# Annual Report

For the year ended
31 December 2016

Bank of Ireland Group

# Annual Report

for the year ended 31 December 2016

# Forward-looking statement

*This document contains certain forward-looking statements 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;*
- *uncertainty following the UK vote to exit the EU as to the nature, timing and impact of a UK exit, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and demand, and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity;*
- *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 Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues, cybercrime risk, equipment failures and other operational risk;*
- *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 Single Resolution Mechanism;*
- *the impact of the continuing implementation of significant regulatory and accounting developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II, the Recovery and Resolution Directive and IFRS 9;*
- *the potential impact of certain ECB initiatives including its thematic review of internal models termed Targeted Review of Internal Models (TRIM);*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the exposure of the Group to conduct risk such as staff members conducting business in an inappropriate or negligent manner;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *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 its targets and ambitions on net interest margins and total operating expenses;*
- *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 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.*

*Analyses of asset quality and impairment in addition to liquidity and funding are set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 63.*

*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.*

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*www.bankofireland.com*

# Key highlights

## Customers

- Strength of our customer franchises reflected in our financial performance
- Continued to be the largest lender to the Irish economy; new lending of €6.7bn to personal and business customers in Ireland
- Growth in core loan books of €1.7bn
- Non-performing loans reduced by €4.1bn (34%), defaulted loans reduced by €3.7bn (35%)

## Profitability

- All trading divisions contributing towards the Group's profitability
- Underlying profit of €1,071m; NIM of 2.19% (H1 2016: 2.11%; H2 2016: 2.27%)
- Operating expenses have remained flat for the last 3 half-year reporting periods on a constant currency basis
- Impairment charge (net) of 21bps

## Capital

- Strong discipline on pricing and risk; priority is to generate and protect capital
- Organic capital generation of 130bps
- Transitional CET 1 ratio of 14.2%; fully loaded CET 1 ratio of 12.3%
- Aim to have a sustainable dividend is unchanged. First payment expected in 2018 in respect of financial year 2017

# Performance summary

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| **Group performance on an underlying[1] basis** | | |
| Net interest income (before ELG fees) | 2,283 | 2,454 |
| Eligible Liabilities Guarantee (ELG) Scheme fees[2] | (20) | (10) |
| Other income (net) | 842 | 828 |
| Operating income (net of insurance claims) | 3,105 | 3,272 |
| Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) | (1,747) | (1,746) |
| Core Banking Platforms Investment charge (page 24) | (41) | - |
| Levies and regulatory charges | (109) | (75) |
| **Operating profit before impairment charges on financial assets** | **1,208** | **1,451** |
| Impairment charges on loans and advances to customers | (176) | (296) |
| Impairment charges on available for sale (AFS) financial assets | (2) | - |
| Share of results of associates and joint ventures (after tax) | 41 | 46 |
| **Underlying[1] profit before tax** | **1,071** | **1,201** |
| Total non-core items (page 26) | (39) | 31 |
| **Profit before tax** | **1,032** | **1,232** |
| **Group performance** | | |
| Net interest margin[3] (%) | 2.19% | 2.19% |
| Cost income ratio (excluding levies and regulatory charges) (%) | 58% | 53% |
| Gross new lending volumes[4] (€bn) | 13.2 | 14.2 |
| Growth in core loan book (€bn) | 1.7 | 3.9 |
| Impairment charge on loans and advances to customers (bps) | 21 | 32 |
| Return on assets (bps) | 64 | 72 |

For further information on measures referred to in the key highlights and performance summary see page 421.

*[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 26 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. See page 21 for further details.*
*[4] Gross new lending volumes represent loans and advances to customers drawn down during the year and portfolio acquisitions which were €0.2 billion in 2016 (2015: €0.6 billion).*

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| **Per unit of €0.05 ordinary stock** | | |
| Basic earnings per share[1] (€ cent) | 2.2 | 2.3 |
| Underlying earnings per share[1] (€ cent) | 2.3 | 2.3 |
| Tangible Net Asset Value (TNAV) per share (€ cent) | 24.7 | 24.1 |
| | | |
| **Divisional performance[2]** | | |
| **Underlying profit before tax** | | |
| Retail Ireland | 615 | 507 |
| Bank of Ireland Life | 121 | 103 |
| Retail UK | 133 | 193 |
| *Retail UK (Stg£ million equivalent)* | *106* | *140* |
| Corporate and Treasury | 531 | 637 |
| Group Centre and other (including ELG fees) | (329) | (239) |
| **Underlying profit before tax** | **1,071** | **1,201** |

| Balance sheet and key metrics | 31 December 2016 €bn | 31 December 2015 €bn |
|---|---|---|
| Total assets | 123 | 131 |
| Average interest earning assets | 102 | 109 |
| | | |
| Ordinary stockholders' equity | 8.6 | 8.3 |
| | | |
| Loans and advances to customers (after impairment provisions) | 78.5 | 84.7 |
| Non-performing loan volumes[3] | 7.9 | 12.0 |
| Defaulted loan volumes[3] | 6.9 | 10.6 |
| Customer deposits | 75.2 | 80.2 |
| | | |
| Wholesale funding | 14.4 | 14.2 |
| *- Wholesale market funding* | *11.0* | *12.7* |
| *- Drawings from Monetary Authorities* | *3.4* | *1.5* |
| | | |
| **Liquidity** | | |
| Liquidity Coverage ratio[4] | 113% | 108% |
| Net Stable Funding ratio[5] | 122% | 120% |
| Loan to deposit ratio | 104% | 106% |
| | | |
| **Capital** | | |
| Common equity tier 1 ratio - fully loaded | 12.3% | 11.3% |
| Common equity tier 1 ratio - transitional rules | 14.2% | 13.3% |
| Total capital ratio - transitional | 18.5% | 18.0% |
| Risk weighted assets (€bn) | 50.8 | 53.3 |

[1] *For basis of calculation of basic earnings per share see note 19 on page 237. Underlying earnings per share excludes non-core items.*
[2] *For more details on the performance of each division see pages 41 to 61.*
[3] *Non-performing loans comprise defaulted loans and probationary residential mortgages, as defined in the asset quality section on page 90.*
[4] *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.*
[5] *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.*

# Chairman's review

**Archie G Kane,** Chairman

I am pleased to report that, during 2016, the Group continued to deliver on its strategic priorities. Business activity has been robust in both our Irish and international franchises and we have continued to achieve strong organic capital generation.

**Economies in Ireland and UK continue to grow**

Economic developments in our core markets of Ireland and the UK continued to be positive despite the uncertainty created by the UK's decision to leave the European Union. The Irish economy is set to be the fastest growing economy in the euro area for a third year running in 2016. Economic activity in Ireland has been supported by strong domestic activity and continuing export growth during 2016. Ireland generated employment at an average rate of over 1,000 new jobs every week and the unemployment rate ended the year at 6.9%, its lowest level since July 2008. The UK economy also expanded in 2016 with consumer spending being supported by increased employment, and growth in real incomes.

**Group's progress continued in 2016**

We have continued to deliver against our strategic priorities in 2016. We remain pro-active in supporting economic activity in Ireland and we were the largest lender to the Irish economy over the past three years. We have built on the underlying quality of the Group's franchise positions in each of our businesses in Ireland, providing products, services and funding to sectors throughout the economy including consumers, businesses and corporates. Our UK business has had a solid 12 months as we focused on strengthening and leveraging our long-term partnership with the Post Office and on further developing our recent partnership with the AA. Both of our partners continue to be two of the most highly trusted brands in the UK.

I am pleased to note that during 2016 the Group's remaining liabilities covered under the Eligible Liabilities Guarantee provided by the Irish State matured or were replaced. This was another important milestone for the Group following the repayment of all State Aid in 2013, with a significant positive cash return to Irish taxpayers for their support and investment in Bank of Ireland during the financial crisis.

Despite the challenges of a historically low interest rate environment, increasing levies and regulatory charges, and investments in our people, our infrastructure and our businesses, the positive financial performance of the Group for 2016 reflects the progress of our businesses and the underlying strength of our franchises. We have maintained our sustainable profitability which has contributed to further capital accretion during the year. The Group continues to have the capital, liquidity, ambition and strategic imperative to support our Irish and international customers.

The Board remains very focused on its goal of commencing payment of sustainable dividends to our shareholders and these results include updated dividend distribution plans.

**Our customers and colleagues**

Our progress would not be possible without the support of our customers, colleagues and other stakeholders. I would particularly like to thank our customers for their ongoing loyalty and confidence. Bank of Ireland continues to place customers at the heart of its businesses by delivering products and services that meet their evolving financial requirements. We will continue to look at ways of enhancing their customer experience, to support them in achieving their goals and aspirations, thereby ensuring we have lasting relationships with them.

The Group recognises the increasing importance and criticality of technology capability in meeting customer expectations through creating a differentiating customer experience and doing so in an efficient manner from robust, flexible platforms. We have commenced a major multi-year programme designed to deliver best-practice core banking systems. The Board has spent considerable time reviewing and overseeing the planning process and delivery to date for this strategic programme and is confident in the Group's ability to successfully and safely implement each element of the programme over the coming years. This programme will

support our franchises, create opportunities for competitive advantage, deliver efficiencies and underpin growth in sustainable shareholder value.

I want to thank all of our colleagues, led by a commercially focused and cohesive management team, for their unrelenting professionalism and commitment to their businesses, their customers and the communities from which we derive our business. I am very encouraged to see large numbers of our colleagues have continued to invest in enhancing their competencies and skills which will assist in better serving and meeting evolving customer requirements. This is a source of great pride and confidence for me and the Board.

**Regulation**

The regulatory landscape continues to evolve and the banking sector is subject to increasing scrutiny. This requires the Group to adapt to and operate within a dynamic and challenging environment. We are a strongly capitalised bank with the strength of our organic capital generation ensuring that we are well placed to meet regulatory capital requirements. The Group maintains professional and constructive engagement with all of our regulators.

The Group has been advised by our regulators of their preferred resolution strategy for the Group. Pursuant to this strategy and subject to shareholder approval, the Group expects to establish a holding company which would become the parent company of the Group. We will provide further information on this matter to shareholders in due course.

**Doing Business Responsibly**

As I have noted previously, conducting our business responsibly is an integral part of our interactions with those who engage with the Group. Further enhancing stakeholder confidence and staff pride continue to be important objectives for us. We have recently published our third annual Responsible Business Report which underlines the importance we place on this aspect of our business conduct and highlights the progress we have made in 2016. The report gives a comprehensive picture of how we view and conduct responsible business by focussing on what is happening across the Group from the perspective of customers, communities, colleagues and the environment along with the approach we take to hold ourselves to high governance standards. I am pleased to note that our approach to responsible business is recognised externally including accreditation by the National Standards Authority of Ireland.

**Board**

Mr Patrick Kennedy was appointed Chairman of the Court Risk Committee in July replacing Mr Tom Considine who will remain as a Committee member. Mr Kennedy has also been appointed to the Group Audit Committee and has stepped down from the Group Remuneration Committee.

It is important to periodically obtain an independent perspective on the effectiveness of the Board and an independent external review of the effectiveness of the Board was conducted in 2016. I am pleased to advise that the review concluded that the Court is operating effectively. A report on the evaluation process and the conclusions may be found on page 147.

**Annual General Court**

I always welcome the opportunities I have to engage with our shareholders during the year and I am grateful for their input and advice. The Annual General Court (AGC) is an important forum for Directors to meet and hear the views of all shareholders. Our 2017 AGC is scheduled to be held on 28 April 2017 and I encourage shareholders to participate in it, particularly in relation to exercising their voting rights.

**Outlook**

We have made significant progress during 2016 and are confident in the Group's prospects for 2017 and beyond. We cannot afford to be complacent, especially in the uncertain geo-political environment which faces us. However, we have a strong, experienced and commercially disciplined senior management team who have a track record of delivery and the demonstrated capability to successfully navigate the Group through this uncertainty, while at the same time availing of the opportunities to profitably support our customers. This, along with our strong retail and commercial franchises, within a diversified business model, gives me the belief that the Group is well positioned to build on the substantive progress that it has made in recent years and to deliver sustainable returns for our shareholders.

**Archie G Kane**
Chairman
23 February 2017

# Group Chief Executive's review

**Richie Boucher,** Group Chief Executive Officer

*'Our business is performing in line with the strategic objectives we have set ourselves. All trading divisions are profitable and have contributed to our strong financial performance during the period. The Group generated an underlying profit before tax of c.€1.1 billion in 2016. We are maintaining strong organic generation of capital and our fully loaded CET 1 ratio increased by 100 basis points during the year to 12.3%. Our core loan books continue to grow and we remain the largest lender to the Irish economy, providing €6.7 billion of new credit to personal and business customers in Ireland. In addition, we generated further borrowing customers in Ireland through loan book acquisitions of €0.2 billion. Our net interest margin grew by 16 basis points in the second half of 2016 to 2.27%. We continue to reduce our non-performing loans, by €4.1 billion or c.34% since December 2015, and our impairment charges have continued to fall.*

*This year has seen significant developments for the Group. We have commenced a programme to replace our Core Banking Platforms, an investment which will underpin our franchises for the next generation. In addition, political events, in particular the UK's decision to leave the European Union, may impact on our customers and our business growth in the coming years. Nevertheless, we remain confident that the substantial progress the Group has made in recent years along with the strength of our franchises and the benefits of our diversified business model position us well to take advantage of the opportunities and to mitigate risks ensuing from these and other geopolitical developments. We remain focused on serving our customers and developing our profitable, long term franchises in a way that delivers attractive sustainable returns to our shareholders.'*

## We have continued to deliver against our strategic objectives in 2016

A year ago we outlined our strategic priorities for 2016. These included to:
- continue to develop relationships with existing and new customers;
- continue to reduce our non-performing loans and to provide appropriate solutions to customers in financial difficulty;
- further increase our sustainable profitability through revenue growth with appropriate risk, return and cost discipline;
- continue to effectively manage the developing regulatory environment;
- maintain capital ratios at levels to meet regulatory requirements plus appropriate buffers; and
- maintain progress towards dividend capacity.

We have continued to deliver against these strategic priorities during 2016.

## Profitable with further strengthening of our capital position

**Underlying profit before tax of €1,071 million**

The Group generated an underlying profit before tax of €1,071 million in 2016. Strong commercial discipline on lending and deposit margins, reduced loan impairment charges and tight control over costs, while continuing to invest in the long term sustainability of the Group, have all contributed to this outturn. All of our trading divisions are profitable and positively contributed to our financial performance during the period. On a statutory basis, the Group reported a profit before tax of €1,032 million.

The overall result includes additional gains amounting to €171 million, primarily relating to the sale of shares in VISA Europe (€95 million) and the completion of the rebalancing of our liquid asset portfolio (€63 million).

**Increase in fully loaded CET 1 ratio of 100 basis points to 12.3%**

The Group continues to demonstrate strong organic capital generation. Our fully loaded Common equity tier 1 (CET 1) ratio increased by 100 basis points during 2016 to 12.3%. The Group's transitional CET 1 ratio increased by 90 basis points to 14.2% at the end of December 2016. The increase in our capital ratios primarily reflects organic capital accretion from profits earned during the period and a reduction in the IAS 19 accounting deficit on our sponsored defined benefit pension schemes from €0.74 billion at December 2015 to €0.45 billion at December 2016, partially offset by other items.

**Aim to have a sustainable dividend is unchanged. Timing of first payment has been impacted by external factors.**

Our aim is to have a sustainable dividend. 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.

As additional clarity emerges on the impact of the UK's decision to leave the European Union, and as the more recent improvement in the IAS 19 accounting pension deficit is sustained, the Group expects to re-commence dividend payments in respect of financial year 2017, with the initial payment being made in the first half of 2018.

**Continuing to invest in our infrastructure, people and our customer propositions**

We have continued to maintain tight control over costs while, at the same time, investing in our infrastructure, the skills and capability of our people as well as initiatives to further enhance our customer propositions. Like all banks, we recognise that the preferences of our customers in relation to the ways they wish to interact with us are changing and that their financial requirements are evolving. We too are evolving to meet these changing needs and to optimise our customer experiences in their relationships with us. We are investing in our digital and direct offerings, transforming the role of our branch network and at all times looking to simplify the customer journey. These investments are working. The majority of our customers are now choosing to deal with us through direct and digital channels and we have made significant progress in simplifying our product offerings.

As we look forward, we must ensure that we are strategically positioned to underpin our franchises for the next generation by providing a robust, simplified, and seamless experience to our customers in a way that positions us for long term sustainability and competiveness.

To meet this ambition, we must adopt, integrate and move, on a careful and phased basis, to more scalable and modern platforms. We have commenced a multi-year investment programme to replace our Core Banking Platforms with the Temenos UniversalSuite solution and to upgrade our payments applications. Our implementation partners have a proven track record globally in delivering best-practice Core Banking Systems and, once integrated, this infrastructure will, among other things, enable powerful customer analytics and integrated digital channels to deliver highly personalised and interactive customer experiences. This investment will provide business growth and strategic opportunities whilst the simplification of processes and a materially enhanced IT infrastructure will drive cost efficiencies from robust, flexible and industry leading platforms. We expect an investment with a CET 1 ratio impact of c.35 - 45 basis points p.a. over the next 4 years with c.50% charged to the income statement and c.50% capitalised. This investment will be a critical enabler in our achievement of our <50% cost income ratio target over the medium term.

**Remaining liabilities under the ELG scheme have matured or were replaced**

The Group's remaining liabilities covered under the Eligible Liabilities Guarantee (ELG) provided by the Irish State matured or were replaced. This was another important milestone for the Group, following on from the repayment of all State Aid in 2013 with a significant positive cash return to Irish taxpayers for their support and investment in Bank of Ireland during the financial crisis. The State also continues to hold a valuable and discretionary c.14% equity shareholding in the Group.

**Regulatory developments**

The Group received confirmation of its minimum regulatory capital requirements for 2017. The European Central Bank has advised that the Group maintains a CET 1 ratio of 8.0% on a transitional basis from 1 January 2017; this 8.0% includes the Pillar 2 requirement (P2R) but excludes the higher Pillar II guidance (P2G). The Group expects to maintain a CET 1 ratio of above 12% on a transitional basis, and on a fully loaded basis by the end of the phase-in period, which includes an appropriate buffer over applicable regulatory capital requirements.

The Group announced on 3 February 2017 that it had been advised by the Single Resolution Board and the Bank of England that their preferred resolution strategy consists of a single point of entry bail-in. This requires the establishment of a holding company (HoldCo) structure at the top of the Group. Consequently, and subject to shareholder approval, the Group expects to proceed with the establishment of a HoldCo.

We will continue to effectively manage the evolving regulatory environment.

**The economic backdrop was supportive and the Irish and UK economies are expected to continue to grow in 2017**

Growth in both the Irish and UK economies continued to provide a supportive backdrop for our businesses. Economic activity in Ireland further increased during 2016 and Ireland is set to be the fastest growing economy in the euro area for a third year running, supported by growth in consumer spending, investment and exports. Consumer and business confidence has remained at relatively high levels and we continued to see increases in the number of people employed, a falling unemployment rate, and strength in residential and commercial property markets. The UK economy also expanded in 2016 benefitting from growth in consumer spending, employment and real incomes. Looking ahead, whilst recognising that the uncertainties posed by the UK's decision to leave the European Union may weigh on business and consumer confidence, we currently expect economic expansion in both economies in 2017.

**Core loan book continues to grow as we maintain our position as the largest lender to the Irish economy**

Our core loan book (which excludes loan redemptions from our defaulted book, our low yielding RoI tracker mortgage book and our non-core GB business banking / corporate banking book), grew by €1.7 billion in 2016, on a constant currency basis.

Gross new lending of €13.0 billion for the year, excluding acquisitions of €0.2 billion, was 1% higher than 2015 levels, on a constant currency basis.

Loans and advances to customers were €78.5 billion at 31 December 2016. This represents a reduction of €6.2 billion from 31 December 2015 with €5.4 billion of the reduction related to the weakening of sterling during the period and €2.6 billion related to repayments and redemptions from our defaulted book, our low yielding ROI tracker mortgage book and our non-core GB business banking / corporate banking book.

We provided €6.7 billion of new credit to personal and business customers in Ireland, 6% higher than 2015 excluding portfolio acquisitions. In addition we generated further borrowing customers through book acquisitions of €0.2 billion. As the largest lender to the Irish economy over the past three years and given the strength of our franchises in Ireland, we are well positioned to continue to play our part in supporting ongoing Irish economic growth.

Our international businesses provide us with diversification and attractive additional opportunities to deploy our capital in a way that meets our risk and return hurdles. International new lending was lower than in 2015, reflecting FX translation impacts, along with pricing and risk discipline on lending.

**Maintaining a robust liquidity position**

Our liquidity position continues to be robust. Customer deposits are predominantly sourced through our retail distribution channels and account for more than 95% of customer loans. Our wholesale funding of €14.4 billion has remained broadly in line with 2015. At the end of December 2016, our net stable funding ratio was 122%, our liquidity coverage ratio was 113% and our loan to deposit ratio was 104%.

**NIM of 2.19% for the period; NIM of 2.27% in H2 2016. Maintaining strong commercial pricing discipline on loans and deposits. Net interest income of €2,283 million**

Our average net interest margin (NIM) was 2.19% in 2016. We are maintaining our strong commercial discipline on lending and deposit margins in competitive markets. The net interest margin in the second half of 2016 was 2.27% compared to a net interest margin of 2.11% in the first half of the year. This increase predominantly reflects the positive impact from mix changes in our lending books, lower funding costs in our UK deposit book and the maturity of the expensive 10% €1 billion Convertible Contingent Capital Note in late July 2016, partially offset by the impact of the low interest rate environment. We expect NIM to grow modestly from H2 2016 level through 2017. Reported net interest income of €2,283 million was €171 million lower than 2015 primarily reflecting the weakening of sterling versus the euro (c.€90 million), the impact of the low interest rate environment and lower liquid asset income.

**Non-interest business income remains stable**

The Group's non-interest income amounted to €842 million in 2016. This outturn reflects sustainable and diversified business income which was in line with 2015, €171 million of additional gains (primarily due to the sale of shares in VISA Europe (€95 million) and the rebalancing of our liquid asset portfolio (€63 million)), and other valuation items.

**Maintaining tight control over costs**

Our operating expenses of €1,747 million have remained flat on a reported basis compared to 2015. On a constant currency basis, operating expenses have remained flat for the last three half-year reporting periods. Levies and regulatory charges were €109 million, an increase of €34 million compared to 2015 due primarily to the introduction of the Central Bank of Ireland deposit guarantee scheme levy. We expect levies and regulatory charges to be broadly similar in 2017. Investment in our Core Banking Platforms Programme was €105 million (c.20 basis points CET 1) of which €41 million was expensed to the income statement.

**Asset quality trends continue to improve**

We have made significant progress in recent years in reducing our non-performing loan stock and this progress continued during 2016 with a further reduction of €4.1 billion (34%) across all asset classes. This reduction reflects our successful resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty along with the positive economic environment with stable or increasing collateral values. We anticipate further reductions in non-performing loans in 2017 and beyond, with the pace of such reductions being influenced by a range of factors. Our defaulted loans balance also reduced, by a further €3.7 billion, to €6.9 billion (8% of gross loan volumes) representing a 62% fall from the reported peak in June 2013.

**Our restructuring solutions are working and are sustainable**

We continue to be 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 95% of such situations. More than 9 out of 10 restructured business banking borrowers continue to meet their agreed arrangements.

**Reduction in customer loan impairment charge continues**

Our customer loan net impairment charge was €176 million in 2016, down from a net charge of €296 million last year. This reduction reflects the continuing improvement in the credit quality of our loan portfolios. The net impairment charge amounted to 21 basis points in the period, down from a charge of 32 basis points in 2015. We expect our net impairment charge to remain at broadly similar levels in 2017.

**Increased our TNAV by c.2%**

As a result of our financial performance, our Tangible Net Asset Value (TNAV) has increased by c.2% in 2016 to 24.7 cents per share.

## Our Retail Ireland and Bank of Ireland Life divisions have performed strongly in 2016

Our Retail Ireland and Bank of Ireland Life divisions are focused on developing relationships with new and existing customers, to support those customers in their local communities and enterprises, and to help them be more financially secure and successful. This strategy continues to deliver results with strong performances across our Irish businesses during 2016.

**Underlying profit before tax up 20% vs 2015**

Our Retail Ireland and Bank of Ireland Life divisions reported underlying profit before tax of €736 million, 20% higher than 2015, reflecting the strong operating performance during the period.

**We continue to invest to support evolving customer and business requirements**

Our customers are our primary focus and we are determined to deliver an excellent customer experience across our interactions. We are evolving from multi-distribution channels to a seamless omni-channel model. Our branches are being transformed to business development hubs immersed in the local community. Our direct channel continues to grow strongly with 45% growth in product sales via this channel compared to 2015. 85% of our customers interactions are via direct digital and phone services and 95% of all interactions are handled via automated self-service channels. We established our 'Banking Made Easy' programme focused on simpler processes and quicker approvals and drawdowns. 80% of mortgage applications were approved within 48 hours during 2016 while personal loan customers can now use e-signatures to drawdown approved loans in under one hour and upload documents online. 95% of business loans for less than €100,000 are being provided through our direct channels.

Our investment in our Core Banking Platforms Programme is the next step in making Bank of Ireland a customer-centric organisation with simplicity and efficiency of engagement and the effective use of analytics at the heart of our customer led proposition.

**We remain the number 1 business bank in Ireland**

We continue to be the number 1 bank for businesses, providing over 50% of the flow of new business lending into the Irish economy in 2016. Business lending opportunities are being supported by the growing economy and increased demand for credit. New Business Banking lending volumes were up 13% during the year compared to 2015 while our agricultural and commercial finance businesses also continued to perform well. We remain the largest provider of finance in the motor sector in Ireland, and saw new business volume growth of 45% across our franchise partners who account for more than 50% of the market.

Supporting local businesses and local enterprise is a key strategic focus and in 2016 we doubled our enterprise town events across Ireland. During National Enterprise Week in May 2016, we held 750 events with c.3,000 participating businesses. Over 400 start-ups used our Workbench spaces and we launched the first bank sponsored incubator programme in Ireland. We are improving the experience for our business customers through simplification, automation and digitisation of processes. We are investing to meet our ambition of providing a market leading business customer proposition.

**Our Irish consumer businesses continue to be commercially disciplined in a competitive market**

Our Irish consumer businesses performed well in 2016 with new mortgage lending of €1.4 billion slightly ahead of 2015 and a market share of 25% of new lending on an existing book of 22% of the market. We continue to be commercially disciplined in a competitive market. We have maintained a mortgage pricing strategy which is led by competitive fixed rate products which we believe provides value, certainty and stability for our customers and the Group. Fixed rate products accounted for c.75% of our new mortgage lending in 2016, up from c.35% two years ago.

**Ireland's only bancassurer**

Our Bank of Ireland Life division, which includes New Ireland Assurance Company plc (NIAC), is the only bancassurer in the Irish market and the second largest life assurance company in Ireland. The business provides life, pensions, protection and investment products, focusing predominantly on the consumer and business markets.

Our bancassurance business grew total assets under management to €16 billion from €15.5 billion in 2015 with a new business market share of 21%. We continue to invest in our customer propositions including the introduction within our bank channel of new digital and direct channels and also the launch of online mortgage protection, the first digital buy capability in the Irish market. Our focus on customer service was recognised when we retained the Professional Insurance Brokers Association's 'Financial Broker Excellence Award' for the fifth year in a row.

Our life division, with its low risk business model and strong cashflow focus, is an important business for the Group. Rising incomes, improving confidence levels, Ireland's demographic profile and increasing awareness of the importance of personal pension provision provides further growth opportunities for this business.

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

Our Retail UK division accounts for c.20% of our total income. With over three million customers, our UK subsidiary is a separately regulated, capitalised and self-funded business. This subsidiary is largely focused on the domestic consumer sector 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. Our partnership and commission based distribution platform continues to provide us with flexibility within the business model to adapt quickly to market developments. Underlying profit before tax for the division was £106 million in 2016, compared to £140 million in 2015.

**Partnership with the UK Post Office continuing to develop**

With our well established and exclusive financial services contract with the Post Office, we are one of the leading consumer banking franchises having c.2.3 million customers. We continue to develop our shared strategy of enhancing our broadly based customer financial services offering providing a wide range of retail products including savings, mortgages, loans, credit cards and ATM facilities. Our foreign currency mobile payment app launched in 2016 has had over 500,000 downloads and we will continue to look at innovative ways of meeting the evolving financial requirements of our customers. Our foreign exchange joint venture with the Post Office through First Rate Exchange (FRES) remains the largest provider of consumer foreign exchange in the UK, with 24% market share.

**Our AA partnership growing and strengthening**

The first full year of our long term partnership with the AA has seen the relationship continuing to grow and strengthen as we focus on a customer offering that combines our proven product development capability with the strength of the AA brand and its extensive and attractive membership base. We have worked together to successfully develop AA financial services propositions focussing on credit cards, unsecured personal loans, savings and mortgages. The partnership has already gained close to 100,000 customers and we are confident of further growth in 2017.

