014: €47 million) relating to operating lease payments.

Staff numbers

At 31 December 2015, the number of staff (full time equivalents) was 11,145 (31 December 2014: 11,086).

The average number of staff (full time equivalents) during the year was 11,302 (year ended 31 December 2014: 11,292) categorised as follows in line with the operating segments as stated in note 3.

Average number of staff (full time equivalents)	**Year ended 31 December 2015**	Year ended 31 December 2014
Retail Ireland	4,560	4,696
Retail UK	1,624	1,454
Bank of Ireland Life	918	928
Corporate and Treasury	603	582
Group Centre	3,597	3,632
Total	**11,302**	**11,292**

13 Cost of restructuring programme

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Staff costs (note 12)	47	58
Property and other	(4)	(2)
Total	**43**	**56**

14 Impairment charges on financial assets

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Loans and advances to customers (note 25)	296	542
Reversal of impairment charge on available for sale financial assets (AFS)	-	(70)
Impairment charges on financial assets	**296**	**472**

The reversal of an impairment charge on available for sale financial assets of €70 million in 2014 relates to the NAMA subordinated bonds.

15 Profit / (loss) on disposal / liquidation of business activities

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Retail UK Division		
Insurance joint operation with the UK Post Office	57	-
Retail Ireland Division		
ICS Building Society (In Members' Voluntary Liquidation)	-	(3)
Corporate and Treasury Division		
Bank of Ireland Securities Services (BoISS)	-	(1)
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	(6)	-
Profit / (loss) on disposal / liquidation of business activities	**51**	**(4)**

Insurance joint operation with the UK Post Office
On 30 September 2015, the UK Post Office exercised a pre-existing option to acquire the Group's interest in the insurance joint operation with the UK Post Office. The Group recognised net cash consideration and a gain of €57 million as a result of this transaction.

Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities
As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During 2015, the Group voluntarily appointed a liquidator to manage the winding up of a foreign operation. Upon appointment of the liquidator, the Group is considered to have lost control of the company and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative foreign exchange losses of €6 million relating to this company from the foreign exchange reserve to the income statement during the year ended 31 December 2015 (year ended 31 December 2014: €nil) (see page 100).

16 Taxation

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Current tax		
Irish Corporation Tax		
- Current year	27	18
- Transfer from deferred tax	-	(7)
Double taxation relief	(2)	(2)
Foreign tax		
- Current year	64	34
- Adjustments in respect of prior year	(13)	(1)
	76	**42**
Deferred tax		
Current year profits	116	55
Reassessment of the value of tax losses carried forward	52	(12)
Origination and reversal of temporary differences	10	38
Impact of Corporation Tax rate change (note 31)	26	-
Adjustments in respect of prior year	5	4
Transfer to current tax	-	7
Taxation charge	**285**	**134**

The reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to the Group's actual tax charge for the years ended 31 December 2015 and 31 December 2014 is as follows:

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Profit before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2014: 12.5%)	154	115
Effects of:		
Reassessment of the value of tax losses carried forward	52	(12)
Foreign earnings subject to different rates of tax	40	42
Other adjustments for tax purposes	27	4
Impact of corporation tax rate change on deferred tax	26	-
Adjustments in respect of prior year	(8)	3
Share of results of associates and joint ventures shown post tax in the income statement	(6)	(5)
Bank of Ireland Life companies - different basis of accounting	-	(13)
Taxation charge	**285**	**134**

The effective taxation rate on a statutory profit basis for the year ended 31 December 2015 is 23% (year ended 31 December 2014: 15%). On an underlying profit basis the effective taxation rate was 22% for the year ended 31 December 2015 (year ended 31 December 2014: 13%). Note 3 sets out a reconciliation of statutory profit to underlying profit.

16 Taxation (continued)

The tax effects relating to each component of other comprehensive income are as follows:

	Year ended 31 December 2015			Year ended 31 December 2014		
	Pre tax €m	**Tax €m**	**Net of tax €m**	Pre tax €m	Tax €m	Net of tax €m
Available for sale reserve						
Changes in fair value	143	(33)	110	342	(41)	301
Transfer to income statement						
- On asset disposal	(207)	26	(181)	(192)	24	(168)
- Amortisation	(11)	1	(10)	-	-	-
Net change in reserve	**(75)**	**(6)**	**(81)**	**150**	**(17)**	**133**
Remeasurement of the net defined benefit pension liability	**97**	**(6)**	**91**	**(396)**	**43**	**(353)**
Cash flow hedge reserve						
Changes in fair value	(316)	58	(258)	(287)[1]	37	(250)
Transfer to income statement	258	(45)	213	470[1]	(61)	409
Net change in cash flow hedge reserve	**(58)**	**13**	**(45)**	**183**	**(24)**	**159**
Net change in foreign exchange reserve	**255**	**-**	**255**	**275**	**-**	**275**
Net change in revaluation reserve	**14**	**(3)**	**11**	**1**	**-**	**1**
Other comprehensive income for the year	**233**	**(2)**	**231**	**213**	**2**	**215**

[1] *Comparative figures have been adjusted in the cash flow hedge reserve resulting in a change of €162 million in 'changes in fair value' with an offsetting increase in 'transfer to income statement'.*

17 Earnings per share

The calculation of basic earnings per unit of €0.05 ordinary stock is based on the profit attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

The diluted earnings per share is based on the profit attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock.

For the year ended 31 December 2015 and the year ended 31 December 2014, there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

	Year ended 31 December 2015 €m	Year ended 31 December 2014 €m
Basic and diluted earnings per share		
Profit attributable to stockholders	940	786
Dividend on 2009 Preference Stock	(135)	(133)
Adjustment on redemption of 2009 Preference Stock[1]	(52)	-
Dividend on other preference equity interests	(8)	(8)
Profit attributable to ordinary stockholders	**745**	**645**
	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders[2]	32,346	32,345
Basic and diluted earnings per share (cent)	**2.3c**	**2.0c**

[1] *A liability to redeem 1,300,000,000 units of 2009 Preference Stock at par was recognised during 2015 as disclosed in note 36. This was greater than its carrying value of €0.9577 per unit due to transaction costs and warrants issued on the issue of the stock on 31 March 2009. Under IAS 33, the difference of €52 million has been reflected in the EPS calculation by reducing the profit attributable to ordinary equity holders of the parent entity.*

[2] *The weighted average number of units of treasury stock and own stock held for the benefit of life assurance policyholders amounted to 39.4 million units (year ended 31 December 2014: 40.7 million).*

As at 31 December 2015, the Convertible Contingent Capital Note (CCCN) (note 33) and options of c.9,000 units (note 35) of potential ordinary stock (31 December 2014: 0.5 million units) could potentially have a dilutive impact in the future, but were anti-dilutive in the year ended 31 December 2015 and the year ended 31 December 2014. The CCCN has a fixed maturity date of 30 July 2016.

18 Other financial assets at fair value through profit or loss

	31 December 2015 €m	31 December 2014 €m
Assets linked to policyholder liabilities		
Equity securities	7,668	7,618
Government bonds	1,194	971
Unit trusts	951	928
Debt securities	808	405
	10,621	**9,922**
Other financial assets		
Government bonds	1,223	1,210
Other	436	396
	1,659	**1,606**
Other financial assets at fair value through profit or loss	**12,280**	**11,528**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2015, such assets amounted to €10,621 million (31 December 2014: €9,922 million).

Other financial assets of €1,659 million (31 December 2014: €1,606 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

19 Loans and advances to banks

	31 December 2015 €m	31 December 2014 €m
Placements with other banks	2,830	3,064
Mandatory deposits with central banks	1,568	1,411
Securities purchased with agreement to resell	150	27
Funds placed with the Central Bank of Ireland not on demand	30	349
Loans and advances to banks	**4,578**	**4,851**

19 Loans and advances to banks (continued)

Placements with other banks includes cash collateral of €1.3 billion (31 December 2014: €1.3 billion) placed with derivative counterparties in relation to net derivative liability positions.

Mandatory deposits with central banks includes €1,437 million relating to collateral in respect of the Group's issued bank notes in Northern Ireland (31 December 2014: €1,283 million).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2015 was €150 million (31 December 2014: €27 million).

Loans and advances to banks of €4,578 million (31 December 2014: €4,851 million) included €341 million (31 December 2014: €349 million) of assets held on behalf of Bank of Ireland Life policyholders.

For the purpose of disclosure of credit risk exposures, loans and advances to banks of €4,578 million are included within other financial instruments of €27.2 billion (31 December 2014: €30.1 billion) in the table in Risk Management on page 78.

20 Available for sale financial assets

	31 December 2015 €m	31 December 2014 €m
Government bonds	5,700	8,276
Other debt securities		
- listed	3,930	4,941
- unlisted	371	315
Equity securities		
- listed	-	1
- unlisted	127	47
Available for sale financial assets	**10,128**	**13,580**

Included within unlisted debt securities are subordinated bonds issued by NAMA with a nominal value of €281 million (31 December 2014: €281 million) and a fair value of €269 million (31 December 2014: €232 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State and the payment of interest and repayment of capital is dependent on the performance of NAMA. The Group updated its valuation of the bonds to 96% of their nominal value at 31 December 2015 from 83% at 31 December 2014. The increase in the valuation has been recognised in other comprehensive income.

At 31 December 2015, available for sale financial assets with a fair value of €0.1 billion (31 December 2014: €1.6 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

20 Available for sale financial assets (continued)

The movement on available for sale financial assets is analysed as follows:

	31 December 2015 €m	31 December 2014 €m
At beginning of year	13,580	12,104
Additions	2,648	3,844
Disposals	(2,746)	(2,751)
Reclassifications	(1,955)	-
Redemptions	(1,563)	(469)
Revaluation, exchange and other adjustments	164	852
At end of year	**10,128**	**13,580**

During the year ended 31 December 2015, the Group sold available for sale financial assets of €2.7 billion (31 December 2014: €2.8 billion) which resulted in a transfer of €207 million from the available for sale reserve to the income statement (31 December 2014: €192 million) (note 10).

During the year ended 31 December 2015, the Group continued to review its liquid asset portfolio and related strategies. One outcome of the review was a decision to reclassify Irish Government bonds with a fair value of €1.95 billion (€1.5 billion nominal) from available for sale to held to maturity. See note 21 for further details.

The Group has recognised a gain of €75 million through Other comprehensive income on the revaluation of its shareholding in Visa Europe, following the announcement during the year of Visa Inc.'s proposed acquisition of Visa Europe.

During the years ended 31 March 2009 and 31 December 2013, the Group reclassified available for sale financial assets with a carrying amount and fair value of €459 million to loans and advances to customers with expected recoverable cash flows of €805 million. For assets reclassified during the year ended 31 March 2009 the effective interest rate at the date of reclassification ranged from 0.73% to 7.12%, and for assets reclassified during year ended 31 December 2013 was 5.17%. At the date of these reclassifications, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity.

The carrying amount and fair value of these assets as at 31 December 2015 and 31 December 2014 are set out as follows:

	31 December 2015		31 December 2014	
	Carrying amount €m	**Fair value €m**	Carrying amount €m	Fair value €m
AFS financial assets reclassified to loans and advances to customers	150	153	197	199

Interest income of €9 million (year ended 31 December 2014: €14 million) and a reversal of an impairment charge of €4 million (year ended 31 December 2014: €3 million) have been recognised in the income statement for the year ended 31 December 2015 in relation to these assets. If the assets had not been reclassified a fair value gain of €4 million (year ended 31 December 2014: €12 million) would have been recognised in Other comprehensive income.

21 Held to maturity financial assets

	31 December 2015 €m	31 December 2014 €m
Government bonds	1,922	-
Held to maturity financial assets	**1,922**	**-**

During the year ended 31 December 2015, the Group undertook a review of its liquid asset portfolio and related strategies. One outcome of the review was a decision to reclassify Irish Government bonds with a fair value of €1.95 billion (€1.5 billion nominal) from available for sale to held to maturity reflecting, amongst other factors, the underlying investment strategy attaching to that element of the portfolio, and the Group's positive intention and ability to hold these bonds to maturity.

Following the reclassification as held to maturity, the bonds are measured at amortised cost, with their fair value of €1.95 billion at the date of reclassification becoming their new amortised cost at that date. Subsequent changes in the fair values of the bonds are no longer recognised in other comprehensive income. The gain on the reclassified Government bonds previously recognised in other comprehensive income and accumulated in the available for sale reserve is now being amortised to interest income in the Consolidated income statement over the remaining life of the assets using the effective interest method. The amount amortised to interest income in 2015 amounted to €11 million (2014: €nil).

22 NAMA senior bonds

	31 December 2015 €m	31 December 2014 €m
NAMA senior bonds	**1,414**	**2,374**

The Group received as consideration for the assets transferred to NAMA in 2010 a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (March 2015: 0.114%) and 1 September (September 2015: 0.039%). The contractual maturity of these bonds is 1 March 2016. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with a maturity date of up to 364 days. On 2 February 2016, the Group agreed to accept the issuance of new bonds, maturing on 1 March 2017, in settlement of the existing debt.

During the year ended 31 December 2015, NAMA redeemed senior bonds held by the Group with a nominal value of €968 million (year ended 31 December 2014: €1,602 million).

23 Loans and advances to customers

	31 December 2015 €m	31 December 2014 €m
Loans and advances to customers	88,262	87,707
Finance leases and hire purchase receivables	2,313	1,834
	90,575	89,541
Less allowance for impairment charges on loans and advances to customers (note 25)	(5,886)	(7,423)
Loans and advances to customers	**84,689**	**82,118**
Amounts include		
Due from joint ventures and associates	144	96

Further details on the Group's loans and advances to customers are set out on page 63 of Risk Management.

24 Assets classified as held for sale

	31 December 2015 €m	31 December 2014 €m
Partholon loan portfolio	20	-
Assets of SPV - Galleri K Retail Aps	-	135
Assets classified as held for sale	**20**	**135**

Partholon CDO 1 plc, a securitisation vehicle in the Corporate and Treasury division, is in the process of disposing of its remaining portfolio of assets following receipt of a redemption notice from investors in December 2015. As a result, these assets have been reclassified from loans and advances to customers to assets classified as held for sale. The assets continue to be measured at amortised cost using the effective interest method, net of impairments and the disposals are expected to be completed in 2016.

During 2014, following a review of the rental market in Copenhagen, the Group decided to sell a special purpose vehicle, Galleri K Retail Aps, which owned of a large block of high street retail in Copenhagen and forms part of the Retail Ireland division. The sale was completed in 2015 resulting in a gain of €23 million.

25 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers during the year ended 31 December 2015 and 31 December 2014.

31 December 2015	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total impairment provisions €m**
Provision at 1 January 2015	1,604	1,699	3,935	185	7,423
Exchange adjustments	7	20	81	2	110
Charge / (reversal) in income statement	(96)	149	246	(3)	296
Provisions utilised	(230)	(429)	(1,357)	(62)	(2,078)
Other movements	12	6	96	21	135
Provision at 31 December 2015	**1,297**	**1,445**	**3,001**	**143**	**5,886**

31 December 2014	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2014	2,003	1,909	4,118	211	8,241
Exchange adjustments	8	25	90	4	127
Charge / (reversal) in income statement	(148)	219	450	21	542
Provisions utilised	(275)	(456)	(827)	(72)	(1,630)
Other movements	16	2	104	21	143
Provision at 31 December 2014	1,604	1,699	3,935	185	7,423

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not, of itself, alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

26 Deposits from banks

	31 December 2015 €m	31 December 2014 €m
Securities sold under agreement to repurchase	123	2,899
- Private market repos	*103*	*1,175*
- Monetary Authorities	*20*	*1,724*
Deposits from banks	829	956
Deposits from banks	**952**	**3,855**

Deposits from banks include cash collateral of €0.5 billion (31 December 2014: €0.6 billion) received from derivative counterparties in relation to net derivative asset positions.

	31 December 2015					31 December 2014				
Monetary Authority funding	**LTRO €m**	**MRO €m**	**TLTRO €m**	**ILTR €m**	**Total €m**	LTRO €m	MRO €m	TLTRO €m	ILTR €m	Total €m
Deposits from Banks	-	-	-	20	20	1,040	100	545	39	1,724
Debt securities in issue (note 28)	-	-	1,495	-	1,495	615	1,150	950	-	2,715
Total	**-**	**-**	**1,495**	**20**	**1,515**	**1,655**	**1,250**	**1,495**	**39**	**4,439**

During the year ended 31 December 2015, the Group's Main Refinancing Operations (MRO) and Long Term Refinancing Operations (LTRO) funding were repaid.

Index Long Term Repo (ILTR) funding from the Bank of England has a maturity of less than one year.

The Group's Targeted Longer-Term Refinancing Operations (TLTROs) borrowings will be repaid between September 2016 and September 2018, in line with the terms and conditions of the TLTRO facility.

27 Customer accounts

	31 December 2015 €m	31 December 2014 €m
Term deposits and other products	32,666	33,733
Demand deposits	23,946	21,014
Current accounts	23,552	20,090
Customer accounts	**80,164**	**74,837**
Amounts include:		
Due to associates and joint ventures	31	69

At 31 December 2015, the Group's largest 20 customer deposits amounted to 3% (31 December 2014: 5%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 89 in Risk Management.

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer.

Term deposits and other products include €29 million (31 December 2014: €557 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended in line with the Government's announcement of 20 September 2008, deposits of up to €100,000 per eligible depositor per credit institution authorised by the CBI are protected by the Irish Deposit Guarantee Scheme. This Scheme covers current accounts, demand deposit accounts and term deposit accounts and is funded by the Credit Institutions lodging funds in a deposit protection account maintained at the CBI.

On 24 November 2015, the European Commission released a proposal, European Deposit Insurance Scheme (EDIS), designed to achieve a common European deposit protection scheme by 2024.

The Bank Recovery and Resolution Directive (BRRD) provides that covered deposits (i.e. eligible deposits up to €100,000) are excluded from the scope of the bail-in tool. The bail-in tool enables a resolution authority to write down the value of certain liabilities or convert them into equity, to the extent necessary to absorb losses and recapitalise an institution. It also introduces 'depositor preference', where shareholders' equity and other unsecured creditors (including senior bondholders) will have to be fully written down before losses are imposed on preferred depositors. The bail-in rules allow in exceptional circumstances for the exclusion or partial exclusion of certain liabilities (with a key focus being eligible deposits) from the application of the write down or conversion powers. The Group and other Irish authorised banks and investments firms within the scope of the BRRD pay a resolution levy through the Bank and Investment Firm Resolution (BIFR). During the year ended 31 December 2015, the Group incurred costs of €7 million in relation to the newly established BIFR fund (note 12).

In addition to the deposits covered by these Regulations and by the ELG Scheme, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc).

28 Debt securities in issue

	31 December 2015 €m	31 December 2014 €m
Bonds and medium term notes	10,286	11,621
Monetary Authorities (note 26)	1,495	2,715
Other debt securities in issue	1,462	1,704
Debt securities in issue	**13,243**	**16,040**

The movement on debt securities in issue is analysed as follows:

	31 December 2015 €m	31 December 2014 €m
Opening balance	16,040	15,280
Issued during the year	4,076	4,220
Redemptions	(6,895)	(2,974)
Repurchases	(45)	(698)
Other movements	67	212
Closing balance	**13,243**	**16,040**

29 Other liabilities

	31 December 2015 €m	31 December 2014 €m
2009 Preference Stock	1,416	-
- 2009 Preference Stock to be redeemed	*1,300*	-
- Dividend	*116*	-
Notes in circulation	1,298	1,121
Accrued interest payable	406	532
Sundry creditors	306	344
Accruals and deferred income	178	163
Finance lease obligations	4	6
Other	495	462
Other liabilities	**4,103**	**2,628**
Other liabilities are analysed as follows:		
Within 1 year	3,990	2,514
After 1 year	113	114
	4,103	**2,628**

On 23 November 2015, the Group announced that it would exercise its discretion to redeem the remaining 2009 Preference Stock with a nominal value of €1.3 billion at par on 4 January 2016 and served notice of redemption to holders of the stock. As a result a financial liability was recognised to redeem the stock within the Group's Other liabilities at a fair value of €1,297 million with a corresponding reduction in Stockholders' equity through the creation of a reserve for 2009 Preference Stock to be redeemed within Other reserves. A liability was also recognised in respect of the obligation to make a final dividend payment of €116 million on the redemption date of 4 January 2016. This has been deducted from Retained earnings in the year ended 31 December 2015. The full liability of €1,416 million was settled on 4 January 2016. See note 36 for further details.

30 Provisions

	Restructuring €m	Onerous contracts €m	Legal and other €m	Total €m
As at 1 January 2015	49	4	32	85
Exchange adjustment	1	-	-	1
Charge to income statement	43	-	48	91
Utilised during the year	(57)	-	(5)	(62)
Unused amounts reversed during the year	(8)	-	(10)	(18)
As at 31 December 2015	**28**	**4**	**65**	**97**

Of the €28 million closing provision for restructuring, €9 million relates to staff exits and €19 million relates to property and other costs.

Expected utilisation	Restructuring €m	Onerous contracts €m	Legal and other €m	Total €m
Less than 1 year	14	-	50	64
1 to 2 years	6	1	1	8
2 to 5 years	5	1	11	17
5 to 10 years	3	1	3	7
More than 10 years	-	1	-	1
Total	**28**	**4**	**65**	**97**

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

31 Deferred tax

	31 December 2015 €m	31 December 2014 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,567	1,618
Income statement charge (note 16)	(209)	(92)
Available for sale financial assets - charge to other comprehensive income	(6)	(17)
Cash flow hedges credit / (charge) to other comprehensive income	13	(24)
Pensions and other retirement benefits	(6)	43
Revaluation of property	(3)	-
Other movements	29	39
At end of year	**1,385**	**1,567**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	1,416	1,595
Pensions and other post retirement benefits	102	131
Accelerated capital allowances on equipment used by the Group	26	17
Provision for loan impairment	14	16
Other temporary differences	17	-
Deferred tax assets	**1,575**	**1,759**
Deferred tax liabilities		
Life companies	(69)	(74)
Available for sale reserve	(90)	(84)
Property revaluation surplus	(12)	(9)
Accelerated capital allowances on finance leases	-	(3)
Cash flow hedge reserve	(8)	(21)
Other temporary differences	(11)	(1)
Deferred tax liabilities	**(190)**	**(192)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,453	1,638
Deferred tax liabilities	(68)	(71)
	1,385	**1,567**

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €159 million (31 December 2014: €145 million).