**Northern Ireland and Northridge on track**

We are a retail and commercial bank in Northern Ireland providing a universal banking offering to our customers. Our Northern Ireland business has been working to restructure its cost base and has been achieving this while meeting business growth objectives. Northridge Finance, our UK motor asset finance business, continues to perform well and is an important contributor to the division's profitability.

| | |
|---|---|
| **Continue to run down our GB non-core books** | Our Great Britain business banking loan books, which we are running down under our EU-approved Restructuring Plan, reduced by £0.3 billion during 2016. The remaining book at December 2016 amounted to £0.9 billion. |

## Our Corporate and Treasury division continues to perform strongly

Our Corporate and Treasury division provides banking services to our larger business customers. This division also manages the Group's euro area liquid asset portfolio. Underlying profit before tax was €531 million for 2016 compared to €637 million for 2015. This difference was primarily due to a reduction in liquid asset income and other additional gains from bond portfolio rebalancing and asset disposals offset by an increase of 6% in Business income compared to 2015.

| | |
|---|---|
| **Ireland's number 1 corporate bank** | We remain Ireland's number 1 corporate bank. New lending volumes were €2.2 billion. We were the lead or agent bank in over 50% of all domestic syndicated / club transactions and continue to achieve the majority of banking relationships arising from new foreign direct investment in Ireland. |
| **Acquisition Finance continues to perform strongly** | Our international Acquisition Finance business has delivered another strong performance with our underwriting model generating attractive margins and fee income, within a disciplined risk appetite from a geographically and sectorally diversified portfolio. |
| **Treasury business continuing to engage with customers in providing market insight and managing market risks** | The volatility in currency markets during the year benefitted the level of foreign exchange volumes transacted in our treasury business. FX Pay, the Group's online foreign exchange trading platform launched in 2015, continues to grow in customer adoption and now has over 1,100 businesses on-boarded. |

## Our People - Making the difference

The determination, capability and commitment of our people has enabled us to deliver on our shared objectives for our customers and the Group, and to continue to drive sustainable, profitable growth. I would like to thank my colleagues for their ongoing professionalism and dedication.

Our people continue to be our key differentiator and our ongoing success depends on equipping our colleagues with the capabilities they need to support and serve our customers and to navigate the commercial, technological and regulatory environment in which we do business. In 2016, c.3,000 colleagues completed relevant 3rd level modules and programmes and c.1,750 colleagues will commence new modules and programmes under our Group Education Scheme during 2017. Our learning model has moved significantly towards the deployment of mobile and social media, with 64% of learning hours delivered through digital technology.

As part of the ongoing Career & Reward Framework, we negotiated a two-year agreement on pay with employee representative bodies in late 2015 and this has ensured pay stability and certainty for the Group for 2016 and 2017 and reinforced our continuing commitment to support colleagues on their professional journey. Moreover, we have expanded the Career Portal to reinforce career path transparency, empowering our colleagues to maximise their career opportunities and potential.

We are fortunate to retain an experienced, resilient Senior Leadership team complemented by the recruitment of experienced colleagues who have brought us some fresh perspectives. This experience is of benefit to the Group as we avail of the opportunities inherent in our disciplined business model and to effectively navigate the external environments in which we operate. We continue to strengthen our leadership team and have deployed targeted development initiatives throughout 2016 to enhance our leadership capability at an individual and collective level.

The Group recently published its third Responsible Business Report for 2016. One of the significant achievements covered in the report was our accreditation, in the Republic of Ireland, with the Business Working Responsibly Mark. This mark underlines the commitment of the Group and of our people to corporate social responsibility and followed a detailed submission and audit process conducted by Business in the Community Ireland (BITCI) and audited by the National Standards Authority of Ireland (NSAI). This accreditation, which is aligned with the ISO26000 international standard for CSR, reflects the positive attitudes of our colleagues and the high standards which we hold ourselves to.

During 2016, we materially reinforced our Group wide Inclusion and Diversity programmes which assist in cultivating and sustaining an increasingly diverse workplace and support an environment in which everyone can be at their best, feel motivated, included and respected.

We continue to foster and invest in a range of engagement and wellbeing initiatives. Our colleagues embrace initiatives such as the Be At Your Best programme, the Group sponsored flagship charities, and support their individual chosen causes through volunteer days supported by the Group's CSR Give Together programme.

## On track to deliver attractive and sustainable returns for shareholders

In 2016, we have continued to perform in line with the strategic objectives which we have set ourselves and have articulated to our shareholders. The quality of our franchises and the positive impacts of the investments we have been making and continue to make are reflected in the strength of our financial performance. We will continue to invest in our people, businesses and infrastructure to enhance our distribution platforms, transform our customer propositions and experiences and to deliver efficiencies for the Group.

The economies of our main markets have performed well and are expected to grow in 2017. While we are cognisant of the potential impact from geopolitical events on our growth trajectory, the quality of our retail and commercial franchises, the benefits of our diversified business model, our capital and funding strength, our commercially disciplined approach, the experience 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 the risks and volatility which are an inevitable part of our customers' environments.

The continued strength and momentum in our businesses gives us confidence in the Group's prospects and in our ability and 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**
23 February 2017

# Operating and financial review


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## Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 26.

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 €123 billion as at 31 December 2016.
- 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 over 250 branches and c.1,750 ATMs in the Republic of Ireland and access to c.11,500 branches and c.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 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 and 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**
Retail UK's focus is on consumer banking in the UK, where its aim is 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 partnerships with the UK Post Office and the AA. Our customer offering includes savings, mortgages, foreign exchange, credit and travel cards, current accounts, personal loans and ATM services.

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

**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 area liquid asset portfolio.

## Strategic report (continued)

In Ireland, Corporate Banking is a market leading provider of integrated relationship banking services to Irish and Northern Irish companies, multi-national corporations and financial institutions. Corporate Banking is also a key provider of funding to the commercial investment and property development market in Ireland supporting the ongoing recovery in the Irish economy. In 2016, Corporate Banking re-entered the UK market and has been selectively growing through a focused sector strategy and targeted commercial property lending. The range of lending products provided includes, but is not limited to, overdraft and revolving credit facilities, term loans and project finance.

In International markets, Corporate Banking's strategy is to focus on our mid-market European and US Acquisition Finance business where the Group has a strong track record for more than 20 years. The Acquisition Finance business operates out of Dublin, London, Frankfurt and Paris in Europe and Stamford and Chicago in the US and focuses on lead arranging and underwriting leveraged finance transactions for private equity sponsors. The business generates attractive margins and fee income within disciplined risk appetite.

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 euro area liquid asset portfolio.

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

**Group Centre**
The Group's central functions are responsible for delivering services to each division and include Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk and 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 through its:

(i) strong customer and client relationships;
(ii) franchise position in its core markets in Ireland;
(iii) partnership led strategy providing access to an extensive distribution network, primarily through the UK Post Office and AA partnerships, and other strategic intermediaries;
(iv) proven capabilities in acquisition finance; and
(v) strong cost discipline while further investing in opportunities, infrastructure and core systems.

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 an Irish market leader in its Consumer Banking, Business Banking, Wealth Management and Corporate Banking businesses. Building a sustainable bank for the future is our priority. A key element of this strategy is consolidating and enhancing customer offerings and simplifying processes to improve customer experience, increase efficiency and enable staff to serve and support our customers. Our innovative digital offerings will also be an area of continued focus and investment into the future.

**(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 the Group continues to leverage its strong capabilities in acquisition finance, a consistent source of profitable returns from exposure to assets in Europe and in the US. The Group carefully evaluates investments in these international markets, focusing on opportunities with potential for attractive returns.

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 maintains a stable funding base with core loan portfolios substantially funded by customer deposits and term wholesale funding.

**Staff**
The Group continues to invest in its people to support the achievement of the Group's strategic objectives. The professionalism, commitment and dedication of the Group's staff has been key to the progress made during 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 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.

As additional clarity emerges on the impact of the UK's decision to leave the European Union, and as the more recent improvement in the IAS 19 accounting pension deficit is sustained, the Group expects to re-commence dividend payments in respect of financial year 2017, with the initial payment being made in the first half of 2018.

## Group income statement

### Summary consolidated income statement on an underlying[1] basis

| | Table | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|---|
| Net interest income (before ELG fees) | 1 | 2,283 | 2,454 | (7%) |
| Eligible Liabilities Guarantee (ELG) fees | 2 | (20) | (10) | 100% |
| Net other income | 3 | 842 | 828 | 2% |
| **Operating income (net of insurance claims)** | | **3,105** | **3,272** | **(5%)** |
| Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) | 4 | (1,747) | (1,746) | - |
| Core Banking Platforms Investment charge | 4 | (41) | - | (100%) |
| Levies and regulatory charges | 4 | (109) | (75) | (45%) |
| **Operating profit before impairment charges on financial assets** | | **1,208** | **1,451** | **(17%)** |
| Impairment charges on loans and advances to customers | 5 | (176) | (296) | 41% |
| Impairment charges on available for sale (AFS) financial assets | | (2) | - | (100%) |
| Share of results of associates and joint ventures (after tax) | | 41 | 46 | (11%) |
| **Underlying[1] profit before tax** | | **1,071** | **1,201** | **(11%)** |
| Non-core items | 6 | (39) | 31 | n/m |
| **Profit before tax** | | **1,032** | **1,232** | **(16%)** |
| Tax charge | | (239) | (285) | 16% |
| **Profit for the year** | | **793** | **947** | **(16%)** |
| Profit attributable to stockholders | | 793 | 940 | (16%) |
| Profit attributable to non-controlling interests | | - | 7 | (100%) |
| **Profit for the year** | | **793** | **947** | **(16%)** |
| **Key metrics** | | | | |
| Net interest margin[2] (%) | | 2.19% | 2.19% | |
| Cost income ratio (excluding levies and regulatory charges) (%) | | 58% | 53% | |
| Impairment charge on loans and advances to customers (bps) | | 21 | 32 | |

*[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 26 for further information.*
*[2] The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications.*

**Profit before tax** was €1,032 million for the year ended 31 December 2016, a decrease of €200 million or 16% compared to 2015.

Underlying profit before tax was €1,071 million for the year ended 31 December 2016, a decrease of €130 million or 11% on 2015 with lower operating income and higher costs (including Core Banking Platforms Investment and levies and regulatory charges) being partially offset by lower impairment charges.

Total income was €3,105 million for the year ended 31 December 2016, down €167 million or 5% on 2015. Net interest income has decreased by €171 million compared to the previous year, primarily reflecting the impact of foreign exchange rates (c.€90 million), lower liquid asset income following bond sales completed in 2015 and early 2016, as part of the rebalancing of the liquid asset portfolio and the ongoing impact of the low interest rate environment. Other income was €14 million higher than in 2015, primarily reflecting increased gains from valuation items partially offset by lower gains arising on transfers from the available for sale reserve on asset disposals. Business income[1] was broadly in line with 2015 levels.

*[1] Business income is net other income after IFRS income classifications before other gains and other valuation items as set out in the table on page 23. This is a measure monitored by management as part of the review of divisional performance.*

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

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €1,747 million for the year ended 31 December 2016 were in line with 2015.

In the year to 31 December 2016, the Group invested €105 million in the Core Banking Platforms Investment, of which €64 million was capitalised and €41 million was expensed to the income statement.

The Group has incurred levies and regulatory charges of €109 million in the year ended 31 December 2016, compared to €75 million in the year ended 31 December 2015, an increase of 45%. The increase in the 2016 charge, compared to 2015, primarily reflects the Group's contribution to the newly established Deposit Guarantee Scheme (DGS) fund, €29 million, and to the Single Resolution Fund (SRF), €20 million, partly offset by a €10 million reduction in the Financial Services Compensation Scheme levy. The 2016 charge also includes the Irish bank levy, €38 million and other supervisory levies.

Net impairment charges on loans and advances to customers were €120 million lower, at €176 million, for the year ended 31 December 2016, compared to €296 million in 2015. This reduction reflects the strong performance of the Group's loan portfolios, the ongoing reductions in non-performing loans and a continued positive economic environment during the year in the countries in which the Group operates. Impairment charges on AFS financial assets were €2 million for the year ended 31 December 2016.

Income from associates and joint ventures was €41 million for the year ended 31 December 2016 compared to €46 million for the previous year.

**Underlying profit before tax** for the year ended 31 December 2016 includes additional gains of €171 million relating to a gain of €95 million on the sale of shares in VISA Europe, gains of €63 million on the sale of sovereign bonds as part of a rebalancing of the Group's liquid asset portfolio and gains of €16 million on the sale of other financial instruments, partially offset by a loss of €3 million on the disposal and revaluation of investment properties. In the previous year, the Group recognised additional gains of €237 million.

Non-core items were a net charge of €39 million for the year ended 31 December 2016, primarily reflecting costs associated with the Group's restructuring programme of €35 million, a loss of €19 million on liability management exercises and a loss of €7 million on the disposal / liquidation of business activities, partially offset by gains relating to the gross-up of policyholder tax in the Life business of €15 million, movements in the Group's credit spreads of €5 million and the Investment return on treasury stock held for policyholders of €2 million. There was a net gain of €31 million for the year ended 31 December 2015.

**Impact of the UK referendum vote to leave the EU**

The outcome of the UK's EU referendum has impacted, amongst other factors, foreign exchange rates and interest rates, including AA Corporate Bond yields, which under IAS 19 are used to discount the liabilities in the Group-sponsored defined benefit pension schemes.

The fall in the value of sterling has been the primary factor contributing to the reduction of €6.2 billion in the Group's loan book during the period and has also contributed to the reduction of €5.0 billion in the Group's customer deposits balance. As a result of the decision to maintain a sterling net asset position, the Group's TNAV is sensitive to changes in sterling. The fall in the value of sterling has also contributed to the adverse movement of €419 million in the Group's foreign currency translation reserve in the year ended 31 December 2016, with a corresponding reduction in Stockholders' equity. The Group maintains net asset positions in sterling and US dollar, relative to risk weighted assets in each currency, in order to minimise the impact of foreign exchange rate movements on the Group's principal capital ratios. Consequently, the 17% weakening of sterling during 2016 only had an adverse impact of c.0.1% on the Group's capital ratios. The weakening of sterling during 2016 has also impacted the euro translation of the Group's sterling denominated profits.

Movements in yields contributed to volatility in the IAS 19 pension deficit during the year. The deficit has reduced to €0.45 billion at 31 December 2016 from €1.2 billion at 30 June 2016 and from €0.74 billion at 31 December 2015. The significant financial assumptions used in measuring the deficit are set out in note 42, together with the sensitivity of the deficit to changes in those assumptions.

The risks and uncertainties arising from the UK referendum are included in the Principal Risks and Uncertainties section from pages 63 to 71.

# Operating income (net of insurance claims)

## Net interest income

**TABLE: 1**

| **Net interest income / net interest margin** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net interest income (before ELG fees) | 2,283 | 2,454 | (7%) |
| IFRS income classifications[1] | (45) | (83) | 46% |
| **Net interest income (before ELG fees) after IFRS income classifications** | **2,238** | **2,371** | **(6%)** |
| | | | |
| **Average interest earning assets (€bn)** | | | |
| Loans and advances to customers | 81 | 85 | (5%) |
| Other interest earning assets | 21 | 24 | (8%) |
| **Total average interest earning assets** | **102** | **109** | **(6%)** |
| | | | |
| **Net interest margin[2]** | **2.19%** | **2.19%** | |
| Gross yield - customer lending[3] | 3.32% | 3.53% | |
| Gross yield - liquid assets[3] | 0.79% | 1.12% | |
| Average cost of funds - interest bearing liabilities and current accounts[3] | (0.61%) | (0.85%) | |
| | | | |
| ECB base rate (average) | 0.01% | 0.05% | |
| 3 month Euribor rate (average) | (0.26%) | (0.02%) | |
| Bank of England base rate (average) | 0.40% | 0.50% | |
| 3 month LIBOR rate (average) | 0.50% | 0.57% | |

*[1] The year on year 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 FVTPL, 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] The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications.*

*[3] Gross yield and Average cost of funds represents the interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. See page 415 for further information.*

**Net interest income (before ELG fees), after IFRS income classifications,** of €2,238 million has decreased by €133 million compared to 2015, primarily reflecting the impact of foreign exchange rates (c.€90 million), lower liquid asset income following bond sales completed in 2015 and early 2016, as part of the rebalancing of the liquid asset portfolio, and the ongoing impact of the low interest rate environment.

Notwithstanding the low interest rate environment and the increasingly competitive environment, the Group has maintained strong margin discipline while continuing to make progress on reducing funding costs.

The Group's average net interest margin of 2.19% for the year ended 31 December 2016 has remained in line with the previous year. The Group's net interest margin reflects the positive impact of new lending and the benefit of lower funding costs, offset by the low interest rate environment. Net interest margin in the second half of 2016 was 2.27%, compared to 2.11% in the first half of the year.

The Group's average cost of funds reduced from 73 basis points in the first half to 49 basis points in the second half, reflecting the maturity of the €1 billion 10% Convertible Contingent Capital Note (CCCN) on 30 July 2016 and progress in reducing UK deposit costs. The Group's gross customer yields reduced by 11 basis points over the same period, primarily reflecting the impact of the low interest rate environment on certain books. On a full year basis, gross customer yields reduced by 21 basis points.

The reduction in average interest earning assets is primarily due to the impact of the 13% weakening of sterling against the euro (using average rates).

The annualised average net interest margin (after deducting the cost of ELG fees) decreased by 1 basis point to 2.16% in the year ended 31 December 2016 compared to 2.17% in 2015.

## Eligible Liabilities Guarantee (ELG) fees

| TABLE: 2<br>ELG | **Year ended 31 December 2016** | Year ended 31 December 2015 | Change % |
|---|---|---|---|
| ELG fees (€m) | 20 | 10 | 100% |
| Covered liabilities (at year end) (€bn) | - | 1 | (100%) |
| Average fee during year (%) | 1.25% | 1.25% | - |

ELG fees of €20 million for the year ended 31 December 2016 are €10 million higher than the previous year. The Group has incurred total ELG charges of c.€1.3 billion since the launch of the scheme in 2010. As the Group's involvement in the ELG scheme drew to a close, the Group conducted a review of certain technical matters. The charge for the year includes an amount of €14 million in relation to matters arising from this review together with €6 million of fees arising during the year (at an average rate of 1.25%) in respect of covered liabilities outstanding. At 31 December 2016, the Group had no eligible liabilities for the purpose of the ELG Scheme and no further ELG fees will accrue.

## Net other income

| TABLE: 3<br>Net other income | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net other income | 842 | 828 | 2% |
| IFRS income classifications[1] | 45 | 83 | (46%) |
| **Net other income after IFRS income classifications** | **887** | **911** | **(3%)** |

[1] *The year on year 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 FVTPL, 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 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| **Business income[1]** | | | |
| Retail Ireland | 319 | 331 | (4%) |
| Bank of Ireland Life | 151 | 154 | (2%) |
| Retail UK | 2 | 9 | (78%) |
| Corporate and Treasury | 157 | 153 | 3% |
| Group Centre and other | (8) | (21) | 62% |
| **Total business income** | **621** | **626** | **(1%)** |
| **Other gains** | | | |
| Transfer from available for sale reserve on asset disposal | 174 | 207 | (16%) |
| *- Sovereign bonds* | *63* | *173* | *(64%)* |
| *- Other financial instruments (incl. VISA share disposal)* | *111* | *34* | *n/m* |
| (Loss) / gain on disposal and revaluation of investment properties[2] | (3) | 30 | n/m |
| **Other valuation items** | | | |
| Financial instrument valuation adjustments (CVA, DVA, FVA)[3] and other | 59 | 50 | 18% |
| Fair value movement on Convertible Contingent Capital Note (CCCN) embedded derivative | (3) | (17) | 82% |
| Investment variance - Bank of Ireland Life | 4 | 11 | (64%) |
| Economic assumptions - Bank of Ireland Life | 35 | 4 | n/m |
| **Net other income after IFRS income classifications** | **887** | **911** | **(3%)** |

*[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. This is a measure monitored by management as part of the review of divisional performance.*
*[2] Includes gains recognised on assets held for sale.*
*[3] 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 2016 was €887 million, a decrease of €24 million or 3% on year ended 31 December 2015.

**Business income** for the year ended 31 December 2016 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 was €319 million in the year ended 31 December 2016, and has decreased by €12 million when compared to 2015 primarily due to the impact of the new EU credit card interchange caps introduced in December 2015;
- other income in Bank of Ireland Life of €151 million decreased by €3 million reflecting broadly stable trading during the year;
- business income in Retail UK, which includes transactional banking fees and interchange income on credit cards less commissions payable to strategic partners was €2 million during the year;
- business income in Corporate and Treasury of €157 million increased by €4 million compared to 2015 due to higher fees, along with increased distributions from equity investments; and
- other net charges in Group Centre and other were €8 million for the year ended 31 December 2016, compared to €21 million in the previous year.

**Other gains** included in net other income are as follows:

- a gain of €174 million relating to transfers from the available for sale reserve on asset disposals for the year ended 31 December 2016 compared to a gain of €207 million in the previous year. These gains in 2016 primarily relate to the completion of the disposal of the VISA Europe equity shares (€95 million) and the sale of sovereign bonds (€63 million) as part of a rebalancing of the Group's liquid asset portfolio; and
- a charge of €3 million relating to the disposal and revaluation of investment properties, compared to a gain of €30 million in 2015.

**Other valuation** items included in net other income are as follows:

- a gain of €59 million due to valuation adjustments on financial instruments (CVA, DVA, FVA) and other compared to a gain of €50 million in the previous year;
- a charge of €3 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 2016 compared to a charge of €17 million in 2015. The CCCN matured on the 30 July 2016 and therefore there will be no further gains or charges relating to this security;
- a positive investment variance of €4 million in Bank of Ireland Life in the year ended 31 December 2016. This compares to a positive investment variance of €11 million in the previous year; and
- a gain of €35 million related to economic assumptions primarily relating to Solvency II transitioning benefits, compared to a gain of €4 million in 2015.

## Operating expenses

| TABLE: 4<br>Operating expenses | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Staff costs (excluding pension costs) | 742 | 736 | 1% |
| Pension costs | 135 | 158 | (15%) |
| Depreciation and amortisation | 132 | 130 | 2% |
| Other costs | 738 | 722 | 2% |
| **Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)** | **1,747** | **1,746** | **-** |
| Core Banking Platforms Investment charge | 41 | - | 100% |
| Levies and regulatory charges | 109 | 75 | 45% |
| *- Deposit Guarantee Scheme (DGS), Single Resolution Fund (SRF) and other regulatory charges* | *66* | *22* | *n/m* |
| *- Irish bank levy* | *38* | *38* | *-* |
| *- Financial Services Compensation Scheme (FSCS) costs* | *5* | *15* | *(67%)* |
| **Operating expenses** | **1,897** | **1,821** | **4%** |

| | | | **Change** |
|---|---|---|---|
| **Staff numbers at year end** | **11,208** | **11,145** | **63** |
| **Average staff numbers during the year** | **11,228** | **11,302** | **(74)** |

**Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)** of €1,747 million for the year ended 31 December 2016, are in line with the prior year. Foreign currency movements provided a €46 million benefit during the year.

The Group has continued its focus on tight cost control during the year, while further investing in its people, compliance with the growing regulatory environment, technology and business growth.

**Staff costs (excluding pension costs)** of €742 million for the year ended 31 December 2016 are €6 million or 1% higher than in 2015. On a constant currency basis, staff costs have increased €22 million or 3%.The Group paid a salary increase averaging 2.2% effective 1 January 2016. The average number of staff employed by the Group has fallen slightly to 11,228 in the year ended 31 December 2016 compared to 11,302 in 2015. Staff numbers at 31 December 2016 were 11,208, of which c.400 (31 December 2015: c.500) were on fixed term contracts.

**Pension costs** of €135 million for the year ended 31 December 2016 were €23 million or 15% lower than 2015. The decrease is due to reduced defined benefit scheme cost due to lower service costs and lower interest cost, together with a negative past service cost, partially offset by an increase in the cost of the defined contribution schemes.

**Other costs** including technology, property, outsourced services and other non-staff costs were €738 million for the year ended 31 December 2016 compared with €722 million in 2015. There has been a net increase of €16 million, primarily driven by investment in strategic initiatives including technology, distribution channels in RoI and UK, customer acquisition and improved propositions, as well as increased costs associated with compliance with regulatory expectations offset by favourable foreign exchange movements of €28 million and cost savings and efficiencies.

**Core Banking Platforms Investment**
The Group continues to enhance its customer propositions and recognises the growing importance of digital services in the financial sector. As part of this, the Group commenced a programme to replace its core banking platforms. The programme implementation phase is underway, following the selection of the Temenos UniversalSuite solution in 2016. The Group is working with its partners to implement and integrate the new platform and, in time, to migrate customers to it. This investment will provide strategic opportunities and the simplification of processes and a materially enhanced IT infrastructure will provide cost efficiencies.

In the year ended 31 December 2016, the total investment in the programme was €105 million of which €64 million was capitalised and €41 million was expensed to the income statement.

## Operating expenses (continued)

**Levies and regulatory charges**
As anticipated, levies and regulatory charges have increased during the year. The Group has incurred levies and regulatory charges of €109 million in the year ended 31 December 2016, compared to €75 million in the year ended 31 December 2015. The increase in the 2016 charge, compared to 2015, primarily reflects the Group's contribution to the newly established Deposit Guarantee Scheme (DGS) fund, €29 million, and to the Single Resolution Fund (SRF), €20 million, partly offset by a €10 million reduction in the Financial Services Compensation Scheme levy. The 2016 charge also includes the Irish Bank levy, €38 million and other supervisory levies.

The Finance Act 2016, which was signed into law in December 2016, confirmed the revised basis on which the Irish bank levy will be calculated for the years 2017 to 2021. Under this revised basis, the Group expects to record a charge of c.€30 million in 2017. See note 49 for further detail.

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

**TABLE: 5**

| **Impairment charges / (reversals) on loans and advances to customers** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Residential mortgages | (142) | (96) | (48%) |
| *- Retail Ireland* | *(141)* | *(84)* | *(68%)* |
| *- Retail UK* | *(1)* | *(12)* | *92%* |
| Non-property SME and corporate | 113 | 149 | (24%) |
| *- Republic of Ireland SME* | *44* | *86* | *(49%)* |
| *- UK SME* | *2* | *(2)* | *n/m* |
| *- Corporate* | *67* | *65* | *3%* |
| Property and construction | 213 | 246 | (13%) |
| *- Investment* | *143* | *173* | *(17%)* |
| *- Land and development* | *70* | *73* | *(4%)* |
| Consumer | (8) | (3) | n/m |
| **Total impairment charges / (reversals) on loans and advances to customers** | **176** | **296** | **(41%)** |
| **Impairment charges (bps)** | 21 | 32 | |

**Impairment charges on loans and advances to customers** of €176 million for the year ended 31 December 2016 were €120 million or 41% lower than the previous year. The significant reduction in impairment charges in 2016 reflects the strong performance of the Group’s loan portfolios, the ongoing reductions in non-performing loans, and a continued positive economic environment during the year in the countries in which the Group’s portfolios are located.

The significant reductions in non-performing loans (34% lower in 2016) reflect our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty. For details on the composition, non-performing loans and impairment provisions of the Group’s loans and advances to customers, see page 95 in the Risk Management Report.

The impairment reversal on **Residential mortgages** of €142 million for the year ended 31 December 2016 compares to an impairment reversal of €96 million in the previous year.

The impairment reversal on the Retail Ireland mortgage portfolio of €141 million during the year compares to an impairment reversal of €84 million in the previous year, and reflects positive underlying book performance and cure activity. Retail Ireland mortgage default arrears reduced by 28% during 2016, with reductions achieved in both the Owner occupied and Buy to let market segments. Retail Ireland mortgage default arrears have reduced by almost half over the last two years.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €113 million for the year ended 31 December 2016 has decreased by €36 million or 24% compared to the previous year. Overall lower impairment charges reflect the Group’s intensive management and appropriate support for business customers in financial difficulty, together with improved macroeconomic and trading conditions.

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

The impairment charge on the **Property and construction** loan portfolio of €213 million for the year ended 31 December 2016 has decreased by €33 million or 13% from the previous year. The impairment charge on the Investment property element of the Property and construction portfolio was €143 million for the year ended 31 December 2016 compared to €173 million in the previous year. The impairment charge on the Land and development portion was €70 million for the year ended 31 December 2016 compared to €73 million in the previous year.

Impairment charges for the year ended 31 December 2016 on the Property and construction exposures were related to individual case specific events and resolution activities.

The impairment reversal of €8 million on **Consumer** loans reflects continued positive macroeconomic conditions, with lower levels of default and higher recoveries particularly in the Retail Ireland Consumer portfolios.

## 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: 6**

| **Non-core items** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Cost of restructuring programme | (35) | (43) | 19% |
| Loss on liability management exercises | (19) | (1) | n/m |
| Gross-up for policyholder tax in the Life business | 15 | 11 | 30% |
| (Loss) / gain on disposal / liquidation of business activities | (7) | 51 | n/m |
| Gain arising on the movement in the Group's credit spreads | 5 | 11 | (55%) |
| Investment return on treasury stock held for policyholders | 2 | - | 100% |
| Impact of Group's pensions reviews (2010 and 2013) | - | 4 | (100%) |
| Payments in respect of the career and reward framework | - | (2) | (100%) |
| **Total non-core items** | **(39)** | **31** | **n/m** |

**Cost of restructuring programme**
During the year ended 31 December 2016, the Group recognised a charge of €35 million in relation to its restructuring programme, primarily related to reductions in employee numbers. A restructuring charge of €43 million was incurred in 2015.

**Loss on liability management exercises**
A loss of €19 million on liability management exercises was recognised in the year ended 31 December 2016, primarily reflecting the repurchase of €0.6 billion nominal value of the Group's senior unsecured debt securities. The repurchase, executed following a balance sheet optimisation review, comprised €0.3 billion of the 3.25% January 2019 Notes (Yield: 0.306%) and €0.3 billion of the 1.25% April 2020 Notes (Yield: 0.397%), generating a more cost efficient funding structure.

**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.

**(Loss) / gain on disposal / liquidation of business activities**
A loss of €7 million was recognised during the year relating to the loss on disposal of business interests and recycling of cumulative unrealised foreign exchange gains and losses through the income statement following the liquidation of a subsidiary. A gain of €51 million was recognised in the year ended 31 December 2015, primarily relating to the disposal of the Group's interest in the Post Office insurance business in the UK.

**Gain arising on the movement in the Group's credit spreads**
A gain of €5 million was recognised in the year ended 31 December 2016 compared to a gain of €11 million for the previous year. This gain arises primarily due to 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'. These Group liabilities consist of certain structured senior and covered debt and tracker deposits. These gains do not impact the Group's regulatory capital.

## Non-core items (continued)

**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 a gain of €2 million in the year ended 31 December 2016. There was no such gain in the year ended 31 December 2015. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2016 were 27 million units (31 December 2015: 18 million units).

**Impact of Group's pensions reviews (2010 and 2013)**
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. There was no such gain in the current year.

**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 €2 million for the year ended 31 December 2015. There was no such charge in the current year.

## Taxation

The taxation charge for the Group was €239 million for the year ended 31 December 2016 with an effective taxation rate on a statutory basis of 23%, compared to a taxation charge of €285 million and an effective taxation rate on a statutory basis of 23% for the year ended 31 December 2015.

On an underlying basis, the effective taxation rate was 22% for the year ended 31 December 2016 (31 December 2015: 22%). By further excluding the impact of the reassessment of the value of the tax losses carried forward (refer to note 2(b) on page 219), the sale of shares in VISA Europe and the impact on deferred tax of the reduction in the UK corporation rate to 17% (previously 18%) with effect from 1 April 2020, the effective tax rate for the year ended 31 December 2016 reduces to 20% compared to the comparable rate for the previous year of 16%.

The effective tax rate is influenced by changes in the geographic mix of profits and losses. As set out in note 18 on page 235, the deferred tax asset has reduced by €84 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 2016 €bn | 31 December 2015 €bn | Change % |
|---|---|---|---|---|
| Loans and advances to customers (after impairment provisions) | 7 | 78 | 85 | (7%) |
| Liquid assets | 8 | 21 | 24 | (12%) |
| Bank of Ireland Life assets | | 17 | 16 | 3% |
| Other assets | 11 | 7 | 6 | 12% |
| **Total assets** | | **123** | **131** | **(6%)** |
| Customer deposits | 9 | 75 | 80 | (6%) |
| Wholesale funding | 10 | 14 | 14 | 1% |
| Bank of Ireland Life liabilities | | 17 | 16 | 3% |
| Other liabilities | 11 | 6 | 10 | (31%) |
| Subordinated liabilities | 12 | 1 | 2 | (42%) |
| **Total liabilities** | | **113** | **122** | **(6%)** |
| Stockholders' equity | 13 | 9 | 8 | 3% |
| Other equity instruments | 14 | 1 | 1 | - |
| **Total liabilities and stockholders' equity** | | **123** | **131** | **(6%)** |
| Liquidity coverage ratio[1] | | 113% | 108% | |
| Net stable funding ratio[2] | | 122% | 120% | |
| Loan to deposit ratio | | 104% | 106% | |
| Common equity tier 1 ratio - fully loaded | | 12.3% | 11.3% | |
| Common equity tier 1 ratio - transitional rules | | 14.2% | 13.3% | |
| Total capital ratio - transitional | | 18.5% | 18.0% | |

[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.*
[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.*

## Loans and advances to customers

**TABLE: 7**

| **Loans and advances to customers including held for sale Composition** | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **€m** | **%** | €m | % |
| Residential mortgages | 48,207 | 59% | 52,905 | 59% |
| *- Retail Ireland* | *24,329* | *30%* | *24,991* | *28%* |
| *- Retail UK* | *23,878* | *29%* | *27,914* | *31%* |
| Non-property SME and corporate | 20,000 | 24% | 20,994 | 23% |
| *- Republic of Ireland SME* | *8,808* | *11%* | *9,285* | *10%* |
| *- UK SME* | *1,909* | *2%* | *2,386* | *3%* |
| *- Corporate* | *9,283* | *11%* | *9,323* | *10%* |
| Property and construction | 10,344 | 12% | 13,357 | 15% |
| *- Investment* | *9,321* | *11%* | *11,388* | *13%* |
| *- Land and development* | *1,023* | *1%* | *1,969* | *2%* |
| Consumer | 3,811 | 5% | 3,339 | 3% |
| **Total loans and advances to customers** | **82,362** | **100%** | **90,595** | **100%** |
| Less impairment provisions on loans and advances to customers | (3,885) | | (5,886) | |
| **Net loans and advances to customers** | **78,477** | | **84,709** | |

| **Non-performing loans** | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **€m** | **% of gross loans** | €m | % of gross loans |
| Probationary residential mortgages | 1,017 | 1.2% | 1,429 | 1.6% |
| Defaulted loans | 6,910 | 8.4% | 10,544 | 11.6% |
| **Total non-performing loans** | **7,927** | **9.6%** | **11,973** | **13.2%** |

The Group's **loans and advances to customers (after impairment provisions)** of €78.5 billion have decreased by €6.2 billion since 31 December 2015, with currency translation accounting for €5.4 billion of this movement.

Gross new lending of €13.2 billion was €1.0 billion or 7% lower than in 2015. New lending (excluding acquisitions) was €13.0 billion in 2016 compared to €13.5 billion in 2015, a decrease of 4% on a reported basis.

Redemptions and repayments totalled €14.1 billion, which is €0.3 billion higher than in 2015. The Group's success in reducing (through resolution or restructure / cure) 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 €2.6 billion of this figure (31 December 2015: c.€3.6 billion). Growth in the Group's core loan books (i.e. excluding redemptions relating to defaulted loans, trackers and GB books in rundown) amounted to €1.7 billion (31 December 2015: €3.9 billion).

While the composition of the Group's loans and advances to customers by portfolio at 31 December 2016 was broadly consistent with 31 December 2015, the proportion of Property and construction loans has reduced to 12%, compared to 15% at 31 December 2015, primarily reflecting a significant reduction in non-performing loans in this portfolio.

Non-performing loans (including probationary mortgages) of €7.9 billion at 31 December 2016 have decreased by €4.1 billion or 34% during 2016. On a constant currency basis, non-performing loans have decreased by c.€3.7 billion. Defaulted loans reduced to €6.9 billion at 31 December 2016, representing 8% (31 December 2015: 12%) of customer loans. The decreases reflect the Group's ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers in financial difficulty, facilitated by the continued positive economic environment in key markets. Resolution strategies include the realisation of cash proceeds from property asset sales activity, and, where appropriate, have given rise to the utilisation of provisions.

The stock of impairment provisions on loans and advances to customers of €3.9 billion has decreased by €2.0 billion since 31 December 2015 (c.€1.9 billion on a constant currency basis). The non-performing loans provision coverage ratio at 31 December 2016 is 49% (31 December 2015: 49%).

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section, see pages 80 to 107.

## Liquid assets

**TABLE: 8**

| **Liquid assets** | **31 December 2016 €bn** | 31 December 2015 €bn | *Average 1 January - 31 December 2016 €bn* |
|---|---|---|---|
| Cash at banks | 3 | 4 | 4 |
| Cash and balances at central banks | 5 | 7 | 5 |
| *- Bank of England* | *2* | *5* | *3* |
| *- Central Bank of Ireland* | *3* | *1* | *2* |
| *- US Federal Reserve* | *-* | *1* | *-* |
| Government bonds | 7 | 8 | 7 |
| *- Available for sale* | *5* | *6* | *5* |
| *- Held to maturity* | *2* | *2* | *2* |
| NAMA senior bonds | - | 1 | 1 |
| Covered bonds | 3 | 2 | 3 |
| Senior bank bonds and other | 3 | 2 | 2 |
| | **21** | **24** | **22** |

The Group's portfolio of liquid assets of €21 billion has decreased by c.€2.7 billion since 31 December 2015, partly reflecting redemptions of NAMA senior bonds of €1 billion (remaining balance of €0.5 billion at 31 December 2016) and the weakening in sterling against the euro. At 31 December 2015, the Group was holding €1 billion of liquid assets to support the planned redemption of the 2009 Preference Stock in January 2016, which was subsequently completed.

## Customer deposits

**TABLE: 9**

| **Customer deposits** | **31 December 2016 €bn** | 31 December 2015 €bn |
|---|---|---|
| Retail Ireland | 41 | 39 |
| *- Deposits* | *22* | *22* |
| *- Current account credit balances* | *19* | *17* |
| Retail UK | 23 | 29 |
| Retail UK (Stg£bn equivalent) | 20 | 22 |
| *- UK Post Office* | *15* | *17* |
| *- Other Retail UK* | *5* | *5* |
| Corporate and Treasury | 11 | 12 |
| **Total customer deposits** | **75** | **80** |
| **Loan to deposit ratio** | **104%** | **106%** |
| Deposits covered by ELG Scheme | - | 1 |

The Group's customer deposit strategy is to:

- maintain and optimise 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 regulatory liquidity / CRD IV specifications.

**Group customer deposits** (including current accounts with credit balances) have decreased by €5.0 billion to €75.2 billion since 31 December 2015, of which €4.2 billion relates to the weakness in sterling. On a constant currency basis, Group customer deposits decreased by €0.8 billion. This comprises of an increase in Retail Ireland Division (€2.0 billion) offset by a decrease in Corporate and Treasury division (€0.3 billion) and a decrease in Retail UK Division of €2.5 billion.

In the Retail Ireland Division, customer deposits of €41 billion at 31 December 2016 have increased by €2.0 billion since 31 December 2015 due to current account credit balance growth.

Customer deposits in Retail UK Division have decreased by £2.1 billion reflecting the Group's reduced funding requirements and drawdown of the Bank of England Term Funding Scheme (TFS).

Customer deposits in the Corporate and Treasury division were lower in the year by €0.3 billion primarily due to lower term deposits as a result of lower pay rates.

Customer deposits of €75 billion at 31 December 2016 (31 December 2015: €80 billion) do not include €1.4 billion (31 December 2015: €1.9 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically five to seven years) and consequently are an additional source of stable funding for the Group.

The Group's Loan to deposit ratio (LDR) was 104% at 31 December 2016.

## Wholesale funding

**TABLE: 10**

| Wholesale funding sources | 31 December 2016 €bn | 31 December 2016 % | 31 December 2015 €bn | 31 December 2015 % |
|---|---|---|---|---|
| Secured funding | 10 | 73% | 10 | 69% |
| *- Monetary Authority* | *3* | *24%* | *1* | *11%* |
| *- Covered bonds* | *6* | *41%* | *6* | *42%* |
| *- Securitisations* | *1* | *8%* | *3* | *16%* |
| Unsecured funding | 4 | 27% | 4 | 31% |
| *- Senior debt* | *2* | *15%* | *3* | *25%* |
| *- Bank deposits* | *2* | *12%* | *1* | *6%* |
| **Total wholesale funding** | **14** | **100%** | **14** | **100%** |
| Wholesale market funding < 1 year to maturity | 4 | 36% | 2 | 16% |
| Wholesale market funding > 1 year to maturity | 7 | 64% | 11 | 84% |
| Monetary Authority funding < 1 year to maturity | - | - | 1 | - |
| Monetary Authority funding > 1 year to maturity | 3 | - | - | - |
| **Liquidity metrics** | | | | |
| Liquidity Coverage Ratio[1] | | 113% | | 108% |
| Net Stable Funding Ratio[2] | | 122% | | 120% |

[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.*
[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 of €14.4 billion has increased by c.€0.2 billion since 31 December 2015, primarily due to increases in drawings under the ECB's Targeted Longer Term Refinancing Operation (TLTRO), TFS funding programmes and in cash collateral received on derivatives (arising from the weakness in sterling), partially offset by a reduction in secured and senior debt funding, following liability management exercises completed in June and September 2016.

The Group's funding from Monetary Authorities of €3.4 billion at 31 December 2016 has increased by c.€1.9 billion since 31 December 2015. The Group's ECB Monetary Authority funding is drawn under the TLTRO (€2.3 billion), while the Group's Bank of England (BoE) Monetary Authority funding is drawn under the TFS (€0.7 billion) and Indexed Long-Term Repo (ILTR) (€0.4 billion) operations.

At 31 December 2016, €7.0 billion or 64% of wholesale market funding had a term to maturity of greater than one year (31 December 2015: €10.7 billion or 84%). The decrease since 31 December 2015 relates to scheduled maturities falling into the less than one year time period and an increase in cash collateral received (due to weakness in sterling) in relation to net derivative asset positions. Wholesale market funding with a maturity of less than one year was €4.0 billion (31 December 2015: €2 billion) of which €1.1 billion is secured.

The Group's Liquidity Coverage Ratio (LCR) was 113% at 31 December 2016 (31 December 2015: 108%). Based on the Group's interpretation of the final Basel standard, the Group's Net Stable Funding Ratio (NSFR) was 122% at 31 December 2016 (31 December 2015: 120%).

## Other assets and other liabilities

**TABLE: 11**

| **Other assets and other liabilities** | **31 December 2016 €bn** | 31 December 2015 €bn |
|---|---|---|
| Other assets | 6.8 | 6.1 |
| *- Derivative financial instruments* | *3.7* | *3.1* |
| *- Net deferred tax asset* | *1.2* | *1.4* |
| *- Other assets* | *1.9* | *1.6* |
| | | |
| Other liabilities | 6.2 | 9.5 |
| *- Derivative financial instruments* | *2.9* | *3.6* |
| *- 2009 Preference Stock* | - | *1.4* |
| *- Pension deficit* | *0.4* | *0.7* |
| *- Notes in circulation* | *1.2* | *1.3* |
| *- Other liabilities* | *1.7* | *2.5* |

Other assets at 31 December 2016 include **derivative financial instruments** with a positive fair value of €3.7 billion compared to a positive fair value of €3.1 billion at 31 December 2015. Other liabilities at 31 December 2016 include **derivative financial instruments** with a negative fair value of €2.9 billion compared to a negative fair value of €3.6 billion at 31 December 2015. The movement in the fair value of derivative assets and derivative liabilities is primarily due to the impact of the movements in foreign exchange rates (particularly the euro / sterling exchange rate) and in interest rates during the year.

At 31 December 2016, the Group's **net deferred tax asset** was €1.2 billion. This compares to a balance of €1.4 billion at 31 December 2015 with €84 million of the deferred tax asset being utilised against profits in the period and the impact of a weakening sterling being offset by movements in the available for sale reserve. The net deferred tax asset of €1.2 billion at 31 December 2016 includes an amount of €1.3 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 €0.1 billion relates to UK tax losses. For further details on movements in the net deferred tax asset in the period see note 33 on page 251.

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 during 2015 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 and therefore there is no liability outstanding at 31 December 2016.

At 31 December 2016, the IAS 19 defined benefit **pension deficit** was €0.4 billion, a net decrease of €0.3 billion from the position at 31 December 2015. The main drivers of the decrease were:

- Group pension scheme asset returns;
- deficit reducing employer contributions €0.1 billion;
- a reduction in long term RoI inflation rate expectations, from 1.60% to 1.55%; partially offset by;
- a reduction in Euro and UK AA Corporate Bond discount rates, from 2.30% to 2.20% and 3.80% to 2.55% respectively; and
- an increase in long term UK inflation rate expectations, from 3.30% to 3.40%.

The significant financial assumptions used in measuring the deficit are set out in note 42, together with the sensitivity of the deficit to changes in those assumptions.

## Subordinated liabilities

**TABLE: 12**

| **Subordinated liabilities** | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| €1,000 million 10% Convertible Contingent Capital Note (CCCN) 2016 | - | 994 |
| €750 million 4.25% Fixed Rate Notes 2024 | 764 | 763 |
| €250 million 10% Fixed Rate Notes 2022 | 270 | 266 |
| €1,002 million 10% Fixed Rate Notes 2020 | 229 | 234 |
| Undated loan capital | 159 | 180 |
| Other | 3 | 3 |
| **Total** | **1,425** | **2,440** |

The CCCN, which carried an annual coupon of 10%, was repaid in full during the year. There were no other significant movements in subordinated liabilities during the year ended 31 December 2016.

## Stockholders' equity

**TABLE: 13**

| **Movements in stockholders' equity** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| **Stockholders' equity at beginning of year** | **8,372** | **8,753** |
| Movements: | | |
| Profit attributable to stockholders | 793 | 940 |
| Reserve for 2009 Preference Stock to be redeemed | - | (1,297) |
| Dividends on preference stock | (8) | (257) |
| *- Current year dividend payment* | *(8)* | *(141)* |
| *- Dividend accrued for payment on 4 January 2016* | - | *(116)* |
| Distribution on other equity instruments - Additional tier 1 coupon (net of tax) | (73) | - |
| Remeasurement of the net defined benefit pension liability | 167 | 91 |
| Available for sale (AFS) reserve movements | (169) | (81) |
| Cash flow hedge reserve movement | (4) | (45) |
| Foreign exchange movements | (419) | 255 |
| Other movements | 2 | 13 |
| **Stockholders' equity at end of year** | **8,661** | **8,372** |

**Stockholders' equity** increased from €8,372 million at 31 December 2015 to €8,661 million at 31 December 2016.

The **profit attributable to stockholders** of €793 million for the year ended 31 December 2016 compares to the profit attributable to stockholders of €940 million for the year ended 31 December 2015.

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 pay the final dividend payment on 4 January 2016 of €116 million. This was 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 45 on page 274 for further details.

The Group paid **dividends** of €4.7 million and £2.3 million on its other euro and sterling preference stock respectively, during 2016.

## Stockholders' equity (continued)

During the year ended 31 December 2016, the Group paid €83 million (after tax impact €73 million) relating to the **coupon on its Additional tier 1 (AT1) securities**. On 20 June 2016, the Group paid €55 million relating to the twelve month period since the securities' issuance and on 19 December 2016, the Group paid €28 million for the six month period ended 18 December 2016.

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.

The **available for sale reserve movement** during 2016 is primarily due to transfers from the available for sale reserve during the year. Gains recognised on transfers from the available for sale reserve during the year are included in other income on page 23.

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 17% strengthening of the euro against sterling for the year ended 31 December 2016. In contrast, the movements in 2015 were due to a weakening of the euro against sterling and the US dollar.

## Other equity instruments

| **TABLE: 14** | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Balance at the beginning of the year | 740 | - |
| Additional tier 1 securities issued | - | 749 |
| Transaction costs (net of tax) | - | (9) |
| **Balance at the end of the year** | **740** | **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 46 for further information.

# Capital

## Regulatory capital and key capital ratios

| CRD IV Transitional 31 December 2015 €m | | CRD IV Transitional 31 December 2016 €m | CRD IV Fully loaded 31 December 2016 €m |
|---|---|---|---|
| | **Capital Base** | | |
| 9,113 | Total equity | 9,402 | 9,402 |
| (750) | - less Additional tier 1 capital | (750) | (750) |
| **8,363** | **Total equity less equity instruments not qualifying as CET 1** | **8,652** | **8,652** |
| **(509)** | **Regulatory adjustments being phased in / out under CRD IV** | **(520)** | **(1,458)** |
| *(134)* | *- Deferred tax assets[1]* | *(243)* | *(1,215)* |
| *-* | *- 10% / 15% threshold deduction[2]* | *-* | *(43)* |
| *391* | *- Retirement benefit obligations[3]* | *156* | *-* |
| *(466)* | *- Available for sale reserve[4]* | *(140)* | *-* |
| *(36)* | *- Pension supplementary contributions[3]* | *(20)* | *-* |
| *(7)* | *- Capital contribution on CCCN[3]* | *-* | *-* |
| *(257)* | *- Other adjustments[5]* | *(273)* | *(200)* |
| **(765)** | **Other regulatory adjustments** | **(915)** | **(975)** |
| *(17)* | *- Expected loss deduction[6]* | *(90)* | *(150)* |
| *(509)* | *- Intangible assets and goodwill* | *(625)* | *(625)* |
| *(30)* | *- Dividend / coupon expected on other equity instruments* | *(2)* | *(2)* |
| *(160)* | *- Cash flow hedge reserve* | *(156)* | *(156)* |
| *13* | *- Own credit spread adjustment (net of tax)* | *12* | *12* |
| *(62)* | *- Securitisation deduction* | *(54)* | *(54)* |
| **7,089** | **Common equity tier 1** | **7,217** | **6,219** |
| | **Additional tier 1** | | |
| 817 | Additional tier 1[7] | 805 | 750 |
| **(9)** | **Regulatory adjustments** | **(30)** | **-** |
| *(9)* | *- Expected loss deduction[6]* | *(30)* | *-* |
| **7,897** | **Total tier 1 capital** | **7,992** | **6,969** |
| | **Tier 2** | | |
| 1,280 | Tier 2 dated debt | 1,124 | 1,124 |
| 126 | Tier 2 undated debt | 116 | 152 |
| **(9)** | **Regulatory adjustments** | **(30)** | **-** |
| *(9)* | *- Expected loss deduction[6]* | *(30)* | *-* |
| 34 | Standardised incurred but not reported (IBNR) provisions | 22 | - |
| 216 | Provisions in excess of expected losses on defaulted loans | 150 | 150 |
| 32 | Other adjustments | 10 | (80) |
| **1,679** | **Total tier 2 capital** | **1,392** | **1,346** |
| **9,576** | **Total capital** | **9,384** | **8,315** |
| **53.3** | **Total risk weighted assets (€bn)** | **50.8** | **50.7** |
| | **Capital ratios** | | |
| 13.3% | Common equity tier 1 | 14.2% | 12.3% |
| 14.8% | Tier 1 | 15.7% | 13.7% |
| 18.0% | Total capital | 18.5% | 16.4% |
| 6.6% | Leverage ratio | 7.3% | 6.4% |

## Capital (continued)

**Risk weighted assets (RWA)[8,9]**

| CRD IV Transitional 31 December 2015 €bn | | CRD IV Transitional 31 December 2016 €bn | CRD IV Fully loaded 31 December 2016 €bn |
|---|---|---|---|
| 44.8 | Credit risk | 42.5 | 42.5 |
| 3.0 | Other assets[10] | 2.9 | 2.8 |
| 0.4 | Market risk | 0.5 | 0.5 |
| 4.8 | Operational risk | 4.6 | 4.6 |
| 0.3 | Credit valuation adjustment | 0.3 | 0.3 |
| **53.3** | **Total RWA** | **50.8** | **50.7** |

**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).

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 ECB regulation 2016/445 on the exercise of options and discretions. This regulation which was published in March 2016 replaced the previous options and discretions as published by the Central Bank of Ireland.

**CRD IV Developments**

CRD IV includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards. On 23 November 2016, the European Commission (EC) published a set of legislative proposals, including amendments of the existing CRD and the Capital Requirements Regulation (CRR), as well as the related EU Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation which aims to:

- Implement elements of the Basel Committee on Banking Supervision (BCBS) regulatory framework into EU law, including:
  - A binding net stable funding ratio (NSFR);
  - A binding leverage ratio;
  - A 'fundamental review of the trading book' (FRTB); and
  - A new standardised approach for counterparty credit risk (SA-CCR).
  - Standards on the total loss-absorbing capacity (TLAC) / Minimum Requirement for own Funds and Eligible Liabilities (MREL).
- Propose targeted adjustments to the calibration of some new Basel standards to mirror the specificities of credit institutions in EU and the European economy.
- Promote investment in the economy through encouraging SME lending and infrastructure financing.
- Propose a phase in period for the capital impacts of IFRS 9 'expected credit losses' (ECL) accounting provisions.

*[1] Deduction for deferred tax assets (DTA) relates to DTA on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 20% in 2016, increasing annually at a rate of 10% thereafter.*
*[2] The 10% / 15% threshold deduction is phased in at 60% in 2016 and increases by 20% per annum thereafter, and is deducted in full from CET 1 under fully-loaded rules.*
*[3] 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.*
*[4] CRD IV transitional rules in 2016 require phasing in 60% of unrealised losses and 60% of unrealised gains. In 2017 and 2018 unrealised losses and gains will be phased in at the following rates 80% and 100%. The Group previously opted to maintain its filter on both unrealised gains or losses on exposures to central governments classified in the 'available for sale' category. In accordance with ECB regulation 2016/445 on the exercise of options and discretions, this filter was removed from 1 October 2016. The reserve is recognised in capital under fully loaded CRD IV rules.*
*[5] Includes technical items such as other national filters and non-qualifying CET 1 items.*
*[6] Under CRD IV transitional rules, expected loss is phased in at 60% in 2016. 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.*
*[7] Non-qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 40% in 2016 and 10% per annum thereafter. Certain instruments are phased into Tier 2 capital from Tier 1 capital.*
*[8] 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.*
*[9] Further details on RWA as at 31 December 2016 can be found in the Group's Pillar III disclosures for the year ended 31 December 2016, which are available on the Group's website.*
*[10] Includes RWA relating to non-credit obligation assets / other assets and RWA arising from the 10% / 15% threshold deduction.*

## Capital (continued)

The revised text of CRR is being submitted simultaneously to the European Parliament and the European Council before the ultimate ratification by both the Parliament and the Council. The proposed changes are expected to start entering into force in 2019 at the earliest (with the exception of the proposed IFRS 9 phasing which will apply from date of entry into force).

The Group actively monitors these developments and seeks to effectively comply with the new requirements when finalised.

**IFRS 9 Regulatory Treatment**

The prudential treatment of IFRS 9 has yet to be finalised with a number of regulatory proposals currently being considered.

In October 2016, the Basel Committee on Banking Supervision published a consultative document on interim and transitional arrangements in applying new ECL accounting provisions to the calculation of regulatory capital. The Basel Committee outlined three possible transitional arrangements, all of which apply a phased approach over 3 to 5 years, subject to national discretions, to avoid a day 1 capital impact on transition.

Additionally, as outlined in the CRD IV developments section, the EC published details of a package of proposed amendments to the CRR which included a transitional arrangement for IFRS 9 which would allow the add-back of stage 1 and stage 2 ECL loss allowances to CET 1 capital phased over 5 years. The outcome of the legislative process is expected to be known during 2017.

The Group will continue to monitor and review regulatory publications and assess the potential effects of IFRS 9 on the Group's capital requirements. Further detail on IFRS 9 implementation is set out in the credit risk section of the Risk Management Report on pages 108 to 110.

**Capital requirements / buffers**

Following the 2016 Supervisory Review and Evaluation Process (SREP), the Group will be required to maintain a minimum CET 1 ratio of 8.0% on a transitional basis from 1 January 2017. This includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2017 of 1.25%. Pillar II guidance (P2G) is not disclosed in accordance with regulatory preference.

The Group expects to maintain a CET 1 ratio in excess of 12% on a transitional basis and on a fully loaded basis at the end of the phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

The Central Bank of Ireland (CBI) has advised that the Group will be required to maintain an O-SII (Other Systematically 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 Single Supervisory Mechanism (SSM) and the 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 2017. The countercyclical capital buffer is subject to quarterly review by the CBI and Financial Policy Committee (FPC). Should the CBI or FPC decide to introduce a countercyclical buffer they must announce this 12 months prior to the buffer increase coming into force (or justify a shorter period on the basis of exceptional circumstances).

**Capital developments**

*2009 Preference Stock redemption:*

On 4 January 2016, the Group redeemed the remaining €1.3 billion 2009 Preference Stock having received SSM approval in November 2015. The 2009 Preference Stock was derecognised from CET 1 regulatory capital in November 2015. See note 45 for further details.

*€1 billion 10% CCCN redemption:*

On 1 August 2016, the Group redeemed the €1 billion 10% Convertible Contingent Capital Note (CCCN) which had a fixed maturity of 30 July 2016. This was settled on 1 August 2016 being the next Target business day post maturity. There was limited capital impact as the CCCN had amortised from capital over the five years to maturity. See note 43 for further details.

*Credit risk transfer transaction:*

The Group executed a credit risk transfer transaction effective 29 December 2016 on a reference portfolio of €2.87 billion of loan assets. The transaction has reduced the Group's credit risk exposure, and consequently the risk weighted assets on the reference portfolio. The transaction resulted in a reduction in risk weighted assets of c.€1.9 billion. See note 51 for further details.

**Distributable items**

As at 31 December 2016, the Bank had profits available for distribution in excess of €3.0 billion. The increase in profits available for distribution of €0.5 billion during the year primarily relates to the impact of profits recorded by the Bank partially offset by the coupon on Additional tier 1 and movements in reserves. Further information on the Bank's stockholders' equity is provided in pages 308 and 309.

## Capital (continued)

**Risk weighted assets**
Risk weighted assets (RWA) at 31 December 2016 of €50.8 billion compares to RWA of €53.3 billion at 31 December 2015. The decrease of €2.5 billion in RWA is primarily due to the impact of foreign exchange movements €2.1 billion, the execution of a credit risk transfer transaction €1.9 billion (see above), changes in book size and quality €1.3 billion and other movements €0.2 billion partially offset by Internal Rating Based (IRB) model updates €3.0 billion (the largest element of which related to the RoI mortgage non-defaulted portfolio). The average credit risk weighting on this portfolio increased to 34% at December 2016 (December 2015: 27%).

**Transitional ratio**
The CET 1 ratio at 31 December 2016 of 14.2% compares to the ratio at 31 December 2015 of 13.3%. The increase of c.90 basis points is primarily due to organic capital generation (+c.150 basis points), the impact of the credit risk transfer transaction (c.+50 basis points), the transitional impact of an decrease in the IAS 19 pension deficit (+c.10 basis points) and FX and other impacts (+c.5 basis points) partially offset by the impact of revising the calculation of RWA for the ROI mortgage non-defaulted loan portfolio (-c.65 basis points), increase in CRD phasing for 2016 (-c.40 basis points) and investment in the Group's Core Banking Platforms (-c.20 basis points).