31 Deferred tax (continued)

The deferred tax asset of €1,453 million (31 December 2014: €1,638 million) shown on the balance sheet is after netting by jurisdiction (€1,575 million before netting by jurisdiction, 31 December 2014: €1,759 million). This includes an amount of €1,416 million at 31 December 2015 (31 December 2014: €1,595 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.2 billion relates to Irish tax losses and €0.2 billion relates to UK tax losses.

The UK Finance Act 2015 enacted a new loss restriction whereby banks will only be able offset 50% of their taxable profits arising from 1 April 2015 with trading losses brought forward from before that date. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the deferred tax asset measurement and recognition at 31 December 2015.

The UK corporation tax rate will reduce to 19% for the years beginning on or after 1 April 2017 and 18% for years beginning on or after 1 April 2020. The reduction in the corporation tax rate to 18% from 1 April 2020 was substantively enacted at the balance sheet date and the effect of this change has been to reduce the deferred tax asset at 31 December 2015 by €26 million.

The UK government also announced that a new 8% corporation tax surcharge will apply on the taxable profits of UK banks from 1 January 2016. The surcharge is based on taxable profits prior to the utilisation of brought forward trading losses.

In order for the Group to recognise an asset for unutilised losses it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised. The recognition of a deferred tax asset requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed.

The Group's projections of future taxable profits incorporate estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes and impairment losses. The Group projections are based on the current business plan. The Group assumes long-term growth in profitability thereafter. The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's deferred tax assets, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by 2 percentage points, the Group estimates that this would respectively decrease or increase the recovery period for the majority of losses by up to one year.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses and they would continue to be available for indefinite carry forward.

Notwithstanding the absence of any expiry date for trading losses in the UK, the Group has concluded that for the valuation of deferred tax asset purposes its brought forward trading losses within the Bank's UK branch (the 'UK branch') will be limited by reference to a 10 year period of projected UK branch profits at the prevailing UK tax rates. Any remaining unutilised UK branch carried forward trading losses have been recognised for deferred tax asset purposes at the Irish tax rate on the basis that it is expected that these will be utilised against future Bank profits in Ireland. This 10 year timescale is the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the UK branch. As a consequence, the carrying value of deferred tax assets relating to the UK branch trading losses has been reduced by €52 million as at 31 December 2015.

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

31 Deferred tax (continued)

With the exception of the above for the UK branch, the deferred tax asset has been recognised on the basis that it is probable the trading losses will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed.

The Group expects to recover the majority of the deferred tax asset relating to trading losses within ten years of the balance sheet date. Under accounting standards these assets are measured on an undiscounted basis.

The amount of the deferred tax asset expected to be recovered after more than one year is c.€1.4 billion (31 December 2014: c.€1.5 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.1 billion (31 December 2014: c.€0.1 billion).

Deferred tax assets have not been recognised in respect of US tax losses of €88 million (31 December 2014: €79 million) and US temporary differences of €2 million (31 December 2014: €3 million). At 31 December 2015, €32 million (31 December 2014: €29 million) of the tax losses expire in the period 2020 to 2028 with €56 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

32 Retirement benefit obligations

The Group sponsors a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Willis Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the total liabilities across all Group sponsored defined benefit schemes at 31 December 2015. The BSPF and all of the Group's other RoI and UK defined benefit schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of defined benefit and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in late 2014 and a new defined contribution scheme was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

Regulatory Framework
The Group operates the defined benefit plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

32 Retirement benefit obligations (continued)

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to provide a check that a scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS at a specified future point in time.

The responsibilities of the Trustees, and the regulatory framework, are broadly similar for the Group's other defined benefit schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

Actuarial Valuation of the BSPF

The last formal triennial valuation of the BSPF, using the Attained Age method, was carried out as at 31 December 2012. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. For measurement of the obligation in the financial statements under IAS 19 the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The triennial valuation disclosed that the fair value of scheme assets represented 88% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. Following acceptance of the Pensions 2013 Review the actuary recalculated the funding level of the scheme and the joint future service contribution rate taking account of the impact of post-retirement changes to benefits and assumptions. The fair value of the scheme assets represented 97% of the liabilities on this revised basis and the actuary recommended a joint future service contribution rate of 19.8% following this change (unchanged from 19.8% at the previous triennial valuation).

In addition to the future service contributions the Group continues to make additional contributions to mid-2016 to the BSPF arising from the 2010 Group Pensions Review. During 2015, the Group accelerated the payment of the full amount of the 2016 additional contributions to the BSPF and a portion of the additional contributions arising under the 2013 Group Pensions Review, totalling €150 million.

The next formal triennial valuation of the BSPF will be carried out during 2016 based on the position at 31 December 2015.

The actuarial valuations are available for inspection by members but are not available for public inspection.

32 Retirement benefit obligations (continued)

Pension levy

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The Irish Finance (No. 2) Act 2013 gave effect to an increase in the pension levy by 0.15% to 0.75% in 2014 and introduced a further levy of 0.15% in 2015. The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The Group has recognised a charge of €7 million in respect of the 2015 pension levy through other comprehensive income for the year ended 31 December 2015 (year ended 31 December 2014: €33 million).

During 2012 and 2013, the Group and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed that in exchange for additional security for scheme members, the cost of the pension levies incurred from 2011 to 2013 would be borne by the relevant Republic of Ireland scheme members, in the form of adjustments to members' benefits. The additional security was provided by a charge over a portfolio of Group assets (a contingent asset) with an initial value of €250 million which reduced to €nil at 31 December 2015 as the scheme's assets exceeded the core liabilities under the Minimum Funding Standard by a satisfactory margin for an agreed period of time. There was no recovery in respect of the BSPF pension levy during 2014 or 2015, as discussions with the Trustees of the BSPF are still ongoing. Following discussions with the Group, the Trustees of the BIF, ICS and BAPF schemes accepted that the cost of the levies incurred from 2011 to 2015 would be borne by the relevant Republic of Ireland scheme members, in the form of an adjustment to member's benefits, resulting in a negative past service cost of €1 million in the income statement during the year ended 31 December 2015 (31 December 2014: €4 million).

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €34 million at 31 December 2015 (31 December 2014: €43 million).

Pensions 2013 Review

During 2015, the Group completed a review of a Group sponsored scheme under the Pensions 2013 Review programme and implemented amendments to benefits. Consistent with previous scheme reviews carried out as part of the Pensions 2013 Review, the objectives of this review were to continue to sponsor competitive pension arrangements and benefits and help secure the future viability of the scheme, while recognising the need to reduce the IAS 19 deficit and associated volatility over time.

The impact of the amendment to the Group sponsored scheme in 2015 has been recognised as a negative past service cost of €4 million (year ended 31 December 2014: negative past service cost of €93 million).

The Group has agreed to increase its support for the scheme so as to broadly match the deficit reduction arising from the changes to potential benefits. A similar agreement is in place for the Bank of Ireland Staff Pensions Fund (BSPF) following the Pensions 2013 Review, i.e. the Group has agreed to increase its support for the BSPF between 2016 and 2020, above existing arrangements, so as to broadly match the IAS 19 deficit reduction. Similar arrangements are also in place for other smaller Group sponsored pension schemes.

Future deficit-reducing contributions arising from Pensions 2013 review in the form of cash or other suitable assets are estimated to be €350 million for the BSPF and c.€50 million for additional triennial valuation arrangements in the smaller schemes in the near term.

32 Retirement benefit obligations (continued)

Settlement gain in 2015

During 2015, a settlement gain of €6 million was recognised in the income statement as a result of a liability management programme in one of the Group's defined benefit pension schemes.

Plan details

The following table sets out details of the membership of the BSPF.

Plan details at last valuation date (31 December 2012)	Number of members	Proportion of funding liability
Active members	8,598	37%
Deferred members	6,380	19%
Pensioner members	3,097	44%
Total	**18,075**	**100%**

Financial and Demographic assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments. The yield curve is extrapolated when the term of the benefit payments is longer than the term of available bonds and the single discount rate specified takes the shape of the yield curve and the benefit payments into account. The assumption for RoI price inflation is informed by reference to the European Central Bank inflation target for eurozone countries, which is to maintain inflation at close to but below 2% per annum, and to the long-term expectation for eurozone inflation as implied by the difference between eurozone fixed interest and indexed linked bonds. The assumptions for UK price inflation are informed by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds with appropriate adjustments to reflect distortions due to supply and demand, except for UK CPI inflation, which is set by reference to RPI inflation, with an adjustment applied, as there are insufficient CPI-linked bonds from which to derive an assumption.

The salary assumption takes into account inflation, seniority, promotion and current employment markets relevant to the Group.

32 Retirement benefit obligations (continued)

Other demographic assumptions are reviewed in line with the actual experience of the Group's schemes. This resulted in a change in demographic assumptions, the impact of which was to reduce the Group's deficit by €17 million as at 31 December 2015 (31 December 2014: deficit reduction of €308 million).

The significant financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	**31 December 2015 % p.a.**	31 December 2014 % p.a.
Irish schemes		
Discount rate	2.30	2.20
Inflation rate	1.60	1.50
Rate of general increase in salaries[1]	2.10	2.00
Rate of increase in pensions in payment[1]	1.04	0.96
Rate of increase to deferred pensions	1.55	1.45
UK schemes		
Discount rate	3.80	3.70
Consumer Price Inflation	2.30	2.25
Retail Price Inflation	3.30	3.25
Rate of general increase in salaries[1]	3.80	3.75
Rate of increase in pensions in payment[1]	2.21	2.17
Rate of increase to deferred pensions	2.30	2.25

[1] *Weighted average increase across all Group schemes.*

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland mortality investigations that are considered a best fit for the Group's expected future mortality experience.

	31 December 2015 years	31 December 2014 years
Longevity at age 70 for current pensioners		
Males	17.4	17.3
Females	19.0	18.8
Longevity at age 60 for active members currently aged 60 years		
Males	26.9	26.8
Females	28.7	28.6
Longevity at age 60 for active members currently aged 40 years		
Males	29.4	29.3
Females	30.9	30.8

32 Retirement benefit obligations (continued)

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements

31 December 2015	**Irish Pension Plans €m**	**UK Pension[1] Plans €m**	**Total €m**
Income statement credit / (charge)			
- Other operating expenses	(126)	(22)	(148)
- Impact of amendments to defined benefit pension schemes, net of directly related expenses	-	4	4
- Cost of restructuring programme	(5)	-	(5)
Statement of other comprehensive income			
Impact of remeasurement	124	(27)	97
Balance sheet obligations	(702)	(34)	(736)
This is shown on the balance sheet as:			
Retirement benefit obligation			(755)
Retirement benefit asset			19
Total net liability			**(736)**

All figures above are shown before deferred tax.

31 December 2014	Irish Pension Plans €m	UK Pension[1] Plans €m	Total €m
Income statement credit / (charge)			
- Other operating expenses	(113)	(24)	(137)
- Impact of amendments to defined benefit pension schemes, net of directly related expenses	81	12	93
- Cost of restructuring programme	(4)	1	(3)
Statement of other comprehensive income			
Impact of remeasurement	(419)	23	(396)
Balance sheet obligations	(949)	(37)	(986)
This is shown on the balance sheet as:			
Retirement benefit obligation			(992)
Retirement benefit asset			6
Total net liability			(986)

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

32 Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year in respect of the Group's defined benefit plans is as follows:

	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
At 1 January 2015	**(7,525)**	**6,539**	**(986)**
Impact of Pensions 2013 Review			
- Negative past service cost	4	-	4
Cost of restructuring programme			
- Past service cost	(5)	-	(5)
Other operating expenses	(252)	104	(148)
- Current service cost	*(135)*	*-*	*(135)*
- Negative past service cost	*1*	*-*	*1*
- Interest (expense) / income	*(174)*	*154*	*(20)*
- Impact of settlements	*56*	*(50)*	*6*
Return on plan assets not included in income statement	-	10	10
Change in demographic assumptions	17	-	17
Change in financial assumptions	90	-	90
Experience gains	27	-	27
Employer contributions	-	302	302
- Deficit clearing[1]	*-*	*205*	*205*
- Other	*-*	*97*	*97*
Employee contributions	(13)	13	-
Benefit payments	198	(198)	-
Changes in exchange rates	(89)	42	(47)
At 31 December 2015	**(7,548)**	**6,812**	**(736)**

The above amounts are recognised in the financial statements as follows: (charge) / credit

	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
Other operating expenses	(252)	104	(148)
Impact of amendments to defined benefit pension schemes, net of directly related costs	4	-	4
Cost of restructuring programme	(5)	-	(5)
Total amount recognised in income statement	**(253)**	**104**	**(149)**
Changes in financial assumptions	90	-	90
Return on plan assets not included in income statement	-	10	10
Change in demographic assumptions	17	-	17
Changes in exchange rates	(89)	42	(47)
Experience gains	27	-	27
Total remeasurements in other comprehensive income	**45**	**52**	**97**

Total Negative past service cost comprises	
Impact of amendments to defined benefit pension schemes	4
Impact of restructuring programme	(5)
Other operating expenses	1
Total	**-**

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

32 Retirement benefit obligations (continued)

	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
At 1 January 2014	(6,253)	5,412	(841)
Impact of Pensions 2013 Review			
- Negative past service cost	93	-	93
Cost of restructuring programme			
- Past service cost	(3)	-	(3)
Other operating expenses	(340)	203	(137)
- Current service cost	*(113)*	*-*	*(113)*
- Negative past service cost	*3*	*-*	*3*
- Interest (expense) / income	*(230)*	*203*	*(27)*
Return on plan assets not included in income statement	-	739	739
Change in demographic assumptions	308	-	308
Change in financial assumptions	(1,430)	-	(1,430)
Experience gains	38	-	38
Employer contributions	-	297	297
- Deficit clearing[1]	*-*	*210*	*210*
- Other	*-*	*87*	*87*
Employee contributions	(13)	13	-
Benefit payments	170	(170)	-
Changes in exchange rates	(95)	45	(50)
At 31 December 2014	(7,525)	6,539	(986)

The above amounts are recognised in the financial statements as follows: (charge) / credit

Other operating expenses	(340)	203	(137)
Impact of amendments to defined benefit pension schemes, net of directly related costs	93	-	93
Cost of restructuring programme	(3)	-	(3)
Total amount recognised in income statement	(250)	203	(47)
Changes in financial assumptions	(1,430)	-	(1,430)
Return on plan assets not included in income statement	-	739	739
Change in demographic assumptions	308	-	308
Changes in exchange rates	(95)	45	(50)
Experience gains	38	-	38
Total remeasurements in other comprehensive income	(1,179)	784	(395)

Total Negative past service cost comprises	
Impact of amendments to defined benefit pension schemes	93
Impact of restructuring programme	(3)
Other operating expenses	3
Total	93

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

32 Retirement benefit obligations (continued)

Asset breakdown	31 December 2015 €m	31 December 2014 €m
Equities (quoted)	1,863	1,886
Liability Driven Investment (unquoted)	1,413	1,489
Corporate bonds (quoted)	466	449
Property (unquoted)	339	417
Property and infrastructure (quoted)	388	202
Government bonds (quoted)	904	890
Cash and other (quoted)	495	392
Senior secured loans (unquoted)	226	212
Reinsurance (unquoted)	274	235
Hedge funds (unquoted)	254	234
Private equities (unquoted)	190	133
Total fair value of assets	**6,812**	**6,539**

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €10 million (31 December 2014: €9 million) and property occupied by Bank of Ireland Group companies to the value of €37 million (31 December 2014: €31 million).

Sensitivity of defined benefit obligation to key assumptions

The table below sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible:

Impact on defined benefit obligation	Change in assumption	Impact on actuarial liabilities increase / (decrease) 31 December 2015 €m	Impact on actuarial liabilities increase / (decrease) 31 December 2014 €m
RoI schemes			
Discount rate	0.25% decrease	328	337
RPI inflation[1]	0.10% decrease	(81)	(83)
Salary growth	0.10% decrease	(26)	(23)
Life expectancy	1 year increase	179	179
UK schemes			
Discount rate	0.25% decrease	73	70
RPI inflation[1]	0.10% decrease	(19)	(17)
Salary growth	0.10% decrease	(3)	(4)
Life expectancy	1 year increase	34	32

The table below sets out the estimated sensitivity of plan assets to changes in equity markets and interest rates.

Impact on plan assets	Change	Impact on plan assets increase / (decrease) 31 December 2015 €m	Impact on plan assets increase / (decrease) 31 December 2014 €m
All schemes			
Sensitivity of plan assets to a fall in global equity markets with allowance for other correlated diversified asset classes	5.00% decrease	(128)	(120)
Sensitivity of liability-matching assets to a 10bps movement in interest rates	0.10% decrease	47	44

[1] *Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth).*

32 Retirement benefit obligations (continued)

The sensitivity analysis is prepared by the independent actuaries calculating the defined benefit obligation under the alternative assumptions and the fair value of plan assets using alternative asset prices.

While the defined benefit obligation table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the above changes in defined benefit obligation assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

Future cash flows
The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration, or average term to payment for the benefits due weighted by liability, is c.21 years for the Irish plans and c.20 years for the UK plans.

Expected employer contributions for the year ended 31 December 2016 are €102 million. Expected employee contributions for the year ended 31 December 2016 are €12 million.

Risks and risk management
The Group's defined benefit pension plans have a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the following table.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Changes in bond yields, interest rate and inflation risks, along with equity risk, are the defined benefit schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its Risk Management the largest Group sponsored pension scheme, the BSPF has invested 27% in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk.

32 Retirement benefit obligations (continued)

Risk	Description
Asset volatility	The defined benefit pension plans hold a significant proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the defined benefit liabilities, however, are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. For measurement of the obligation in the financial statements under IAS 19 the defined benefit obligation is calculated using a discount rate set with reference to high-quality corporate bond yields. The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit deficit recorded on the balance sheet. In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. During 2015, the equity portfolio was further reduced and the Liability Driven Investment (LDI) portfolio increased. The fund also began to introduce 'Secured Income Assets' (SIA) into the portfolio. These are expected to reduce asset volatility and provide a better cash match to the fund's liabilities. The investment in bonds is discussed further below.
Changes in bond yields	The LDI approach invests in cash, government bonds and interest rate and inflation swaps to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. The portfolio will broadly hedge against movements in long-term interest rates although it only hedges a portion of the BSPF's interest rate risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities. However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.
Inflation risk	The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the Pensions 2013 Review changes have further limited this exposure. The LDI portfolio will broadly hedge against movements in inflation expectations although it only hedges a portion of the BSPF's inflation risks. Furthermore, the portfolio does not protect against differences between expectations for eurozone average inflation and the Fund's Irish inflation exposure.
Life expectancy	The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the Trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but not are limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

33 Subordinated liabilities

	31 December 2015 €m	31 December 2014 €m
Undated loan capital		
Bank of Ireland		
Stg£75 million 13⅜% Perpetual Subordinated Bonds	103	97
Bristol & West plc		
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	44	42
Bank of Ireland UK Holdings plc		
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	33	32
	180	**171**
Dated loan capital		
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	-	69
€1,000 million 10% Convertible Contingent Capital Note 2016	994	989
€600 million Subordinated Floating Rate Notes 2017	1	1
€1,002 million 10% Fixed Rate Subordinated Notes 2020	234	239
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
€250 million 10% Fixed Rate Subordinated Notes 2022	266	269
€750 million 4.25% Fixed Rate Subordinated Notes 2024	763	760
	2,260	**2,329**
Total subordinated liabilities	**2,440**	**2,500**

34 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

	31 December 2015 Contract amount €m	31 December 2014 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	10	12
Guarantees and irrevocable letters of credit	620	698
Other contingent liabilities	401	199
	1,031	**909**
Commitments		
Documentary credits and short-term trade related transactions	77	113
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	12,027	11,474[1]
- irrevocable with original maturity of over 1 year	3,102	2,885[1]
	15,206	**14,472**

[1] *The Group no longer considers certain payment facilities to represent contingent liabilities or commitments. Comparative amounts have been adjusted by €3.2 billion.*

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short-term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory and other actions arising out of its normal business operations.

At 31 December 2015, the Group continues to monitor an industry-wide issue with respect to technical compliance with the UK Consumer Credit Act and is assessing an emerging industry-wide mortgage review with respect to compliance with certain contractual and regulatory requirements in Ireland. In accordance with IAS 37.92, the Group has not provided further information on these issues.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Included within total commitments above is an amount of €82 million of unrecognised loan commitments to the Group's joint ventures (31 December 2014: €108 million).

35 Capital stock

Authorised	31 December 2015	31 December 2014
Eur€	**€m**	€m
90 billion units of ordinary stock of €0.05 each	4,500	4,500
228 billion units of deferred stock of €0.01 each	2,280	2,280
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2015 €m	31 December 2014 €m
32.346 billion units of ordinary stock of €0.05 each	1,616	1,616
91.981 billion units of deferred stock of €0.01 each	920	920
39.584 million units of treasury stock of €0.05 (31 December 2014: 39.291 million units)	2	2
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.3 billion units of non-cumulative 2009 Preference Stock of €0.01 each	13	13
	2,558	**2,558**

Ordinary stock

All units of ordinary stock carry the same voting rights.