The pro-forma CET 1 ratio at 1 January 2017 is estimated at 14.0% reflecting the phasing in of CRD IV deductions for 2017.

**Fully loaded ratio**
The Group's fully loaded CET 1 ratio, is estimated at 12.3% as at 31 December 2016, which has increased from 11.3% as at 31 December 2015. The increase of c.100 basis points is primarily due to organic capital generation (+c.130 basis points), the impact of the credit risk transfer transaction (c.+40 basis points), and the fully loaded impact of a decrease in the IAS 19 pension deficit (+c.30 basis points) partially offset by the impact of revising the calculation of RWA for the ROI mortgage non-defaulted loan portfolio (-c.60 basis points), investment in the Group's Core Banking Platforms (-c.20 basis points) and FX and other impacts (-c.20 basis points).

**Leverage ratio**
The leverage ratio at 31 December 2016 is 7.3% on a CRD IV transitional basis (31 December 2015: 6.6%), 6.4% on a pro-forma fully loaded basis (31 December 2015: 5.7%). The Group expects to remain above the Basel committee indicated minimum level leverage ratio of 3%.

The Basel committee is monitoring 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.

The European Commission have proposed the introduction of a binding leverage requirement of 3%. It is anticipated that the binding leverage requirement will be applicable from 2019 at the earliest pending final agreement of the proposals at EU level

**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 16.2% as at 31 December 2016 (31 December 2015: 14.6%).

**Update on the resolution strategy for the Group**
The Single Resolution Board, acting as the Group Level Resolution Authority, and the Bank of England, working together within the Resolution College, have reached a Joint Decision on the group resolution plan for the Group and have advised the Group that their preferred resolution strategy for the Group consists of a single point of entry bail-in strategy through a group holding company. Pursuant to this strategy, the Group expects to establish a holding company (HoldCo) which would become the parent company of the Group.

While it is not expected to impact on the Group's reported CET 1 ratios, a HoldCo structure may adversely impact the consolidated Group's reported Total capital and Tier 1 capital ratios. This would arise due to the required de-recognition under Articles 85 and 87 of the Capital Requirements Regulation of a proportion of existing subordinated debt. The impact would depend on the timing of a HoldCo establishment, absolute capital levels and the capital structure at the time of establishment, and any mitigating actions the Group may take. Any impact arising would be eliminated as the relevant subordinated debt is redeemed.

Further details on the expected establishment of a HoldCo, which would require shareholder approval, will be announced in due course.

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# 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 2016 €m** | Year ended 31 December 2015 €m | Change €m |
|---|---|---|---|---|
| Retail Ireland | | 615 | 507 | 108 |
| Bank of Ireland Life | | 121 | 103 | 18 |
| Retail UK | | 133 | 193 | (60) |
| Corporate and Treasury | | 531 | 637 | (106) |
| Group Centre | | (361) | (223) | (138) |
| Other reconciling items[1] | | 32 | (16) | 48 |
| **Underlying profit before tax** | | **1,071** | **1,201** | **(130)** |
| Non-core items | 6 | (39) | 31 | (70) |
| **Profit before tax** | | **1,032** | **1,232** | **(200)** |

[1] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*

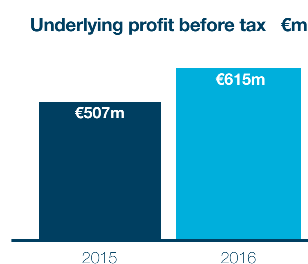
## Retail Ireland

| Retail Ireland: Income statement | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net interest income | 1,032 | 1,062 | (3%) |
| Net other income | 407 | 373 | 9% |
| **Operating income** | **1,439** | **1,435** | **-** |
| | | | |
| Operating expenses | (819) | (831) | 1% |
| **Operating profit before impairment charges on financial assets** | **620** | **604** | **3%** |
| Impairment charges on loans and advances to customers | (2) | (95) | 98% |
| Share of results of associates and joint ventures (after tax) | (3) | (2) | (50%) |
| **Underlying profit before tax** | **615** | **507** | **21%** |
| | | | |
| **Loans and advances to customers (net) (€bn)** | | | |
| At 31 December | 35.3 | 36.1 | (2%) |
| Average in year | 35.6 | 36.4 | (2%) |
| | | | |
| **Customer deposits (€bn)** | | | |
| At 31 December | 41.1 | 39.1 | 5% |
| Average in year | 40.2 | 37.9 | 6% |
| | | | |
| Staff numbers at period end | 4,147 | 4,258 | |

**Consumer Banking Customers**
**>1.7 million**

**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 direct / digital channels which include 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 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. Through our Proactive Care programme we are making customers experiences more effective, transforming ease of use and simplifying banking through a range of touchpoints.

**Creating financial confidence**

We believe financial confidence serves both the best long term interests of our customers and those of the Group. 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 Group at a time when interest rates are at historic lows. 7 out of 10 mortgages now drawn down are fixed rate mortgages.
- **Continue to make banking easier for businesses** - we launched the first digital account in Ireland for sole-traders. We continue to invest to enhance our customer proposition and all business loans up to €100,000 can now be transacted through our centralised direct channel. This investment has been successful and over 95% of such loans are being transacted through this channel.

## Retail Ireland (continued)

**Knowing our customers and demonstrating this knowledge through our actions**

- **Digital adoption programmes** - our innovative digital offerings will be an area of continued focus and investment into the future. In 2016, we continued to expand our range of products available through our digital channels, including credit cards, personal loans and personal current accounts. One in every two Bank of Ireland Retail customers now chooses to purchase their new product via direct / digital channels. We continue to expand the ways our customers can engage with us including Skype, Face Time and online help / chat.
- **Youth Proposition** - our approach to Youth is a key investment in our future franchise and we continue to focus on this through our collaborations with CoderDojo, Junk Kouture, Biz World, dedicated Youth Weeks, School banks and Bond Trader to name but a few.
- **Partnerships** - as part of our continued efforts to deepen our engagement with our customers and to say thank you for banking with us we entered into a partnership with SuperValu, whereby customers earn SuperValu Real Rewards points using their Bank of Ireland personal credit card for purchases.

**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** - in 2016, we held over 92 Enterprise Towns continuing to support local communities. National Enterprise Week took place on 13 to 20 May 2016 and we had 750 events and 2,915 businesses who 'Showed their Business'.
- **Support for start-ups** - in continuing to provide support to start-ups and recognition for start-up enterprises, we have launched a new start-up proposition 'Everything you need to get your business off the ground' - offering free transaction banking for 2 years and significant value added offerings with key partners. Six workbenches were launched in Cork, Limerick, Galway and Dublin and received positive engagement from the business community.
- **Helping everyone to 'think business'** - ThinkBusiness.ie, a free advice portal and online business reference and support platform for SMEs powered by Bank of Ireland. In its first year, the site achieved more than 500,000 unique visits, and over 15,000 business templates were downloaded.
- **Age Friendly Ireland** - Bank of Ireland is the first retail bank in Ireland to be accredited by Age Friendly Ireland. This nationwide programme is part of the wider Age Friendly Ireland cities and counties programme.

**Financial performance**

Retail Ireland reported an **underlying profit before tax** of €615 million for the year ended 31 December 2016 which is an increase of 21% on 2015. The improvement of €108 million was due primarily to a reduction of €93 million in impairment charges and an increase of €16 million in operating profit before impairment charges to €620 million.

**Loans and advances to customers (after impairment provisions)** are down by €0.8 billion to €35.3 billion at 31 December 2016 when compared to 31 December 2015. This is reflective of a gross reduction of c.€1.2 billion in Retail Ireland's low yielding tracker mortgage book and a further reduction in Retail Ireland's non-performing loan book. Mortgage drawdowns (excluding acquisitions) of €1.4 billion during 2016 have increased by 2% and we continued to retain a strong share of new mortgage lending. SME lending approvals are more than 19% higher than 2015 while Business Banking new lending of €3.0 billion has increased by 13% when compared to 2015.

**Customer deposits** of €41.1 billion have increased by €2 billion since 31 December 2015. We have a strong customer deposit franchise with 27% market share. Within deposits, current account credit balances have grown by €2.1 billion while other deposits have decreased by €0.1 billion.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see pages 21 and 22).

| **Net interest income** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net interest income | 1,032 | 1,062 | (3%) |
| IFRS income classifications | 1 | 12 | (92%) |
| **Net interest income (after IFRS income classifications)** | **1,033** | **1,074** | **(4%)** |

## Retail Ireland (continued)

**Net interest income (after IFRS income classifications)** of €1,033 million for the year ended 31 December 2016 is 4% lower than 2015. The year on year reduction in net interest income is primarily a function of the negative interest rate environment and its impact on earnings associated with credit balances. Lending margins remain stable and while the loan book has decreased this has largely come through either our lower yielding books e.g. tracker mortgages, or through the reduction in non-performing loans.

| **Net other income** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net other income | 407 | 373 | 9% |
| IFRS income classifications | (1) | (12) | 92% |
| **Net other income (after IFRS income classifications)** | **406** | **361** | **12%** |
| *Comprised of:* | | | |
| *- Business income* | *319* | *331* | *(4%)* |
| *- Transfer from available for sale reserve on asset disposal* | *89* | *-* | *100%* |
| *- (Loss) / gain on disposal and revaluation of investment properties* | *(2)* | *30* | *n/m* |

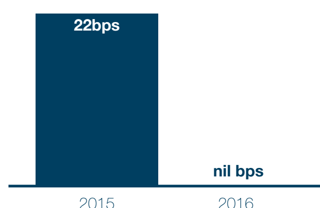
**Net other income (after IFRS income classifications)** of €406 million for the year ended 31 December 2016 was 12% higher than 2015. Business income is down €12 million with the impact of new EU credit card interchange caps introduced in December 2015 and the initiatives to pre-advise customers of potential account limit breaches being a key driver. Overall net other income increased due to the proceeds from the sale of VISA Europe shares of €89 million.

**Operating expenses** of €819 million for the year ended 31 December 2016 were 1% lower than 2015, primarily due to lower staff numbers (staff numbers have decreased by 3% from 4,258 at 31 December 2015 to 4,147 at 31 December 2016).

The **share of results of associates and joint ventures (after tax)** was a loss of €3 million for the year ended 31 December 2016 compared to a loss of €2 million in 2015.

| **Impairment charges / (reversals) on loans and advances to customers** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Residential mortgages | (141) | (84) | (68%) |
| Non-property SME and corporate | 44 | 86 | (49%) |
| Property and construction | 113 | 111 | 2% |
| Consumer | (14) | (18) | 22% |
| **Impairment charges / (reversals) on loans and advances to customers** | **2** | **95** | **(98%)** |

**Impairment charges (bps)**




**Impairment charges / (reversals) on loans and advances to customers** of €2 million for the year ended 31 December 2016 were 98% lower compared to 2015.

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 80 to 107 and the supplementary asset quality and forbearance disclosures section on pages 361 to 414.

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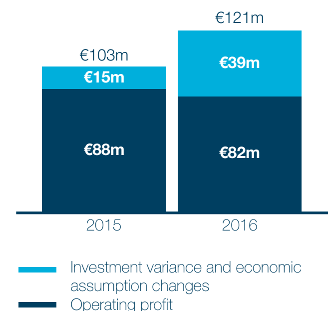
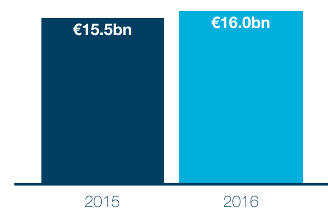
## Bank of Ireland Life

| Bank of Ireland Life: Income statement (IFRS performance) | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net interest income | 31 | 34 | (9%) |
| Net other income | 151 | 154 | (2%) |
| Operating income | 182 | 188 | (3%) |
| Operating expenses | (100) | (100) | - |
| **Operating profit** | **82** | **88** | **(7%)** |
| | | | |
| Investment variance | 4 | 11 | (64%) |
| Economic assumption changes | 35 | 4 | n/m |
| **Underlying profit before tax** | **121** | **103** | **17%** |
| | | | |
| Staff numbers period end | 908 | 937 | |

**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 and distributes across three core channels made up of the Group's branch network, independent financial brokers and its own tied Financial Advisor network. It is the only bancassurer in the Irish market.

Bank of Ireland Life, which includes New Ireland Assurance Company plc (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.

Bank of Ireland Life adopts a low risk approach to managing its financial risks, including in relation to capital, management of assets and liabilities, liquidity and underwriting.

The growing labour market, the ageing population and reducing levels of State and employer led pension provision mean that the underlying individual investment and protection needs of the working population will continue to grow.

Bank of Ireland Life, with 21% market share, over 500,000 policyholders and €16 billion in assets under management, is well positioned to benefit from the growing investment and pension market.

Of the €16 billion assets under management, €14 billion is in unit-linked funds where investment risk is borne by policyholders, and where a change in the value of the underlying asset is accompanied by a corresponding change in the liability. The other €2 billion covers technical provisions (other than unit-linked liabilities), the pension scheme deficit, solvency capital requirement and excess own funds.

The current low interest rate environment along with market volatility has resulted in a challenging year for the business. New business levels are 10% lower than the previous year, with the lump sum investment business particularly impacted by market uncertainty. Our pension business however had a more positive trend with the addition of new schemes and new members to existing schemes. Regular premium pension sales are 3% ahead of the prior year.

New business sales (Annual Premium Equivalent (APE)) in the year ended 31 December 2016 consisted of €115 million of new lump sum business and €124 million of new regular premium business.

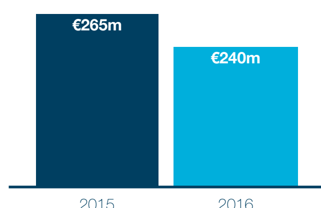
Reflecting our customer led proposition, we continue to invest in the business and in our staff to ensure we maintain and enhance our operational and service offering.

## Bank of Ireland Life (continued)

**Financial performance**

Bank of Ireland Life reported an **underlying profit before tax** of €121 million for the year ended 31 December 2016 compared to an underlying profit before tax of €103 million for the year ended 31 December 2015. The increase in profits on €18 million or 17% reflects the positive impact of changes in economic assumptions and investment variances, due to the impact of lower interest rates and narrowing spreads, partially offset by lower operating income.

**New business sales (APE) €m**




New business sales for Bank of Ireland Life fell by 10% in the year ended 31 December 2016 resulting in a 21% market share of new business. Sales in the broker and bancassurance channels were impacted by the decline in the single premium lump sum investment business, while sales in the smaller Financial Advisor channel were broadly in line with 2015. Regular premium pension sales were ahead of last year across all channels while investment and protection sales were lower. The value of new business is lower than the previous year reflecting the lower volume of new business sales.

Profits from the book of existing business are ahead of the previous year with strong mortality and persistency experience.

**Operating profit** of €82 million for the year ended 31 December 2016 was €6 million or 7% lower than 2015 due to lower operating income.

**Operating income** of €182 million for the year ended 31 December 2016 was €6 million or 3% lower than the previous year on the back of lower new business volumes.

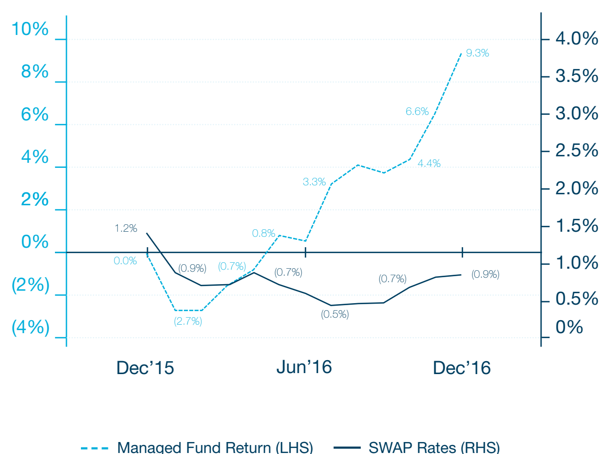
On the book of existing policies, mortality experience was strong and the positive lapse experience continued to be favourable and in line with the prior year.

**Operating expenses** of €100 million for the year ended 31 December 2016 were in line with 2015. Increased staff costs agreed as part of the career and reward framework together with the costs related to the development of the Life Online customer portal and other technology investments were offset by reduced pension costs.

During the year ended 31 December 2016, the investment funds' performance was ahead of the unit growth assumption leading to a positive **investment variance** of €4 million (31 December 2015: gain €11 million).

In 2016, there was a fall in interest rates and a narrowing of spreads. The overall impact of the change in interest rates, including the impact on the **economic assumptions** was positive, resulting in a €35 million gain for the year ended 31 December 2016 (31 December 2015: €4 million) primarily relating to Solvency II transitioning benefits. The discount rate applied to future cash flows was 5.83% at 31 December 2016, a decrease of 0.3% when compared to 31 December 2015. The future growth rate on unit-linked assets fell by 0.35% to 3.25% at 31 December 2016. These falls were driven by a fall in 10 year swap rates during 2016.

**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 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| New business profits | 14 | 27 | (48%) |
| Existing business profits | 80 | 79 | 1% |
| *- Expected return* | *64* | *57* | *12%* |
| *- Experience variance* | *20* | *15* | *33%* |
| *- Assumption changes* | *(4)* | *7* | *n/m* |
| Intercompany payments | (12) | (13) | 8% |
| Interest payments | (5) | (6) | 17% |
| **Operating profit** | **77** | **87** | **(11%)** |
| Investment variance | 10 | 10 | - |
| Economic assumption changes | 28 | 5 | n/m |
| **Underlying profit before tax** | **115** | **102** | **13%** |

The embedded value performance is shown above.

**Operating profit** for the year ended 31 December 2016 of €77 million was €10 million or 11% lower than the previous year.

New business profits of €14 million are lower than the previous year reflecting lower volumes, particularly in single premium investment and protection and flat initial expenses.

Existing business profits of €80 million are broadly the same as the prior year reflecting improved mortality and persistency experience offset by changes in actuarial assumptions.

The **underlying profit before tax**, on an embedded value basis, of €115 million for the year ended 31 December 2016 compares to €102 million in 2015.

The underlying profit before tax has been supported by a positive investment variance arising from investment fund performance and the narrowing of interest rate spreads.

The table below summarises the overall balance sheet of Bank of Ireland Life on an EV basis at 31 December 2016 compared to 31 December 2015.

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Net assets | 428 | 522 |
| Value of in Force | 666 | 678 |
| Less Tier 2 subordinated capital / debt | (140) | (200) |
| Less pension scheme deficit | (96) | (147) |
| **Total embedded value** | **858** | **853** |

The value of net assets reflect a payment of €140 million to the Group in 2016. 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 c.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 year timescale.

## Bank of Ireland Life (continued)

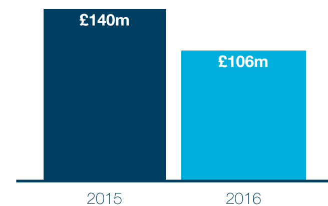
The new, harmonised EU-wide regulatory capital framework for Insurance Companies, known as Solvency II, came into force with effect from 1 January 2016. Under Solvency II, the Group's life assurance entity NIAC, is required to hold a Solvency Capital Requirement (SCR). This is a risk-based capital requirement that is calculated by considering the impact of a number of stress scenarios on NIAC's capital. This replaces the current Required Minimum Solvency Margin (RMSM) under Solvency I which is a factor based calculation.

While NIAC reports its Solvency II capital ratio to the Central Bank, the accounting information shown uses the Solvency I basis for financial reporting.

## Retail UK (Sterling)

| Retail UK: Income statement | Year ended 31 December 2016 £m | Year ended 31 December 2015 £m | Change % |
|---|---|---|---|
| Net interest income | 496 | 520 | (5%) |
| Net other income | (7) | (2) | n/m |
| **Operating income** | **489** | **518** | **(6%)** |
| Operating expenses | (336) | (312) | (8%) |
| **Operating profit before impairment charges on financial assets** | **153** | **206** | **(26%)** |
| Impairment charges on loans and advances to customers | (82) | (101) | 19% |
| Share of results of associates and joint ventures (after tax) | 35 | 35 | - |
| **Underlying profit before tax** | **106** | **140** | **(24%)** |
| **Underlying profit before tax (€m equivalent)** | **133** | **193** | **(31%)** |
| **Loans and advances to customers (net) (£bn)** | | | |
| At 31 December | 25.6 | 26.0 | (2%) |
| Average in year | 25.9 | 26.0 | (1%) |
| **Customer deposits (£bn)** | | | |
| At 31 December | 19.5 | 21.6 | (10%) |
| Average in year | 20.9 | 20.8 | 1% |
| Staff numbers at period end | 1,802 | 1,679 | |

**Underlying profit before tax £m**




**3.1m**
**UK customers through consumer banking franchises**

**£2.8bn**
**New mortgage lending in 2016**

The Retail UK division incorporates the financial services partnership 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), the Group's business banking business in NI and the Northridge Finance motor and asset finance business. The Group also has a business banking business in Great Britain (GB) which is being run-down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

Through our partnerships with the Post Office, AA and other intermediaries we have a substantial UK consumer banking franchise with 3.1 million customers. Our longstanding relationship with the Post Office remains a significant and important part of the UK strategy with shared plans for a sustainable business that creates long term value. The financial services partnership with the AA saw its first full trading year in 2016 with new product launches across credit cards, personal loans, mortgages and savings products, gaining close to 100,000 new customers.

Our foreign exchange joint venture with the Post Office, which provides retail and wholesale foreign exchange services, remains the largest provider of retail travel money in the UK and our travel money card app has continued to win new customers with a 100% increase in the number of customers downloading the app.

One of our key objectives for 2016 was to continue to develop our mortgage business, building on the progress we made over the last two years. For the year ended 31 December 2016, our new mortgage lending was £2.8 billion compared with £3.3 billion in 2015. Given the uncertainties following the UK's decision to leave the European Union and with the objective of maintaining our pricing and risk discipline in a competitive market, lending was somewhat constrained in the second half of 2016.

## Retail UK (Sterling) (continued)

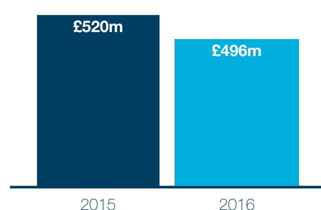
**Financial performance**
Retail UK reported an **underlying profit before tax** of £106 million for the year ended 31 December 2016 compared to a profit of £140 million in 2015. The decrease of £34 million is primarily driven by a decrease in operating income of £29 million and an increase in operating expenses of £24 million, offset by a reduction in impairment charges of £19 million.

**Loans and advances to customers (after impairment provisions)** of £25.6 billion have reduced by £0.4 billion since 31 December 2015. The decrease in loans and advances to customers mainly reflects continued repayments and redemptions in commercial lending portfolios including the GB business, partly offset by an increase in consumer lending for credit cards, personal loans and the motor and asset finance business. Net mortgage volumes were broadly in line with the prior year.

**Customer deposits** of £19.5 billion at 31 December 2016 have decreased by £2.1 billion since 31 December 2015 primarily reflecting actions taken to optimise the UK funding position during the year, including drawing down funds under both the Bank of England (BoE) Term Funding Scheme (TFS) and Indexed Long-Term Repo (ILTR) facilities.

In August 2016, the BoE launched TFS as part of a UK monetary stimulus programme in the wake of the result of the UK referendum on membership of the EU. The TFS provides banks with a cost effective source of funding to support additional lending to the real economy, in exchange for eligible collateral. As part of the Group's planned funding strategy, £600 million was drawn using this facility at 31 December 2016 and it is anticipated further drawdowns will take place during 2017.

**Net interest income (£m)**




**Net interest income** of £496 million for the year ended 31 December 2016 has decreased by 5% compared to 2015. This is largely due to the impact of back book deleveraging, increasing competition on new lending business and the continued negative impact resulting from historically low interest rates, offset by a reduction in the cost of customer deposits and the use of other funding sources.

| Net other income | **Year ended 31 December 2016 £m** | Year ended 31 December 2015 £m | Change % |
|---|---|---|---|
| Business income | 1 | 5 | (80%) |
| Transfer from available for sale reserve on asset disposal | 4 | - | 100% |
| Financial instrument valuation adjustments (CVA, DVA, FVA) and other | (12) | (7) | (71%) |
| **Net other income** | **(7)** | **(2)** | **n/m** |

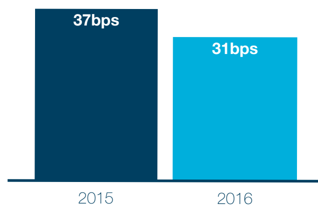
**Net other income** was a charge of £7 million for the year ended 31 December 2016 compared to a charge of £2 million for the year ended 31 December 2015. This is primarily due to higher adverse financial instrument valuation adjustments and lower business income partially offset by a share of gains realised in 2016 on the sale of shares in VISA Europe.

**Operating expenses** of £336 million for the year ended 31 December 2016 are £24 million higher than 2015 primarily reflecting a targeted investment in the consumer banking business, supporting the UK strategy. The year to 31 December 2016 also saw further specific investment on the development of the partnership with the AA.

The **share of results of associates and joint ventures (after tax)** of £35 million for the year ended 31 December 2016 relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, and is in line with 2015.

## Retail UK (Sterling) (continued)

| **Impairment charges / (reversals) on loans and advances to customers** | **Year ended 31 December 2016 £m** | Year ended 31 December 2015 £m | Change % |
|---|---|---|---|
| Residential mortgages | - | (9) | (100%) |
| Non-property SME and corporate | 1 | (2) | n/m |
| Property and construction | 77 | 101 | (24%) |
| Consumer | 4 | 11 | (64%) |
| **Impairment charges / (reversals) on loans and advances to customers** | **82** | **101** | **(19%)** |




**Impairment charges / (reversals) on loans and advances to customers** of £82 million for the year ended 31 December 2016 were £19 million or 19% lower compared to 2015, reflecting the continued positive economic environment.

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 80 to 107 and the supplementary asset quality and forbearance disclosures section on pages 361 to 414.

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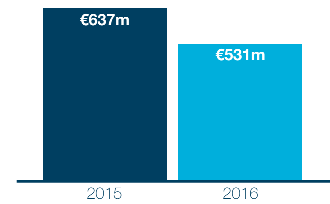
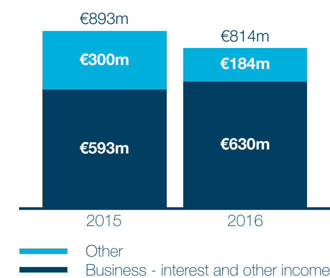
## Corporate and Treasury

| **Corporate and Treasury: Income statement** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net interest income | 576 | 600 | (4%) |
| Net other income | 238 | 293 | (19%) |
| **Operating income** | **814** | **893** | **(9%)** |
| *- Business - net interest and other income* | *630* | *593* | *6%* |
| *- Financial instruments - valuation and other movements* | *50* | *74* | *(32%)* |
| *- From liquid asset bond portfolio* | *117* | *192* | *(39%)* |
| *- Other AFS gains* | *17* | *34* | *(50%)* |
| Operating expenses | (206) | (194) | (6%) |
| **Operating profit before impairment charges on financial assets** | **608** | **699** | **(13%)** |
| Impairment charges on loans and advances to customers | (75) | (62) | (21%) |
| Impairment charges on available for sale (AFS) financial assets | (2) | - | n/m |
| **Underlying profit before tax** | **531** | **637** | **(17%)** |
| | | | |
| **Loans and advances to customers (net) (€bn)** | | | |
| At 31 December | 13.1 | 13.1 | - |
| Average in year | 12.6 | 12.1 | 4% |
| | | | |
| **Customer deposits (€bn)** | | | |
| At 31 December | 11.3 | 11.7 | (3%) |
| Average in year | 11.4 | 12.5 | (9%) |
| | | | |
| **Liquid asset bond portfolio (€bn)** | | | |
| At 31 December | 10.8 | 10.7 | 1% |
| Average in year | 10.6 | 11.5 | (8%) |
| | | | |
| Staff numbers at period end | 648 | 615 | |

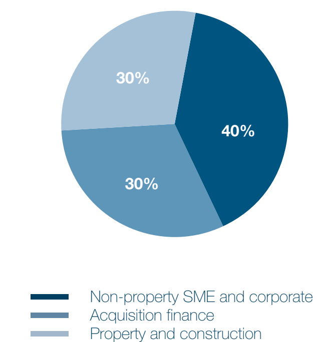
**Underlying profit before tax €m**




**Operating income (€m)**




**Customer lending portfolio composition**




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

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

## Corporate and Treasury (continued)

**Corporate Banking**

- Continuing strong new business;
- Retained position as Ireland's number one corporate bank and continued to win in excess of 60% of banking relationships arising from new foreign direct investment in Ireland;
- Corporate Banking won three categories ('Large Corporate', 'Public Bodies / PPPs' and 'FDI Financing') in the loans and financing section of the Finance Dublin Deals of the year awards in April 2016;
- Corporate Banking continues to support the ongoing recovery in the Irish economy while selectively growing our UK corporate business through a focused sector strategy;
- Corporate Banking also continues to support the ongoing recovery in the Irish property market and benefitted from re-financing opportunities as international funds look to realise investments; and
- the international acquisition finance team delivered another strong performance, selectively generating new lending in a range of jurisdictions while maintaining asset quality, fees and margins.

**Treasury**

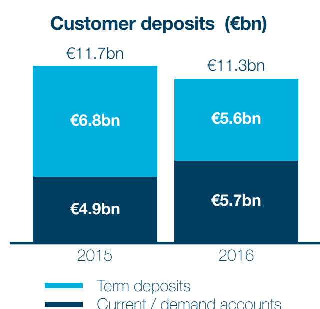
- Supporting customers in evaluating and managing their foreign exchange, interest rate hedging and other treasury needs against the backdrop of uncertain market conditions;
- continued investment in improving customers' experience; including enhancements to the foreign exchange functionality on both mobile app and BOI.com. We also saw increased adoption of FX Pay, our online foreign exchange payment platform;
- Global Markets was named 'Best Foreign Exchange Provider in Ireland 2016' by Global Finance Magazine; and
- overall Global Markets saw solid momentum across its customer treasury business lines, underpinned by growth in underlying economies and international trade.

**Financial performance**

The division reported an **underlying profit before tax** of €531 million for the year ended 31 December 2016, a decrease of €106 million or 17% compared to underlying profit before tax of €637 million in 2015.

The business has performed well during the year with business interest and other income up 6% compared to 2015. This has been offset by lower liquid asset income (primarily due to reinvestment of liquid assets at lower rates), lower gains on bond sales and lower gains on financial instruments, which combined are €116 million lower than in 2015. These factors are the primary contributor to the €106 million reduction in underlying profit before tax during 2016.

**Loans and advances to customers** (after impairment provisions) of €13.1 billion at 31 December 2016 were broadly in line with 31 December 2015 (€0.2 billion higher on a constant currency basis). The movement is primarily reflective of net new lending in our core books, offset by currency translation, the continued deleveraging of non-core loan books and the proceeds of the resolution of impaired loans.




**Customer deposits** of €11.3 billion at 31 December 2016 have decreased by €0.4 billion compared to the previous year (€0.3 billion on a constant currency basis). The deposit book primarily comprises a mixture of corporate, State, SME and retail customer accounts.

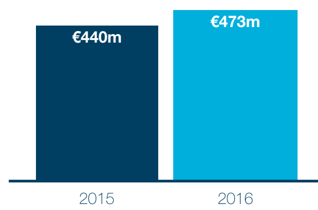
The **liquid asset** bond portfolio of €10.8 billion at 31 December 2016 was €0.1 billion higher than 31 December 2015. Main changes in the year include increased holdings of covered and other senior bonds of €1.3 billion partially offset by lower holdings of sovereign bonds (€0.2 billion) and repayments of €1 billion on 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 21 and 22).

| Net interest income | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net interest income | 576 | 600 | (4%) |
| IFRS income classifications | (49) | (95) | 48% |
| **Net interest income (after IFRS income classifications)** | **527** | **505** | **4%** |
| *Comprised of:* | | | |
| *- Business net interest income* | *473* | *440* | *8%* |
| *- On liquid asset bond portfolio* | *54* | *65* | *(17%)* |

**Business net interest income (€m)**




**Business net interest income** of €473 million for the year ended 31 December 2016 has increased by €33 million compared to the previous year. The increase in net interest income is primarily due to:

- a growth in Corporate Banking lending income; partially offset by;
- the impact of historically low official interest rates.

Liquid asset bond interest of €54 million for the year ended 31 December 2016 has reduced by €11 million as a result of lower reinvestment rates on liquid assets acquired subsequent to the rebalancing of the liquid asset portfolio in 2015 and early 2016.

| Net other income | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Net other income | 238 | 293 | (19%) |
| IFRS income classifications | 49 | 95 | (48%) |
| **Net other income (after IFRS income classifications)** | **287** | **388** | **(26%)** |
| *Comprised of:* | | | |
| *- Business income* | *157* | *153* | *3%* |
| *- Financial instrument valuation adjustments (CVA, DVA, FVA) and other* | *50* | *74* | *(32%)* |
| *- Transfer from available for sale reserve on asset disposal;* | | | |
| *- on liquid asset bond portfolio* | *63* | *127* | *(50%)* |
| *- on equity investments* | *17* | *34* | *(50%)* |

**Business Income**
**+3%**

**Business other income** of €157 million increased by €4 million or 3% compared to 2015. The movement in business other income is primarily due to:

- higher fee income; and
- increased distributions from equity investments;

Movements in financial instrument valuation adjustments and transfers from the available for sale reserve are primarily due to:

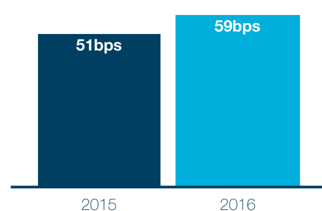
- negative movements on derivatives which economically hedge the Group;
- lower transfers from the available for sale reserve on the sale of sovereign bonds as part of the rebalancing of the Group's liquid asset portfolio; and
- lower gains on the sale of equity holdings.

## Corporate and Treasury (continued)

**Operating expenses** of €206 million for the year ended 31 December 2016 increased by 6% compared to the previous year, primarily as a result of:

- additional staff to support the re-entry to the UK market; and
- investment in people, infrastructure and technology.

| Impairment charges / (reversals) on loans and advances to customers | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Non-property SME and corporate | 67 | 65 | 3% |
| Property and construction | 8 | (3) | n/m |
| **Total impairment charges / (reversals) on loans and advances to customers** | **75** | **62** | **21%** |



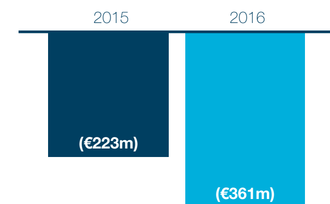

**Impairment charges on loans and advances to customers** of €75 million for the year ended 31 December 2016 have increased by €13 million compared to the previous year. Non-performing loans have decreased by €110 million or 23% to €363 million compared to €473 million in 2015.

There was also an impairment charge on available for sale (AFS) financial assets of €2 million for the year ended 31 December 2016.

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 80 to 107 and the supplementary asset quality and forbearance disclosures section on pages 361 to 414.

## Group Centre

| Group Centre: Income statement | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| **ELG fees** | **(20)** | **(10)** | **(100%)** |
| Other income | 19 | 52 | (63%) |
| **Net operating (expense) / income** | **(1)** | **42** | **n/m** |
| Operating expenses (before Core Banking Platform Investment and levies and regulatory charges) | (215) | (198) | (9%) |
| Core Banking Platforms Investment charge | (41) | - | (100%) |
| Levies and regulatory charges | (104) | (67) | (55%) |
| *- Irish bank levy* | *(38)* | *(38)* | *-* |
| *- DGS, SRF and other regulatory charges* | *(61)* | *(14)* | *n/m* |
| *- FSCS costs* | *(5)* | *(15)* | *(67%)* |
| **Underlying loss before tax** | **(361)** | **(223)** | **(62%)** |
| Staff numbers at period end | 3,703 | 3,656 | |




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 Single Resolution Fund (SRF) and Deposit Guarantee Scheme (DGS) fund.

**Financial performance**

Group Centre reported an **underlying loss before tax** of €361 million for the year ended 31 December 2016 compared to a loss of €223 million in 2015.

**Net operating (expense) / income** was a loss of €1 million for the year ended 31 December 2016 compared to a gain of €42 million for the previous year. The decrease of €43 million in the year is driven primarily by the absence of gains realised from the sale of sovereign bonds in the liquid asset portfolio during 2016 and higher ELG fees.

**ELG fees** of €20 million for the year ended 31 December 2016 are €10 million higher than the previous year. The Group has incurred total ELG charges of c.€1.3 billion since the launch of the scheme in 2010. As the Group's involvement in the ELG Scheme drew to a close, the Group conducted a review of certain technical matters. The charge for the year includes an amount of €14 million in relation to matters arising from this review together with €6 million of fees arising during the year in respect of covered liabilities outstanding. At 31 December 2016, the Group had no eligible liabilities for the purpose of the ELG Scheme and no further ELG fees will accrue.

**Other income** was a gain of €19 million for the year ended 31 December 2016 and is €33 million lower than 2015. The decrease is primarily due to gains of €46 million relating to the sale of sovereign bonds which were realised in 2015, but which did not reoccur in 2016.

**Operating expenses** (before Core Banking Platforms Investment and levies and regulatory charges) of €215 million for the year ended 31 December 2016 are €17 million higher than 2015. The increase is reflective of investment in strategic initiatives, including technology and infrastructure, along with increased costs associated with compliance with regulatory expectations.

## Group Centre (continued)

**Core Banking Platforms Investment**

The Group continues to enhance its customer propositions and recognises the growing importance of digital services in the financial sector. As part of this, the Group commenced a programme to replace our core banking platforms. The programme implementation phase is underway, following the selection of the Temenos UniversalSuite solution in 2016. The Group is working with its partners to implement and integrate the new platform and, in time, to migrate customers to it.

In the year to 31 December 2016, the total investment in the programme was €105 million of which €64 million was capitalised and €41 million was expensed to the income statement.

**Levies and regulatory charges**

As anticipated, levies and regulatory charges have increased during the year. Group Centre has incurred levies and regulatory charges of €104 million in the year ended 31 December 2016, compared to €67 million in the year ended 31 December 2015. The increase in the 2016 charge, compared to 2015, primarily reflects the Group's contribution to the newly established Deposit Guarantee Scheme (DGS) fund, €29 million, and to the Single Resolution Fund (SRF), €20 million, partly offset by a €10 million reduction in the Financial Services Compensation Scheme levy. The 2016 charge also includes the Irish bank levy, €38 million and other supervisory levies.

The Finance Act 2016, which was signed into law in December 2016, confirmed the revised basis on which the Irish bank levy will be calculated for the years 2017 to 2021. Under the revised basis the Group expects to record a charge of c.€30 million in 2017. See note 49 for further detail.

| Year ended 31 December 2016 | 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 €m | **Operating profit / (loss) before impairment charges on financial assets €m** | Impairment charge on loans and advances to customers €m | Impairment charge on AFS financial assets €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 | 1,032 | - | 407 | **1,439** | - | **1,439** | (819) | **620** | (2) | - | (3) | - | **615** |
| BIL | 31 | 1,220 | 523 | **1,774** | (1,553) | **221** | (100) | **121** | - | - | - | - | **121** |
| Retail UK | 609 | - | (9) | **600** | - | **600** | (412) | **188** | (99) | - | 44 | - | **133** |
| Corporate and Treasury | 576 | - | 238 | **814** | - | **814** | (206) | **608** | (75) | (2) | - | - | **531** |
| Group Centre | 15 | 6 | (9) | **12** | (13) | **(1)** | (360) | **(361)** | - | - | - | - | **(361)** |
| Other reconciling items | - | - | 32 | **32** | - | **32** | - | **32** | - | - | - | - | **32** |
| **Group - underlying[1]** | **2,263** | **1,226** | **1,182** | **4,671** | **(1,566)** | **3,105** | **(1,897)** | **1,208** | **(176)** | **(2)** | **41** | **-** | **1,071** |
| **Total non-core items** | | | | | | | | | | | | | |
| - Cost of Restructuring Programme | - | - | - | **-** | - | **-** | (35) | **(35)** | - | - | - | - | **(35)** |
| - Loss on liability management exercises | - | - | (19) | **(19)** | - | **(19)** | - | **(19)** | - | - | - | - | **(19)** |
| - Gross-up for policyholder tax in the Life business | - | - | 15 | **15** | - | **15** | - | **15** | - | - | - | - | **15** |
| - Loss on disposal / liquidation of business activities | - | - | - | **-** | - | **-** | - | **-** | - | - | - | (7) | **(7)** |
| - Gain arising on movement in the Group's credit spreads | - | - | 3 | **3** | 2 | **5** | - | **5** | - | - | - | - | **5** |
| - Investment return on treasury stock held for policyholder | - | - | 2 | **2** | - | **2** | - | **2** | - | - | - | - | **2** |
| - Impact of Group's pensions reviews (2010 and 2013) | - | - | - | **-** | - | **-** | - | **-** | - | - | - | - | **-** |
| - Payments in respect of the career and reward framework | - | - | - | **-** | - | **-** | - | **-** | - | - | - | - | **-** |
| **Group total** | **2,263** | **1,226** | **1,183** | **4,672** | **(1,564)** | **3,108** | **(1,932)** | **1,176** | **(176)** | **(2)** | **41** | **(7)** | **1,032** |

[1] *Underlying performance excludes the impact of non-core items (see page 26).*

## 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 €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 and Treasury | 600 | - | 293 | 893 | - | 893 | (194) | 699 | (62) | - | - | 637 |
| Group Centre | 22 | 7 | 20 | 49 | (7) | 42 | (265) | (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 | (1,821) | 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 Group's pensions reviews (2010 and 2013) | - | | - | - | - | - | 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 | (1,862) | 1,431 | (296) | 46 | 51 | 1,232 |

[1] *Underlying performance excludes the impact of non-core items (see page 26).*

# Risk Management Report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The information below in sections or paragraphs denoted as audited in sections 3.1, 3.2, 3.3, 3.4 and 4 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of preparation on page 196.

All other information, including charts and graphs, in the Risk Management Report is additional disclosure and does not form an integral part of the audited financial statements.

## 1 Principal Risks and Uncertainties

Arising from the annual risk identification process, key risks have been identified which could have a material impact on earnings, capital adequacy and / or on the Group's ability to trade in the future. These together with other significant and emerging risks facing the Group and key mitigating considerations are set out below. For many of the risks, the allocation of capital against potential loss is a key mitigant; other mitigating considerations include those outlined below.

This summary should not be regarded as a complete and comprehensive statement of all potential risks, uncertainties or mitigants; nor can it confirm that the mitigants would apply to fully eliminate or reduce the corresponding key risks. Additionally, other factors not yet identified, or not currently material, may adversely affect the Group.

| Key risks | Key mitigating considerations |
|---|---|
| **Credit risk**<br>Material adverse changes in the economic and market environment in which the Group operates, or in the financial condition or behaviour of customers, clients and counterparties, noting the geographic and portfolio concentrations in the Group's loan book, could reduce the value of the Group's assets and potentially increase write-downs and allowances for impairment losses, adversely impacting profitability and / or capital. In addition, the Group's level of non-performing loans remains elevated. | • The Court of Directors (the 'Court') has approved a Group Credit Policy and credit category limits together with a framework to cascade limits through the Group's businesses and portfolios. Processes to monitor compliance with policies and limits are in place.<br>• Management of credit risk concentrations is an integral part of the Group's risk management approach with the Group's Risk Appetite Statement specifying a range of exposure limits for credit concentration risk.<br>• The Group has defined credit processes and controls with well-established governance including credit policies, independent credit risk assurance and defined levels of authority for sanctioning lending.<br>• The Group has dedicated workout structures comprising the Group's Mortgage Arrears Resolution Strategies (MARS) and Challenged Assets Group (CAG) which are focused on non-performing loans and defaulted loans reduction. |
| **Funding and liquidity risk**<br>A sudden and significant withdrawal of customer deposits, disruption to the access to funding from wholesale markets, or a deterioration in either the Group's or the Irish sovereign credit ratings could adversely impact the Group's funding and liquidity position. | • The Court has established a comprehensive liquidity monitoring framework whereby management receives daily, weekly and monthly liquidity metrics, liquidity projections and liquidity stress testing results which are monitored against the Court approved Risk Appetite Statement and a suite of Recovery Indicators.<br>• The Group's Funding and Liquidity Risk Framework contains the liquidity policies, systems and controls which the Group has in place to manage funding and liquidity risk within the risk appetite approved by the Court.<br>• The Group completes a comprehensive and forward looking Internal Liquidity Adequacy Assessment Process (ILAAP) on an annual basis which is approved by the Court and considers the adequacy of the Group's liquidity position.<br>• The Group has a well-defined strategic plan which among other factors, articulates and quantifies deposit projections, wholesale funding and lending capacity for all divisions.<br>• The Group has a Contingency Funding Plan and a Recovery Plan which sets out the framework and reporting process for identifying the emergence of liquidity concerns and potential options to remediate.<br>• The Group maintains liquid assets and contingent liquidity available for use with market counterparties and / or in liquidity operations offered by Monetary Authorities. |

| Key risks | Key mitigating considerations |
|---|---|
| **Market risk**<br>The Group is exposed to interest rate, foreign exchange, basis and credit spread risk in its banking and insurance businesses. It also assumes interest rate, foreign exchange and traded credit risk in its trading books. | • The management of market risk, including limits, is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Court.<br>• The Court has established a comprehensive monitoring framework whereby management receives daily, weekly and monthly reports to monitor compliance with the Court's market risk appetite limits and more granular market risk limits and other controls.<br>• The Group substantially reduces its market risk through hedging in external markets.<br>• Value at Risk and extensive stress testing are used to quantify market risks. |
| **Operational risk**<br>The Group is exposed to a broad range of operational risks as a consequence of conducting its day-to-day business activities. Such risks include the continuity of the Group's operations and services; the availability, resilience, stability and security of core IT systems (including those protecting the Group from cybercrime); risks arising from sourcing arrangements; and fraud. | • The Group Risk Appetite Statement incorporates Operational risk appetite statements and limits as approved by the Court.<br>• The Group utilises a number of available strategies in controlling its exposure to operational risk, with the primary strategy being the maintenance of an effective control environment, coupled with appropriate management actions.<br>• Specific policies and risk mitigation measures for operational risks have been put in place, including but not limited to, fraud, information security, sourcing, payments risk, and business disruption risks.<br>• The Group operational risk framework, consisting of processes and standards aims to embed adequate and effective risk management practices within business units throughout the Group.<br>• The Group continues to enhance and invest in its risk management processes including the identification of and controls for potentially elevated / emerging risks such as information technology, fraud, payments risk, business disruption and cybercrime. This enhancement and investment is intended to, over time, improve the Group's risk profile. |
| *Change risk*<br>If the Group fails to manage or deliver that required of a series of major change programmes, this could lead to a deterioration in the Group's results, financial condition and prospects. This also places incremental operational risk management challenges on the Group, which if not successfully managed could have a negative impact on its future relationships with its customers and its regulators. | • A comprehensive integrated IT strategy and plan has been chosen and is being implemented with Court oversight. Implementation is being supported by third party experts of substantial scale and experience. |

| Key risks | Key mitigating considerations |
|---|---|
| **Operational risk (continued)** | |
| *Cybercrime risk*<br>Cyber remains an evolving threat to the Group and its strategic objectives. Increased digital interconnectivity across the Group, its customers and its suppliers has the potential to heighten vulnerability to cyber-attacks, which could disrupt service for customers, and cause financial loss and reputational damage. | • Security programmes are in place to protect the integrity and availability of the Group's systems and mitigate the frequency and impacts of cyber-attacks.<br>• A staff education programme has been implemented on information protection and cyber security. |
| **Regulatory risk**<br>The Group is exposed to regulatory risk if it fails to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. Regulatory risk includes the risk to the Group's capital, liquidity and profitability from the impact of future legislative and regulatory changes. Given the onerous and ever-increasing nature of regulation coupled with increased regulatory oversight and enquiry, potential enforcement action and sanction can and may arise on certain matters from time to time. | • The Group's objective is to be compliant with its regulatory obligations and it has clearly defined roles, accountabilities and management processes that are designed to support this objective.<br>• Business units and Group functions identify, assess, manage, monitor and report regulatory risks and have in place controls mitigating those risks.<br>• Processes support the reporting, investigation, resolution and remediation of incidents of non-compliance.<br>• The Group has adopted a regulatory change framework to support the timely identification and appropriate implementation of regulatory changes.<br>• Processes are in place to identify, assess, manage, monitor and report money laundering, terrorist financing and sanctions related risks as well as controls to mitigate those risks.<br>• The Group Risk Appetite Statement incorporates regulatory risk appetite statements and limits approved by the Court. |
| **Conduct risk**<br>The Group is exposed to conduct risk if the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes. It includes an expectation that customers have their own responsibilities in the conduct of their financial affairs. Conduct risk can arise from a number of areas including selling products to customers which do not meet their needs; failure to be fair and transparent in dealing with customers' complaints effectively; and exhibiting behaviours which do not meet market or regulatory standards. | • The Group has clearly defined expected standards of behaviour, including accountabilities and management processes. These are detailed in the Group Code of Conduct to which all management and staff must adhere. The Group also has in place a Speak-Up Policy which sets out the steps staff can take to raise any concerns they might have of wrongdoing, risk or malpractice in the Group. The Group has put in place a training programme across the Group to support staff and management in this regard.<br>• The Group has a number of strategies to promote and support a customer focused ethos and culture across the Group, including the Group Product Service and Governance Process which governs new product / service development, existing product reviews, end-to-end process reviews and customer interaction metrics.<br>• The Group has implemented processes to support the investigation, resolution, remediation and reporting of incidents of poor conduct to ensure timely remedies are implemented and lessons learnt from such incidences to enable improved processes.<br>• The Group Risk Appetite Statement incorporates a Conduct Risk Appetite Statement and measures as approved by the Court. |

| Key risks | Key mitigating considerations |
|---|---|
| **Life Insurance risk**<br>The Group is exposed to the volatility in the amount and timing of claims caused by an unexpected change in mortality, longevity, persistency or morbidity. | • Underwriting standards and limits are in place and apply throughout the policy lifecycle from risk acceptance to claim settlement.<br>• Reinsurance is used to manage the volatility from both individual claims, and aggregate risk exposures. Coverage is placed with a diversified list of approved counterparties.<br>• The sensitivity of the Group's exposure to life insurance risk is assessed regularly and appropriate levels of capital are held to meet on-going capital adequacy requirements.<br>• Management undertakes a rigorous analysis of claims and persistency experience on a regular basis and monitors these against the assumptions embedded in its valuation and pricing bases so that these can be adjusted to reflect experience. Management undertakes pro-active operational initiatives in order to manage persistency risk. |
| **Business and strategic risk**<br>Business and strategic risk assesses (1) the Group's current business model on the basis of its ability to generate acceptable returns given its quantitative performance, key success drivers and dependencies, and business environment and (2) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns, based on its strategic plans and financial forecasts, and an assessment of the business environment. | • Business divisional strategy is developed within the boundaries of the Group's strategy as well as the Group's Risk Appetite Statement. These strategies are developed within the divisions and challenged, endorsed, supported and monitored by Group functions. The Court receives regular deep dive presentations on key aspects of the Group's strategy.<br>• The Court receives comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans, the monitoring of risks, updates on the economies in which the Group operates, together with developments in the Group's franchises, operations, people, and other business activities.<br>• An independent Court Risk Report is produced quarterly and reviewed by the Group Risk Policy Committee (GRPC), the Court Risk Committee (CRC) and the Court. The content of the report includes an analysis of, and commentary on, the key existing and emerging risk types and also addresses governance, control issues and compliance with risk appetite. |
| *Digital*<br>Rapidly shifting consumer behaviours and the proliferation of device (mobile, tablet, wearable), social, analytical and cloud technologies are changing the way customers research, purchase and manage the products and services they consume. This is reflected in the evolving banking models for consumers and businesses, both in Ireland and internationally, most notably the rise of fintech and neo banks. These developments not only affect the manner in which customers manage their day to day financial affairs and supporting products, but money transmission and data driven integrated services are forecast to rapidly evolve in the coming years, underpinned by regulatory developments including the revised Directive on Payment Services (PSD2) and the General Data Protection Regulation (GDPR). These developments could restrict the Group's ability to realise its market strategies and financial targets, dilute customer propositions and cause reputational damage. | • The Group has an ongoing Court agreed business strategy in place which is typically refreshed on an annual basis and which takes account of digital developments. In the context of that business strategy, the Group assesses and develops its complementary technology strategy to support and mitigate these risks.<br>• Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching 'Integrated Plan' and supporting Integrated Planning Office is in place to ensure the increasing and divergent change demand profile is holistically managed within risk, budgetary and financial constraints.<br>• The Group's policies, standards, governance and control models undergo ongoing review to reference the Group's digital strategy and solutions. |

| Key risks | Key mitigating considerations |
|---|---|
| **Business and strategic risk (continued)**<br>*Brexit*<br>Uncertainty following the UK vote to exit the EU - particularly relating to the nature and impact of withdrawal - could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity. Other effects may include changes in official interest rate policy in both the UK and Eurozone, which can impact the Group's revenues and also the Group's IAS 19 defined benefit pension deficit, and foreign exchange rate changes, which can impact the translation of the Group's UK net assets and profits. | • Bank of Ireland (UK) plc is a separately regulated, capitalised and self-funded business.<br>• The Group's business in the UK is primarily conducted through key partnerships, which reduces the Group's investment in infrastructure and other items of a fixed cost nature.<br>• The Group manages its exposure to interest rate risk, including sterling risk, through the hedging of its fixed-rate customer and wholesale portfolios, the investment of its non-interest bearing liabilities (free funds) and the setting of conservative limits on the assumption of discretionary interest rate risk.<br>• To minimise the sensitivity of the Group's capital ratios to changes in FX rates, the Group maintains reserves in sterling, ensuring that the currency composition of capital is broadly similar to the currency composition of risk weighted assets. |
| **Pension risk**<br>The Group sponsored defined benefit pension schemes are currently in deficit under the IAS19 accounting definition, requiring the Group to set aside capital to mitigate these risks. The defined benefit pension schemes are subject to market fluctuations and these movements impact on the Group's capital position, particularly the Group's Common equity tier 1 capital ratio, which amongst other things, could impact on the Group's dividend capacity. See note 42 Retirement benefit obligations on page 260. | • To help manage pension risk, defined benefit (DB) schemes were closed to new entrants in 2007 and a new hybrid scheme (which included elements of defined benefit and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in 2014 and a new defined contribution scheme was introduced for new entrants to the Group from that date.<br>• In addition, the Group implemented two Pension Review programmes in 2010 and 2013 resulting in significant restructurings of DB scheme benefits which were accepted by unions and by staff through individual staff member consent.<br>• In return for the deficit reduction achieved through these programmes, the Group also agreed to increase its support for the schemes, above existing arrangements, so as to broadly match the IAS 19 deficit reduction arising from the benefit changes, and to facilitate a number of de-risking initiatives.<br>• The Group monitors on an ongoing basis the opportunities, at an appropriate cost, of increasing the correlation between the assets and the liabilities of the scheme. |

| Key risks | Key mitigating considerations |
|---|---|
| **Reputation risk**<br>The Group is exposed to the impact of negative public, industry, government or other key external stakeholder opinions arising from how the Group actually conducts, or is perceived to conduct, its business. The Group is also exposed to practices in the banking industry as a whole or in part, and to consumer, political and other issues arising in the external environment. This can damage the Group's reputation leading, potentially, to a loss of business, fines, increased taxation or other penalties. | • The Group has a Court approved Group Communications strategy in place.<br>• The potential impact on reputation is taken into account in decision making throughout the Group.<br>• All Irish, UK and international media contact, and government, political and administrative stakeholder engagement, is actively managed by Group Communications.<br>• Print, broadcast and social media coverage is monitored on an ongoing basis to ensure awareness of and appropriate response to relevant coverage.<br>• Group Corporate Social Responsibility programme is in place with the Group Responsible Business Report published annually.<br>• The Group maintains a strong focus on internal communications to ensure that staff are kept informed on relevant issues and developments.<br>• All staff are required to comply with the Group Code of Conduct. |
| **Capital adequacy**<br>The Group's business and financial condition would be affected if the Group was, or was considered to be, insufficiently capitalised. This could be caused by a materially worse than expected financial performance and unexpected increases in risk weighted assets. The regulatory requirements imposed on the Group may change in the future, including as part of the annual SREP review conducted by the SSM. Regulatory requirements including the Capital Requirements Directive (CRD IV), the Capital Requirements Regulation (CRR) and the related regulatory and implementing technical standards, the Bank Recovery and Resolution Directive (BRRD), Solvency II, together with future accounting and regulatory reforms and clarifications under consideration, such as IFRS 9 (2018 implementation date) and the review of risk weightings by the Basel Committee as part of the review of the capital framework have the potential to impact the Group's capital requirements. | • The Group closely monitors capital and leverage ratios to ensure all regulatory requirements and appropriate market expectations are met. In addition, these metrics are monitored against the Court approved Risk Appetite Statement and suite of Recovery Indicators.<br>• Comprehensive stress tests / forward-looking ICAAP financial projections are prepared, reviewed and challenged by the Court to assess the adequacy of the Group's capital, liquidity and leverage positions.<br>• The Group has a contingency capital plan which sets out the framework and reporting process for identifying the emergence of capital concerns including potential options to remediate same. |

| Other significant and emerging risks | Key mitigating considerations |
|---|---|
| **Macroeconomic conditions**<br>The Group's businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in Ireland and the UK, unfavourable exchange rate movements, and changes in interest rates, with a potential increase in global protectionism posing an additional risk. | • The Group monitors the risks and impact of changing current and forecast macroeconomic conditions on the likely achievement of the Group's strategy and objectives.<br>• The Group manages its exposures in accordance with key risk policies including maximum single counterparty limits and defined country limits.<br>• The Group has in place a comprehensive stress and scenario testing process. |
| **Geopolitical uncertainty**<br>Geopolitical uncertainties could impact economic conditions in countries where the Group has exposures, market risk pricing and asset price valuations; potentially reducing returns. | • The Group ensures exposures are managed according to approved risk policies which include maximum single counterparty limits and country limits.<br>• The Group is diversified in terms of asset class, industry and funding source. |
| **Resolution risk**<br>As a result of the implementation of the BRRD and SRM Regulation in Ireland and the UK, the relevant authorities have wide powers to impose resolution measures on the Group which could materially adversely affect the Group, as well as the Shareholders and unsecured creditors of the Bank. The Single Resolution Board has the authority to exercise specific resolution powers pursuant to the SRM Regulation similar to those of the competent authorities under the BRRD, including in relation to resolution planning and the assessment of resolvability.<br><br>The exercise of the resolution tools created by the BRRD and exercised by the SRB could result in changes to the structure of the Group. Additionally, the changes to be implemented in respect of the SRM Regulation and the BRRD may have an adverse effect on the Group's business, financial condition, results of operations and / or prospects. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and / or capital requirements. | • The Single Resolution Board (SRB) has advised that its preferred resolution strategy for the Group consists of a single point of entry bail-in strategy, through a group holding company. Pursuant to this strategy and subject to shareholder approval, the Group expects to establish a holding company (HoldCo), which will be the parent company of the Group. The existing structure of the Group is otherwise expected to remain unchanged.<br>• The Group is constructively engaging with resolution authorities, including the Single Resolution Board, in order to meet regulatory expectations in respect of resolvability.<br>• Scenario planning and strategic planning tools are used to identify impacts. |