All of the capital stock is presented as equity however as set out in note 36, the Group has recognised a liability for the redemption of the 2009 Preference Stock at 31 December 2015 with a corresponding reduction in Other reserves '2009 Preference Stock to be redeemed'.

The weighted average number of units of ordinary stock in issue at 31 December 2015, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally ranks for dividend, in line with accounting standards any dividend would not accrue in the Group financial statements.

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	**31 December 2015**	31 December 2014	**31 December 2015**	31 December 2014
At beginning of year	32,345,992,667	32,343,587,302	39,291,096	41,696,461
Stock sold / (purchased) and held for the benefit of life assurance policyholders	(292,956)	2,405,365	292,956	(2,405,365)
At end of year	**32,345,699,711**	**32,345,992,667**	**39,584,052**	**39,291,096**

At 31 December 2015, New Ireland Assurance Company plc held 17,575,362 units of ordinary stock as 'own shares' (31 December 2014: 17,282,406 units). At 31 December 2015, the consideration paid for these shares amounted to €11.4 million (31 December 2014: €11.8 million).

36 Redemption of 2009 Preference Stock

On 23 November 2015, the Group announced that it received ECB approval to exercise its discretion to redeem the remaining 2009 Preference Stock with a nominal value of €1.3 billion at par on 4 January 2016 and served notice of redemption to holders of the stock. As a result a financial liability was recognised to redeem the stock within the Group's Other liabilities at a fair value of €1,297 million with a corresponding reduction in Stockholders' equity through the creation of a reserve for 2009 Preference Stock to be redeemed within Other reserves. A liability was also recognised in respect of the obligation to make a final dividend payment of €116 million on the redemption date of 4 January 2016. This has been deducted from Retained earnings in the year ended 31 December 2015.

On 4 January 2016, the Group completed the redemption of the 2009 Preference Stock and the estimated pro-forma impact on Stockholders' equity is as set out below:

	As at 31 December 2015 €m	Redemption on 4 January 2016 €m	Post-redemption €m
Capital Stock	2,558	(13)	2,545
Stock premium account	1,135	(564)	571
Retained earnings	4,950	(727)	4,223
Other reserves	(260)	1,304	1,044
of which;			
- Capital redemption reserve	*-*	*7*	*7*
- Reserve for 2009 Preference Stock to be redeemed	*(1,297)*	*1,297*	*-*
Own stock held for the benefit of the life assurance policyholders	(11)	-	(11)
Stockholders' Equity	**8,372**	**-**	**8,372**

37 Other equity instruments - Additional tier 1

	31 December 2015 €m	31 December 2014 €m
Additional tier 1 securities issued	749	-
Transaction costs (net of tax)	(9)	-
Balance at the end of the year	**740**	**-**

In June 2015, the Bank issued Additional tier 1 (AT1) securities with a par value of €750 million at an issue price of 99.874%.

The principal terms of the AT1 securities are as follows:

- the securities constitute direct, unsecured and subordinated obligations of the Bank, rank behind Tier 2 instruments and in priority to ordinary and preference shareholders;
- the securities bear a fixed rate of interest of 7.375% until the first call date (on 18 June 2020). After the initial call date, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Bank may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Bank to redeem or purchase the securities at any time;
- the Bank may, in its sole and full discretion but subject to the satisfaction of certain conditions elect to redeem all (but not some only) of the securities on the initial call date or semi-annually on any interest payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities;
- the securities will be written down together with any accrued but unpaid interest if the Group's CET 1 ratio or the Bank's CET 1 ratio (calculated on an individual consolidated basis) falls below 5.125%; and
- subsequent to any write-down event the Bank may, at its sole discretion, write-up some or all of the written-down principal amount of the AT1 instrument provided regulatory capital requirements and certain conditions are met.

38 Summary of relations with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

(a) Ordinary stock

At 31 December 2015, the State held through the Ireland Strategic Investment Fund (ISIF) 13.95% (31 December 2014: 13.95%) of the ordinary stock of the Bank.

(b) Guarantee schemes

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme)

The ELG Scheme ended for all new liabilities on 28 March 2013. After this date no new liabilities were guaranteed under the scheme. All qualifying deposits and other liabilities made up to the date of expiry from the ELG Scheme continued to be covered until the date of maturity of the deposit or liability.

A fee is payable in respect of each liability guaranteed under the ELG Scheme. This fee amounted to €10 million for the year ended 31 December 2015 (year ended 31 December 2014: €37 million) (note 5).

At 31 December 2015, €0.7 billion of eligible liabilities continue to be covered under the ELG Scheme all of which relate to customer deposits (31 December 2014: €2.8 billion of which €1.9 billion related to senior debt and €0.9 billion related to customer deposits).

European Communities (Deposit Guarantee Schemes) Regulations, 1995

Details of the deposits protected by these schemes are set out in note 27.

(c) Bonds issued by the State

At 31 December 2015, the Group held sovereign bonds issued by the State with a carrying value of €5,152 million (31 December 2014: €6,918 million).

	31 December 2015 €m	31 December 2014 €m
Available for sale financial assets	2,750	6,409
Held to maturity financial assets	1,922	-
Other financial assets at fair value through the profit and loss	480	509
Total	**5,152**	**6,918**

(d) National Asset Management Agency (NAMA)

At 31 December 2015, the Group held bonds issued by NAMA with a carrying value of €1,683 million (31 December 2014: €2,606 million).

	31 December 2015 €m	31 December 2014 €m
NAMA senior bonds (guaranteed by the State) (note 22)	1,414	2,374
NAMA subordinated bonds (note 20)	269	232
Total	**1,683**	**2,606**

38 Summary of relations with the State (continued)

(e) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired at that time in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL has also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six Directors to the board of NAMAIL. In total, the B shareholders may also jointly appoint up to six Directors and have collectively appointed one Director. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €0.1 million was received by the Group on 31 March 2015 (31 March 2014: €0.5 million).

(f) Other transactions with the State and entities under its control or joint control

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks.

At 31 December 2015, the Group held senior bonds with a carrying value of €328 million issued by the following entities which are related parties of the Group, as follows:

	31 December 2015 €m	31 December 2014 €m
Allied Irish Banks plc (AIB)	328	753
Permanent TSB Group Holdings plc	-	201
Total	**328**	**954**

At 31 December 2015, none of the AIB or Permanent TSB Group Holdings plc senior bonds held (31 December 2014: €468 million; €201 million respectively) were guaranteed under the ELG Scheme.

At 31 December 2015, the Group also had loans of €33 million to AIB (31 December 2014: €14 million) and €150 million to Permanent TSB Group Holdings plc (31 December 2014: €6 million) which were included within loans and advances to banks.

At 31 December 2015, the Group held deposits from the National Treasury Management Agency (NTMA) of €0.4 billion (31 December 2014: €1.0 billion). The maximum amount of these deposits during the year was €1.0 billion (31 December 2014: €1.9 billion).

At 31 December 2015, the Group also held a number of deposits from the State, its agencies and entities under its control or joint control, which are considered to be collectively significant, totalling c.€1.2 billion (31 December 2014: c.€1.2 billion).

In addition, at 31 December 2015, the Group held accounts from IBRC (in Special Liquidation) and its associates of €434 million (31 December 2014: €158 million) which were included in the Customer accounts at 31 December 2015.

38 Summary of relations with the State (continued)

(g) Irish bank levy

The Finance Bill (No. 2) 2013 which was enacted on 18 December 2013, introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The levy will equal 35% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for 2011 and will be charged for three-years, from 2014 to 2016 inclusive. The annual levy paid by the Group on 20 October 2015 was €38 million (20 October 2014: €38 million). The budget announcement in October 2015 indicated that the bank levy, which was due to expire in 2016, will be now extended to 2021. The method used to calculate the levy will be subject to review but there is currently no detail on how this method may change.

39 Post balance sheet events

On 4 January 2016, the Group redeemed the remaining €1.3 billion of 2009 Preference Stock at par and paid a dividend of €116 million to Baggot. See note 36 for further details.

Other Information

Group exposures to selected countries

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items as at 31 December 2015. For these line items, further information on the Group's exposures to countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain, France, Belgium and Italy), is set out on pages 159 to 165.

31 December 2015 **Assets**	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Belgium €m**	**Italy €m**	**Other[3] €m**	**Total €m**
Cash and balances at central banks	1,077	4,793	437	-	-	-	-	296	6,603
Trading securities	-	-	-	-	3	-	-	-	3
Derivative financial instruments[1] (net)	127	382	12	11	4	-	-	48	584
Other financial assets at fair value through profit or loss[2]	548	40	55	11	506	111	57	331	1,659
Loans and advances to banks[2]	341	2,725	15	-	617	-	-	539	4,237
Available for sale financial assets	3,358	1,146	73	845	1,310	502	322	2,572	10,128
Held to maturity financial assets	1,922	-	-	-	-	-	-	-	1,922
NAMA senior bonds	1,414	-	-	-	-	-	-	-	1,414
Total	**8,787**	**9,086**	**592**	**867**	**2,440**	**613**	**379**	**3,786**	**26,550**

31 December 2014 Assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Italy €m	Other[4] €m	Total €m
Cash and balances at central banks	722	3,805	198	-	-	-	-	266	4,991
Trading securities	12	-	-	-	-	-	-	-	12
Derivative financial instruments[1] (net)	139	453	12	14	2	-	-	55	675
Other financial assets at fair value through profit or loss[2]	511	42	37	12	480	116	59	349	1,606
Loans and advances to banks[2]	517	2,550	259	1	580	-	-	595	4,502
Available for sale financial assets	7,599	1,359	293	968	934	87	142	2,198	13,580
NAMA senior bonds	2,374	-	-	-	-	-	-	-	2,374
Total	11,874	8,209	799	995	1,996	203	201	3,463	27,740

1 Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.
2 This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.
3 At 31 December 2015, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Sweden €0.3 billion, Norway: €0.2 billion, Austria: €0.2 billion, Portugal: €0.2 billion, Canada: €0.2 billion, Rest of world: €1.1 billion and Supranational institutions: €1.2 billion). Also included in other is the Group's euro cash holding in branches.
4 At 31 December 2014, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Sweden €0.2 billion, Norway: €0.2 billion, Austria: €0.2 billion, Switzerland: €0.2 billion, Portugal: €0.2 billion and other Supranational bonds: €1.1 billion). Also included in other is the Group's euro cash holding in branches.

Group exposures to selected countries (continued)

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2015 by asset class:

Derivative financial instruments

31 December 2015	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Belgium €m**	**Italy €m**	**Other[2] €m**	**Total €m**
Gross derivative assets									
Financial institutions	12	986	153	8	289	8	-	837	2,293
Corporate	130	571	26	9	3	-	-	32	771
Total	**142**	**1,557**	**179**	**17**	**292**	**8**	**-**	**869**	**3,064**
Net Derivative Assets[1]									
Financial institutions	5	38	-	2	1	-	-	16	62
Corporate	122	344	12	9	3	-	-	32	522
Total	**127**	**382**	**12**	**11**	**4**	**-**	**-**	**48**	**584**

31 December 2014	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Italy €m	Other[3] €m	Total €m
Gross derivative assets									
Financial institutions	13	1,281	314	8	377	8	-	913	2,914
Corporate	147	570	12	12	2	-	-	35	778
Total	160	1,851	326	20	379	8	-	948	3,692
Net Derivative Assets[1]									
Financial institutions	-	71	-	2	-	-	-	20	93
Corporate	139	382	12	12	2	-	-	35	582
Total	139	453	12	14	2	-	-	55	675

[1] Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.
[2] At 31 December 2015, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €23 million, Germany: €9 million, Australia: €5 million, Austria: €5 million and Netherlands: €4 million.
[3] At 31 December 2014, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €23 million, Germany: €10 million, Australia: €7 million, Austria: €6 million and Netherlands: €5 million.

Group exposures to selected countries (continued)

Available for sale financial assets

31 December 2015	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Italy €m	Other[2] €m	Total €m
Government bonds	2,750	721	2	347	780	431	318	351	5,700
Senior bank debt and other senior debt	6	-	37	3	109	-	-	1,333	1,488
Covered bonds	322	342	-	453	409	71	-	694	2,291
Subordinated debt	269[1]	11	5	-	5	-	-	17	307
Asset backed securities	11	72	29	42	7	-	4	177	342
Total	**3,358**	**1,146**	**73**	**845**	**1,310**	**502**	**322**	**2,572**	**10,128**

31 December 2014	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Italy €m	Other[3] €m	Total €m
Government bonds	6,409	687	2	290	446	73	135	234	8,276
Senior bank debt and other senior debt	669	-	40	-	111	-	1	1,432	2,253
Covered bonds	286	529	214	628	368	14	-	491	2,530
Subordinated debt	232[1]	-	-	-	-	-	-	-	232
Asset backed securities	3	142	37	50	9	-	6	42	289
Total	7,599	1,358	293	968	934	87	142	2,199	13,580

[1] *NAMA subordinated debt of €269 million (31 December 2014: €232 million) is classified as an available for sale debt instrument (note 20).*
[2] *At 31 December 2015, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Norway: €0.2 billion, Sweden: €0.2 billion, Portugal: €0.2 billion, Rest of world: €0.4 billion and Supranational institutions €1.2 billion.*
[3] *At 31 December 2014, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Norway: €0.2 billion, Sweden: €0.2 billion, Portugal: €0.2 billion and other Supranational bonds: €1.1 billion.*

Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholder's equity.

Group exposures to selected countries (continued)

Additional information on selected European countries

The tables below show the Group's exposures to countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain, France, Belgium and Italy). The maturity analysis in the tables below is based on the residual contractual maturity of the exposures (except where otherwise indicated).

Ireland

As at 31 December 2015, Ireland's credit rating from Standard & Poor's was A (31 December 2014: A). The table below shows the Group's exposure to Ireland by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2015	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss[1]	109	3	-	10	164	262	548	488
- Government bonds	*6*	*3*	-	*4*	*145*	*262*	*420*	*352*
- Other	*103*	-	-	*6*	*19*	-	*128*	*136*
Loans and advances to banks[1]	231	110	-	-	-	-	341	341
Available for sale financial assets	11	269	447	1,986	645	-	3,358	2,956
- Government bonds	-	*269*	*271*	*1,670*	*540*	-	*2,750*	*2,363*
- Senior bank debt and other[2]	*11*	-	*176*	*316*	*105*	-	*608*	*593*
Held to maturity financial assets	-	-	-	-	1,922	-	1,922	1,500
NAMA senior bonds[3]	157	471	786	-	-	-	1,414	1,421
Total[4]	**508**	**853**	**1,233**	**1,996**	**2,731**	**262**	**7,583**	**6,706**

	Carrying value							Nominal value
As at 31 December 2014	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss[1]	60	-	-	8	151	292	511	420
- Government bonds	-	-	-	*4*	*130*	*292*	*426*	*333*
- Other	*60*	-	-	*4*	*21*	-	*85*	*87*
Loans and advances to banks[1]	407	110	-	-	-	-	517	517
Available for sale financial assets	1,067	-	281	2,435	3,138	678	7,599	6,574
- Government bonds	*394*	-	*281*	*2,203*	*2,853*	*678*	*6,409*	*5,370*
- Senior bank debt and other[2]	*673*	-	-	*232*	*285*	-	*1,190*	*1,204*
NAMA senior bonds[3]	183	548	730	913	-	-	2,374	2,389
Total[4]	1,717	658	1,011	3,356	3,289	970	11,001	9,900

[1] This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.
[2] Senior bank debt and other primarily relates to the Group's holdings of Irish Government guaranteed senior bank debt issued by Irish financial institutions.
[3] The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.
[4] The Group also has a net derivative asset exposure to counterparties based in Ireland at 31 December 2015 of €127 million (31 December 2014: €139 million).

Group exposures to selected countries (continued)

Ireland (continued)

Available for sale financial assets As at 31 December 2015 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	265	410	1,726	555	-	2,956
Fair value	11	269	447	1,986	645	-	3,358
AFS reserve (before tax)[1]	-	7	23	279	18	-	327

Available for sale financial assets As at 31 December 2014 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	1,057	-	265	2,075	2,684	493	6,574
Fair value	1,067	-	281	2,435	3,138	678	7,599
AFS reserve (before tax)	9	-	29	304	271	26	639

Spain

As at 31 December 2015, Spain's credit rating from Standard & Poor's was BBB (31 December 2014: BBB). The table below shows the Group's exposure to Spain by selected balance sheet line items:

	Carrying value							**Nominal Value**
As at 31 December 2015	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	8	3	-	11	11
Loans and advance to banks	-	-	-	-	-	-	-	-
Available for sale financial assets	42	43	217	291	244	8	845	751
- Government bonds	*-*	*-*	*-*	*210*	*137*	*-*	*347*	*284*
- Covered bonds and other	*42*	*43*	*217*	*81*	*107*	*8*	*498*	*467*
Total[1]	**42**	**43**	**217**	**299**	**247**	**8**	**856**	**762**

	Carrying value							Nominal Value
As at 31 December 2014	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	1	11	-	12	10
Loans and advance to banks	1	-	-	-	-	-	1	1
Available for sale financial assets	35	51	178	286	408	10	968	870
- Government bonds	*-*	*-*	*-*	*23*	*266*	*-*	*289*	*237*
- Covered bonds and other	*35*	*51*	*178*	*263*	*142*	*10*	*679*	*633*
Total[1]	36	51	178	287	419	10	981	881

Group exposures to selected countries (continued)

Spain (continued)

Available for sale financial assets As at 31 December 2015 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	42	43	209	249	199	9	751
Fair value	42	43	217	291	244	8	845
AFS reserve (before tax)	-	-	-	12	(2)	-	10

Available for sale financial assets As at 31 December 2014 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	35	50	171	266	338	10	870
Fair value	35	51	178	286	408	10	968
AFS reserve (before tax)	-	-	-	1	6	-	7

France

As at 31 December 2015, France's credit rating from Standard & Poor's was AA (31 December 2014: AA). The table below shows the Group's exposure to France by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2015	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	1	5	1	5	88	406	506	433
- Government bonds	*-*	*5*	*-*	*-*	*66*	*396*	*467*	*390*
- Other	*1*	*-*	*1*	*5*	*22*	*10*	*39*	*43*
Loans and advances to banks	597	20	-	-	-	-	617	617
Available for sale financial assets	23	82	205	255	745	-	1,310	1,205
- Government bonds	*-*	*50*	*-*	*10*	*720*	*-*	*780*	*710*
- Senior bank debt and other	*23*	*32*	*205*	*245*	*25*	*-*	*530*	*495*
Total[1]	**621**	**107**	**206**	**260**	**833**	**406**	**2,433**	**2,255**

Group exposures to selected countries (continued)

France (continued)

As at 31 December 2014	Carrying value 0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Nominal value Total €m
Other financial assets at fair value through profit or loss	-	-	-	6	31	443	480	384
- Government bonds	*-*	*-*	*-*	*-*	*-*	*431*	*431*	*340*
- Other	*-*	*-*	*-*	*6*	*31*	*12*	*49*	*44*
Loans and advances to banks	560	20	-	-	-	-	580	580
Available for sale financial assets	-	81	-	240	613	-	934	850
- Government bonds	*-*	*-*	*-*	*-*	*446*	*-*	*446*	*400*
- Senior bank debt and other	*-*	*81*	*-*	*240*	*167*	*-*	*488*	*450*
Total[1]	560	101	-	246	644	443	1,994	1,814

[1] The Group also has a net derivative asset exposure to counterparties based in France at 31 December 2015 of €4 million (31 December 2014: €2 million).

Available for sale financial assets As at 31 December 2015 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	23	82	190	236	674	-	1,205
Fair value	23	82	205	255	745	-	1,310
AFS reserve (before tax)	-	-	-	3	10	-	13

Available for sale financial assets As at 31 December 2014 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	-	81	-	218	551	-	850
Fair value	-	81	-	240	613	-	934
AFS reserve (before tax)	-	-	-	2	7	-	9

Group exposures to selected countries (continued)

Belgium

As at 31 December 2015, Belgium's credit rating from Standard & Poor's was AA (31 December 2014: AA). The table below shows the Group's exposure to Belgium by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2015	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	2	-	-	1	13	95	111	96
- Government bonds	*2*	*-*	*-*	*-*	*-*	*91*	*93*	*80*
- Other	*-*	*-*	*-*	*1*	*13*	*4*	*18*	*16*
Loans and advances to banks	-	-	-	-	-	-	-	-
Available for sale financial assets	-	133	-	-	369	-	502	461
- Government bonds	*-*	*77*	*-*	*-*	*354*	*-*	*431*	*390*
- Senior bank debt and other	*-*	*56*	*-*	*-*	*15*	*-*	*71*	*71*
Total	**2**	**133**	**-**	**1**	**382**	**95**	**613**	**557**

	Carrying value							Nominal value
As at 31 December 2014	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	1	16	99	116	99
- Government bonds	*-*	*-*	*-*	*-*	*-*	*95*	*95*	*80*
- Other	*-*	*-*	*-*	*1*	*16*	*4*	*21*	*19*
Loans and advances to banks	-	-	-	-	-	-	-	-
Available for sale financial assets	-	-	14	-	73	-	87	79
- Government bonds	*-*	*-*	*-*	*-*	*73*	*-*	*73*	*65*
- Senior bank debt and other	*-*	*-*	*14*	*-*	*-*	*-*	*14*	*14*
Total	-	-	14	1	89	99	203	178

Group exposures to selected countries (continued)

Belgium (continued)

Available for sale financial assets As at 31 December 2015 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	131	-	-	330	-	461
Fair value	-	133	-	-	369	-	502
AFS reserve (before tax)	-	-	-	-	1	-	1

Available for sale financial assets As at 31 December 2014 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	-	-	14	-	65	-	79
Fair value	-	-	14	-	73	-	87
AFS reserve (before tax)	-	-	-	-	2	-	2

Italy

As at 31 December 2015, Italy's credit rating from Standard & Poor's was BBB (31 December 2014: BBB). The table below shows the Group's exposure to Italy by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2015	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	1	12	2	42	57	53
- Government bonds	*-*	*-*	*-*	*-*	*-*	*41*	*41*	*30*
- Other	*-*	*-*	*1*	*12*	*2*	*1*	*16*	*23*
Loans and advances to banks	-	-	-	-	-	-	-	-
Available for sale financial assets	37	-	-	48	237	-	322	303
- Government bonds	*37*	*-*	*-*	*48*	*233*	*-*	*318*	*298*
- Senior bank debt and other	*-*	*-*	*-*	*-*	*4*	*-*	*4*	*5*
Total	**37**	**-**	**1**	**60**	**239**	**42**	**379**	**356**

Group exposures to selected countries (continued)

Italy (continued)

As at 31 December 2014	Carrying value 0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Nominal value Total €m
Other financial assets at fair value through profit or loss	-	-	-	5	14	40	59	48
- Government bonds	*-*	*-*	*-*	*-*	*-*	*39*	*39*	*30*
- Other	*-*	*-*	*-*	*5*	*14*	*1*	*20*	*18*
Loans and advances to banks	-	-	-	-	-	-	-	-
Available for sale financial assets	-	-	34	2	106	-	142	132
- Government bonds	*-*	*-*	*34*	*-*	*100*	*-*	*134*	*125*
- Senior bank debt and other	*-*	*-*	*-*	*2*	*6*	*-*	*8*	*7*
Total	-	-	34	7	120	40	201	180

Available for sale financial assets As at 31 December 2015 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	37	-	-	42	224	-	303
Fair value	37	-	-	48	237	-	322
AFS reserve (before tax)	-	-	-	2	2	-	4

Available for sale financial assets As at 31 December 2014 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	-	-	33	2	97	-	132
Fair value	-	-	34	2	106	-	142
AFS reserve (before tax)	-	-	1	-	1	-	2

Supplementary asset quality and forbearance disclosures

Retail Ireland mortgages

Retail UK mortgages

Loans and advances (excluding Residential mortgages)

Group forbearance disclosures

Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2015, lending criteria for the Retail Ireland mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1

Retail Ireland mortgages - Volumes (before impairment provisions) by product type	**31 December 2015 €m**	31 December 2014 €m
Owner occupied mortgages	19,951	19,943
Buy to let mortgages	5,040	5,645
Total Retail Ireland mortgages	**24,991**	**25,588**

Retail Ireland mortgages - Volumes (before impairment provisions) by interest rate type	**31 December 2015**		31 December 2014	
	€m	**%**	€m	%
Tracker	12,949	52%	14,412	56%
Variable rates	8,129	32%	8,823	35%
Fixed rates	3,913	16%	2,353	9%
Total Retail Ireland mortgages	**24,991**	**100%**	**25,588**	**100%**

Book composition (continued)

Loan volumes (continued)

Retail Ireland mortgages were €25.0 billion at 31 December 2015 compared to €25.6 billion at 31 December 2014, a decrease of €0.6 billion or 2.3%, which includes a €1.5 billion decrease in the tracker portfolio and a €0.9 billion increase in the combined variable and fixed portfolios. This increase in combined variable and fixed portfolios primarily reflects the strong take up of fixed interest rate mortgages by both existing and new customers. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments, resolution activity and the acquisition of mortgage portfolios of €0.3 billion in the period.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'[1] repayment basis at 31 December 2015 was 91% (31 December 2014: 89%) with the balance of 9% on an 'interest only'[2] repayment basis (31 December 2014: 11%). Of the Owner occupied mortgages of €20 billion, 95% were on a 'full principal and interest' repayment basis (31 December 2014: 94%), while 76% of the Buy to let mortgages of €5 billion were on a 'full principal and interest' repayment basis (31 December 2014: 70%). It is the Group's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

[1] *'Full principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.*
[2] *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. Interest only periods on Retail Ireland mortgages typically range between three and five years.*

Origination profile

TABLE: 2

31 December 2015	**Total Retail Ireland mortgage loan book**		**Non-performing loans**	
Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	**Balance €m**	**Number of accounts[2]**	**Balance €m**	**Number of accounts[2]**
2000 and before	396	13,930	46	1,039
2001	304	5,700	29	391
2002	563	8,161	68	617
2003	1,006	11,623	139	1,050
2004	1,747	15,965	255	1,554
2005	2,868	21,004	426	2,160
2006	4,314	26,551	802	3,315
2007	3,753	21,848	750	2,885
2008	2,590	15,928	389	1,594
2009	1,385	9,962	100	593
2010	1,004	6,878	22	141
2011	874	6,076	10	56
2012	771	5,391	3	25
2013	730	4,805	2	11
2014	1,134	6,704	2	8
2015	1,552	12,148	6	101
Total	**24,991**	**192,674**	**3,049**	**15,540**

[1] *The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

Book composition (continued)

Origination profile (continued)

31 December 2014 Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book Balance €m	Number of accounts[2]	Non-performing loans Balance €m	Number of accounts[2]
2000 and before	492	16,613	64	1,483
2001	349	6,147	37	525
2002	648	8,787	92	824
2003	1,140	12,397	196	1,392
2004	1,956	16,863	316	1,921
2005	3,146	22,296	535	2,721
2006	4,686	27,495	1,066	4,311
2007	4,081	22,538	957	3,610
2008	2,817	16,505	492	2,024
2009	1,495	10,417	121	709
2010	1,084	7,215	26	151
2011	942	6,317	9	54
2012	827	5,583	1	17
2013	779	4,948	1	6
2014	1,146	6,781	-	-
Total	25,588	190,902	3,913	19,748

[1] *The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

The tables above illustrate that at 31 December 2015, €6.9 billion or 27% of the Retail Ireland mortgage loan book originated before 2006, €10.7 billion or 43% between 2006 and 2008 and €7.4 billion or 30% in the years since 2008. The lending originated in 2015 includes the acquisition of €0.3 billion of well seasoned mortgage portfolios, of which there are a small number of non-performing but not impaired mortgages.

Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 68 in the credit risk section of Risk Management.

At 31 December 2015, total Non-performing loans were €3.0 billion (31 December 2014: €3.9 billion) or 12% of the Retail Ireland mortgage loan book, of which €1.9 billion originated between 2006 and 2008. There has been a significant decrease in total Non-performing loans in the year ended 31 December 2015 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

At 31 December 2015, impairment provisions were €1.2 billion equating to 39% of non-performing balances on the Retail Ireland mortgage book.

Book composition (continued)

Risk profile

TABLE: 3a

31 December 2015 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	18,352	92%	3,812	76%	22,164	89%
1-90 days past due but not impaired	362	2%	143	3%	505	2%
Past due greater than 90 days but not impaired	236	1%	124	2%	360	1%
Impaired	1,001	5%	961	19%	1,962	8%
Total	**19,951**	**100%**	**5,040**	**100%**	**24,991**	**100%**
Non-performing loans						
Probationary mortgages	418	25%	309	22%	727	24%
- Self-cure	*111*	*7%*	*60*	*4%*	*171*	*6%*
- Forborne	*307*	*18%*	*249*	*18%*	*556*	*18%*
Defaulted loans	1,237	75%	1,085	78%	2,322	76%
- Past due greater than 90 days but not impaired	*236*	*14%*	*124*	*9%*	*360*	*12%*
- Impaired	*1,001*	*61%*	*961*	*69%*	*1,962*	*64%*
Total	**1,655**	**100%**	**1,394**	**100%**	**3,049**	**100%**

31 December 2014 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	17,800	89%	3,943	70%	21,743	85%
1-90 days past due but not impaired	458	2%	168	3%	626	2%
Past due greater than 90 days but not impaired	411	2%	266	5%	677	3%
Impaired	1,274	7%	1,268	22%	2,542	10%
Total	19,943	100%	5,645	100%	25,588	100%
Non-performing loans						
Probationary mortgages	461	22%	233	13%	694	18%
- Self-cure	*138*	*7%*	*66*	*4%*	*204*	*5%*
- Forborne	*323*	*15%*	*167*	*9%*	*490*	*13%*
Defaulted loans	1,685	78%	1,534	87%	3,219	82%
- Past due greater than 90 days but not impaired	*411*	*19%*	*266*	*15%*	*677*	*17%*
- Impaired	*1,274*	*59%*	*1,268*	*72%*	*2,542*	*65%*
Total	2,146	100%	1,767	100%	3,913	100%

The tables above illustrate that €22.2 billion or 89% of the total Retail Ireland mortgage loan book at 31 December 2015 was classified as ‘neither past due nor impaired’ compared to €21.7 billion or 85% at 31 December 2014.

The ‘1-90 days past due but not impaired’ category amounted to €0.5 billion or 2% of the total Retail Ireland mortgage loan book at 31 December 2015 compared to €0.6 billion or 2% at 31 December 2014.

The ‘past due greater than 90 days but not impaired’ category amounted to €0.4 billion or 1% of the total Retail Ireland mortgage loan book at 31 December 2015 compared to €0.7 billion or 3% at 31 December 2014.

The ‘impaired’ category amounted to €2.0 billion or 8% of the total Retail Ireland mortgage loan book at 31 December 2015 compared to €2.5 billion or 10% at 31 December 2014.

Book composition (continued)

Risk profile (continued)

Total non-performing mortgages reduced significantly by €0.9 billion or 22% to €3.0 billion at 31 December 2015. Within this, probationary mortgages were €0.7 billion at 31 December 2015 (31 December 2014: €0.7 billion) and defaulted loans reduced by €0.9 billion or 28% to €2.3 billion at 31 December 2015 (31 December 2014: €3.2 billion), reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

There has been a reduction in Owner occupied Non-performing loans in the year ended 31 December 2015, decreasing to €1.6 billion at 31 December 2015 from €2.1 billion at 31 December 2014. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies. This progress is further evident in the reduction of non-performing Buy to let mortgages, decreasing to €1.4 billion at 31 December 2015 from €1.8 billion at 31 December 2014. This reduction reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

The Retail Ireland Buy to let mortgage loan portfolio reduced by €0.6 billion or 11% in the year ended 31 December 2015 and the percentage of the Buy to let portfolio on a 'full principal and interest' repayment basis increased from 70% at 31 December 2014 to 76% at 31 December 2015.

Arrears profile

TABLE: 3b

Mortgage arrears - Greater than 90 days past due (number of accounts)	**31 December 2015 %**	30 June 2015 %	31 December 2014 %
Retail Ireland Owner occupied mortgages	3.8%	4.8%	5.5%
Industry[1] Owner occupied (number of accounts)	n/a	10.6%	11.6%
Retail Ireland Buy to let mortgages	9.5%	12.1%	13.8%
Industry[1] Buy to let (number of accounts)	n/a	21.1%	22.8%

Mortgage arrears - Greater than 90 days past due (value)	**31 December 2015 %**	30 June 2015 %	31 December 2014 %
Retail Ireland Owner occupied mortgages	5.4%	6.7%	7.7%
Industry[1] Owner occupied (value)	n/a	15.0%	16.5%
Retail Ireland Buy to let mortgages	17.4%	20.7%	22.7%
Industry[1] Buy to let (value)	n/a	28.7%	31.1%

The latest information published by the Central Bank of Ireland is for the quarter ended 30 September 2015. This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (43% of industry average) and Buy to let (56% of industry average) mortgages. At 30 September 2015, 4.27% and 11.15% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 9.98%[1] and 20.09%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland.*

Book composition (continued)

Arrears profile (continued)

TABLE: 3b-(i)

Mortgage arrears - 720 days past due (number of accounts)	**31 December 2015 %**	30 June 2015 %	31 December 2014 %
Retail Ireland Owner occupied mortgages	2.0%	2.3%	2.4%
Industry[1] Owner occupied (Number of accounts)	n/a	5.8%	5.7%
Retail Ireland Buy to let mortgages	5.0%	5.5%	5.8%
Industry[1] Buy to let (Number of accounts)	n/a	12.8%	12.5%

Mortgage arrears - 720 days past due (value)	**31 December 2015 %**	30 June 2015 %	31 December 2014 %
Retail Ireland Owner occupied mortgages	3.1%	3.5%	3.6%
Industry[1] Owner occupied (value)	n/a	9.1%	8.8%
Retail Ireland Buy to let mortgages	8.9%	9.2%	9.4%
Industry[1] Buy to let (value)	n/a	19.2%	19.0%

The latest information published by the Central Bank of Ireland is for the quarter ended 30 September 2015. This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (37% of industry average) and Buy to let (43% of industry average) mortgages. At 30 September 2015, 2.15% and 5.46% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than 720 days past due compared to 5.75%[1] and 12.74%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland.*

Book composition (continued)

Loan to value profiles - total loans

TABLE: 3c

31 December 2015

Loan to value (LTV) ratio of total Retail Ireland mortgages	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	4,524	23%	741	14%	5,265	21%
51% to 70%	4,779	24%	749	15%	5,528	22%
71% to 80%	2,914	15%	444	9%	3,358	14%
81% to 90%	2,547	13%	796	16%	3,343	13%
91% to 100%	1,588	8%	604	12%	2,192	9%
Subtotal	**16,352**	**83%**	**3,334**	**66%**	**19,686**	**79%**
101% to 120%	2,514	12%	1,029	20%	3,543	14%
121% to 150%	984	5%	450	9%	1,434	6%
Greater than 150%	101	-	227	5%	328	1%
Subtotal	**3,599**	**17%**	**1,706**	**34%**	**5,305**	**21%**
Total	**19,951**	**100%**	**5,040**	**100%**	**24,991**	**100%**
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		72%		89%		76%
New Retail Ireland mortgages during the year		66%		64%		66%

31 December 2014

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	3,749	19%	633	11%	4,382	17%
51% to 70%	3,958	20%	634	11%	4,592	18%
71% to 80%	2,392	12%	420	7%	2,812	11%
81% to 90%	2,489	12%	734	13%	3,223	13%
91% to 100%	1,797	9%	599	11%	2,396	9%
Subtotal	14,385	72%	3,020	53%	17,405	68%
101% to 120%	2,923	15%	1,323	23%	4,246	17%
121% to 150%	2,310	12%	933	17%	3,243	13%
Greater than 150%	325	1%	369	7%	694	2%
Subtotal	5,558	28%	2,625	47%	8,183	32%
Total	19,943	100%	5,645	100%	25,588	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		80%		98%		84%
New Retail Ireland mortgages during the year		70%		50%		69%

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

The tables on the previous page set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which showed positive movements during 2015 and was, on average, 76% at 31 December 2015, 72% for Owner occupied mortgages and 89% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written during 2015 was 66%, being 66% for Owner occupied mortgages and 64% for Buy to let mortgages. These LTVs include the impact of loan book acquisitions. Excluding these acquisitions, the weighted average LTV of new Retail Ireland mortgages during the year was 71% for Owner occupied, 49% for Buy to let and 70% at a total level.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the CSO Residential Property Price Index, at the applicable reporting date.

The CSO index for December 2015 reported that average national residential property prices were 34% below peak (31 December 2014: 38% below peak), with Dublin residential prices and outside of Dublin residential prices 36% and 35% below peak respectively (31 December 2014: 38% and 41% below peak respectively). In the 12 months to December 2015, residential property prices at a national level, increased by 6.6%.

At 31 December 2015, €19.7 billion or 79% of Retail Ireland mortgages were classified as being in positive equity, 83% for Owner occupied mortgages and 66% for Buy to let mortgages.

At 31 December 2015, the total calculated negative equity in the Retail Ireland mortgage loan book was €0.8 billion (31 December 2014: €1.4 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.5 billion negative equity related to loans that were 'neither past due nor impaired' at 31 December 2015.

Loan to value profiles - Non-performing loans

TABLE: 3d

31 December 2015	**Owner occupied**		**Buy to let**		**Total**	
Loan to value (LTV) ratio of total Retail Ireland mortgages - Non-performing loans	**€m**	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	183	11%	53	4%	236	8%
51% to 70%	220	13%	101	7%	321	11%
71% to 80%	145	9%	76	6%	221	7%
81% to 90%	166	10%	212	15%	378	12%
91% to 100%	175	11%	142	10%	317	10%
Subtotal	**889**	**54%**	**584**	**42%**	**1,473**	**48%**
101% to 120%	370	22%	414	30%	784	26%
121% to 150%	319	19%	253	18%	572	19%
Greater than 150%	77	5%	143	10%	220	7%
Subtotal	**766**	**46%**	**810**	**58%**	**1,576**	**52%**
Total	**1,655**	**100%**	**1,394**	**100%**	**3,049**	**100%**

Book composition (continued)

Loan to value profiles - Non-performing loans (continued)

31 December 2014 Loan to value (LTV) ratio of total Retail Ireland mortgages - Non-performing loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	194	9%	70	4%	264	7%
51% to 70%	230	11%	80	5%	310	8%
71% to 80%	155	7%	91	5%	246	6%
81% to 90%	185	9%	198	11%	383	10%
91% to 100%	192	9%	160	9%	352	9%
Subtotal	956	45%	599	34%	1,555	40%
101% to 120%	432	20%	450	26%	882	22%
121% to 150%	543	25%	501	28%	1,044	27%
Greater than 150%	215	10%	217	12%	432	11%
Subtotal	1,190	55%	1,168	66%	2,358	60%
Total	2,146	100%	1,767	100%	3,913	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for non-performing Retail Ireland mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the non-performing Retail Ireland mortgages €1.5 billion or 48% were classified as being in positive equity (31 December 2014: €1.6 billion or 40%) while €1.6 billion or 52% were classified as being in negative equity at 31 December 2015 (31 December 2014: €2.4 billion or 60%).

For the non-performing category, 54% of the Owner occupied Retail Ireland mortgages (31 December 2014: 45%) and 42% of the Buy to let Retail Ireland mortgages (31 December 2014: 34%) were classified as being in positive equity at 31 December 2015.

Asset quality

Composition and impairment

TABLE: 4a **31 December 2015** **Retail Ireland mortgages**	**Loan volumes €m**	**Non-performing loans[1] €m**	**Non-performing loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of non-performing loans %**
Total Retail Ireland mortgages					
Owner occupied mortgages	19,951	1,655	8.3%	535	32%
Buy to let mortgages	5,040	1,394	27.7%	664	48%
Total	**24,991**	**3,049**	**12.2%**	**1,199**	**39%**
of which;					
Forborne Retail Ireland mortgages					
Owner occupied mortgages	2,207	671	30.4%	217	32%
Buy to let mortgages	1,253	505	40.3%	195	39%
Total	**3,460**	**1,176**	**34.0%**	**412**	**35%**

[1] *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Composition and impairment (continued)

31 December 2014 Retail Ireland mortgages	Loan volumes €m	Non-performing loans[1] €m	Non-performing loans as % of advances %	Impairment provisions €m	Impairment provisions as % of non-performing loans %
Total Retail Ireland mortgages					
Owner occupied mortgages	19,943	2,146	10.8%	672	31%
Buy to let mortgages	5,645	1,767	31.3%	815	46%
Total	25,588	3,913	15.3%	1,487	38%
of which;					
Forborne Retail Ireland mortgages					
Owner occupied mortgages	2,093	810	38.7%	248	31%
Buy to let mortgages	1,002	494	49.3%	185	37%
Total	3,095	1,304	42.1%	433	33%

[1] *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

Non-performing Retail Ireland mortgages at 31 December 2015 were €3.0 billion or 12.2% of advances compared to €3.9 billion or 15.3% of advances at 31 December 2014.

Total non-performing mortgages reduced significantly by €0.9 billion or 22% to €3.0 billion at 31 December 2015 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

There has been a reduction in Owner occupied Non-performing loans for the year ended 31 December 2015, decreasing to €1.6 billion at 31 December 2015 from €2.1 billion at 31 December 2014. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

This progress is further evident in the reduction of non-performing Buy to let mortgages, decreasing to €1.4 billion at 31 December 2015 from €1.8 billion at 31 December 2014. This reduction reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis and resolution activity supported by improved rental market conditions, particularly evident in primary urban areas.

Asset quality (continued)

Composition and impairment (continued)

The tables below summarise the composition, defaulted loans and total impairment provisions of the Retail Ireland mortgage portfolio.

TABLE: 4b

31 December 2015 **Retail Ireland mortgages**	**Loan volumes €m**	**Defaulted loans[1] €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**
Total Retail Ireland mortgages					
Owner occupied mortgages	19,951	1,237	6.2%	535	43%
Buy to let mortgages	5,040	1,085	21.5%	664	61%
Total	**24,991**	**2,322**	**9.3%**	**1,199**	**52%**
of which;					
Forborne Retail Ireland mortgages					
Owner occupied mortgages	2,207	365	16.5%	217	59%
Buy to let mortgages	1,253	255	20.3%	195	76%
Total	**3,460**	**620**	**17.9%**	**412**	**66%**

31 December 2014 Retail Ireland mortgages	Loan volumes €m	Defaulted loans[1] €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %
Total Retail Ireland mortgages					
Owner occupied mortgages	19,943	1,685	8.4%	672	40%
Buy to let mortgages	5,645	1,534	27.2%	814	53%
Total	25,588	3,219	12.6%	1,486	46%
of which;					
Forborne Retail Ireland mortgages					
Owner occupied mortgages	2,093	488	23.3%	248	51%
Buy to let mortgages	1,002	326	32.5%	185	57%
Total	3,095	814	26.3%	433	53%

[1] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Properties in possession

At 31 December 2015, the Group had possession of properties held as security as follows:

TABLE: 5a	31 December 2015		31 December 2014	
Properties in possession Retail Ireland mortgages	**Number of properties in possession at balance sheet date**	**Balance[1] outstanding before impairment provisions €m**	Number of properties in possession at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied	120	32	129	38
Buy to let	47	14	48	14
Total residential properties in possession	**167**	**46**	**177**	**52**

[1] *Gross balance outstanding before value of additional collateral held.*

Disposals of properties in possession

TABLE: 5b	31 December 2015		31 December 2014	
Disposals of properties in possession Retail Ireland mortgages	**Number of disposals during the year**	**Balance[1] outstanding after impairment provisions €m**	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied	137	20	144	18
Buy to let	49	5	104	12
Total disposals of properties in possession	**186**	**25**	**248**	**30**

[1] *Gross balance outstanding before value of additional collateral held.*

During the year ended 31 December 2015, the Group disposed of 186 properties (year ended 31 December 2014: 248 properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the year ended 31 December 2015, the proceeds from disposals of Owner occupied properties were €20 million (year ended 31 December 2014: €18 million).