| Other significant and emerging risks | Key mitigating considerations |
|---|---|
| **Tax rates, legislation and practice**<br>The Group is exposed to the risks associated with a change in tax laws, tax rates, regulations or practice and the risks associated with non-compliance with existing requirements. The Group is also exposed to the risk that tax authorities may take a different view to the Group on the treatment of certain items. Furthermore, failure to demonstrate convincing evidence of the availability of future taxable profits, or changes in tax legislation or government policy may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements. | • The Group has clearly defined tax compliance procedures to identify, assess, manage, monitor and report tax risks and to ensure controls mitigating those risks are in place and operate effectively.<br>• The Group monitors the expected recovery period for deferred tax assets.<br>• The Group monitors potential changes to tax legislation or government policy and considers any appropriate remedial actions. |
| **People risk**<br>People risk relates to inability to recruit and / or retain appropriate numbers and / or calibre of staff and specifically the risk of loss of senior management. | • The Group has a Court approved HR strategy providing it with a range of strategies to enable the Group to retain appropriate numbers and / or calibre of staff having regard to remuneration restrictions imposed by government, tax or regulatory authorities. These include Court Talent Reviews including succession planning, Performance Management Framework, and the Career and Reward Framework. The Group's strategies to attract, retain and align the Group's staff with shareholders' interests are complicated by the ongoing obligations under the undertakings required by and given to the State as part of the support for the Group during the financial crisis. |
| **Risk in relation to Irish Government shareholding**<br>The risk that the Irish Government, which has a c.14% discretionary shareholding in the Group via the Ireland Strategic Investment Fund, uses its voting rights in a way that might not be in the best interests of the Group's private sector shareholders. | • The Minster for Finance and the Group entered into a Relationship Framework Agreement dated 30 March 2012, the terms of which were prepared in the context of EU and Irish competition law and to accommodate considerations and commitments made in connection with the EU / IMF Programme for Financial Support for Ireland.<br>• The Framework Agreement provides, inter-alia that the Minister will ensure that the investment in the Group is managed on a commercial basis and will engage with the Group in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in the Group. |
| **Litigation and regulatory proceedings**<br>Uncertainty surrounding the outcome of disputes, legal proceedings and regulatory investigations as well as potential adverse judgements in litigation or regulatory proceedings remains a risk. | • The Group has processes in place to seek to ensure the Group's compliance with legal and regulatory obligations, together with clear controls in respect of the management and mitigation of such disputes, proceedings and investigations as may be instigated against the Group from time to time. |

| Other significant and emerging risks | Key mitigating considerations |
|---|---|
| **Impact of accounting standards**<br>IFRS 9 is a new accounting standard with an effective date of 1 January 2018. It introduces a forward-looking expected credit losses (ECL) model, which may lead to higher impairment provisions and more volatile impairment charges with a consequent potential impact on capital ratios. The EBA has indicated that the next EU-wide stress test, which will occur in 2018, will include an assessment of the impact of IFRS 9. However, it is not yet clear exactly how the impact of IFRS 9 will be incorporated into that test.<br><br>The Group continues to assess the impact of implementing IFRS 9. Given the complexity of the standard and implementation activity yet to be completed, the Group cannot reliably estimate, at this point, the quantitative impact on classification and measurement, impairment provisions and capital on initial application and thereafter. | • The implementation of IFRS 9 is a major priority for the Group, requiring significant investment. A Group IFRS 9 Programme, responsible for its implementation, has been in place since 2015. The Group IFRS 9 Programme is supported by appropriate external advisors.<br>• The Group IFRS 9 Programme has made good progress on IFRS 9 implementation activities, such as defining default under IFRS 9, the building of models to calculate ECL under IFRS 9 and the development of a high-level approach to 'staging' under IFRS 9.<br>• Potential arrangements for transitional relief for the impact of IFRS 9 on regulatory capital are under consideration at both Basel Committee on Banking Supervision and EU level. The Basel Committee is also considering the longer term interaction between ECL accounting provisions and regulatory capital. The outcome of these considerations is expected to be known during 2017.<br>• Further detail is set out in the credit risk section of the Risk Management Report on pages 108 to 110. |

## 2 Risk management framework

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy and remuneration practices are aligned within its risk and capital management strategies. This integrated approach is set out in the Group Risk Framework, which is approved by the Court of Directors (the Court), following consideration and recommendation by the Court Risk Committee (CRC). It identifies the Group's formal governance process around risk, the framework for setting risk appetite and the approach to risk identification, assessment, measurement, management and reporting. The key components of the Group Risk Framework are detailed below:

**Key Components of Group Risk Framework**

## 2.1 Risk identity, appetite, strategy and culture

The Group's risk identity, appetite, strategy and culture are set by the Court.

**Risk identity**

The Group's risk identity is to be the leading Irish retail, commercial and corporate bank focused on having long term relationships with its customers. The Group's core franchise is in Ireland with income and risk diversification through a meaningful presence in the UK and selected international activities where the Group has proven competencies. The Group will pursue an appropriate return for the risks taken and on capital deployed while operating within prudent board-approved risk appetite parameters to have and maintain a robust, standalone financial position.

**Risk appetite**

Risk appetite defines the amount and type of risk the Group is prepared to accept in pursuit of its financial objectives. It informs Group strategy and, as part of the overall framework for risk governance, forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities.

Risk appetite is defined in qualitative terms as well as quantitatively through a series of high level limits and targets covering areas such as credit risk, market risk, funding and liquidity risk, and capital measures. These high level limits and targets are cascaded where appropriate into more granular limits and targets across portfolios and business units. Risk appetite guides the Group in its risk-taking and related business activities, having regard to managing financial volatility, ensuring solvency and protecting the Group's core franchises and growth platforms. The Group has defined measures to track its profile against the most significant risks that it assumes. Each of these measures has a defined target level or limit, as appropriate, and actual performance is tracked against these target levels or limits.

## 2.1 Risk identity, appetite, strategy and culture (continued)

The Risk Appetite Statement (RAS) includes specific credit limits on sectoral and single name exposures among other qualitative and quantitative risk parameters and it also provides for the implementation of a hierarchy of sectoral credit limits. The RAS is set and approved by the Court following consideration and recommendation by the CRC. It is reviewed at least annually in light of changing business and economic conditions.

**Risk strategy**

The Group's risk strategy is to ensure that the Group has clearly defined its risk appetite, that it is reflected in Group strategy and that it has appropriate risk governance, processes and controls in place as articulated in the Group Risk Framework so it:

- addresses its target markets with confidence;
- protects its balance sheet; and
- delivers sustainable profitability.

The Group seeks to pursue its risk strategy by:

- defining risk identity and risk appetite as the boundary condition for the Group's strategic plan and annual operating plan / budget;
- defining the risk principles upon which risks may be accepted;
- ensuring that all material risks are correctly identified, assessed, measured, managed and reported;
- ensuring that capital and funding considerations shape the approach to risk selection / management in the Group;
- allocating clear roles and responsibilities / accountability for the control of risk within the Group;
- avoiding undue risk concentrations;
- engendering a prudent and balanced risk management culture;
- ensuring that the basis of remuneration for key decision makers is consistent with EBA guidelines, as appropriate; and
- ensuring that the Group's risk management structures remain appropriate to its risk profile and take account of lessons learnt and emerging internal and external factors.

**Risk culture**

Risk culture in the Group encompasses the general awareness, attitude and behaviour of employees to the taking of appropriate risk and the management of risk within the Group. The Court, the CRC, the GRPC, and senior management ensure a strong risk culture underpins risk management in the Group through the Group Risk framework.

A key principle of risk management in the Group is the importance placed on individual responsibility. All relevant staff in the Group are required to understand the basic concepts and benefits of effective risk management and the Group's approach to risk strategy and appetite.

All senior management and relevant staff are required to apply the Group risk management principles in day-to-day operations. Risk management is part of all relevant employees' goals and performance reviews. This helps drive risk-based recognition, incentives and initiatives. All employees are governed by the Group Code of Conduct which is an important expression of the Group's expected standards of behaviour.

Risk culture in the Group has evolved and continues to evolve and mature over time supported by key refinements to organisational structures and governance. These refinements include:

- **Articulation and communication of risk strategy and appetite:** Communication and cascade of the Risk Appetite Statement and Court-approved limits are clear and consistent, businesses understand how those apply to their portfolios and translate these into changes in their daily operations and actions.
- **Structural control framework:** A robust structural control framework including limits, policies, restrictions, rules, monitoring, and controls are integral to risk culture to ensure risk-taking remains within Court-approved risk appetite.
- **Organisational structure and governance:** In 2009, the Group reviewed and redesigned the formal structures required to support risk management. This includes reporting lines, committees, role descriptions, decision rights, delegated authority, key decision processes, etc. This organisational structure has proved effective and is kept under regular review and is subject to incremental enhancements, e.g. annual amendments to committee terms of reference.
- **Policies, processes and training:** Policies and procedures are clear, comprehensive and consistent, communicated and accessible to relevant staff. Processes with clear roles, responsibilities and timelines are in place to enable the timely identification and escalation of issues.
- **Employee development and retention:** A strong risk-aware culture helps attract, grow and retain talented staff, reinforcing business success and risk awareness. Risk goals and priorities are embedded in key HR processes such as recruitment, on-boarding, training, succession planning, and annual performance review.

The Group Remuneration Policy, subject to remuneration restrictions (governmental and legal constraints), as approved by the Group Remuneration Committee, aims to support the Group's objectives of long-term sustainability and success, sound and responsible risk management and good corporate governance.

## 2.1 Risk identity, appetite, strategy and culture (continued)

The policy seeks to ensure, inter alia:

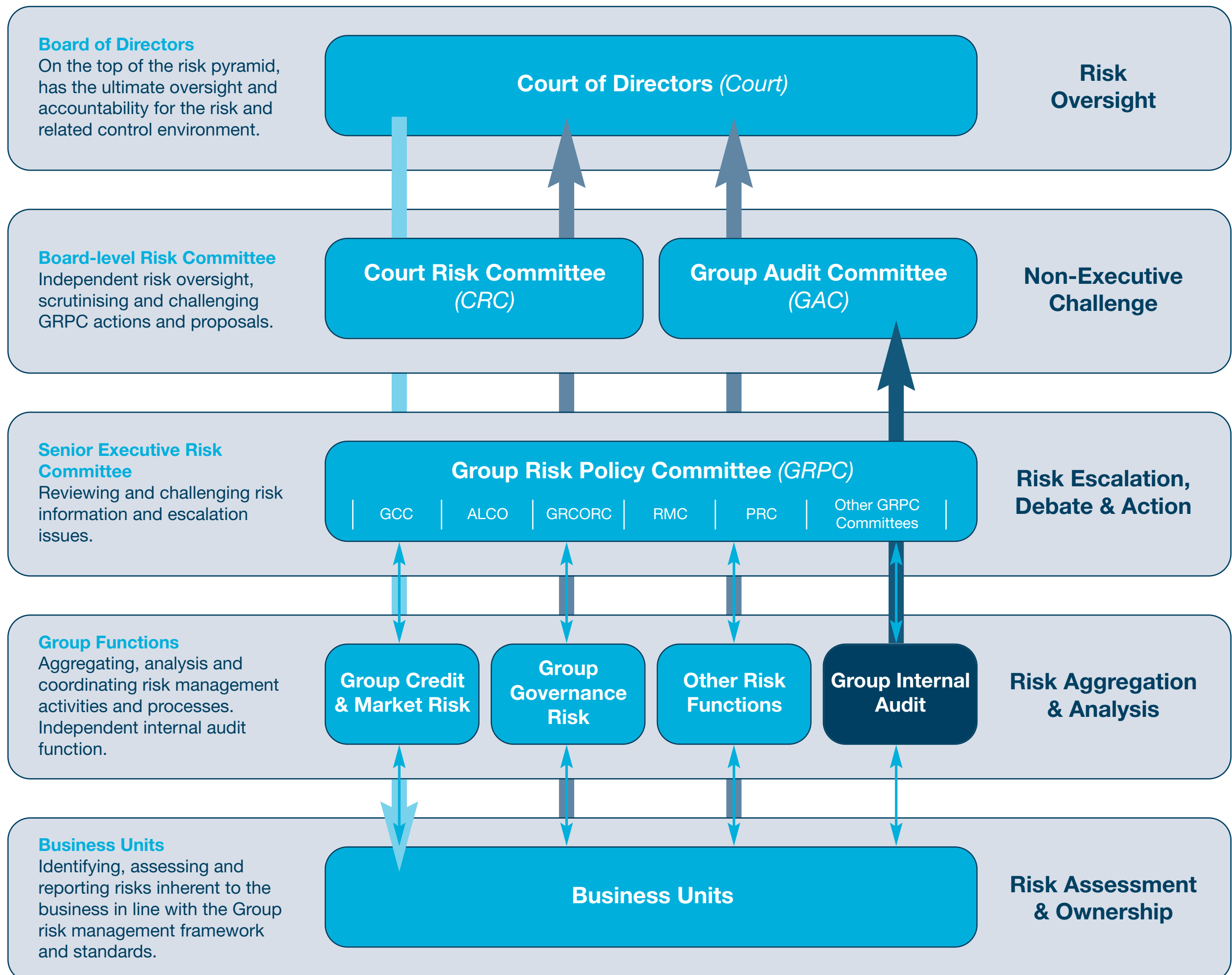
- sound and effective risk management is reflected in performance management and remuneration frameworks and their alignment to performance targets and governance structures;
- remuneration frameworks, policies and practices are applied in consideration of and in alignment with the Group's Risk Appetite Statement and overall risk governance framework;
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and is based on a balanced scorecard approach; and
- remuneration frameworks, policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial, customer and public interests.

Under this Policy, individual performance measures are agreed for each employee through the Group performance management process, using a balanced scorecard approach comprising four quadrants, one of which is Risk.

## 2.2 Risk governance

Risk in the Group is controlled within the risk governance framework which incorporates both the Court, risk committees appointed by the Court (e.g. CRC, Group Audit Committee (GAC)), and also the Group Risk Policy Committee (GRPC) and appointed committees (e.g. Group Credit Committee, Asset & Liability Committee etc.).

**Risk Governance**



## 2.2 Risk governance (continued)

The risk governance framework is supported by the Group's management body, with risk responsibilities extending throughout the organisation based on a three lines of defence approach.

- First line of defence: primary responsibility and accountability for risk management lies with line management in individual businesses and relevant Group functions. They are responsible for the identification and management of risk at business unit / Group function level including the implementation of appropriate controls and reporting to the Group in respect of all major risk events. Business units / Group functions are accountable for the risks arising in their businesses / functions, and are the first line of defence for the Group in managing them.
- Second line of defence: central risk management functions are responsible for maintaining independent risk oversight and ensuring that a risk control framework is in place. They formulate risk policy and strategy, and provide independent oversight & analysis and centralised risk reporting.
- Third line of defence: Group Internal Audit (GIA) provides independent, reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering Group businesses and functions (including outsourcing providers - subject to the right to audit), with ratings assigned as appropriate. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates. Group Credit Review (GCR), an independent function within GIA, is responsible for reviewing the quality and management of credit risk assets across the Group.

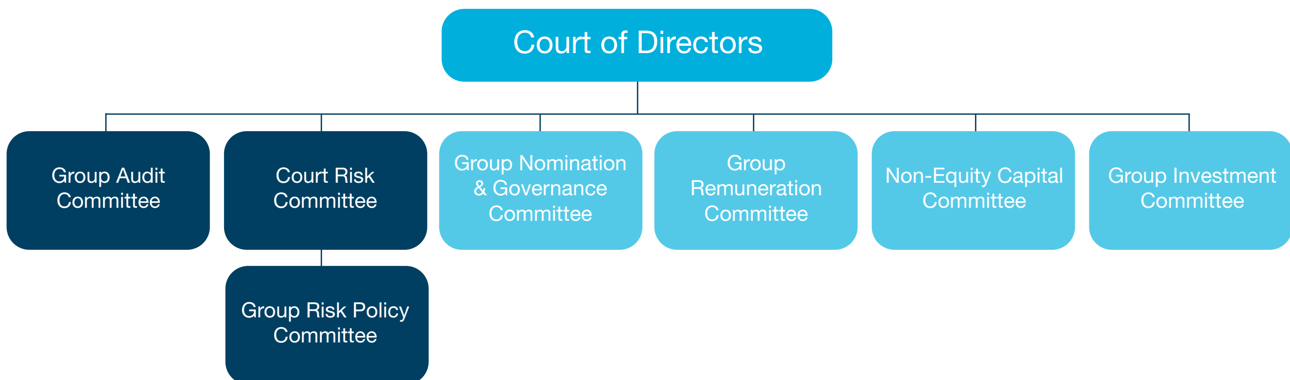
**Risk governance framework**

The Court of Directors is responsible for ensuring that an appropriate system of internal control is maintained and for reviewing its effectiveness.

The identification, assessment and reporting of risk in the Group is controlled through risk committees appointed by the Court and also the GRPC (appointed by the CRC) and its appointed committees.

Each of the risk committees has detailed terms of reference, approved by the Court or their parent committee, setting out their respective roles and responsibilities. In summary, the following are the key responsibilities of the Group's risk committees.

**Court Committees**




- **The Court**, comprising the Governor, nine Non-executive Directors and two Executive Directors, is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives. It approves the Group Risk Framework which identifies the Group's formal governance process around risk and the approach to risk identification, analysis, measurement, management and reporting. It regularly reviews reports on the size and composition of key risks facing the Group as well as the minutes of direct committees. The Court approves the Group's Risk Appetite Statement (incorporating risk identity and high level risk limits), thereby defining the amount and nature of risk the Group is prepared to accept in pursuit of its financial objectives, and forming a boundary condition to strategy. It has reserved authority to review and approve a number of key risk policies.

## 2.2 Risk governance (continued)

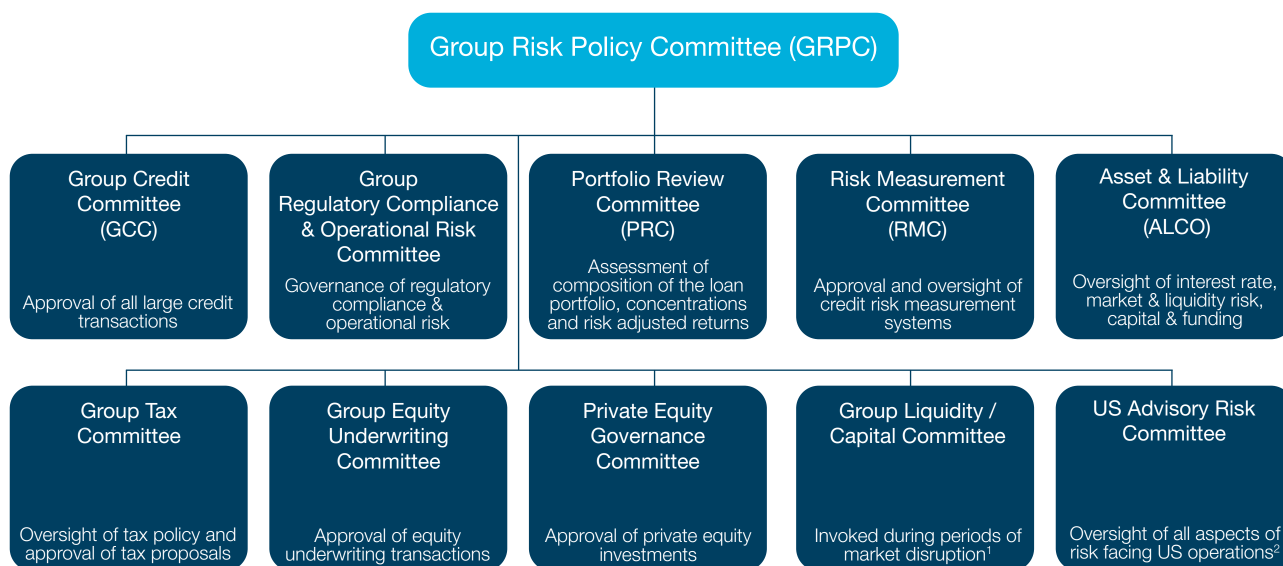
The Court approves the Group's Recovery Plan. The Court also approves the Group Internal Capital Adequacy Assessment Process (ICAAP) report which is a key process for the Group and facilitates the Court and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. The Court also approves the Internal Liquidity Adequacy Assessment Process (ILAAP) report which outlines how the Group assesses, quantifies and manages the key liquidity and funding risks to which it is exposed. and details the Group's approach to determining the level of liquid assets and contingent liquidity required to be maintained both under Business As Usual (BAU) conditions and during periods of stress.

- **The Court Risk Committee** (CRC) comprises Non-executive Directors and its primary responsibilities are to make recommendations to the Court on risk issues where the Court has reserved authority, to maintain oversight of the Group's risk profile (including adherence to Group risk principles, policies and standards), and to approve material risk policies within delegated discretion. It also ensures risks are properly identified and assessed, that risks are properly controlled and managed and that strategy is informed by and aligned with the Group's risk appetite. The committee met 11 times during 2016.

- **The Group Audit Committee** (GAC) comprises Non-executive Directors. In close liaison with the CRC, it reviews the appropriateness and completeness of the system of internal control, reviews the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintains an effective system of internal control. It assists the Court in meeting obligations under relevant Stock Exchange Listing Rules, and under applicable laws and regulations, as well as other regulatory requirements (e.g. Pillar III Disclosures), and monitors the integrity of the financial statements. The committee met 10 times during 2016.

**The Group Risk Policy Committee (GRPC)** is the most senior management risk committee and reports to the CRC. It is chaired by the Chief Credit and Market Risk Officer (CCMRO) and its membership comprises members of the Group Executive team and Group wide divisional and control function executives. It met 30 times during 2016. The GRPC is responsible for managing all risk types across the Group, including monitoring and reviewing the Group's risk profile and compliance with risk appetite and other approved policy limits, approving risk policies and actions within discretion delegated to it by the CRC. The GRPC reviews and makes recommendations on all risk matters where the Court and the CRC has reserved authority. The CRC oversees the decisions of the GRPC through a review of the GRPC minutes and reports from the Committee Chairman. The GRPC delegates specific responsibility for oversight of the major classes of risk to committees that are accountable to it. The relevant committees are set out in the following diagram.

**Management Risk Committees**




*[1] The committee ceased meeting in 2013 as circumstances no longer warranted its invocation.*
*[2] Established in compliance with the Dodd-Frank Act.*

## 2.2 Risk governance (continued)

**Management oversight of risk**
Consistent with the three lines of defence approach to risk management, business units and relevant Group functions are the first line of defence and are accountable for the risks in their business unit / Group function and are responsible for the identification and management of those risks.

Central risk and Group management functions are responsible for establishing a risk control framework and for risk oversight. These are referred to as 'Risk Owners'.

Risk Owners are responsible for ensuring that:

- a policy or a process is in place for the risks assigned to them;
- exposure to the risk is correctly identified, assessed according to the Group's materiality criteria, and reported; and
- identified risk events are appropriately managed or escalated.

There are two key functions in the Group responsible for managing different aspects of risk - the Credit & Market Risk function and Group Governance Risk function:

- Credit & Market Risk is responsible for the independent oversight of credit risk and the monitoring of market risk within the Group as well as for the centralised management of certain challenged portfolios. It assists the Court in the setting of risk appetite for the Group and the formulation of Credit & Market Risk policies. It is also responsible for oversight of risk models and for integrated risk reporting within the Group; and
- Group Governance Risk is responsible for the management of regulatory, compliance and operational risk, Group Legal Services and the Group Secretariat.

Changes to the Group's risk structure which include creation of the role of Chief Risk Officer and revised Group Compliance and Regulatory Risk structures were announced in Q4 2016 for implementation in 2017.

In addition a number of other Group functions have responsibility for the Group's other key risk types, namely Group Treasury (funding and liquidity risk), Group Communications (reputation risk) and Group Finance (pension risk). Business and strategic risk is managed by the relevant Divisional Chief Executive Officers, with risk ownership assigned to Group Strategy & Development and Group Finance; life insurance risk is managed within NIAC, an independent regulated subsidiary with its own independent board, with risk ownership assigned to the NIAC Actuarial and Finance Director.

## 2.3 Risk identification, measurement and reporting

**Risk identification**
Risks facing the Group are identified and assessed annually through the Group's annual Risk Identification Process. Arising out of the Risk Identification Process, the identified risks are aggregated and the key risk types are identified which could have a material impact on the Group's earnings, capital adequacy and / or on its ability to trade in the future. These key risk types, of which there are currently ten, form the basis on which risk is managed and reported in the Group.

A risk owner is assigned to each key risk category and appropriate policies and / or processes put in place and a formalised measurement and management process defined and implemented.

**Business and strategic risk** is the volatility of the Group's projected outcomes (including income, net worth or reputation) associated with damage to the franchise or operational economics of a business and reflected in the income or net worth of the Group. It includes volatilities caused by changes in the competitive environment, new market entrants, new products or failure to develop and execute a strategy or anticipate or mitigate a related risk.

Typically business risk occurs in a one year timeframe and relates to volatilities in earnings caused by changes in the competitive environment, new market entrants and / or the introduction of new products or inflexibility in the cost base.

Strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings arising from failure to develop or execute an appropriate strategy.

Also covered is accounting risk as it can also be caused by decisions taken with regard to the account and balance sheet structure of the Group.

**Conduct risk** is the risk that the Group or its staff conducts business in an inappropriate or negligent manner that leads to adverse outcomes for the customer or the Group. It comprises staff, customer and market conduct 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 includes but is not limited to country risk, counterparty risk, currency market risk, collateral risk, concentration risk and settlement risk.

## 2.3 Risk identification, measurement and reporting (continued)

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.

**Life insurance risk** is the volatility in the amount and timing of claims caused by unexpected changes in mortality, morbidity, persistency, longevity and expenses.

- **Mortality risk** is the risk of deviations in timing and amounts of cash flows due to the incidence or non-incidence of death.
- **Longevity risk** is the risk of such deviations due to increasing life expectancy trends among policyholders and pensioners, resulting in higher than normal payout ratios.
- **Persistency risk** is the risk to profitability if policies surrender early as the company will lose the future income streams on these contracts.
- **Morbidity risk** is the risk of deviations in timing and amount of cash flows (such as claims) due to incidence or non-incidence of disability and sickness.
- **Expenses:** Expense assumptions are used to determine the expected costs of maintaining the life insurance portfolio. Profit or loss will arise if the actual expenses differ to expectation.

**Funding and liquidity risk** is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven by, amongst other things, the maturity structure of loans and investments held by the Group, while cash outflows are driven by inter alia, the term maturity of debt issued by the Group and outflows from deposit accounts held for customers. Liquidity risk can arise due to the unexpected lengthening of maturities or non-payment 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.

**Market risk** is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking.

Market risk arises through the conduct of customer business, particularly in fixed-rate lending and the execution of derivatives and foreign exchange business. This risk is substantially eliminated through hedging in external markets. Within limits and policy, Bank of Ireland Global Markets is permitted to seek to generate income from leaving some customer-originated or intra-Group originated risk unhedged or through assuming risk pro-actively in the market.

Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet, the multi-currency nature of the Group's balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk).

**Operational risk** is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

This risk comprises business continuity risk, information security, cybercrime risk, unauthorised trading risk, fraud, payments risk, sourcing risk, legal & contractual risk, technology risk, model risk, insurable risk, data quality and reliability, regulatory reporting and disclosure risk.

**Pension risk** is the risk in the Group's defined benefit pension schemes that the assets are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities. This risk crystallises for the sponsor when a deficit emerges of a size which implies a material probability that the liabilities will not be met.

**Regulatory risk** is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. It also includes the risk to the Group's capital, liquidity and profitability from the impact of future legislative and regulatory changes.

**Reputation risk** is the risk to earnings or franchise value arising from an adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners. This risk typically materialises through a loss of business in the areas affected.

In addition to, and separate from, the Group's Risk Identification Process, a review of the top five risks facing the Group is carried out on a semi-annual basis. This review facilitates a senior management assessment of any new or emerging macro threats to the Group, independent of the risk management and reporting structures that apply to the above key risk types. Members of the Group Executive Committee (GEC) and the GRPC identify and rank the top five risks facing the Group for consideration by the CRC and the Court. The following criteria are used to identify and assess the top five risks:

- the severity of the risk in terms of materiality and the length of time it would take the Group to recover;
- the likelihood of the risk occurring; and
- the impact of the risk, taking mitigants and likelihood into account.

## 2.3 Risk identification, measurement and reporting (continued)

**Risk measurement**
The identified key risk types are actively analysed and measured in line with the formalised policies and management processes in place for each risk type.

For credit, market, liquidity, operational, pension, market and life insurance risk, risk models are used to measure, manage and report on these respective risk types. Risk concentrations, in particular for credit risk and funding and liquidity risk, could lead to increased volatility in the Group's expected financial outcomes. Risk limits and diversification, together with regular review processes, are in place to manage such risk concentrations. Additionally, the Group's calculation of economic capital takes into consideration the extent to which credit concentration risk exists in respect of single name, sector and geography.

At Group level, common measures and approaches for risk aggregation and measurement have also been adopted, in order to inform operational and strategic plans and to steer the business within the boundaries of its risk appetite. These include one-year or multi-year forecasting / stress testing and a capital allocation framework which incorporates economic capital modelling and risk adjusted return analysis.

The Group uses a suite of risk measurement models and systems to support decision-making processes at transaction and portfolio levels, e.g. approving a loan facility to a borrower.

The common measure of return on risk used by the Group is Risk Adjusted Return on Capital (RAROC). RAROC provides a uniform measure of performance that the Group utilises to analyse the economic profitability of businesses with different sources of risk and different capital requirements.

Forecasting and stress testing are risk management tools used by the Group to inform potential risk outcomes under different scenarios and mitigating actions.

The Group conducts solvency stress tests in order to assess the impacts of severe but plausible scenarios on the Group's impairment charges on financial assets, deleveraging losses, earnings, capital adequacy, liquidity and financial prospects.

The results of solvency stress tests are used to assess the Group's resilience to severe scenarios and to aid the identification of potential areas of vulnerability. The tests are applied to the existing risk exposures of the Group and also consider changing business volumes as envisaged in the Group's business plans and strategies. Macroeconomic scenarios of different levels of severity are combined with assumptions on volume changes and margin development. Impacts are measured in terms of potential impairment charges on financial assets, earnings, capital adequacy, liquidity and financial prospects. Solvency stress test results are presented to the GRPC, the CRC and the Court.

The Group also performs other scenario analyses and stress tests to measure exposure to liquidity risk, operational risk, life insurance and market risk to inform management and limit setting of individual risks.

**Risk reporting**
The key risk types identified under the Group's risk identification process are assessed and their status is reported quarterly by the CCMRO in the Court Risk Report which is reviewed by the GRPC, the CRC and the Court. The content of the report includes an analysis of and commentary on all key risk types as set out on pages 77 and 78. Updates on risk dashboards and risk appetite compliance are provided on a monthly basis.

The Court Risk Report forms the top of a reporting hierarchy with more detailed risk information being considered by divisional level management.

The CRC also receives risk information through its review of the GRPC minutes and through investigations carried out into specific risk matters.

# 3 Management of key Group risks

## 3.1 Credit risk

**Key points:**

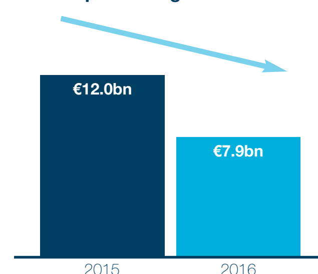
- The macroeconomic environment and outlook in Ireland and the UK, which are the Group's key markets, continued to be favourable in 2016, noting the result of the UK's referendum, which has introduced uncertainty but has had no immediate impact on credit quality.
- Asset quality trends have continued to improve in line with expectations.
- Total loans and advances to customers (before impairment provisions) decreased to €82.4 billion at 31 December 2016 from €90.6 billion at 31 December 2015, with sterling weakness impacting together with reductions in non-core, non-performing and tracker mortgage portfolios.
- Non-performing loans have reduced to €7.9 billion at 31 December 2016, from €12 billion at 31 December 2015, with reductions across all asset classes. Non-performing loans comprise defaulted loans of €6.9 billion (down from €10.6 billion at 31 December 2015) and probationary residential mortgages of €1.0 billion (down from €1.4 billion at 31 December 2015). Non-performing loans have reduced by 50% over the last two years.
- The reduction in non-performing loans in 2016 reflects the Group's ongoing progress with resolution strategies that include appropriate and sustainable support to customers who are in financial difficulty, facilitated by the continued positive economic environment in key markets.
- Provision cover on non-performing loans was 49% at 31 December 2016, unchanged from 31 December 2015.
- Total impairment charges on loans and advances to customers of €176 million have fallen significantly on the prior year (31 December 2015: €296 million). This reflects the strong performance of the Group's loan portfolios, the ongoing reductions in non-performing loans, and a continued positive economic environment during the year in the countries in which the Group's portfolios are located.

### Definition of Credit Risk

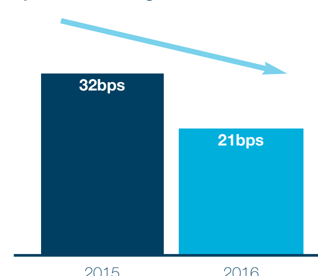
*(audited except where denoted as unaudited)*

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes but is not limited to country risk, counterparty risk, currency market risk, collateral 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. Risk appetite measures for credit risk are set by the Court. 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.

**Non-performing loan volumes**




**Impairment charges on customer loans**



## 3.1 Credit risk (continued)

### Definition of Credit Risk (continued)

**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 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 expected financial outcome. 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** *(unaudited)*
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 2016, the Group's 20 largest exposures reported under the Capital Requirements Regulation (CRR) large customer exposures regulatory regime, excluding exempt exposures defined by the CRR, amounted to €6.3 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 57.

## 3.1 Credit risk (continued)

### Credit risk management *(audited)*

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 and market risks, 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.

**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 judgement and experience. Material lending proposals are referred to credit units for independent assessment / approval or formulation of a recommendation for subsequent adjudication by the applicable approval authority.

**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 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.

### Credit risk measurement *(audited)*

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 102 and 103.

**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 103. 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 2016 is set out in note 27.

## 3.1 Credit risk (continued)

### Credit risk mitigation *(audited)*

An assessment of the borrower's ability to service and repay the proposed level of debt (principal repayment source) is undertaken for credit requests and is a key element in the Group's approach to mitigating risk. In addition, the Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks should these materialise, including hedging, securitisation 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 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 the table 3c on pages 367 and 386.

**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.

## 3.1 Credit risk (continued)

### Credit risk reporting / monitoring *(audited)*

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.

### Management of challenged assets *(audited)*

The Group has in place a range of initiatives to manage challenged and vulnerable credit. These include:
- enhanced collections and recoveries processes;
- specialist work-out teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions;
- 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 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;

## 3.1 Credit risk (continued)

### Management of challenged assets (continued)

- 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. A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a 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.

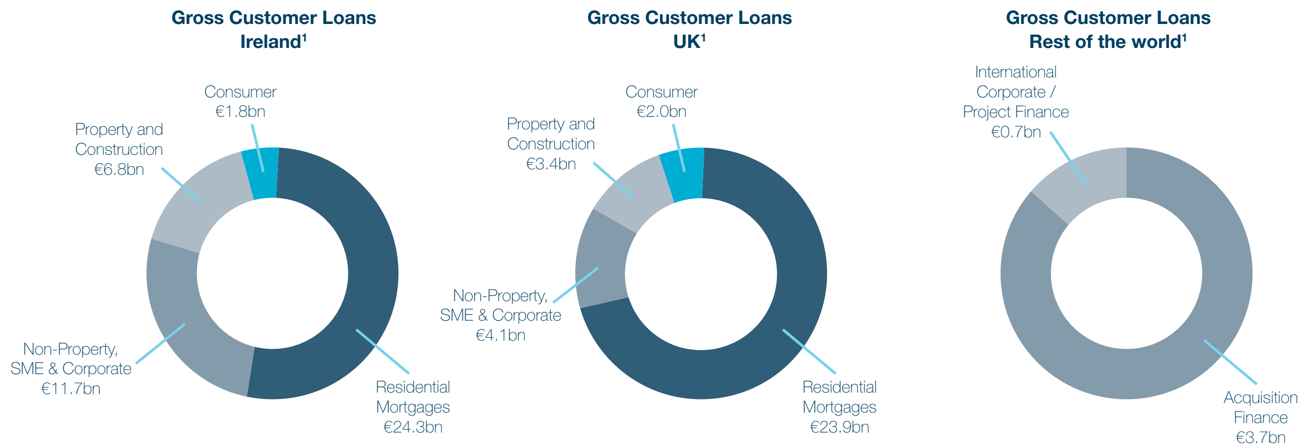
The Group does not currently apply a set time period after which the forbearance classification on a performing forborne loan is discontinued. Borrower compliance with revised terms and conditions may not be achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continue to deteriorate, or fail to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met.

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

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

## 3.1 Credit risk (continued)

### Book profile - Loans and advances to customers *(unaudited)*




[1] *The geographical breakdown is based on the location of the customer.*

Loans and advances to customers are shown in the tables below and in the tables on pages 91 to 100.

**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 2016**<br>**Geographical / industry analysis[1]** | **RoI**<br>**€m** | **UK**<br>**€m** | **RoW**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|
| Personal | 26,144 | 25,874 | - | 52,018 |
| *- Residential mortgages* | *24,329* | *23,878* | - | *48,207* |
| *- Other consumer lending* | *1,815* | *1,996* | - | *3,811* |
| Property and construction | 7,076 | 3,268 | - | 10,344 |
| *- Investment* | *6,335* | *2,986* | - | *9,321* |
| *- Land and development* | *741* | *282* | - | *1,023* |
| Business and other services | 6,069 | 2,031 | 544 | 8,644 |
| Distribution | 2,501 | 172 | 65 | 2,738 |
| Manufacturing | 2,785 | 567 | 589 | 3,941 |
| Transport | 1,264 | 141 | 72 | 1,477 |
| Financial | 707 | 67 | 30 | 804 |
| Agriculture | 1,536 | 320 | - | 1,856 |
| Energy | 463 | 60 | 17 | 540 |
| **Total** | **48,545** | **32,500** | **1,317** | **82,362** |

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

## 3.1 Credit risk (continued)

### Book profile - Loans and advances to customers (continued)

| 31 December 2015<br>Geographical / industry analysis[1] | RoI<br>€m | UK<br>€m | RoW<br>€m | Total<br>€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.*

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 59% of total loans and advances to customers at 31 December 2016 (31 December 2015: 59%). 50% of Residential mortgages related to Ireland (31 December 2015: 47%) and 50% related to the UK at 31 December 2016 (31 December 2015: 53%) with the change in mix driven by the impact of sterling depreciation during the period. At 31 December 2016, the Group's UK Residential mortgage book (before impairment provisions) amounted to £20.4 billion (31 December 2015: £20.5 billion).

The Property and construction sector accounted for 12% or €10.3 billion of total loans and advances to customers at 31 December 2016 (31 December 2015: 15% or €13.4 billion), with the reduction in exposure reflecting the Group's ongoing resolution activity in this sector (Property and construction non-performing loans reduced by €2.1 billion in the year). The Group's Property and construction loan book consists primarily of Investment property loans.

## 3.1 Credit risk (continued)

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

For an analysis of the Group's impairment charge on forborne loans and advances to customers see page 413 in the supplementary asset quality and forbearance disclosures.

| **Impairment charges / (reversals) on loans and advances to customers** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m | Change % |
|---|---|---|---|
| Residential mortgages | (142) | (96) | (48%) |
| *- Retail Ireland* | *(141)* | *(84)* | *(68%)* |
| *- Retail UK* | *(1)* | *(12)* | *92%* |
| Non-property SME and corporate | 113 | 149 | (24%) |
| *- Republic of Ireland SME* | *44* | *86* | *(49%)* |
| *- UK SME* | *2* | *(2)* | *n/m* |
| *- Corporate* | *67* | *65* | *3%* |
| Property and construction | 213 | 246 | (13%) |
| *- Investment* | *143* | *173* | *(17%)* |
| *- Land and development* | *70* | *73* | *(4%)* |
| Consumer | (8) | (3) | n/m |
| **Total impairment charges / (reversals) on loans and advances to customers** | **176** | **296** | **(41%)** |

**Impairment charges on loans and advances to customers** of €176 million for the year ended 31 December 2016 were €120 million or 41% lower than the previous year. The significant reduction in impairment charges in 2016 reflects the strong performance of the Group's loan portfolios, the ongoing reductions in non-performing loans, and a continued positive economic environment during the year in the countries in which the Group's portfolios are located.

The significant reductions in non-performing loans reflect our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty. For details on the composition, non-performing loans and impairment provisions of the Group's loans and advances to customers see page 95.

The impairment reversal on **Residential mortgages** of €142 million for the year ended 31 December 2016 compares to an impairment reversal of €96 million in the previous year.

The impairment reversal on the Retail Ireland mortgage portfolio of €141 million during the year compares to an impairment reversal of €84 million in the previous year, and reflects positive underlying book performance and cure activity. Retail Ireland mortgage default arrears reduced by 28% during 2016, with reductions achieved in both the Owner occupied and Buy to let market segments. Retail Ireland mortgage default arrears have reduced by almost half over the last two years.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €113 million for the year ended 31 December 2016 has decreased by €36 million or 24% compared to the previous year. Overall lower impairment charges reflect the Group's intensive management and appropriate support for business customers in financial difficulty, together with improved macroeconomic and trading conditions.

The impairment charge on the **Property and construction** loan portfolio of €213 million for the year ended 31 December 2016 has decreased by €33 million or 13% from the previous year. The impairment charge on the Investment property element of the Property and construction portfolio was €143 million for the year ended 31 December 2016 compared to €173 million in the previous year. The impairment charge on the Land and development portion was €70 million for the year ended 31 December 2016 compared to €73 million in the previous year. Impairment charges for the year ended 31 December 2016 on the Property and construction exposures were related to individual case specific events and resolution activities.

The impairment reversal of €8 million on **Consumer** loans reflects continued positive macroeconomic conditions, with lower levels of default and higher recoveries particularly in the Retail Ireland Consumer portfolios.

## 3.1 Credit risk (continued)

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

| Impairment charge by nature of impairment provision | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Specific charge individually assessed | 376 | 541 |
| Specific charge collectively assessed | (106) | (136) |
| Incurred but not reported | (94) | (109) |
| **Total impairment charge** | **176** | **296** |

| Impairment provision by nature of impairment provision | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Specific provisions individually assessed | 2,967 | 4,647 |
| Specific provisions collectively assessed | 424 | 628 |
| Incurred but not reported | 494 | 611 |
| **Total impairment provision** | **3,885** | **5,886** |

Individual and collective specific provisions at 31 December 2016 are after provisions utilised in the period of €2.1 billion as set out in note 27 on page 245.

The decrease in individual specific provisions in 2016 reflects the impact of provisions utilised during the period, 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 period reflects the impact of provisions utilised activity in the collectively assessed portfolios and to a lesser extent, an increase in the proportion of Irish mortgage loans subject to individual, rather than collective, assessment for provisioning.

Incurred but not reported (IBNR) impairment provisions decreased by €117 million to €494 million at 31 December 2016. The reduction in IBNR impairment provisions reflects a combination of the improved risk profile and a decrease in the volume of loans assessed for IBNR provisions.

### Asset Quality - Loans & advances to customers *(audited except where denoted unaudited)*

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).

**‘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

## 3.1 Credit risk (continued)

### Asset Quality - Loans & advances to customers (continued)

scale, grades 1 and 2 on the seven point grade scale. These ratings are broadly aligned 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 and grade 3 on the seven point grade scale. These ratings are broadly 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 and grade 4 within the seven point scale. These ratings are broadly equivalent to external ratings of 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, or will be, subject to the successful completion of a 12 month probation period. Upon successful completion of this probation period, these mortgage loans will be reported as performing loans.
- '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. Upon successful completion of this probation period, these mortgage loans will be reported as performing loans. 'Forborne' probationary mortgages also includes those mortgages which were previously defaulted, and are now in a 'full interest' forbearance arrangement, regardless of whether they have successfully completed a 12 month probation period.

**'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.

# 3.1 Credit risk (continued)

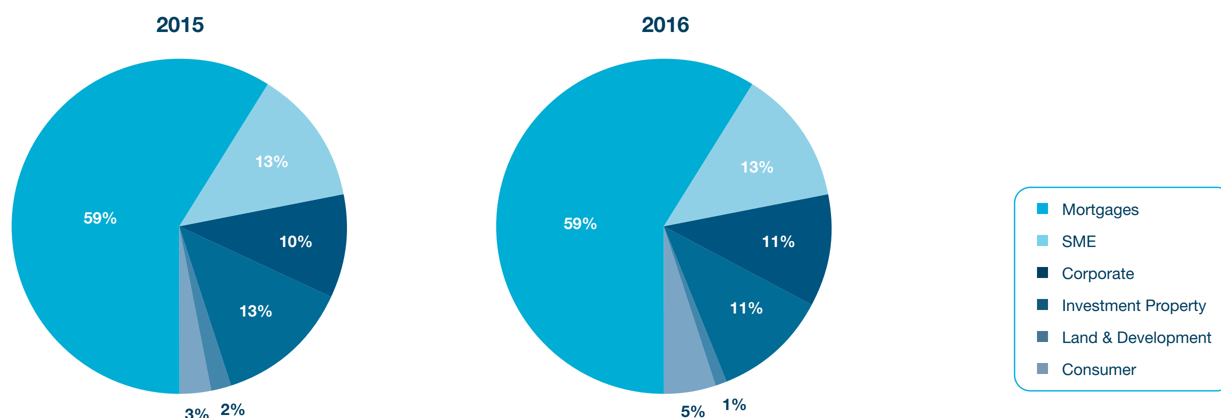
## Asset Quality - Loans & advances to customers (continued)

**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 2016 €m | 31 December 2016 % | 31 December 2015 €m | 31 December 2015 % |
|---|---|---|---|---|
| Residential mortgages | 48,207 | 59% | 52,905 | 59% |
| *- Retail Ireland* | *24,329* | *30%* | *24,991* | *28%* |
| *- Retail UK* | *23,878* | *29%* | *27,914* | *31%* |
| Non-property SME and corporate | 20,000 | 24% | 20,994 | 23% |
| *- Republic of Ireland SME* | *8,808* | *11%* | *9,285* | *10%* |
| *- UK SME* | *1,909* | *2%* | *2,386* | *3%* |
| *- Corporate* | *9,283* | *11%* | *9,323* | *10%* |
| Property and construction | 10,344 | 12% | 13,357 | 15% |
| *- Investment* | *9,321* | *11%* | *11,388* | *13%* |
| *- Land and development* | *1,023* | *1%* | *1,969* | *2%* |
| Consumer | 3,811 | 5% | 3,339 | 3% |
| **Total loans and advances to customers** | **82,362** | **100%** | **90,595** | **100%** |

*Unaudited:*




The Group's loans and advances to customers before impairment provisions at 31 December 2016 were €82.4 billion compared to €90.6 billion at 31 December 2015, a decrease of €8.2 billion, with currency translation and reductions in non-performing loans accounting for substantially all of the reduction. New lending during the year was offset by redemptions and repayments.

At 31 December 2016, €44.6 billion or 54% of the Group's loans and advances to customers before impairment provisions related to Ireland[1] (31 December 2015: €46.4 billion or 51%) and €33.4 billion or 40% related to the UK[1] (31 December 2015: €39.8 billion or 44%). Lower UK customer exposure at 31 December 2016 compared to 31 December 2015 reflects the combined impact of sterling depreciation, redemptions and repayments during the year.

While the distribution of the Group's loans and advances to customers by loan portfolio was broadly similar at 31 December 2016 and at 31 December 2015, the proportion of Property and construction loans was 12%, compared to 15% at 31 December 2015, primarily reflecting a significant reduction in non-performing loans in this portfolio.

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 408 and 409 in the supplementary asset quality and forbearance disclosures.

[1] *The geographical breakdown is primarily based on the location of the customer.*

## 3.1 Credit risk (continued)

### Asset Quality - Loans & advances to customers (continued)

**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 2016**<br>**Risk profile of loans and advances to customers (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 | 41,803 | 5,821 | 2,847 | 3,402 | 53,873 | 65% |
| Satisfactory quality | 1,612 | 9,294 | 1,863 | 224 | 12,993 | 16% |
| Acceptable quality | 1,305 | 1,820 | 1,412 | 22 | 4,559 | 6% |
| Lower quality but neither past due nor impaired | 408 | 980 | 1,181 | - | 2,569 | 3% |
| **Neither past due nor impaired** | **45,128** | **17,915** | **7,303** | **3,648** | **73,994** | **90%** |
| Past due but not impaired | 1,445 | 126 | 213 | 59 | 1,843 | 2% |
| Impaired | 1,634 | 1,959 | 2,828 | 104 | 6,525 | 8% |
| **Total loans and advances to customers** | **48,207** | **20,000** | **10,344** | **3,811** | **82,362** | **100%** |

| 31 December 2015<br>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% |

*Unaudited:*

Loans and advances to customers classified as **'neither past due nor impaired'** amounted to €74.0 billion at 31 December 2016, a reduction of €4.1 billion compared to €78.1 billion at 31 December 2015.

The **'past due but not impaired'** category amounted to €1.8 billion at 31 December 2016 compared to €2.5 billion at 31 December 2015.

**'Impaired'** loans decreased to €6.5 billion at 31 December 2016 from €10.0 billion at 31 December 2015. 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 property asset sales activity, 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 408 and 409 in the supplementary asset quality and forbearance disclosures.

## 3.1 Credit risk (continued)

### Asset Quality - Loans & advances to customers (continued)

**'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 2016**<br>**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 | 453 | 90 | 29 | 35 | 607 |
| Past due 31 - 60 days | 455 | 15 | 95 | 18 | 583 |
| Past due 61 - 90 days | 152 | 21 | 89 | 6 | 268 |
| Past due greater than 90 days but not impaired | 385 | - | - | - | 385 |
| **Past due but not impaired** | **1,445** | **126** | **213** | **59** | **1,843** |
| Impaired | 1,634 | 1,959 | 2,828 | 104 | 6,525 |
| **Total loans and advances to customers - past due and / or impaired** | **3,079** | **2,085** | **3,041** | **163** | **8,368** |

| 31 December 2015<br>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 |

*Unaudited:*

Loans and advances to customers classified as **'past due and / or impaired'** amounted to €8.4 billion at 31 December 2016 compared to €12.5 billion at 31 December 2015. The reduction in 'past due and / or impaired' loans in the period 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 410 and 411 in the supplementary asset quality and forbearance disclosures.

## 3.1 Credit risk (continued)

### Asset Quality - Loans & advances to customers (continued)

**Non-performing loans**

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

| **31 December 2016**<br>**Risk profile of loans and advances to customers - non-performing loans[1]** | **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 | 1,017 | | | | |
| *- Self-cure* | *534* | | | | |
| *- Forborne* | *483* | | | | |
| Defaulted loans | 2,019 | 1,959 | 2,828 | 104 | 6,910 |
| *- Past due greater than 90 days but not impaired* | *385* | *-* | *-* | *-* | *385* |
| *- Impaired* | *1,634* | *1,959* | *2,828* | *104* | *6,525* |
| **Total loans and advances to customers - non-performing** | **3,036** | **1,959** | **2,828** | **104** | **7,927** |

| 31 December 2015<br>Risk profile of loans and advances to customers including held for sale - non-performing loans[1] | 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 |

*[1] 'Non-performing' loans includes probationary residential mortgages of €1,017 million (31 December 2015: €1,429 million) across Retail Ireland €528 million (31 December 2015: €727 million) and Retail UK €489 million (31 December 2015: €702 million). Retail Ireland probationary residential mortgages comprise €110 million 'Self-cure' and €418 million 'Forborne' probationary mortgages (31 December 2015: €171 million and €556 million respectively). Retail UK probationary residential mortgages comprise €424 million 'Self-cure' and €65 million 'Forborne' probationary mortgages (31 December 2015: €618 million and €84 million respectively).*

## 3.1 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 2016**<br>**Total loans and advances to customers**<br>**Composition and impairment** | **Advances (pre-impairment) €m** | **Non-performing loans €m** | **Non-performing loans as % of advances %** | **Impairment provisions €m** | **Impairment provisions as % of non-performing loans %** |
|---|---|---|---|---|---|
| Residential mortgages | 48,207 | 3,036 | 6.3% | 988 | 33% |
| *- Retail Ireland* | *24,329* | *2,205* | *9.1%* | *911* | *41%* |
| *- Retail UK* | *23,878* | *831* | *3.5%* | *77* | *9%* |
| Non-property SME and corporate | 20,000 | 1,959 | 9.8% | 1,082 | 55% |
| *- Republic of Ireland SME* | *8,808* | *1,487* | *17.0%* | *797* | *54%* |
| *- UK SME* | *1,909* | *145* | *7.6%* | *78* | *53%* |
| *- Corporate* | *9,283* | *327* | *3.5%* | *207* | *63%* |
| Property and construction | 10,344 | 2,828 | 27.3% | 1,717 | 61% |
| *- Investment* | *9,321* | *2,116* | *22.7%* | *1,198* | *57%* |
| *- Land and development* | *1,023* | *712* | *69.6%* | *519* | *73%* |
| Consumer | 3,811 | 104 | 2.7% | 98 | 94% |
| **Total loans and advances to customers** | **82,362** | **7,927** | **9.6%** | **3,885** | **49%** |

| 31 December 2015<br>Total loans and advances to customers including held for sale<br>Composition and impairment | Advances (pre-impairment) €m | Non-performing loans €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% |

*Unaudited:*

**Loans and advances to customers (pre-impairment)** at 31 December 2016 were €82.4 billion compared to €90.6 billion at 31 December 2015, a decrease of €8.2 billion, with currency translation and reductions in non-performing loans accounting for substantially all of the reduction.

**Non-performing loans** decreased to €7.9 billion at 31 December 2016 from €12.0 billion at 31 December 2015, with reductions evident across all of the Group's portfolios. Non-performing loans at 31 December 2016 comprise defaulted loans of €6.9 billion, compared to €10.6 billion at 31 December 2015, and probationary mortgages of €1.0 billion, compared to €1.4 billion at 31 December 2015. Notably non-performing loans have reduced by 50% over the last two years.

## 3.1 Credit risk (continued)

### Asset Quality - Loans & advances to customers (continued)

*Unaudited:*

The reduction in non-performing loans in the period reflects the Group's ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers in financial difficulty, facilitated by the continued positive economic environment in key markets. Resolution strategies include the realisation of cash proceeds from property asset sales activity, and, where appropriate, have given rise to the utilisation of provisions.

The stock of **impairment provisions** decreased to €3.9 billion at 31 December 2016 from €5.9 billion at 31 December 2015. Impairment provisions of €3.9 billion at 31 December 2016 are after provisions utilised in the year of €2.1 billion as set out in note 27 on page 245.

The Group's non-performing loans **provision coverage ratio** was unchanged from 31 December 2015 at 49%. The Group's provision cover at 31 December 2016 reflects a combination of the significant reduction in the Group's non-performing and defaulted loans, impairment charges recognised during the period and provisions utilised.

Included in the table on the previous page is €33.4 billion of UK customer exposure[1] at 31 December 2016. Of this, €23.9 billion relates to Retail UK mortgages, €4.1 billon non-property SME and corporate, €3.4 billion Property and construction, and €2.0 billion Consumer.

Of the €4.1 billion UK Non-property SME and corporate exposure (€1.9 billion SME and €2.2 billion corporate) at 31 December 2016, €0.2 billion is non-performing, primarily related to UK SME. UK Non-property SME and corporate non-performing loans provision coverage ratio is 59% at 31 December 2016.

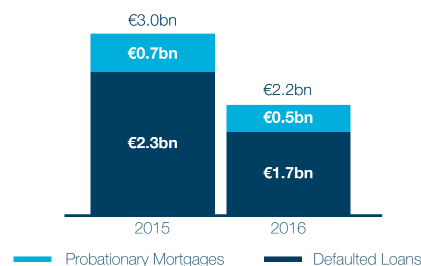
Of the €3.4 billion UK Property and construction exposure (€3.2 billion Investment and €0.2 billion Land and development) at 31 December 2016, €0.7 billion is non-performing (€0.5 billion Investment property and €0.2 billion Land and development). At 31 December 2016 UK Investment property non-performing loans provision coverage ratio is 49% and UK Land and development non-performing loans provision coverage ratio is 66%.

Of the €2.0 billion UK Consumer lending at 31 December 2016, €22 million is non-performing, with a provision coverage ratio of 144%. High provision cover reflects the unsecured nature of this lending and the inclusion of IBNR provisions.