For the year ended 31 December 2015, the proceeds from disposals of Buy to let properties before value of additional collateral applied were €5 million (year ended 31 December 2014: €12 million).

In addition, a further 531 Buy to let properties were disposed of by fixed charge receivers during the year ended 31 December 2015 (year ended 31 December 2014: 1,103).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short-term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has an established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of Default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to full principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to full principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2015.

TABLE: 6a

31 December 2015	Performing loans		Non-performing loans[2,3]		All loans	
Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**
Owner occupied						
Full Interest	75	543	27	183	102	726
Reduced payment (greater than full interest)	217	1,936	204	1,523	421	3,459
Term extension	385	4,460	66	587	451	5,047
Capitalisation of arrears	358	2,600	148	856	506	3,456
Hybrids	481	3,651	220	1,403	701	5,054
Other	20	142	6	54	26	196
Total	**1,536**	**13,332**	**671**	**4,606**	**2,207**	**17,938**
Buy to let						
Full Interest	98	371	54	152	152	523
Reduced payment (greater than full interest)	133	872	119	566	252	1,438
Term extension	163	1,174	28	157	191	1,331
Capitalisation of arrears	80	431	60	260	140	691
Hybrids	273	1,096	239	798	512	1,894
Other	1	3	5	15	6	18
Total	**748**	**3,947**	**505**	**1,948**	**1,253**	**5,895**
Total						
Full Interest	173	914	81	335	254	1,249
Reduced payment (greater than full interest)	350	2,808	323	2,089	673	4,897
Term extension	548	5,634	94	744	642	6,378
Capitalisation of arrears	438	3,031	208	1,116	646	4,147
Hybrids	754	4,747	459	2,201	1,213	6,948
Other	21	145	11	69	32	214
Total	**2,284**	**17,279**	**1,176**	**6,554**	**3,460**	**23,833**

1 Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2015, this mortgage loan is not included in the stock of active forbearance measures.
2 The NPL classification does not indicate that the terms of the forbearance measure are not being met.
3 Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 68 in the credit risk section of Risk Management.
4 The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

Forbearance measures (continued)

31 December 2014	Performing loans		Non-performing loans[2,3]		All loans	
Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Balance €m	Number of accounts[4]	Balance €m	Number of accounts[4]	Balance €m	Number of accounts[4]
Owner occupied						
Full interest	115	859	69	435	184	1,294
Reduced payment (greater than full interest)	203	1,669	260	1,622	463	3,291
Term extension	372	4,192	109	907	481	5,099
Capitalisation of arrears	238	1,681	111	662	349	2,343
Hybrids	336	2,458	248	1,580	584	4,038
Other	19	135	13	84	32	219
Total	1,283	10,994	810	5,290	2,093	16,284
Buy to let						
Full interest	84	355	95	294	179	649
Reduced payment (greater than full interest)	92	556	141	592	233	1,148
Term extension	147	1,039	42	229	189	1,268
Capitalisation of arrears	47	251	46	183	93	434
Hybrids	138	645	170	642	308	1,287
Other	-	4	-	2	-	6
Total	508	2,850	494	1,942	1,002	4,792
Total						
Full interest	199	1,214	164	729	363	1,943
Reduced payment (greater than full interest)	295	2,225	401	2,214	696	4,439
Term extension	519	5,231	151	1,136	670	6,367
Capitalisation of arrears	285	1,932	157	845	442	2,777
Hybrids	474	3,103	418	2,222	892	5,325
Other	19	139	13	86	32	225
Total	1,791	13,844	1,304	7,232	3,095	21,076

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2014, this mortgage loan is not included in the stock of active forbearance measures.
[2] The NPL classification does not indicate that the terms of the forbearance measure are not being met.
[3] Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 68 in the credit risk section of Risk Management.
[4] The number of accounts does not equate to either the number of customers or the number of properties.

The total number of accounts in forbearance has increased from 21,076 at 31 December 2014 to 23,833 accounts at 31 December 2015. The balances on accounts in forbearance have increased from €3.1 billion at 31 December 2014 to €3.5 billion at 31 December 2015. This overall increase reflects the Group's progress in implementing restructure and resolution strategies.

For Owner occupied mortgages, 17,938 accounts or €2.2 billion are in forbearance at 31 December 2015 (31 December 2014: 16,284 accounts or €2.1 billion). For Buy to let mortgages, 5,895 accounts or €1.3 billion are in forbearance at 31 December 2015 (31 December 2014: 4,792 accounts or €1.0 billion).

At 31 December 2015, there were a further 588 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2014: 1,042 accounts).

Asset quality (continued)

Forbearance measures (continued)

In addition to the forbearance pertaining to Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2015, there were 1,275 properties where a fixed charge receiver had been appointed or approved, compared to 1,289 properties at 31 December 2014.

Hybrids are the largest forbearance category by number of accounts with 6,948 accounts at 31 December 2015 (31 December 2014: 5,325 accounts), followed by term extension forbearance treatments with 6,378 accounts at 31 December 2015 (31 December 2014: 6,367 accounts).

Hybrids increased to 6,948 accounts or €1.2 billion at 31 December 2015 from 5,325 accounts or €0.9 billion at 31 December 2014. A total of 986 accounts or €0.2 billion new hybrid measures were put in place during the year, 1,372 accounts or €0.3 billion changed from another forbearance measure to hybrid, while 559 accounts or €0.1 billion changed to another forbearance measure. A reduction of 176 accounts relates to redeemed accounts; a reduction of €44 million was due to those redeemed accounts and principal repayments made during the year.

A total of 669 accounts or €0.1 billion new term extensions were extended during the year. A further 322 accounts or €41 million changed to term extension from another forbearance measure, while 649 accounts or €0.1 billion changed forbearance measure. A reduction of 331 accounts relates to redeemed accounts; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 4,897 accounts or €0.7 billion at 31 December 2015, compared to 4,439 accounts or €0.7 billion at 31 December 2014. A total of 1,710 accounts or €0.3 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the year. A further 267 accounts or €46 million changed their forbearance measure to reduced payment (greater than full interest with step up to full capital and interest), while 618 accounts or €0.1 billion changed to another forbearance measure. A total of 794 accounts or €0.1 billion exited during the year. A reduction of 107 accounts relates to redeemed accounts; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2015, 1,249 accounts or €0.3 billion were subject to full interest forbearance compared to 1,943 accounts or €0.4 billion at 31 December 2014. A total of 593 accounts or €0.1 billion of new full interest forbearance measures were extended during the year, 50 accounts or €8 million changed to full interest, while 417 accounts or €0.1 billion changed from full interest to another forbearance measure. A total of 765 accounts or €0.1 billion exited forbearance during the year. A reduction of 155 accounts relates to redeemed accounts; a reduction of €19 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisations of arrears increased to 4,147 accounts or €0.6 billion at 31 December 2015 from 2,777 accounts or €0.4 billion at 31 December 2014. A total of 1,203 accounts or €0.2 billion had capitalisation of arrears applied during the year. A further 432 accounts or €0.1 billion changed to capitalisation of arrears from another forbearance measure, while 172 accounts or €36 million changed to another forbearance measure. A reduction of 93 accounts relates to redeemed accounts; a reduction of €35 million was due to those redeemed accounts and principal repayments made during the year.

'Other' forbearance measures decreased to 214 accounts or €32 million at 31 December 2015 from 225 accounts or €32 million at 31 December 2014.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of active forborne Retail Ireland mortgages (before impairment provisions) during the year ended 31 December 2015.

TABLE: 6b

Reconciliation of forborne loan stock by performing / non-performing status - Retail Ireland mortgages (before impairment provisions)	Owner occupied		Buy to let		All loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
All						
Opening balance at 1 January 2015*	**2,093**	**16,284**	**1,002**	**4,792**	**3,095**	**21,076**
New forbearance extended	478	3,705	384	1,606	862	5,311
Exited forbearance						
- Improved to or remained performing	(109)	(776)	(19)	(112)	(128)	(888)
- Improved / stabilised and remained non-performing	(74)	(406)	(26)	(95)	(100)	(501)
- Redemptions, principal repayments and other	(143)	(648)	(71)	(226)	(214)	(874)
- Disimproved to or within non-performing	(38)	(221)	(17)	(70)	(55)	(291)
Transfers within forbearance between performing and Non-performing loans	-	-	-	-	-	-
Closing balance at 31 December 2015	**2,207**	**17,938**	**1,253**	**5,895**	**3,460**	**23,833**
Performing loans						
Opening balance at 1 January 2015*	**1,283**	**10,994**	**508**	**2,850**	**1,791**	**13,844**
New forbearance extended	212	1,849	162	722	374	2,571
Exited forbearance						
- Remained performing	(105)	(754)	(19)	(106)	(124)	(860)
- Redemptions, principal repayments and other	(90)	(449)	(39)	(130)	(129)	(579)
- Disimproved to non-performing	(10)	(73)	(4)	(19)	(14)	(92)
Transfers within forbearance between performing and Non-performing loans	246	1,765	140	630	386	2,395
Closing balance at 31 December 2015	**1,536**	**13,332**	**748**	**3,947**	**2,284**	**17,279**
Non-performing loans						
Opening balance at 1 January 2015*	**810**	**5,290**	**494**	**1,942**	**1,304**	**7,232**
New forbearance extended	266	1,856	222	884	488	2,740
Exited forbearance						
- Improved to performing	(4)	(22)	-	(6)	(4)	(28)
- Improved / stabilised and remained non-performing	(74)	(406)	(26)	(95)	(100)	(501)
- Redemptions, principal repayments and other	(53)	(199)	(32)	(96)	(85)	(295)
- Disimproved and remained non-performing	(28)	(148)	(13)	(51)	(41)	(199)
Transfers within forbearance between performing and Non-performing loans	(246)	(1,765)	(140)	(630)	(386)	(2,395)
Closing balance at 31 December 2015	**671**	**4,606**	**505**	**1,948**	**1,176**	**6,554**

* *In line with the revised asset quality definitions set out on pages 67 and 68 of Risk Management, the table above has been prepared using 'performing' and 'non-performing' classifications. Therefore, opening balances at 1 January 2015 are not comparable with information in table 6b in the Group's Annual Report for the year ended 31 December 2014, which used a 'defaulted' classification.*

[1] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2015 and 31 December 2015 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in performing status;
  - Improved / stabilised and remained in non-performing status;
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2015 and remained in forbearance stock at 31 December 2015);
  - Disimproved to or within non-performing; and
- Those accounts and balances which transferred between performing loans and Non-performing loans but remained in forbearance.

The non-performing loan classification does not indicate that the terms of the forbearance measure have not been met. The performing / non-performing status of accounts which exited forbearance during the year is determined at the date of exit.

A total of 23,833 accounts or €3.5 billion of account balances were in forbearance at 31 December 2015, compared to 21,076 accounts or €3.1 billion at 31 December 2014. Of these, 5,311 accounts or €0.9 billion new forbearance measures were put in place during the year ended 31 December 2015, of which 2,571 accounts or €0.4 billion were classified as ‘performing loans’ while 2,740 accounts or €0.5 billion were classified as ‘Non-performing loans’. Of those that exited forbearance during the year 888 accounts or €0.1 billion improved to or remained performing, 501 accounts or €0.1 billion remained non-performing with improved or stabilised arrears and 291 accounts or €0.1 billion disimproved arrears to or within non-performing classification. A reduction in the forbearance stock of 874 accounts relates to redeemed accounts during the year; a reduction of €0.2 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 17,938 accounts or €2.2 billion of account balances were in forbearance at 31 December 2015 compared to 16,284 accounts or €2.1 billion at 31 December 2014. Of these, 3,705 accounts or €0.5 billion new forbearance were measures put in place during the year of which 1,849 accounts or €0.2 billion were classified as ‘performing loans’, while 1,856 accounts or €0.3 billion were classified as ‘Non-performing loans’. Of those that exited forbearance during the year 776 accounts or €0.1 billion improved to or remained performing, 406 accounts or €0.1 billion remained non-performing with improved or stabilised arrears and 221 accounts or €38 million disimproved arrears to or within non-performing classification. A reduction of 648 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 5,895 accounts or €1.3 billion of account balances were in forbearance at 31 December 2015 compared to 4,792 accounts or €1.0 billion at 31 December 2014. Of these, 1,606 accounts or €0.4 billion were new forbearance measures put in place during the year of which 722 accounts or €0.2 billion were classified as ‘performing loans’ while 884 accounts or €0.2 billion were classified as ‘Non-performing loans’. Of those that exited forbearance during the year 112 accounts or €19 million improved to or remained performing, 95 accounts or €26 million remained non-performing with improved or stabilised arrears and 70 accounts or €17 million disimproved arrears to or within non-performing classification. A reduction of 226 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears
The Group has invested in its Mortgage Arrears Resolution Strategy (MARS), its infrastructure and continues to implement restructuring and resolution options for customers. The increased level of forbearance treatments reflects the ongoing effectiveness of the Group’s MARS strategy in supporting customers encountering mortgage difficulties.

The Group’s defined Mortgage Arrears Resolution Strategy relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non-repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE: 7a

31 December 2015

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	380	17%	91	7%	471	14%
51% to 70%	383	18%	130	10%	513	15%
71% to 80%	242	11%	101	8%	343	10%
81% to 90%	243	11%	236	19%	479	14%
91% to 100%	249	11%	161	13%	410	12%
Subtotal	**1,497**	**68%**	**719**	**57%**	**2,216**	**65%**
101% to 120%	428	19%	354	28%	782	22%
121% to 150%	259	12%	132	11%	391	11%
Greater than 150%	23	1%	48	4%	71	2%
Subtotal	**710**	**32%**	**534**	**43%**	**1,244**	**35%**
Total	**2,207**	**100%**	**1,253**	**100%**	**3,460**	**100%**

31 December 2014

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	286	14%	69	7%	355	12%
51% to 70%	309	15%	80	8%	389	13%
71% to 80%	188	9%	75	7%	263	8%
81% to 90%	218	10%	151	15%	369	12%
91% to 100%	213	10%	109	11%	322	10%
Subtotal	1,214	58%	484	48%	1,698	55%
101% to 120%	423	20%	262	26%	685	22%
121% to 150%	378	18%	203	20%	581	19%
Greater than 150%	78	4%	53	6%	131	4%
Subtotal	879	42%	518	52%	1,397	45%
Total	2,093	100%	1,002	100%	3,095	100%

The tables above illustrate the indexed loan to value ratios for total Retail Ireland forborne mortgages which showed an improvement in the average LTV for the year ended 31 December 2015. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the total Retail Ireland mortgages with active forbearance measures in place €2.2 billion or 65% were classified as being in positive equity (31 December 2014: €1.7 billion or 55%) while €1.2 billion or 35% were classified as being in negative equity at 31 December 2015 (31 December 2014: €1.4 billion or 45%). 68% of forborne Owner occupied mortgages (31 December 2014: 58%) and 57% of forborne Buy to let mortgages (31 December 2014: 48%) were classified as being in positive equity at 31 December 2015.

Asset quality (continued)

Loan to value profiles - non-performing forborne loans

TABLE: 7b

31 December 2015

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - Non-performing loans	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	78	12%	24	5%	102	9%
51% to 70%	98	15%	38	7%	136	11%
71% to 80%	61	9%	35	7%	96	8%
81% to 90%	71	10%	95	19%	166	14%
91% to 100%	76	11%	51	10%	127	11%
Subtotal	**384**	**57%**	**243**	**48%**	**627**	**53%**
101% to 120%	159	24%	165	33%	324	28%
121% to 150%	113	17%	71	14%	184	16%
Greater than 150%	15	2%	26	5%	41	3%
Subtotal	**287**	**43%**	**262**	**52%**	**549**	**47%**
Total	**671**	**100%**	**505**	**100%**	**1,176**	**100%**

31 December 2014

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - Non-performing loans	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	73	9%	24	5%	97	7%
51% to 70%	94	12%	26	5%	120	9%
71% to 80%	62	8%	29	6%	91	7%
81% to 90%	75	9%	76	15%	151	12%
91% to 100%	83	10%	56	12%	139	11%
Subtotal	387	48%	211	43%	598	46%
101% to 120%	179	22%	125	25%	304	23%
121% to 150%	188	23%	128	26%	316	24%
Greater than 150%	56	7%	30	6%	86	7%
Subtotal	423	52%	283	57%	706	54%
Total	810	100%	494	100%	1,304	100%

The tables above illustrate the indexed loan to value ratios for non-performing Retail Ireland forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the non-performing Retail Ireland mortgages with active forbearance measures in place, €0.6 billion or 53% were classified as being in positive equity (31 December 2014: €0.6 billion or 46%), while €0.5 billion or 47% were classified as being in negative equity at 31 December 2015 (31 December 2014: €0.7 billion or 54%). 57% of the Owner occupied Retail Ireland mortgages (31 December 2014: 48%) and 48% of the Buy to let Retail Ireland mortgages (31 December 2014: 43%) were classified as being in positive equity at 31 December 2015.

Retail UK mortgages

The following disclosures refer to the Retail UK mortgage loan book. These provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail UK mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2015, lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1a

Retail UK mortgages - Volumes (before impairment provisions) by product type	**31 December 2015 £m**	31 December 2014 £m
Standard mortgages	10,355	9,114
Buy to let mortgages	7,562	7,778
Self certified mortgages	2,570	2,888
Total Retail UK mortgages	**20,487**	**19,780**

Retail UK mortgages were £20.5 billion at 31 December 2015 compared to £19.8 billion at 31 December 2014. The increase of £0.7 billion or 4% reflects planned growth in new business generation offset by redemption of the book.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through distribution arrangements with other selected strategic partners and the Group's branch network in Northern Ireland.

Of the £10.4 billion Standard mortgages, 70% are on a 'principal and interest'[1] repayment basis (31 December 2014: 63%). Of the Self certified mortgages of £2.6 billion, 21% are on a 'principal and interest' repayment basis (31 December 2014: 22%). Of the Buy to let mortgages of £7.6 billion, 9% are on a 'principal and interest' repayment basis (31 December 2014: 9%). Overall 58% of the Retail UK mortgage portfolio at 31 December 2015 are on an 'interest only'[2] repayment basis (31 December 2014: 64%).

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
[2] *'Interest only' mortgages consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' on mortgage products offered in the UK may extend for the full period of the mortgage.*

Book composition (continued)

Loan volumes (continued)

TABLE: 1b

Retail UK mortgages - Volumes (before impairment provisions) by interest rate type	31 December 2015 £m	31 December 2015 %	31 December 2014 £m	31 December 2014 %
Tracker	8,690	42%	9,453	48%
Variable rates	4,944	24%	6,096	31%
Fixed rates	6,853	34%	4,231	21%
Total Retail UK mortgages	**20,487**	**100%**	**19,780**	**100%**

Tracker mortgages were £8.7 billion or 42% of the Retail UK mortgages compared to £9.5 billion or 48% at 31 December 2014, a decrease of £0.8 billion.

Variable rate mortgages were £4.9 billion or 24% of the Retail UK mortgages compared to £6.1 billion or 31% at 31 December 2014, a decrease of £1.2 billion.

Fixed rate mortgages were £6.9 billion or 34% of the Retail UK mortgages compared to £4.2 billion or 21% at 31 December 2014, an increase of £2.7 billion.

Tracker rate mortgages now account for 13% of Standard mortgages (31 December 2014: 18%), 92% of Buy to let mortgages (31 December 2014: 96%) and 15% of Self certified mortgages (31 December 2014: 14%).

Origination profile

TABLE: 2

31 December 2015 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book Balance £m	Total Retail UK mortgage loan book Number of accounts[1]	Non-performing loans Balance £m	Non-performing loans Number of accounts[1]
2000 and before	303	8,373	27	644
2001	159	2,589	6	65
2002	206	2,990	9	93
2003	460	5,551	33	290
2004	535	6,098	43	347
2005	1,416	13,297	100	759
2006	2,110	19,263	127	908
2007	3,406	29,380	198	1,429
2008	4,423	37,062	274	1,942
2009	567	5,151	14	123
2010	470	3,843	3	29
2011	367	2,856	2	19
2012	497	3,240	1	9
2013	698	4,088	1	3
2014	1,673	9,608	1	5
2015	3,197	17,721	-	2
Total	**20,487**	**171,110**	**839**	**6,667**

[1] *The number of accounts does not equate to the number of customers or the number of properties.*

Book composition (continued)

Origination profile (continued)

31 December 2014 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book Balance £m	Total Retail UK mortgage loan book Number of accounts[1]	Non-performing loans Balance £m	Non-performing loans Number of accounts[1]
2000 and before	400	10,812	32	745
2001	190	2,958	8	81
2002	239	3,398	12	121
2003	540	6,372	40	337
2004	616	6,879	55	445
2005	1,601	14,912	108	812
2006	2,359	21,206	151	1,052
2007	3,852	32,606	237	1,675
2008	4,916	40,542	328	2,247
2009	711	6,134	18	152
2010	649	4,920	5	39
2011	456	3,394	4	23
2012	637	3,931	1	7
2013	851	4,776	-	1
2014	1,763	9,870	-	1
Total	19,780	172,710	999	7,738

[1] *The number of accounts does not equate to the number of customers or the number of properties.*

The tables above illustrate that at 31 December 2015, £3.1 billion or 15% of the Retail UK mortgage loan book originated before 2006, £9.9 billion or 49% between 2006 and 2008 and £7.5 billion or 36% in the years since.

Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 68 in the credit risk section of Risk Management.

Non-performing Retail UK mortgages were £0.8 billion (31 December 2014: £1.0 billion) or 4.1% of the Retail UK mortgage loan book at 31 December 2015, of which £0.6 billion or 2.9% were originated between 2006 and 2008 (31 December 2014: £0.7 billion or 3.6%).

There has been a significant decrease in total Non-performing loans in the year ended 31 December 2015 reflecting the effectiveness of the Group’s operating infrastructure and resolution activity supported by improving economic conditions.

Book composition (continued)

Risk profile

TABLE: 3a

31 December 2015 Risk profile of Retail UK mortgage loan book (before impairment provisions)	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	10,018	97%	7,286	96%	2,179	85%	19,483	95%
1-90 days past due but not impaired	230	2%	181	2%	270	11%	681	3%
Past due greater than 90 days but not impaired	46	-	41	1%	60	2%	147	1%
Impaired	61	1%	54	1%	61	2%	176	1%
Total	**10,355**	**100%**	**7,562**	**100%**	**2,570**	**100%**	**20,487**	**100%**
Non-performing loans								
Probationary mortgages	159	60%	160	63%	197	62%	516	61%
- Self-cure	*133*	*50%*	*150*	*59%*	*172*	*54%*	*455*	*54%*
- Forborne	*26*	*10%*	*10*	*4%*	*25*	*8%*	*61*	*7%*
Defaulted loans	107	40%	95	37%	121	38%	323	39%
- Past due greater than 90 days but not impaired	*46*	*17%*	*41*	*16%*	*60*	*19%*	*147*	*18%*
- Impaired	*61*	*23%*	*54*	*21%*	*61*	*19%*	*176*	*21%*
Total	**266**	**100%**	**255**	**100%**	**318**	**100%**	**839**	**100%**

31 December 2014 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	8,709	95%	7,449	95%	2,436	84%	18,594	94%
1-90 days past due but not impaired	273	3%	205	3%	313	11%	791	4%
Past due greater than 90 days but not impaired	68	1%	59	1%	79	3%	206	1%
Impaired	64	1%	65	1%	60	2%	189	1%
Total	9,114	100%	7,778	100%	2,888	100%	19,780	100%
Non-performing loans								
Probationary mortgages	180	57%	191	60%	233	63%	604	60%
- Self-cure	*154*	*49%*	*181*	*57%*	*206*	*56%*	*541*	*54%*
- Forborne	*26*	*8%*	*10*	*3%*	*27*	*7%*	*63*	*6%*
Defaulted loans	132	43%	124	40%	139	37%	395	40%
- Past due greater than 90 days but not impaired	*68*	*22%*	*59*	*19%*	*79*	*21%*	*206*	*21%*
- Impaired	*64*	*21%*	*65*	*21%*	*60*	*16%*	*189*	*19%*
Total	312	100%	315	100%	372	100%	999	100%

The above tables illustrate that £19.5 billion or 95% of the total Retail UK mortgage loan book at 31 December 2015 was classified as 'neither past due nor impaired' compared to £18.6 billion or 94% at 31 December 2014.

The '1-90 days past due but not impaired' category amounted to £0.7 billion or 3% of the total Retail UK mortgage loan book at 31 December 2015 compared to £0.8 billion or 4% at 31 December 2014.

The past due greater than 90 days but not impaired category amounted to £0.1 billion or 1% of the total Retail UK mortgage loan book at 31 December 2015 compared to £0.2 billion or 1% at 31 December 2014.

The past due greater than 90 days but not impaired Standard mortgages reduced to £46 million at 31 December 2015 from £68 million at 31 December 2014.

Book composition (continued)

Risk profile (continued)

The past due greater than 90 days but not impaired Buy to let mortgages reduced from £59 million at 31 December 2014 to £41 million at 31 December 2015 reflecting the effectiveness of collection activity supported by economic conditions.

The past due greater than 90 days but not impaired Self certified mortgages decreased to £60 million at 31 December 2015 compared to £79 million at 31 December 2014.

The impaired category amounted to £0.2 billion or 1% of the total Retail UK mortgage loan book at 31 December 2015 compared to £0.2 billion or 1% at 31 December 2014.

Impaired Standard mortgages reduced to £61 million at 31 December 2015 from £64 million at 31 December 2014.

Impaired Buy to let mortgages reduced from £65 million at 31 December 2014 to £54 million at 31 December 2015 reflecting the effectiveness of collection activity supported by economic conditions.

Impaired Self certified mortgages increased to £61 million at 31 December 2015 compared to £60 million at 31 December 2014.

Total non-performing mortgages reduced significantly by £0.2 billion or 16% to £0.8 billion at 31 December 2015 (31 December 2014: £1.0 billion), reflecting the effectiveness of the Group's operating infrastructure and mortgage collections activity supported by improving economic conditions.

Within this, total defaulted loans reduced by £72 million to £0.3 billion at 31 December 2015 from £0.4 billion at 31 December 2014.

The above table 3a illustrates, that at 31 December 2015, 95% of the total Retail UK mortgage book was classified as performing, compared to 94% at 31 December 2014.

There was a reduction in Standard mortgages Non-performing loans in the year ended 31 December 2015, decreasing to £266 million from £312 million at 31 December 2014.

Non-performing Self certified mortgages reduced from £372 million at 31 December 2014 to £318 million at 31 December 2015.

Non-performing Buy to let mortgages reduced from £315 million at 31 December 2014 to £255 million at 31 December 2015.

These reductions reflect the Group's continuing activity to resolve issues of non-payment through close co-operation with borrowers to reach an acceptable and sustainable outcome.

Book composition (continued)

Arrears profile

TABLE: 3b

Mortgage arrears - Greater than 90 days past due (number of accounts)	**31 December 2015 %**	30 June 2015 %	31 December 2014 %
Standard mortgages	0.93%	1.06%	1.20%
Buy to let mortgages	0.94%	1.05%	1.22%
Self certified mortgages	3.30%	3.31%	3.48%

Mortgage arrears - Greater than 90 days past due (value)	**31 December 2015 %**	30 June 2015 %	31 December 2014 %
Standard mortgages	0.73%	1.15%	1.14%
Buy to let mortgages	1.15%	0.99%	1.43%
Self certified mortgages	4.32%	4.41%	4.55%

Data published by the Council Mortgage Lenders (CML) for September 2015 indicates that the proportion of the Retail UK mortgage book in default (defined for CML purposes as greater than 90 days but excluding possessions and receivership cases) remains below the UK industry average of 1.17% across all segments (Retail UK equivalent: 1.03%).

Loan to value profiles - total loans

TABLE: 3c

31 December 2015	**Standard**		**Buy to let**		**Self certified**		**Total Retail UK mortgage portfolio**	
Loan to value (LTV) ratio of total Retail UK mortgages	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	2,253	22%	2,057	27%	615	24%	4,925	24%
51% to 70%	3,462	33%	2,940	39%	951	37%	7,353	36%
71% to 80%	2,277	22%	1,291	17%	434	17%	4,002	19%
81% to 90%	1,478	14%	852	11%	339	13%	2,669	13%
91% to 100%	572	6%	374	5%	195	8%	1,141	6%
Subtotal	**10,042**	**97%**	**7,514**	**99%**	**2,534**	**99%**	**20,090**	**98%**
101% to 120%	227	2%	25	1%	18	1%	270	1%
121% to 150%	35	-	5	-	11	-	51	-
Greater than 150%	51	1%	18	-	7	-	76	1%
Subtotal	**313**	**3%**	**48**	**1%**	**36**	**1%**	**397**	**2%**
Total	**10,355**	**100%**	**7,562**	**100%**	**2,570**	**100%**	**20,487**	**100%**
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		65%		61%		64%		63%
New Retail UK mortgages during year[1]		70%		62%		n/a		69%

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

31 December 2014 Loan to value (LTV) ratio of total Retail UK mortgages	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total Retail UK mortgage portfolio £m	Total Retail UK mortgage portfolio %
Less than 50%	1,823	20%	1,557	20%	467	16%	3,847	19%
51% to 70%	2,848	31%	3,218	41%	1,077	38%	7,143	36%
71% to 80%	1,943	21%	1,389	18%	585	20%	3,917	20%
81% to 90%	1,436	16%	965	13%	466	16%	2,867	15%
91% to 100%	647	7%	461	6%	222	8%	1,330	7%
Subtotal	8,697	95%	7,590	98%	2,817	98%	19,104	97%
101% to 120%	313	3%	157	2%	51	2%	521	3%
121% to 150%	60	1%	22	-	11	-	93	-
Greater than 150%	44	1%	9	-	9	-	62	-
Subtotal	417	5%	188	2%	71	2%	676	3%
Total	9,114	100%	7,778	100%	2,888	100%	19,780	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		67%		65%		68%		66%
New Retail UK mortgages during year[1]		73%		62%		n/a		73%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 63% at 31 December 2015, 65% for Standard mortgages, 64% for Self certified mortgages and 61% for Buy to let mortgages. The weighted average LTV for new Residential mortgages written during the year ended 31 December 2015 was 69%, 70% for Standard mortgages and 62% for Buy to let mortgages.

Property values are determined by reference to the original or latest property valuations held, indexed to the published 'Nationwide UK House Price Index'.

At 31 December 2015, £20.1 billion or 98% of the Retail UK mortgage book was in positive equity (year ended 31 December 2014: £19.1 billion or 97%), comprising £10.0 billion or 97% of Standard mortgages (year ended 31 December 2014: £8.7 billion or 95%), £7.5 billion or 99% of Buy to let mortgages (year ended 31 December 2014: £7.6 billion or 98%) and £2.5 billion or 99% of Self certified mortgages (year ended 31 December 2014: £2.8 billion or 98%). This improvement reflects the upward movement in house prices in the year with house prices increasing by 4.5% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

At 31 December 2015, the total calculated negative equity in the Retail UK mortgage book was £34 million, which comprised £28 million (82%) related to mortgages classified as 'neither past due nor impaired'.

Book composition (continued)

Loan to value profiles - Non-performing loans

TABLE: 3d

31 December 2015

Loan to value (LTV) ratio of total Retail UK mortgages - Non-performing loans	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	70	26%	46	18%	50	16%	166	20%
51% to 70%	74	28%	82	32%	107	33%	263	31%
71% to 80%	38	14%	46	18%	59	19%	143	17%
81% to 90%	32	12%	49	19%	53	17%	134	16%
91% to 100%	28	11%	27	11%	39	12%	94	11%
Subtotal	**242**	**91%**	**250**	**98%**	**308**	**97%**	**800**	**95%**
101% to 120%	18	7%	4	2%	6	2%	28	3%
121% to 150%	4	1%	1	-	3	1%	8	1%
Greater than 150%	2	1%	-	-	1	-	3	1%
Subtotal	**24**	**9%**	**5**	**2%**	**10**	**3%**	**39**	**5%**
Total	**266**	**100%**	**255**	**100%**	**318**	**100%**	**839**	**100%**

31 December 2014

Loan to value (LTV) ratio of total Retail UK mortgages - Non-performing loans	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	71	23%	39	12%	33	9%	143	14%
51% to 70%	77	25%	107	34%	113	30%	297	30%
71% to 80%	49	16%	57	18%	83	22%	189	19%
81% to 90%	45	14%	57	18%	76	20%	178	18%
91% to 100%	36	12%	38	12%	47	13%	121	12%
Subtotal	278	90%	298	94%	352	94%	928	93%
101% to 120%	23	7%	14	5%	14	4%	51	5%
121% to 150%	7	2%	3	1%	4	1%	14	1%
Greater than 150%	4	1%	0	0%	2	1%	6	1%
Subtotal	34	10%	17	6%	20	6%	71	7%
Total	312	100%	315	100%	372	100%	999	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting date for non-performing Retail UK mortgages.

The ratios reflect the application of the Nationwide Building Society house price index at the applicable reporting date to the portfolio. Of the non-performing Retail UK standard mortgages £242 million or 91% are in positive equity (31 December 2014: £278 million or 90%) while £24 million or 9% are in negative equity at 31 December 2015 (31 December 2014: £34 million or 10%).

Of the non-performing Retail UK self-certified mortgages £308 million or 97% are in positive equity (31 December 2014: £352 million or 94%) while £10 million or 3% are in negative equity at 31 December 2015 (31 December 2014: £20 million or 6%).

Of the non-performing Retail UK Buy to let mortgages £250 million or 98% are in positive equity (31 December 2014: £298 million or 94%) while £5 million or 2% are in negative equity at 31 December 2015 (31 December 2014: £17 million or 6%).

Asset quality

Composition and impairment

The risk profile of the Group's loans and advances to customers at both 31 December 2015 and 31 December 2014 is outlined in the following tables.

TABLE: 4a

31 December 2015 **Retail UK mortgages**	**Loan volumes £m**	**Non-performing loans[1] £m**	**Non-performing loans as % of advances %**	**Impairment provisions £m**	**Impairment provisions as % of non-performing loans %**
Total Retail UK mortgages					
Standard mortgages	10,355	266	2.6%	29	11%
Buy to let mortgages	7,562	255	3.4%	24	9%
Self certified mortgages	2,570	318	12.4%	19	6%
Total	**20,487**	**839**	**4.1%**	**72**	**9%**
of which;					
Forborne Retail UK mortgages					
Standard mortgages	84	32	38.1%	1	3%
Buy to let mortgages	46	12	26.1%	-	-
Self certified mortgages	64	32	50.0%	1	3%
Total	**194**	**76**	**39.2%**	**2**	**3%**

31 December 2014 Retail UK mortgages	Loan volumes £m	Non-performing loans[1] £m	Non-performing loans as % of advances %	Impairment provisions £m	Impairment provisions as % of non-performing loans %
Total Retail UK mortgages					
Standard mortgages	9,114	312	3.4%	32	10%
Buy to let mortgages	7,778	315	4.0%	34	11%
Self certified mortgages	2,888	372	12.9%	26	7%
Total	19,780	999	5.1%	92	9%
of which;					
Forborne Retail UK mortgages					
Standard mortgages	93	34	36.6%	1	3%
Buy to let mortgages	46	12	26.1%	-	4%
Self certified mortgages	68	35	51.5%	1	3%
Total	207	81	39.1%	2	3%

[1] *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

Retail UK mortgages were £20.5 billion at 31 December 2015 compared to £19.8 billion at 31 December 2014. The increase of £0.7 billion or 4% reflects planned growth in new business generation, offset by continuing attrition of the book. Non-performing Retail UK mortgages were £839 million at 31 December 2015 compared to £999 million at 31 December 2014, attributable to decreases in Standard mortgages of £46 million, Self certified mortgages of £54 million and Buy to let mortgages of £60 million compared to 31 December 2014. The overall impairment provision coverage ratio on the non-performing Retail UK mortgages book has remained unchanged at 9% (31 December 2014: 9%).

Asset quality (continued)

Composition and impairment (continued)

The tables below summarise the composition, defaulted loans and total impairment provisions of the Retail UK mortgage portfolio.

TABLE: 4b

31 December 2015 Retail UK mortgages	Loan volumes £m	Defaulted loans[1] £m	Defaulted loans as % of advances %	Impairment provisions £m	Impairment provisions as % of defaulted loans %
Total Retail UK mortgages					
Standard mortgages	10,355	107	1.0%	29	27%
Buy to let mortgages	7,562	95	1.3%	24	25%
Self certified mortgages	2,570	121	4.7%	19	16%
Total	**20,487**	**323**	**1.6%**	**72**	**22%**
of which;					
Forborne Retail UK mortgages					
Standard mortgages	84	6	7.1%	1	14%
Buy to let mortgages	46	2	4.3%	-	28%
Self certified mortgages	64	7	10.9%	1	14%
Total	**194**	**15**	**7.7%**	**2**	**16%**

31 December 2014 Retail UK mortgages	Loan volumes £m	Defaulted loans[1] £m	Defaulted loans as % of advances %	Impairment provisions £m	Impairment provisions as % of defaulted loans %
Total Retail UK mortgages					
Standard mortgages	9,114	132	1.4%	32	24%
Buy to let mortgages	7,778	125	1.6%	34	27%
Self certified mortgages	2,888	138	4.8%	26	19%
Total	19,780	395	2.0%	92	23%
of which;					
Forborne Retail UK mortgages					
Standard mortgages	93	8	8.6%	1	12%
Buy to let mortgages	46	2	4.3%	1	23%
Self certified mortgages	68	9	13.2%	1	20%
Total	207	19	9.2%	3	17%

[1] *The ‘defaulted loans’ classification includes both accounts which were classified as ‘defaulted loans’ prior to the forbearance measure being put in place and also those loans which have moved from ‘non-defaulted’ loans during the year. The ‘defaulted loans’ classification does not indicate that the terms of the forbearance measure are not being met.*

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Asset quality (continued)

Properties in possession

At 31 December 2015, the Group had possession of properties held as security as follows:

TABLE: 5a

	31 December 2015		31 December 2014	
Properties in possession Retail UK mortgages	**Number of properties in possession at balance sheet date**	**Balance outstanding before impairment provisions £m**	Number of properties in possession at balance sheet date	Balance outstanding before impairment provisions £m
Standard mortgages	25	4	44	6
Buy to let mortgages	37	4	61	7
Self certified mortgages	25	6	34	7
Total residential properties in possession	**87**	**14**	**139**	**20**

Disposals of properties in possession

TABLE: 5b

	31 December 2015		31 December 2014	
Disposals of properties in possession Retail UK mortgages	**Number of disposals during the year**	**Balance outstanding after impairment provisions £m**	Number of disposals during the year	Balance outstanding after impairment provisions £m
Standard mortgages	106	10	154	15
Buy to let mortgages	135	11	242	20
Self certified mortgages	69	10	121	18
Total disposals of properties in possession	**310**	**31**	**517**	**53**

During the year ended 31 December 2015, the Group disposed of 310 properties (for the year ended 31 December 2014: 517 properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the year ended 31 December 2015, the proceeds from disposals of Standard mortgages was £12 million (year ended 31 December 2014: £18 million).

For the year ended 31 December 2015, the proceeds from disposals of Buy to let mortgages was £12 million (year ended 31 December 2014: £23 million).

For the year ended 31 December 2015, the proceeds from disposals of Self certified mortgages was £11 million (year ended 31 December 2014: £20 million).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short-term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances.

A forbearance request, by the borrower, will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of Default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term; and
- other: comprising primarily a combination of forbearance measures and an element of temporary payment suspensions.

During the year ended 31 December 2015, the total number of loans entering forbearance was 134 with balances of £15 million with a total of 246 loans £27 million of balances exiting forbearance. Of the loans exiting forbearance 211 repaid their loan in full or in part.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail UK mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2015.

TABLE: 6a

31 December 2015	Performing loans		Non-performing loans[2,3]		All loans	
Formal forbearance measures - Retail UK mortgages (before impairment provisions)	**Balance £m**	**Number of accounts[4]**	**Balance £m**	**Number of accounts[4]**	**Balance £m**	**Number of accounts[4]**
Standard mortgages						
Full interest	33	294	27	253	60	547
Term extension	15	215	3	50	18	265
Capitalisation of arrears	3	20	1	6	4	26
Other	1	12	1	11	2	23
Total	**52**	**541**	**32**	**320**	**84**	**861**
Buy to let						
Full Interest	13	140	7	69	20	209
Term extension	9	86	1	11	10	97
Capitalisation of arrears	12	81	4	32	16	113
Other	-	3	-	2	-	5
Total	**34**	**310**	**12**	**114**	**46**	**424**
Self certified						
Full Interest	17	127	26	195	43	322
Term extension	5	33	1	4	6	37
Capitalisation of arrears	9	34	4	22	13	56
Other	1	5	1	9	2	14
Total	**32**	**199**	**32**	**230**	**64**	**429**
Total						
Full Interest	63	561	60	517	123	1,078
Term extension	29	334	5	65	34	399
Capitalisation of arrears	24	135	9	60	33	195
Other	2	20	2	22	4	42
Total	**118**	**1,050**	**76**	**664**	**194**	**1,714**

[1] *Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2015, this mortgage loan is not included in the stock of current active forbearance measures.*
[2] *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*
[3] *Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 68 in the credit risk section of Risk Management.*
[4] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

31 December 2014	Performing loans		Non-performing loans[2,3]		All loans	
Formal forbearance measures - Retail UK mortgages (before impairment provisions)	Balance £m	Number of accounts[4]	Balance £m	Number of accounts[4]	Balance £m	Number of accounts[4]
Standard mortgages						
Full Interest	41	362	29	276	70	638
Term extension	14	230	3	43	17	273
Capitalisation of arrears	3	21	2	8	5	29
Other	1	11	-	4	1	15
Total	59	624	34	331	93	955
Buy to let						
Full Interest	14	158	8	75	22	233
Term extension	8	68	1	10	9	78
Capitalisation of arrears	12	82	3	26	15	108
Other	-	3	-	1	-	4
Total	34	311	12	112	46	423
Self certified						
Full Interest	20	145	28	207	48	352
Term extension	3	24	-	3	3	27
Capitalisation of arrears	9	34	6	26	15	60
Other	1	3	1	6	2	9
Total	33	206	35	242	68	448
Total						
Full Interest	75	665	65	558	140	1,223
Term extension	25	322	4	56	29	378
Capitalisation of arrears	24	137	11	60	35	197
Other	2	17	1	11	3	28
Total	126	1,141	81	685	207	1,826

1 *Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2014, this mortgage loan is not included in the stock of current active forbearance measures.*
2 *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*
3 *Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 68 in the credit risk section of Risk Management.*
4 *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

The total number of accounts has decreased from 1,826 accounts at 31 December 2014 to 1,714 accounts at 31 December 2015. The balances of accounts in forbearance have decreased from £207 million at 31 December 2014 to £194 million at 31 December 2015. For Standard mortgages 861 accounts or £84 million are in forbearance at 31 December 2015 (31 December 2014: 955 accounts or £93 million). For Buy to let mortgages, 424 accounts or £46 million are in forbearance at 31 December 2015 (31 December 2014: 423 accounts or £46 million). For Self certified mortgages, 429 accounts or £64 million are in forbearance at 31 December 2015 (31 December 2014: 448 accounts or £68 million).

At 31 December 2015, £123 million or 1,078 Retail UK Residential mortgage accounts in forbearance were subject to interest only payments, compared to £140 million or 1,223 accounts at 31 December 2014.

At 31 December 2015, £34 million or 399 Retail UK Residential mortgage accounts in forbearance were subject to term extension, compared to £29 million or 378 accounts at 31 December 2014. These loans may have been granted a temporary term extension pending sale of the property or maturity of a repayment vehicle.

At 31 December 2015, £33 million or 195 Retail UK Residential mortgage accounts in forbearance were subject to capitalisation of arrears, compared to £35 million or 197 accounts at 31 December 2014.

In addition to the forbearance pertaining to the Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2015, there were 120 properties where a Fixed Charge Receiver had been appointed or approved, compared to 213 properties at 31 December 2014.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of forborne Retail UK mortgages (before impairment provisions) during the year ended 31 December 2015.

TABLE: 6b

Reconciliation of forborne loan stock by performing / non-performing status - Retail UK mortgages (before impairment provisions)	Standard mortgages		Buy to let		Self certified		All loans	
	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
All loans								
Opening balance at 1 January 2015*	**93**	**955**	**46**	**423**	**68**	**448**	**207**	**1,826**
New forbearance extended	8	73	4	41	3	20	15	134
Exited forbearance								
- Improved to or remained in performing	(2)	(18)	-	(1)	(1)	(7)	(3)	(26)
- Improved / stabilised and remained in non-performing	-	(4)	-	(2)	-	(2)	-	(8)
- Redemptions, principal repayments and other	(15)	(145)	(4)	(37)	(6)	(30)	(25)	(212)
- Disimproved to or within non-performing	-	-	-	-	-	-	-	-
Transfers within forbearance between performing and Non-performing loans	-	-	-	-	-	-	-	-
Closing balance at 31 December 2015	**84**	**861**	**46**	**424**	**64**	**429**	**194**	**1,714**
Performing loans								
Opening balance at 1 January 2015*	**59**	**624**	**34**	**311**	**33**	**206**	**126**	**1,141**
New forbearance extended	6	58	3	29	2	14	11	101
Exited forbearance								
- Remained in performing	(2)	(18)	-	(1)	(1)	(6)	(3)	(25)
- Redemptions, principal repayments and other	(10)	(111)	(3)	(28)	(2)	(14)	(15)	(153)
- Disimproved to non-performing	-	-	-	-	-	-	-	-
Transfers within forbearance between performing and Non-performing loans	(1)	(12)	-	(1)	-	(1)	(1)	(14)
Closing balance at 31 December 2015	**52**	**541**	**34**	**310**	**32**	**199**	**118**	**1,050**
Non-performing loans								
Opening balance at 1 January 2015*	**34**	**331**	**12**	**112**	**35**	**242**	**81**	**685**
New forbearance extended	2	15	1	12	1	6	4	33
Exited forbearance								
- Improved to performing	-	-	-	-	-	(1)	-	(1)
- Improved / stabilised and remained in non-performing	-	(4)	-	(2)	-	(2)	-	(8)
- Redemptions, principal repayments and other	(5)	(34)	(1)	(9)	(4)	(16)	(10)	(59)
- Disimproved and remained in non-performing	-	-	-	-	-	-	-	-
Transfers within forbearance between performing and Non-performing loans	1	12	-	1	-	1	1	14
Closing balance at 31 December 2015	**32**	**320**	**12**	**114**	**32**	**230**	**76**	**664**

* *In line with the revised asset quality definitions set out on pages 67 and 68 of Risk Management, the table above has been prepared using 'performing' and 'non-performing' classifications. Therefore, opening balances at 1 January 2015 are not comparable with information in table 6b in the Group's Annual Report for the year ended 31 December 2014, which used a 'defaulted' classification.*

[1] *The number of accounts does not equate to the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2015 and 31 December 2015 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in performing status;
  - Improved / stabilised and remained in non-performing status;
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2015 and remained in forbearance stock at 31 December 2015);
  - Disimproved to or within non-performing status; and
- Those accounts and balances which transferred between performing loans and Non-performing loans but remained in forbearance.

The non-performing loan classification does not indicate that the terms of the forbearance measure have not been met. The performing / non-performing status of accounts which exited forbearance during the year is determined at the date of exit.

A total of 1,714 accounts or £194 million of account balances were in forbearance at 31 December 2015, compared to 1,826 or £207 million at 31 December 2014. Of these, 134 accounts or £15 million new forbearance measures were put in place during the year, of which 101 accounts or £11 million were classified as 'performing loans' while 33 accounts were classified as 'Non-performing loans'. Of those that exited forbearance during the year, 26 accounts or £3 million exited to 'performing' status, 8 accounts remained in non-performing with an improved or stabilised status. A reduction in the forbearance stock of 212 accounts relates to redeemed accounts during the year; a reduction of £25 million was due to those redeemed accounts and principal payments during the year.

For Standard mortgages, 861 accounts or £84 million of account balances were in forbearance at 31 December 2015, compared to 955 accounts or £93 million at 31 December 2014.

For Buy to let mortgages, 424 accounts or £46 million of account balances were in forbearance at 31 December 2015, compared to 423 accounts or £46 million at 31 December 2014.

For Self certified mortgages, 429 accounts or £64 million of account balances were in forbearance at 31 December 2015, compared to 448 accounts or £68 million at 31 December 2014.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE: 7a

31 December 2015

Loan to value (LTV) ratio of forborne Retail UK mortgages	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	25	30%	15	33%	14	22%	54	28%
51% to 70%	22	26%	14	30%	18	28%	54	28%
71% to 80%	10	12%	6	13%	15	23%	31	16%
81% to 90%	11	13%	7	15%	11	17%	29	15%
91% to 100%	10	12%	4	9%	4	6%	18	9%
Subtotal	**78**	**93%**	**46**	**100%**	**62**	**96%**	**186**	**96%**
101% to 120%	4	5%	-	-	1	2%	5	3%
121% to 150%	1	1%	-	-	-	-	1	-
Greater than 150%	1	1%	-	-	1	2%	2	1%
Subtotal	**6**	**7%**	**-**	**-**	**2**	**4%**	**8**	**4%**
Total	**84**	**100%**	**46**	**100%**	**64**	**100%**	**194**	**100%**

31 December 2014

Loan to value (LTV) ratio of forborne Retail UK mortgages	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	27	29%	11	24%	11	16%	49	24%
51% to 70%	22	24%	18	39%	19	28%	59	29%
71% to 80%	13	14%	5	11%	17	25%	35	17%
81% to 90%	12	13%	7	15%	12	18%	31	15%
91% to 100%	12	13%	3	7%	6	9%	21	10%
Subtotal	86	93%	44	96%	65	96%	195	95%
101% to 120%	5	5%	2	4%	2	3%	9	4%
121% to 150%	1	1%	-	-	-	-	1	-
Greater than 150%	1	1%	-	-	1	1%	2	1%
Subtotal	7	7%	2	4%	3	4%	12	5%
Total	93	100%	46	100%	68	100%	207	100%

The tables above illustrate the indexed loan to value ratios for Retail UK forborne mortgages. The ratios reflect the application of the published Nationwide UK House Price Index at the applicable reporting date on the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the Retail UK mortgages with active forbearance measures in place £186 million or 96% are in positive equity (31 December 2014: £195 million or 95%) while £8 million or 4% are in negative equity at 31 December 2015 (31 December 2014: £12 million or 5%). 93% of forborne Standard mortgages (31 December 2014: 93%), 100% of forborne Buy to let mortgages (31 December 2014: 96%) and 96% of Self certified mortgages (31 December 2014: 96%) are in positive equity at 31 December 2015.

Asset quality (continued)

Loan to value profiles - non-performing forborne loans

TABLE: 7b

31 December 2015

Loan to value (LTV) ratio of forborne Retail UK mortgages - Non-performing loans	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	11	34%	4	33%	6	19%	21	28%
51% to 70%	8	25%	4	33%	10	31%	22	29%
71% to 80%	3	9%	1	8%	7	22%	11	14%
81% to 90%	5	16%	2	18%	6	19%	13	17%
91% to 100%	3	9%	1	8%	2	6%	6	8%
Subtotal	**30**	**93%**	**12**	**100%**	**31**	**97%**	**73**	**96%**
101% to 120%	2	7%	-	-	-	-	2	3%
121% to 150%	-	-	-	-	-	-	-	-
Greater than 150%	-	-	-	-	1	3%	1	1%
Subtotal	**2**	**7%**	**-**	**-**	**1**	**3%**	**3**	**4%**
Total	**32**	**100%**	**12**	**100%**	**32**	**100%**	**76**	**100%**

31 December 2014

Loan to value (LTV) ratio of forborne Retail UK mortgages - Non-performing loans	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	11	32%	4	33%	5	14%	20	24%
51% to 70%	9	26%	4	33%	9	26%	22	27%
71% to 80%	5	15%	1	9%	9	26%	15	19%
81% to 90%	3	9%	2	17%	7	20%	12	15%
91% to 100%	4	12%	-	-	3	9%	7	9%
Subtotal	32	94%	11	92%	33	95%	76	94%
101% to 120%	2	6%	1	8%	1	3%	4	5%
121% to 150%	-	-	-	-	-	-	-	-
Greater than 150%	-	-	-	-	1	2%	1	1%
Subtotal	2	6%	1	8%	2	5%	5	6%
Total	34	100%	12	100%	35	100%	81	100%

The tables above illustrate that the volume of forborne loans which are non-performing has reduced from £81 million as at 31 December 2014 to £76 million as at 31 December 2015 and the volume of non-performing forborne loans which are in negative equity has reduced from £5 million as at 31 December 2014 to £3 million as at 31 December 2015.

Loans and advances to customers (excluding Residential mortgages)

The following disclosures refer to the forbearance of the other loans and advances to customers (excluding Residential mortgages). These provide additional detail and analysis on the quality of the stock of forborne loans.

Asset quality

Forbearance measures

The Group continues to extend significant support to customers who are experiencing current difficulties in meeting their debt servicing commitments by restructuring loans on a sustainable basis using a range of short-term and longer term forbearance solutions.

The range of forbearance solutions employed by the Group varies depending on the individual circumstances of the customer, and may result in an amendment to the timing of the contractual cash flows and / or an amendment to the other terms of a loan. Typically, a breach or expected breach of covenants is the first early indication of a borrower's actual or potential difficulty with servicing debt commitments. Therefore adjustment, non-enforcement or waiver of covenant(s) is frequently an important constituent part of a resolution strategy agreed with a customer, particularly in loan portfolios where covenants are a standard feature of facility agreements. These 'covenant forbearance' arrangements (for example, a waiver of a loan-to-value covenant breach) are unlikely, of themselves, to result in an impact to the timing of contractual cash flows. Other forbearance arrangements are more likely to have a direct impact on the timing of cash flows.

Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred and if a specific provision is required will always take place prior to a decision to grant forbearance to the customer. Where a loan is subject to forbearance and no specific provision is required, the loan is reported as forborne. However, where a specific provision is required, the loan is reported as impaired and is no longer reported as forborne.

Forbearance effectiveness
It is the Group's policy to measure the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and for the customer.

The performance of forbearance measures is measured taking account of:
- the strategy that is being followed with the customer with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

Each business unit within the Group has an operating infrastructure in place to assess and, where appropriate, implement suitable forbearance arrangements. Such arrangements are implemented on either a temporary or a permanent basis. Temporary forbearance occurs where the measure has a specific term and will expire at some point in the future in advance of maturity of the loan. Permanent forbearance occurs where the measure is intended to remain in place for the remainder of the loan term.

The choice of forbearance measure is considered on a case-by-case basis bearing in mind the individual circumstance and risk profile of each borrower.

An exposure is restored to 'non-forborne' status for reporting purposes on the expiration date of the forbearance measure.

Asset quality (continued)

Forbearance measures (continued)

The nature and type of forbearance measures include:

- **Term extension:** an arrangement where the original term of the loan is extended, all interest is fully serviced and a revised repayment arrangement is agreed for the principal balance;
- **Adjustment or non-enforcement of covenants:** an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjusts the covenant(s) to reflect the changed circumstances of the borrower;
- **Facilities in breach of terms placed on demand:** an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long-term resolution;
- **Reduced payments (full interest):** an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- **Reduced payments (greater than full interest) incorporating some principal repayments:** a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- **Capitalisation of arrears:** an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- **Other:** Additional, less frequently applied, forbearance arrangements include short-term / temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2015, the stock of forborne other loans and advances to customers (excluding Residential mortgages), analysed by forbearance type is as follows:

TABLE: 1

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2015 Performing loans[1] balance €m	2015 Non-performing loans[2] balance €m	2015 Total loans balance €m	2014 Performing loans[1] balance €m	2014 Non-performing loans[2] balance €m	2014 Total loans balance €m
Republic of Ireland SME						
Term extension	584	67	651	544	72	616
Adjustment or non-enforcement of covenants	90	-	90	111	-	111
Facilities in breach of terms placed on demand	4	16	20	6	25	31
Reduced payment (full interest)	76	8	84	150	19	169
Reduced payment (greater than full interest)	172	21	193	203	23	226
Capitalisation of arrears	16	5	21	30	4	34
Other	11	4	15	31	5	36
Total	**953**	**121**	**1,074**	**1,075**	**148**	**1,223**
UK SME						
Term extension	95	4	99	79	13	92
Adjustment or non-enforcement of covenants	46	-	46	53	-	53
Facilities in breach of terms placed on demand	-	-	-	2	3	5
Reduced payment (full interest)	4	-	4	6	-	6
Reduced payment (greater than full interest)	5	-	5	8	-	8
Capitalisation of arrears	-	-	-	-	1	1
Other	140	-	140	132	3	135
Total	**290**	**4**	**294**	**280**	**20**	**300**
Corporate						
Term extension	227	-	227	286	-	286
Adjustment or non-enforcement of covenants	372	-	372	414	26	440
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	-	-	-
Reduced payment (greater than full interest)	68	-	68	66	-	66
Capitalisation of arrears	-	-	-	12	-	12
Other	61	-	61	237	-	237
Total	**728**	**-**	**728**	**1,015**	**26**	**1,041**
Investment property						
Term extension	2,464	55	2,519	2,743	144	2,887
Adjustment or non-enforcement of covenants	392	3	395	455	11	466
Facilities in breach of terms placed on demand	49	8	57	149	33	182
Reduced payment (full interest)	69	6	75	83	36	119
Reduced payment (greater than full interest)	142	11	153	201	22	223
Capitalisation of arrears	30	2	32	21	4	25
Other	224	3	227	282	8	290
Total	**3,370**	**88**	**3,458**	**3,934**	**258**	**4,192**

[1] *Performing loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Non-performing loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *NPL's include both accounts which were classified as NPL's prior to the forbearance measure being put in place and those loans which have moved from performing loans during the year. The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2015 Performing loans[1] balance €m	2015 Non-performing loans[2] balance €m	2015 Total loans balance €m	2014 Performing loans[1] balance €m	2014 Non-performing loans[2] balance €m	2014 Total loans balance €m
Land and development						
Term extension	101	13	114	135	26	161
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	5	2	7	2	13	15
Reduced payment (full interest)	12	1	13	13	1	14
Reduced payment (greater than full interest)	1	-	1	7	-	7
Capitalisation of arrears	-	-	-	-	-	-
Other	4	-	4	4	-	4
Total	**123**	**16**	**139**	**161**	**40**	**201**
Consumer						
Term extension	74	-	74	113	-	113
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	-	-	-
Reduced payment (greater than full interest)	-	-	-	-	-	-
Capitalisation of arrears	2	-	2	-	-	-
Other	-	-	-	-	-	-
Total	**76**	**-**	**76**	**113**	**-**	**113**
Total						
Term extension	3,545	139	3,684	3,900	255	4,155
Adjustment or non-enforcement of covenants	900	3	903	1,033	37	1,070
Facilities in breach of terms placed on demand	58	26	84	159	74	233
Reduced payment (full interest)	161	15	176	252	56	308
Reduced payment (greater than full interest)	388	32	420	485	45	530
Capitalisation of arrears	48	7	55	63	9	72
Other	440	7	447	686	16	702
Total	**5,540**	**229**	**5,769**	**6,578**	**492**	**7,070**

[1] *Performing loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Non-performing loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *NPL's include both accounts which were classified as NPL's prior to the forbearance measure being put in place and those loans which have moved from performing loans during the year. The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

The Group's other loans and advances to customers (excluding Residential mortgages) at 31 December 2015 were €37.7 billion before impairment provisions (31 December 2014: €38.6 billion), of which €5.8 billion or 15% was classified and reported as forborne (31 December 2014: €7.1 billion or 18%). Property and construction exposures represent 63% of all forborne loans (excluding Residential mortgages) at 31 December 2015, 36% relate to Non-property SME and corporate lending, with Consumer Lending representing just 1% of forborne loans at 31 December 2015. The percentage split of such forborne loans by portfolio has remained broadly consistent with the position at 31 December 2014.

The total volume of forborne loans reduced by €1.3 billion during the year, with reductions experienced across all forbearance measures. This trend is consistent with the impact of the work the Group is doing to support its customers who are in financial difficulty together with an improvement in market conditions and liquidity in the Republic of Ireland.

Further information on the movements in forborne loans during the year is set out later in this section.

Total loans and advances to customers in the **Non-property SME and corporate** portfolio at 31 December 2015 were €21 billion before impairment provisions, of which €2.1 billion or 10% was classified and reported as forborne (31 December 2014: €2.6 billion or 13%). Customers in the Non-property SME and corporate sector have a number of options typically available to deal with adverse trading conditions, particularly in times of depressed economic conditions in their primary markets, such as reducing operating overheads, sourcing new markets, asset sales and renegotiating terms with suppliers, before their ability to continue to meet their debt servicing commitments is at risk.

Within the Non-property SME and corporate portfolio, the total Republic of Ireland SME loans and advances to customers before impairment provisions at 31 December 2015 were €9.3 billion, of which €1.1 billion or 12% was classified and reported as forborne (31 December 2014: €1.2 billion or 13%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 61% of forborne loans at 31 December 2015 (31 December 2014: 50%) with reduced payment (greater than full interest) accounting for 18% (31 December 2014: 18%) and a further 8% accounted for by loan covenant amendments / waivers (31 December 2014: reduced payment (full interest) of 14%).

Forbearance resolution strategies for the Group's Republic of Ireland SME lending customers are assessed on a case-by-case basis taking account of the individual customer's circumstances and risk profile. Short-term resolution arrangements are typically implemented in cases where a customer's cash flow difficulties are considered to be only short-term in nature and are expected to improve in the near term due to a change in the customer's operating circumstances. Where cash flow difficulties are considered more long-term, and where all other available options of dealing with adverse trading conditions have been considered, longer term forbearance solutions, such as term extensions, are implemented. The longer term strategies look to potential cash flows over a longer time horizon.

The total **UK SME** loans and advances to customers before impairment provisions at 31 December 2015 were €2.4 billion, of which €0.3 billion or 12% was classified and reported as forborne (31 December 2014: €0.3 billion or 12%). Within the UK SME portfolio, term extension and loan covenant amendments / waivers are the two primary forbearance measures, accounting for a combined 49% of forborne loans at 31 December 2015 (31 December 2014: 48%).

Asset quality (continued)

Forbearance measures (continued)

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2015 were €9.3 billion, of which €0.7 billion or 8% was classified and reported as forborne (31 December 2014: €1.0 billion or 13%). Loan covenant amendments / waivers account for 51% of forborne loans with term extensions accounting for a further 31% at 31 December 2015 (31 December 2014: 42% and 27% respectively). Covenants are a standard feature of most facilities originated within the corporate lending portfolio given the larger, structured nature of the facilities. Typically, breach of covenant is the first early indication of actual or potential financial difficulties of a borrower and, as such, a waiver or resetting of covenant levels is frequently an important element of any resolution strategy agreed with a borrower to address its new operating circumstances. Where a waiver or resetting of covenants of itself is not sufficient to address a borrower's financial difficulties, and given the relatively shorter term maturity profile of the portfolio, extension of the loan term represents the main alternative solution to assist customers that are experiencing financial difficulties.

In the **Investment property** portfolio, total loans and advances to customers at 31 December 2015 were €11.4 billion before impairment provisions, of which €3.5 billion or 30% was classified and reported as forborne (31 December 2014: €4.2 billion or 33%). Non-performing forborne loans were €0.1 billion (or 3% of total forborne loans) as at 31 December 2015 (31 December 2014: €0.3 billion or 6%). Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 73% of total forborne loans at 31 December 2015 (31 December 2014: 69%), with covenant amendments / waivers accounting for 11% (31 December 2014: 11%), and reduced payment (greater than full interest) accounting for 4% (31 December 2014: 5%). Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility and / or amending or adjusting the covenants are the most common longer term arrangements utilised.

The level of the Group's **Land and development** portfolio classified and reported as forborne, €0.1 billion or 7% at 31 December 2015 (31 December 2014: €0.2 billion or 7%), is reflective of the challenged nature of this sector which has seen significant declines in land values resulting in the majority of the portfolio being already specifically provisioned and therefore reported as 'impaired'.

Total loans and advances to customers in the **Consumer** portfolio at 31 December 2015 were €3.3 billion before impairment provisions, of which €0.1 billion or 2% was classified and reported as forborne (31 December 2014: €0.1 billion or 4%). The €0.1 billion of forborne balances at 31 December 2015 primarily relates to personal loans that have had their term extended as part of a consolidated debt restructure.

Asset quality (continued)

Forbearance measures (continued)

TABLE: 2

31 December 2015

Reconciliation of forborne loan stock by performing / non-performing status[1] - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	**Non-property SME and corporate**			**Property and construction**			
	Republic of Ireland SME €m	**UK SME €m**	**Corporate €m**	**Investment property €m**	**Land and development €m**	**Consumer €m**	**All loans €m**
All loans							
Opening balance at 1 January 2015	**1,224**	**300**	**1,041**	**4,192**	**201**	**112**	**7,070**
New forbearance extended	164	18	182	178	7	15	564
Exited forbearance							
- Improved to or remained in performing	(33)	-	(103)	(264)	(4)	-	(404)
- Remained in / disimproved to non-performing without specific provision	(17)	(1)	-	(30)	(5)	-	(53)
- Redemptions, principal repayments and other	(185)	(19)	(290)	(520)	(19)	(47)	(1,080)
- Disimproved to non-performing with specific provision	(93)	(5)	(102)	(86)	(38)	(4)	(328)
Transfers within forbearance between performing and Non-performing loans	-	-	-	-	-	-	-
Transfers between sub product class	14	1	-	(12)	(3)	-	-
Closing balance at 31 December 2015	**1,074**	**294**	**728**	**3,458**	**139**	**76**	**5,769**
Performing loans							
Opening balance at 1 January 2015	**1,075**	**280**	**1,015**	**3,934**	**160**	**112**	**6,576**
New forbearance extended	143	17	182	162	7	15	526
Exited forbearance							
- Remained in performing	(32)	-	(103)	(258)	(4)	-	(397)
- Disimproved to non-performing without specific provision	(7)	(1)	-	(15)	(1)	-	(24)
- Redemptions, principal repayments and other	(154)	(19)	(290)	(488)	(17)	(47)	(1,015)
- Disimproved to non-performing with specific provision	(77)	-	(76)	(54)	(27)	(4)	(238)
Transfers within forbearance between performing and Non-performing loans	(10)	12	-	103	7	-	112
Transfers between sub product class	15	1	-	(14)	(2)	-	-
Closing balance at 31 December 2015	**953**	**290**	**728**	**3,370**	**123**	**76**	**5,540**
Non-performing loans							
Opening balance at 1 January 2015	**149**	**20**	**26**	**258**	**41**	**-**	**494**
New forbearance extended	21	1	-	16	-	-	38
Exited forbearance							
- Improved to performing	(1)	-	-	(6)	-	-	(7)
- Remained in non-performing without specific provision	(10)	-	-	(15)	(4)	-	(29)
- Redemptions, principal repayments and other	(31)	-	-	(32)	(2)	-	(65)
- Disimproved to non-performing with specific provision	(16)	(5)	(26)	(32)	(11)	-	(90)
Transfers within forbearance between performing and Non-performing loans	10	(12)	-	(103)	(7)	-	(112)
Transfers between sub product class	(1)	-	-	2	(1)	-	-
Closing balance at 31 December 2015	**121**	**4**	**-**	**88**	**16**	**-**	**229**

[1] *Performing loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Non-performing loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2015, €5.8 billion of the Group's other loans and advances to customers (excluding Residential mortgages) were classified and reported as forborne. This represented a reduction of €1.3 billion from the level classified and reported as forborne at 31 December 2014.

The reduction in forborne loans during the year reflected the fact that €1.9 billion of forborne loans exited forbearance during the year while €0.6 billion of loans were granted new forbearance during the year.

Term extensions and loan covenant amendments / waivers were the most common principal forbearance measure utilised for new forborne loans during the year. This is consistent with experience in previous years and the nature of the underlying portfolios, which include a large proportion of loans that have shorter term maturities and financial covenants, as part of the facility terms, to facilitate improved credit management of these portfolios.

Of the new forborne loans during the year, €0.18 billion or 32% were from the Group's Corporate portfolio, €0.18 billion or 32% were from the Investment property portfolio and €0.16 billion or 29% were from the Republic of Ireland SME loan portfolio.

Of the loans that exited forbearance during the year, €0.4 billion improved to or remained in performing status. €397 million, or 98% of these loans, had been categorised as performing at 31 December 2015, and, €7 million categorised as non-performing at 31 December 2015 improved to performing. €53 million in forborne loans remained in or dis-improved to non-performing without a specific provision. €30 million or 57% of these loans were in the Investment portfolio.

€1.1 billion of loans exited forbearance during the year due to repayment, redemptions or sales. This reflected the impact of an improvement in market conditions and liquidity in the Group's principal markets during the year. €0.8 billion or 75% of these movements were in the Investment property and Corporate portfolios.

€0.33 billion in forborne loans dis-improved to non-performing with a specific provision, of these €0.1 billion or 27% had been classified as non-performing at 31 December 2015. The Corporate portfolio accounted for 31% of the total, with 28% from Republic of Ireland SME and 26% from Investment property portfolios.

When a specific provision is raised on a forborne loan, the loan ceases to be classified as forborne. It is expected that most loans that ultimately require a specific provision will previously have experienced a breach of loan terms and, in a large proportion of these cases, some element of forbearance will have been granted in order to provide flexibility to both the Group and the borrower to explore the optimum resolution for both parties.

At 31 December 2015, €0.2 billion or 4% of total forborne loans were classified as non-performing (31 December 2014: €0.5 billion or 7%).

Group forbearance disclosures

Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers including held for sale at 31 December 2015 of €90.6 billion is available on page 69 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below provide an analysis of loans that are 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'. In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne.

TABLE: 1

31 December 2015 Risk profile of loans and advances to customers including held for sale (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	45,548	5,473	2,550	2,894	56,465	70%
Satisfactory quality	-	9,122	1,743	155	11,020	14%
Acceptable quality	336	1,328	403	12	2,079	2%
Lower quality but neither past due or impaired	-	285	165	-	450	1%
Neither past due nor impaired	**45,884**	**16,208**	**4,861**	**3,061**	**70,014**	**87%**
Past due but not impaired	1,585	86	86	66	1,823	2%
Impaired	1,712	2,604	4,813	136	9,265	11%
Total non-forborne loans and advances to customers	**49,181**	**18,898**	**9,760**	**3,263**	**81,102**	**100%**
Forborne loans and advances to customers						
High quality	-	35	152	1	188	2%
Satisfactory quality	1,324	309	420	50	2,103	22%
Acceptable quality	953	653	1,190	18	2,814	30%
Lower quality but neither past due or impaired	549	955	1,443	-	2,947	31%
Neither past due nor impaired	**2,826**	**1,952**	**3,205**	**69**	**8,052**	**85%**
Past due but not impaired	409	19	288	7	723	8%
Impaired	489	125	104	-	718	7%
Total forborne loans and advances to customers	**3,724**	**2,096**	**3,597**	**76**	**9,493**	**100%**

Risk profile of forborne loans and advances to customers (continued)

31 December 2014 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages[1] €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	42,961	4,263	1,662	2,428	51,314	65%
Satisfactory quality	-	8,481	1,547	130	10,158	13%
Acceptable quality	383	1,487	447	12	2,329	3%
Lower quality but neither past due or impaired	-	323	190	-	513	-
Neither past due nor impaired	43,344	14,554	3,846	2,570	64,314	81%
Past due but not impaired	2,046	109	204	82	2,441	3%
Impaired	2,230	3,157	6,776	189	12,352	16%
Total non-forborne loans and advances to customers	47,620	17,820	10,826	2,841	79,107	100%
Forborne loans and advances to customers						
High quality	-	36	115	1	152	2%
Satisfactory quality	994	398	648	80	2,120	20%
Acceptable quality	810	811	1,625	19	3,265	31%
Lower quality but neither past due or impaired	467	1,075	1,575	-	3,117	30%
Neither past due nor impaired	2,271	2,320	3,963	100	8,654	83%
Past due but not impaired	538	50	132	13	733	7%
Impaired	554	194	298	-	1,046	10%
Total forborne loans and advances to customers	3,363	2,564	4,393	113	10,433	100%

[1] *In line with the revised asset quality definitions set out on pages 67 and 68, certain comparative figures have been restated.*

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €8.1 billion at 31 December 2015 compared to €8.7 billion at 31 December 2014.

Forborne loans and advances to customers classified as 'past due but not impaired' remained unchanged at €0.7 billion at 31 December 2015.

Forborne 'impaired' loans have reduced to €0.7 billion at 31 December 2015 compared to €1.0 billion at 31 December 2014.

Past due and / or impaired

The Group's total risk profile of loans and advances to customers including held for sale - past due and / or impaired at 31 December 2015 of €12.5 billion is available on page 70 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below provide an aged analysis of loans 'past due and / or impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded. In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne.

TABLE: 2

31 December 2015 **Risk profile of loans and advances to customers including held for sale - past due and / or impaired**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Non-forborne loans and advances to customers					
Past due up to 30 days	443	62	12	39	556
Past due 31 - 60 days	554	19	44	19	636
Past due 61 - 90 days	178	5	30	8	221
Past due greater than 90 days but not impaired	410	-	-	-	410
Past due but not impaired	**1,585**	**86**	**86**	**66**	**1,823**
Impaired	1,712	2,604	4,813	136	9,265
Total non-forborne loans and advances to customers - past due and / or impaired	**3,297**	**2,690**	**4,899**	**202**	**11,088**
Forborne loans and advances to customers					
Past due up to 30 days	142	12	39	2	195
Past due 31 - 60 days	77	5	137	4	223
Past due 61 - 90 days	39	2	112	1	154
Past due greater than 90 days but not impaired	151	-	-	-	151
Past due but not impaired	**409**	**19**	**288**	**7**	**723**
Impaired	489	125	104	-	718
Total forborne loans and advances to customers - past due and / or impaired[1]	**898**	**144**	**392**	**7**	**1,441**

[1] *The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.*

Past due and / or impaired (continued)

The Group's total loans and advances to customers - past due and / or impaired of €16.6 billion at 31 December 2014 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

31 December 2014 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	514	70	25	50	659
Past due 31 - 60 days	649	22	160	22	853
Past due 61 - 90 days	225	17	19	10	271
Past due greater than 90 days but not impaired	658	-	-	-	658
Past due but not impaired	2,046	109	204	82	2,441
Impaired	2,230	3,157	6,776	189	12,352
Total non-forborne loans and advances to customers - past due and / or impaired	4,276	3,266	6,980	271	14,793
Forborne loans and advances to customers					
Past due up to 30 days	129	23	36	5	193
Past due 31 - 60 days	79	15	82	6	182
Past due 61 - 90 days	46	12	14	2	74
Past due greater than 90 days but not impaired	284	-	-	-	284
Past due but not impaired	538	50	132	13	733
Impaired	554	194	298	-	1,046
Total forborne loans and advances to customers - past due and / or impaired[1]	1,092	244	430	13	1,779

[1] *The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.*

Forborne loans and advances to customers classified as 'past due and / or impaired' amounted to €1.4 billion or 16% of the Group's forborne loan book at 31 December 2015 compared to €1.8 billion or 17% at 31 December 2014.

Forborne Residential mortgages classified as 'past due and / or impaired' decreased by €0.2 billion from €1.1 billion at 31 December 2014 to €0.9 billion at 31 December 2015.

Forborne Property and construction loans classified as 'past due and / or impaired' remained unchanged at €0.4 billion.

Forborne Non-property SME and corporate loans classified as 'past due and / or impaired' decreased by €0.1 billion from €0.2 billion at 31 December 2014 to €0.1 billion at 31 December 2015.

Forborne Consumer loans that are 'past due and / or impaired' are not significant in a Group context at €7 million at 31 December 2015 (31 December 2014: €13 million).

Non-performing loans

TABLE: 3

31 December 2015 **Risk profile of loans and advances to customers including held for sale - Non-performing loans**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Non-forborne loans and advances to customers					
Probationary mortgages	789				
- Self-cure	*789*				
- Forborne	*-*				
Defaulted loans	2,122	2,604	4,813	136	9,675
- Past due greater than 90 days but not impaired	*410*	*-*	*-*	*-*	*410*
- Impaired	*1,712*	*2,604*	*4,813*	*136*	*9,265*
Total non-forborne loans and advances to customers - non-performing	**2,911**	**2,604**	**4,813**	**136**	**10,464**
Forborne loans and advances to customers					
Probationary mortgages	640				
- Self-cure	*-*				
- Forborne	*640*				
Defaulted loans	640	125	104	-	869
- Past due greater than 90 days but not impaired	*151*	*-*	*-*	*-*	*151*
- Impaired	*489*	*125*	*104*	*-*	*718*
Total forborne loans and advances to customers - non-performing	**1,280**	**125**	**104**	**-**	**1,509**

31 December 2014 Risk profile of loans and advances to customers including held for sale - Non-performing loans	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Probationary mortgages	897				
- Self-cure	*897*				
- Forborne	*-*				
Defaulted loans	2,888	3,157	6,776	189	13,010
- Past due greater than 90 days but not impaired	*658*	*-*	*-*	*-*	*658*
- Impaired	*2,230*	*3,157*	*6,776*	*189*	*12,352*
Total non-forborne loans and advances to customers - non-performing	3,785	3,157	6,776	189	13,907
Forborne loans and advances to customers					
Probationary mortgages	571				
- Self-cure	*-*				
- Forborne	*571*				
Defaulted loans	838	194	298	-	1,330
- Past due greater than 90 days but not impaired	*284*	*-*	*-*	*-*	*284*
- Impaired	*554*	*194*	*298*	*-*	*1,046*
Total forborne loans and advances to customers - non-performing	1,409	194	298	-	1,901

Impairment charges / (reversals) on forborne loans and advances to customers

The total impairment charge on loans and advances to customers for the year ended 31 December 2015 was €296 million (see page 65 in the Credit risk disclosures). Of this, the impairment reversal (net) on forborne loans amounted to €147 million as set out in the table below:

TABLE: 4

31 December 2015 **Impairment charges / (reversals) on forborne loan and advances Composition**	**Specific charge individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment charge on forborne loans €m**
Residential mortgages	(50)	(67)	(117)
- Retail Ireland	*(49)*	*(67)*	*(116)*
- Retail UK	*(1)*	*-*	*(1)*
Non-property SME and corporate	-	(9)	(9)
- Republic of Ireland SME	*-*	*(4)*	*(4)*
- UK SME	*-*	*(1)*	*(1)*
- Corporate	*-*	*(4)*	*(4)*
Property and construction	-	(19)	(19)
- Investment	*-*	*(18)*	*(18)*
- Land and development	*-*	*(1)*	*(1)*
Consumer	-	(2)	(2)
Total Impairment charge / (reversal) on forborne loans	**(50)**	**(97)**	**(147)**

31 December 2014 Impairment charges / (reversals) on forborne loan and advances Composition	Specific charge individually and collectively assessed €m	Incurred but not reported €m	Total impairment charge on forborne loans €m
Residential mortgages	(15)	(46)	(61)
- Retail Ireland	*(15)*	*(44)*	*(59)*
- Retail UK	*-*	*(2)*	*(2)*
Non-property SME and corporate	-	(6)	(6)
- Republic of Ireland SME	*-*	*(6)*	*(6)*
- UK SME	*-*	*(2)*	*(2)*
- Corporate	*-*	*2*	*2*
Property and construction	-	(1)	(1)
- Investment	*-*	*2*	*2*
- Land and development	*-*	*(3)*	*(3)*
Consumer	-	2	2
Total Impairment charge / (reversal) on forborne loans	(15)	(51)	(66)

Impairment reversals on forborne loans and advances

The impairment reversal recognised on Retail Ireland forborne mortgage loans reflects our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers that are in financial difficulty.

In the non-mortgage book, where a specific provision is required the exposure is reported as 'impaired' and is not reported as 'forborne'; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. The IBNR reversal of €30 million on forborne non-mortgage loans in the year primarily reflects the impact of significant reductions in the 'neither past due nor impaired' forborne Property and construction and Non-property SME and corporate loans.

Impairment provisions on forborne loans and advances to customers

The total impairment provisions on loans and advances to customers for the year ended 31 December 2015 were €5,886 million (31 December 2014: €7,423 million) (see page 66 in the asset quality disclosures). Of this, the impairment provisions on forborne loans amounted to €545 million (31 December 2014: €591 million) as set out in the tables below:

TABLE: 5

31 December 2015 **Impairment provision on forborne loan and advances Composition**	**Specific provisions individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment provision on forborne loans €m**
Residential mortgages	186	230	416
- Retail Ireland	*185*	*227*	*412*
- Retail UK	*1*	*3*	*4*
Non-property SME and corporate	-	44	44
- Republic of Ireland	*-*	*23*	*23*
- UK SME	*-*	*10*	*10*
- Corporate	*-*	*11*	*11*
Property and construction	-	83	83
- Investment	*-*	*77*	*77*
- Land and development	*-*	*6*	*6*
Consumer	-	2	2
Total impairment provision on forborne loans	**186**	**359**	**545**

31 December 2014 Impairment provision on forborne loan and advances Composition	Specific provisions individually and collectively assessed €m	Incurred but not reported €m	Total impairment provision on forborne loans €m
Residential mortgages	205	231	436
- Retail Ireland	*204*	*229*	*433*
- Retail UK	*1*	*2*	*3*
Non-property SME and corporate	-	54	54
- Republic of Ireland	*-*	*28*	*28*
- UK SME	*-*	*12*	*12*
- Corporate	*-*	*14*	*14*
Property and construction	-	97	97
- Investment	*-*	*90*	*90*
- Land and development	*-*	*7*	*7*
Consumer	-	4	4
Total impairment provision on forborne loans	205	386	591

Impairment provision on forborne loans

Specific and Incurred but not reported (IBNR) provisions held against forborne Retail Ireland mortgage loans decreased during 2015. While the associated forborne loan balances have increased during the year as more customers enter into long-term sustainable forbearance solutions, the provision stock has decreased reflecting a reduction in the volume of non-performing forborne loans.

In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. IBNR provisions on non-mortgage forborne loans have decreased during the year ended 31 December 2015, which primarily reflects the impact of significant reductions in the 'neither past due nor impaired' forborne Property and construction and Non-property SME and corporate loans.

Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the year ended 31 December 2015 and the year ended 31 December 2014. The calculations of average balances can be based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 19.

Average balance sheet

	Year ended 31 December 2015			Year ended 31 December 2014		
	Average Balance €m	**Interest[1,2] €m**	**Rate %**	Average Balance €m	Interest[1,2] €m	Rate %
Assets						
Loans and advances to banks	9,166	33	0.36%	8,589	35	0.41%
Loans and advances to customers	85,120	3,006	3.53%	83,879	3,018	3.60%
Available for sale financial assets and NAMA senior bonds	12,973	209	1.61%	16,514	379	2.29%
Held to maturity financial assets	1,292	21	1.63%	-	-	-
Total interest earning assets	**108,551**	**3,269**	**3.01%**	**108,982**	**3,432**	**3.15%**
Non interest earning assets	22,729	-	-	21,975	-	-
Total assets	**131,280**	**3,269**	**2.49%**	**130,957**	**3,432**	**2.62%**
Liabilities and stockholders' equity						
Deposits from banks	2,519	10[2]	0.40%	6,578	39[2]	0.59%
Customer accounts	57,385	462[2]	0.81%	56,135	643[2]	1.15%
- Retail Ireland	*22,037*	*84*	*0.38%*	*23,257*	*210*	*0.90%*
- Retail UK	*26,494*	*322*	*1.22%*	*23,799*	*339*	*1.42%*
- Corporate and Treasury[3]	*8,854*	*56*	*0.63%*	*9,079*	*94*	*1.04%*
Debt securities in issue	13,706	164[2]	1.20%	16,142	224[2]	1.39%
Subordinated liabilities	2,405	179	7.44%	2,102	168	7.99%
- Convertible Contingent Capital Note 2016	*967*	*126*	*13.03%*	*944*	*123*	*13.03%*
- Other subordinated liabilities	*1,438*	*53*	*3.69%*	*1,158*	*45*	*3.89%*
Total interest bearing liabilities	**76,015**	**815**	**1.07%**	**80,957**	**1,074**	**1.33%**
Current accounts	21,682	-	-	17,669	-	-
Non interest bearing liabilities[4]	24,297	-	-	24,140	-	-
Stockholders' equity	9,286	-	-	8,191	-	-
Total liabilities and stockholders' equity	**131,280**	**815**	**0.62%**	**130,957**	**1,074**	**0.82%**
Euro and sterling reference rates (average)						
ECB base rate			0.05%			0.16%
3 month Euribor rate			(0.02%)			0.21%
Bank of England base rate			0.50%			0.50%
3 month LIBOR rate			0.57%			0.54%

[1] *Represents interest income or expense recognised net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.*
[2] *Excludes the cost of the ELG Scheme of €10 million (31 December 2014: €37 million) which is included within interest expense.*
[3] *Excludes deposits carried at fair value through profit and loss.*
[4] *Includes liabilities carried at fair value through profit and loss.*

The yield on average interest bearing liabilities (including current accounts) for the year ended 31 December 2015 was 0.83% (year ended 31 December 2014: 1.09%).

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