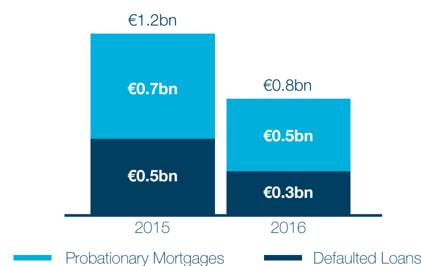
[1] *The geographical breakdown is primarily based on the location of the customer.*

**Non-performing loans by portfolio**

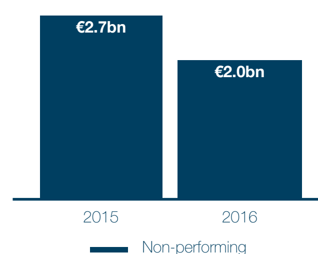
**RoI Mortgages**



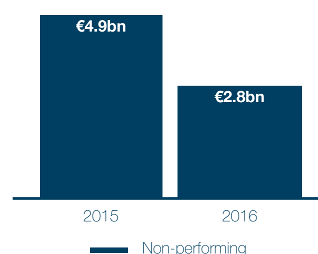

**UK Mortgages**




**Non property SME and corporate**




**Property and Construction**



## 3.1 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 2016**<br>**Total loans and advances to customers**<br>**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 | 48,207 | 2,019 | 4.2% | 988 | 49% |
| *- Retail Ireland* | *24,329* | *1,677* | *6.9%* | *911* | *54%* |
| *- Retail UK* | *23,878* | *342* | *1.4%* | *77* | *23%* |
| Non-property SME and corporate | 20,000 | 1,959 | 9.8% | 1,082 | 55% |
| *- Republic of Ireland SME* | *8,808* | *1,487* | *17.0%* | *797* | *54%* |
| *- UK SME* | *1,909* | *145* | *7.6%* | *78* | *53%* |
| *- Corporate* | *9,283* | *327* | *3.5%* | *207* | *63%* |
| Property and construction | 10,344 | 2,828 | 27.3% | 1,717 | 61% |
| *- Investment* | *9,321* | *2,116* | *22.7%* | *1,198* | *57%* |
| *- Land and development* | *1,023* | *712* | *69.6%* | *519* | *73%* |
| Consumer | 3,811 | 104 | 2.7% | 98 | 94% |
| **Total loans and advances to customers** | **82,362** | **6,910** | **8.4%** | **3,885** | **56%** |

| 31 December 2015<br>Total loans and advances to customers<br>including held for sale<br>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% |

*Unaudited:*

The movements in defaulted loans in the period are consistent with the movements in non-performing loans as set out on page 95. The Group's defaulted loans provision coverage ratio has remained unchanged from 31 December 2015 at 56%.

For an analysis of the composition of the impairment provision on forborne loans and advances, see page 414 in the supplementary asset quality and forbearance disclosures.

## 3.1 Credit risk (continued)

### Asset Quality - Segmental analysis *(audited)*

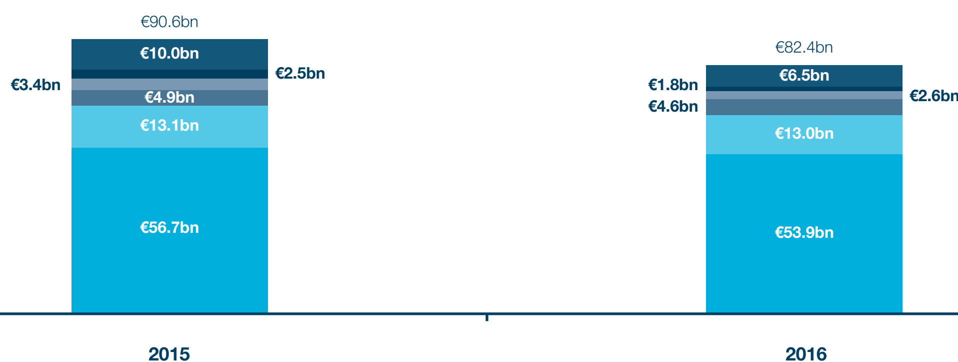
**31 December 2016**

| **Risk profile of loans and advances to customers (before impairment provisions)** | **Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** |
|---|---|---|---|---|
| High quality | 22,663 | 25,377 | 5,833 | 53,873 |
| Satisfactory quality | 6,539 | 1,180 | 5,274 | 12,993 |
| Acceptable quality | 2,613 | 1,031 | 915 | 4,559 |
| Lower quality but neither past due nor impaired | 1,294 | 863 | 412 | 2,569 |
| **Neither past due nor impaired** | **33,109** | **28,451** | **12,434** | **73,994** |
| Past due but not impaired | 763 | 983 | 97 | 1,843 |
| Impaired | 5,053 | 1,109 | 363 | 6,525 |
| **Total loans and advances to customers** | **38,925** | **30,543** | **12,894** | **82,362** |

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 |

**Asset Quality**



## 3.1 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 2016**

| **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 | 336 | 260 | 11 | 607 |
| Past due 31 - 60 days | 135 | 430 | 18 | 583 |
| Past due 61 - 90 days | 73 | 127 | 68 | 268 |
| Past due greater than 90 days but not impaired | 219 | 166 | - | 385 |
| **Past due but not impaired** | **763** | **983** | **97** | **1,843** |
| Impaired | 5,053 | 1,109 | 363 | 6,525 |
| **Total loans and advances to customers - past due and / or impaired** | **5,816** | **2,092** | **460** | **8,368** |

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 |

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

**31 December 2016**

| **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 | 528 | 489 | - | 1,017 |
| *- Self-cure* | *110* | *424* | *-* | *534* |
| *- Forborne* | *418* | *65* | *-* | *483* |
| Defaulted loans | 5,272 | 1,275 | 363 | 6,910 |
| *- Past due greater than 90 days but not impaired* | *219* | *166* | *-* | *385* |
| *- Impaired* | *5,053* | *1,109* | *363* | *6,525* |
| **Total loans and advances to customers - non-performing** | **5,800** | **1,764** | **363** | **7,927** |

## 3.1 Credit risk (continued)

### Asset Quality - Segmental analysis (continued)

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 |

**Repossessed collateral**

At 31 December 2016, the Group had collateral held as security, as follows:

| **Repossessed collateral** | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Residential properties: | | |
| Ireland | 20 | 22 |
| UK and other | 9 | 16 |
| | **29** | **38** |
| Other | - | 1 |
| **Total** | **29** | **39** |

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

## 3.1 Credit risk (continued)

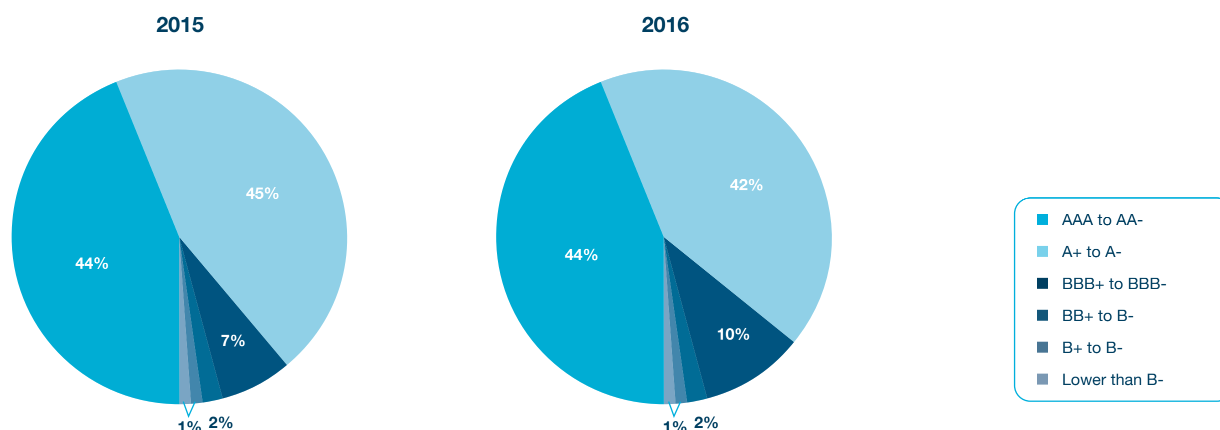
### Asset Quality - Other financial instruments *(audited except where denoted unaudited)*

**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 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| **Other financial instruments with ratings equivalent to:** | **€m** | **%** | €m | % |
| AAA to AA- | 11,731 | 44% | 12,084 | 44% |
| A+ to A- | 11,027 | 42% | 12,281 | 45% |
| BBB+ to BBB- | 2,593 | 10% | 1,743 | 7% |
| BB+ to BB- | 527 | 2% | 561 | 2% |
| B+ to B- | 154 | 1% | 288 | 1% |
| Lower than B- | 278 | 1% | 279 | 1% |
| **Total** | **26,310** | **100%** | **27,236** | **100%** |

*Unaudited:*




Other financial instruments at 31 December 2016 amounted to €26.3 billion, a decrease of €0.9 billion as compared with €27.2 billion at 31 December 2015. The decrease primarily reflects the redemption of NAMA senior bonds and reductions in the holdings of sovereign and other bonds.

## 3.1 Credit risk (continued)

### Credit risk methodologies *(audited)*

**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. Lending to financial institutions is assigned an internal rating supported by external ratings of the major rating agencies.

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

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

**Control mechanisms for rating systems**
The control mechanisms for rating systems are set out in the Group's Credit IRB Model Policy and Standards. The Risk Measurement Committee (RMC) approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk for rating models as follows:

- model development standards: the Group adopts centralised standards and methodologies over the operation and development of models. This ensures a common approach to documentation, data quality and management, conservatism and model testing. This mitigates model risk at model inception;
- model governance: the Group adopts a uniform approach to the governance of all risk rating model related activities. This ensures the appropriate involvement of stakeholders, ensuring that responsibilities and accountabilities are clear;
- model performance monitoring: all risk rating 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 risk rating 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 issues are raised on risk rating models, plans are developed to remediate or replace such models within an agreed timeframe.

**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 2016, 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
- 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%;

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

- 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 89.

**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 typically provisioned for impairment on a collective basis rather than individually assessed. 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).

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

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 2016: 10% discount to indexed value[1] for both Dublin and Non-Dublin properties); forced sale discount (31 December 2016: 10% to 38%); workout costs (31 December 2016: 7%); weighted average cure rate (31 December 2016: 22.27% over three years, with cure assumptions segmented by: forbearance classification and region (for relevant cohorts)), weighted average repayment rate (31 December 2016: 5.40% over three years) and time to sale (31 December 2016: three 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.

The Group's critical accounting estimates and judgements which are set out in note 2 to the Consolidated financial statements, 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 89.

**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
- Loss Given Default (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 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 as appropriate and updated for recent observed experience. At 31 December 2016 the cure assumptions reflect a weighted average cure rate of 43.66% over a three year period. At 31 December 2016 the weighted average repayment rate applied in the default (but not impaired) IBNR model is 10.09% over a three year period.

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.

[1] *Indexed value with reference to end September 2016 Central Statistics Office (CSO), Residential Property Price Index (RPPI) for 'Dublin - all residential properties' and 'National excluding Dublin - all residential properties' (hereafter 'Non-Dublin'). At that date, the Dublin index was 33.5% lower than its peak and the non-Dublin index was 37.5% lower than its peak. The end September CSO index was published on 17 November 2016 and was used in the updating of the Retail Ireland mortgage collective impairment provisioning parameters and assumptions, which were approved internally in December 2016.*

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

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 2016, emergence periods are in the following ranges: forborne 7 to 17 months, non-forborne 8 to 11 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.

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 2015. 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 to the Consolidated financial statements, include sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

**Methodology for loan loss provisioning and forbearance**
A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment.

This assessment may result in a 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 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.4 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 than that of the similar portfolio of non-residential mortgage exposures which are not subject to forbearance. 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.

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

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.

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

**IFRS 9 'Financial Instruments'** *(unaudited)*
IFRS 9 'Financial Instruments replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods on or after 1 January 2018. It covers three broad topics: classification and measurement, impairment and hedge accounting.

*Classification and measurement*
IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. An asset with contractual cash flows at initial recognition which are not solely payments of principal and interest (SPPI) must be classified as subsequently measured at fair value through profit or loss. The Group is currently undertaking a detailed review of its business models and the contractual cash flow characteristics of its financial assets. While SPPI testing is ongoing, progress to date has not highlighted significant changes in measurement basis from amortised cost to fair value through profit or loss within the Group's loans and advances on transition to IFRS 9.

*Impairment*
The impairment requirements of IFRS 9 are broader than of IAS 39 and primarily apply to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and certain financial guarantee contracts. For simplicity, we refer to 'assets' throughout this section.

In contrast to the 'incurred loss' model under IAS 39 (as set out in detail on pages 102 to 107), IFRS 9 introduces a more forward looking 'expected credit losses' (ECL) approach to impairment provisioning, even if a loss event has not occurred.

For ECL recognition, assets are grouped into three 'stages'[1] based on the extent of any deterioration in credit quality since initial recognition. 'Stage 1' assets are those that have not experienced a significant increase in credit risk since initial recognition; they are subject to 12-month ECL. 'Stage 2' assets are those that have experienced a significant increase in credit risk since initial recognition, but are not credit-impaired; they are subject to lifetime ECL. 'Stage 3' assets are those that are credit-impaired; they are also subject to lifetime ECL. Assets can move between stages as credit risk deteriorates or improves with the exception of assets considered credit-impaired on initial recognition which must always be subject to a loss allowance based on lifetime ECL.

The assessment of significant increase in credit risk considers the change since initial recognition in the risk of default occurring over the remaining expected life of the asset, rather than by the change in losses the Group expects to incur from a default occurring. The assessment is required to incorporate all relevant, reasonable and supportable information that is available without undue cost or effort reflecting historical, current and future expectations or forecasted conditions.

The introduction of 12-month ECL from the point 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' (under IAS 39), may lead to higher impairment provisions and more volatile impairment charges than those that would be reported under IAS 39.

For staging and ECL measurement under IFRS 9, the Group intends to align 'default' and 'credit-impaired' (i.e. stage 3) under IFRS 9 with the Group's current application of the regulatory definition of default outlined in the Capital Requirements Regulation (CRR), and which is currently used for credit risk management purposes. The European Banking Authority (EBA) has recently published guidance designed to deliver greater consistency in how banks apply the regulatory definition of default for regulatory capital purposes. Implementation of this guidance for regulatory capital purposes is expected to take place after the effective date of IFRS 9 on 1 January 2018. The Group will continue to monitor and appropriately assess any potential consequent implications for default, staging and ECL measurement under IFRS 9.

The Group has designed a high-level approach to staging to be used in determining what stage an asset is in at each reporting date. Under this approach, stage 3 or credit-impaired assets are those that are considered to be in regulatory default as outlined above. Stage 2 assets will generally be identified based on a range of quantitative and qualitative factors incorporating:

- relative movement in probability of default,
- whether an asset is forborne, and
- whether a contractual payment is more than 30 days past due.

Stage 1 assets will be those assets not allocated to stage 2 or stage 3 and which were not credit-impaired on initial recognition.

The measurement of ECL will primarily be based on a calculation of an asset's probability of default, loss given default and exposure at default associated with possible default events over

[1] *While not used in IFRS 9 itself, 'staging' is now generally accepted market terminology*

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

either a 12 month horizon for stage 1 assets; or the remaining lifetime of the asset for stage 2 or stage 3 assets. The Group's IFRS 9 ECL modelling framework will leverage the Group's existing credit risk modelling framework used for regulatory capital purposes, appropriately calibrated to meet the requirements of IFRS 9. A more simplified ECL measurement approach, such as the use of loss rates, may be considered for smaller portfolios of assets. A key judgement impacting ECL measurement will be the setting of future macroeconomic scenarios and associated probability weightings which will be used in the forward-looking calibration of the ECL model components.

For both assessing relative movement in probability of default for staging purposes and for measuring ECL at each reporting date, multiple future macroeconomic scenarios will be developed and a probability weighting assigned to each. Stage allocations and ECL measurement will thus reflect probability-weighted estimates that consider multiple future macroeconomic scenarios. An expert panel is in the process of being established, as part of the Group's IFRS 9 governance framework, to propose the setting of both the future macroeconomic scenarios and the associated probability weightings.

IFRS 9 allows an entity, subject to certain conditions, to assume that the credit risk on an asset has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group is considering the use of this 'low credit risk expedient' principally for its liquid asset portfolios and for exposures to banks, where assets typically have an investment grade rating.

IFRS 9 contains a rebuttable presumption that the credit risk on an asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Group does not intend to rebut this presumption.

*Hedge accounting*
The Group intends to make the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39 until the amended standard resulting from an IASB project on macro hedge accounting is effective. However, new hedge accounting disclosures will still be required by related amendments to IFRS 7 'Financial Instruments: Disclosure'.

*Regulatory capital*
There continues to be regulatory uncertainty as to any possible changes to the prudential treatment of accounting provisions on foot of IFRS 9.

In October 2016, the Basel Committee on Banking Supervision published a consultative document on interim and transitional arrangements in applying new ECL accounting provisions to the calculation of regulatory capital. The Basel Committee outlined three possible transitional arrangements, all of which apply a phased approach over 3-5 years, subject to national discretions, to avoid a day 1 capital impact on transition. The Basel Committee also published a discussion paper outlining possible longer term options for the regulatory treatment of accounting provisions. The comment period for both documents closed on 13 January 2017 and the outcome of the consultation process is expected to be known during 2017. Additionally, in November 2016, the EU Commission published details of a package of proposed amendments to the CRR which included a transitional arrangement for IFRS 9 which would allow the add-back of stage 1 and stage 2 ECL loss allowances to CET 1 capital phased over 5 years. The outcome of the legislative process is expected to be known during 2017.

The next EU-wide stress test will occur in 2018 and the EBA has indicated that it will include an assessment of the impact of IFRS 9. However, it is not yet known exactly how regulators will expect banks to incorporate IFRS 9 for stress testing (including the 2018 EU-wide stress test) or capital planning purposes. The Group will continue to monitor and review regulatory publications and assess the potential effects of IFRS 9 on the Group's capital requirements.

*Transition*
The new requirements of IFRS 9 will be applied retrospectively by adjusting the Group's balance sheet on the date of transition on 1 January 2018. There is no requirement to restate comparatives; thus, for 2018 statutory financial reporting, the Group's 2017 comparatives will be presented on an IAS 39 basis. In addition to the new disclosures to be provided on an ongoing basis under IFRS 9, comprehensive transitional disclosures will be required in 2018 outlining the impact of transitioning from an IAS 39 classification and measurement basis to an IFRS 9 basis.

*Implementation progress*
During 2016, the Group made key interpretation, policy and design decisions and the Group's IFRS 9 Programme has now substantially transitioned from design to build phase. Some key activities and expected completion timeframes are described below.

- Development of an ECL model suite is expected to conclude in the first half of 2017, including the incorporation of probability-weighted future macroeconomic scenarios. Model validation, testing and refinement will continue throughout 2017.

## 3.1 Credit risk (continued)

### Credit risk methodologies (continued)

- The Group's detailed approach to staging, including specific staging parameters, is expected to be finalised in the second half of 2017.
- The high level design of the operating model and governance framework that will apply under IFRS 9, including the framework governing future macroeconomic scenarios, is near completion and detailed development work is expected to be completed in the first half of 2017.
- Development of an end-to-end IFRS 9 technical and accounting solution is in progress, with planning commenced to oversee systems testing and integration prior to dry-run.
- The Group continues to assess the potential business and product impact of IFRS 9. Portfolios which are unsecured, have long maturities, have large undrawn commitments or are procyclical in nature may be more impacted than others.
- On conclusion of the Programme's build phase, end-to-end testing and dry-run activities are planned for the second half of 2017 in advance of full deployment on 1 January 2018.
- IFRS 9 training and education briefings continue to be rolled out to all relevant stakeholders across the Group.

While IFRS 9 may lead to higher impairment provisions and more volatile impairment charges, further advancement of the build phase, including the incorporation of probability-weighted future macroeconomic scenarios into the Group's ECL models and the refinement of staging parameters, is critical to reliably assessing the financial impact of its implementation. In addition, given the complexity of the standard and implementation activity yet to be completed, the Group cannot reliably estimate, at this point, the quantitative impact on classification and measurement, impairment provisions and capital on initial application and thereafter.

## 3.2 Funding and liquidity risk

**Key points**

- Group customer deposits of €75 billion have decreased by €5 billion since 31 December 2015 with the weakness in sterling being the primary driver. On a constant currency basis, Group customer deposits decreased by €0.8 billion comprised of an increase in Retail Ireland division (€2.0 billion) offset by a decrease in Retail UK division (€2.5 billion) and Corporate and Treasury division (€0.3 billion).
- The Group's Loan to Deposit Ratio (LDR) reduced by 2% to 104% at end December 2016.
- The Group's Liquidity Coverage Ratio (LCR) at end December 2016 was 113%.
- The Group's Net Stable Funding Ratio at 31 December 2016 was 122%.

**Definition of Liquidity Risk** *(audited)*
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 maturity 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** *(audited)*
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 (SREP) 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 in 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 Funds Transfer Pricing mechanism, Liquidity Stress Testing process, Contingency Funding and Recovery plans and a suite of Recovery Indicators & Early Warning Signals in place to identify the potential emergence of a liquidity stress.

**Liquidity risk management** *(unaudited)*
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, the funding mix, the expected maturity profile of assets and liabilities and the Group's debt issuance strategy; and
- Tactical liquidity management focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs can be met. 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 ('Liquid Assets') and a portfolio of secondary assets ('Contingent Liquidity') that can be converted into liquidity to meet unforeseen cash outflows via market counterparties and / or Monetary Authorities.

The Group is required to 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.

SSM requirements include compliance with CRR / CRD IV and associated Delegated Acts which are a comprehensive set of measures to strengthen the regulation, supervision and risk management of the banking sector.

## 3.2 Funding and liquidity risk (continued)

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 liquidity scenario. The requirement is being introduced on a phased basis. A minimum 70% ratio applied from January 2016 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[1]; 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 2016, and as at 31 December 2016 maintained a buffer significantly in excess of regulatory liquidity requirements.

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 2016, and as at 31 December 2016 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 liquid assets and contingent liquidity that is required to be maintained.

A key part of this assessment is cash flow forecasting that includes assumptions on the likely behavioural cash flows on certain customer products. Estimating these behavioural cash flows allows the Group assess the stability of its funding sources and potential liquidity requirements in both business as usual and stressed scenarios. The stressed scenarios incorporate Group specific and systemic risks and are run at different levels of possible, even if unlikely, severity. Actions and strategies available to mitigate the impacts of the stress scenarios are evaluated as to their appropriateness. Stress test results are reported to ALCO, the GRPC, the CRC and the Court.

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

**Liquidity risk reporting** *(unaudited)*

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 informs 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 the Group's liquidity stress testing. This estimates the potential impact of a range of stress scenarios on the Group's liquidity position including its available liquid assets and contingent liquidity. 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.

The annual ILAAP enables the Court to assess the adequacy of the Group's Funding & 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** *(audited)*

The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on-balance sheet and off-balance sheet transactions.

The tables on the following page summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2016 and 31 December 2015. These maturity profiles are based on the remaining contractual maturity period at the balance sheet date (discounted). The Group measures liquidity risk by adjusting the contractual cash flows on deposit books to reflect their behavioural stability.

Unit-linked investment liabilities and unit-linked insurance liabilities with a carrying value of €5,647 million and €10,934 million respectively (31 December 2015: €5,729 million and €10,403 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

*[1] The Group's current approach is based on its interpretation of the Basel Committee on Banking Supervision 2014 document. As part of the proposed amendments to the CRR, a binding net stable funding ratio for Credit Institutions within the EU is anticipated to come into effect in 2019.*

## 3.2 Funding and liquidity risk (continued)

| **31 December 2016**<br>**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 | 5,192 | - | - | - | - | 5,192 |
| Trading securities | - | - | - | 18 | - | 18 |
| Derivative financial instruments | 205 | 305 | 605 | 1,299 | 1,295 | 3,709 |
| Other financial assets at fair value through profit or loss[1] | 1,130 | 24 | 30 | 152 | 3,286 | 4,622 |
| Loans and advances to banks | 469 | 2,639 | 240 | - | 1 | 3,349 |
| Available for sale financial assets[1] | - | 723 | 1,381 | 5,161 | 3,505 | 10,770 |
| Held to maturity financial assets | - | - | - | - | 1,872 | 1,872 |
| NAMA senior bonds[2] | - | - | - | 451 | - | 451 |
| Loans and advances to customers (before impairment provisions) | 2,347 | 5,347 | 7,454 | 26,745 | 40,469 | 82,362 |
| | **9,343** | **9,038** | **9,710** | **33,826** | **50,428** | **112,345** |
| **Liabilities** | | | | | | |
| Deposits from banks | 74 | 1,615 | - | - | - | 1,689 |
| Drawings from Monetary Authorities (gross) | - | 181 | 292 | 2,947 | - | 3,420 |
| Customer accounts | 55,492 | 9,359 | 6,849 | 3,198 | 269 | 75,167 |
| Derivative financial instruments | 207 | 76 | 114 | 762 | 1,714 | 2,873 |
| Debt securities in issue | - | 398 | 1,751 | 2,788 | 4,313 | 9,250 |
| Subordinated liabilities | - | - | 1 | 248 | 1,176 | 1,425 |
| Short positions in trading securities | 47 | - | - | - | - | 47 |
| **Total** | **55,820** | **11,629** | **9,007** | **9,943** | **7,472** | **93,871** |

| 31 December 2015<br>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[3] | 54,660 | 11,666 | 9,179 | 4,288 | 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 |
| Short positions in trading securities | - | - | - | - | - | - |
| Total | 55,019 | 13,762 | 13,453 | 11,142 | 7,041 | 100,417 |

[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 have been adjusted to reflect a change in assessment in the current year of the maturity dates of certain deposits with access features.. Customer accounts repayable: on demand have been restated by €2,914 million from €51,746 million to €54,660 million; up to 3 months have been restated by €3,081 million from €14,747 million to €11,666 million; 3-12 months has been restated by €79 million from €9,258 million to €9,179 million; 1-5 years has been restated by €246 million from €4,042 million to €4,288 million, with no change to the total for customer accounts.*

## 3.2 Funding and liquidity risk (continued)

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

**Customer deposits** *(unaudited)*
The Group's customer deposit strategy is to:
- maintain and optimise 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 regulatory liquidity CRR / CRD IV specifications

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 partnerships with the UK Post Office and the AA and the established branch network in Northern Ireland. Group customer deposits of €75 billion have decreased by €5 billion since 31 December 2015. On a constant currency basis, Group customer deposits decreased by €0.8 billion. This comprises of an increase in Retail Ireland division (€2.0 billion) offset by a decrease in Retail UK division (€2.5 billion) and Corporate and Treasury division (€0.3 billion).

In the Retail Ireland division, customer deposits of €41 billion at 31 December 2016 have increased by €2.0 billion since 31 December 2015 primarily due to growth in current account credit balances.

Customer deposits in Retail UK division have decreased by £2.1 billion reflecting the Group's reduced funding requirements and drawdown of the Bank of England (BoE) Term Funding Scheme (TFS).

Customer deposits in the Corporate and Treasury division were lower in the year by €0.3 billion primarily due to lower term deposits as a result of lower pay rates during 2016.

Customer deposits of €75 billion at 31 December 2016 (31 December 2015: €80 billion) do not include €1.4 billion (31 December 2015: €1.9 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically five 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 2016 €bn** | 31 December 2015 €bn |
|---|---|---|
| Retail Ireland | 41 | 39 |
| *- Deposits* | *22* | *22* |
| *- Current account credit balances* | *19* | *17* |
| Retail UK | 23 | 29 |
| Retail UK (Stg£bn equivalent) | 20 | 22 |
| *- UK Post Office* | *15* | *17* |
| *- Other Retail UK* | *5* | *5* |
| Corporate and Treasury | 11 | 12 |
| **Total customer deposits** | **75** | **80** |
| | | |
| **Loan to deposit ratio** | **104%** | **106%** |

## 3.2 Funding and liquidity risk (continued)

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

Wholesale funding of €14.4 billion has increased by €0.2 billion since 31 December 2015 due to:
- drawings of ECB's Targeted Longer Term Refinancing Operation (TLTRO) funding (€0.8 billion);
- drawings of BoE's Term Funding Scheme (TFS) and Indexed Long-Term Repo (ILTR) funding (€1.2 billion);
- increase in cash collateral received (due to weakness in sterling) in relation to net derivative asset positions (€0.5 billion);

partially offset by the following:
- senior debt liability management exercise (€0.6 billion);
- redemption of outstanding notes of Kildare Securities plc (€0.8 billion); and
- scheduled debt maturities (€0.8 billion).

The Group's funding from Monetary Authorities of €3.4 billion at 31 December 2016 has increased by c.€1.9 billion since 31 December 2015. All ECB Monetary Authority funding is drawn under the TLTRO, while the Group's BoE Monetary Authority funding is drawn under the TFS and ILTR.

At 31 December 2016, €7.0 billion or 64% of wholesale market funding had a term to maturity of greater than one year (31 December 2015: €10.7 billion or 84%). The decrease since 31 December 2015 relates to scheduled maturities falling into the less than one year time period and an increase in cash collateral received in relation to net derivative asset positions due to weakness in sterling.

Wholesale market funding with a maturity of less than one year was €4.0 billion (31 December 2015: €2 billion) of which €1.1 billion is secured.

**Foreign exchange funding mismatch** *(unaudited)*
The Group's operations in the UK are conducted primarily through Bank of Ireland (UK) plc. The Group's strategy is to originate all new retail lending in the UK through BOI (UK) plc which is match funded via sterling deposits.

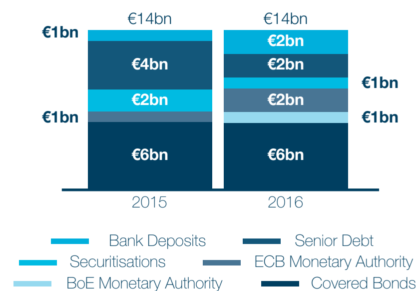
In addition, the Governor and Company of the Bank of Ireland (the 'Bank') also provides banking services in the UK through its UK branch comprised of corporate and business banking activities and the management of residential mortgage contacts which have not been transferred to BOI (UK) plc.

Within the Bank, there exists a structural mismatch between sterling denominated assets and liabilities which is funded primarily through cross currency derivatives.

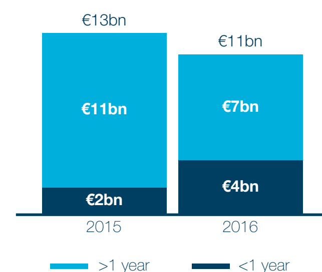
As at 31 December 2016, the Group's mismatch in sterling of £7.1 billion has reduced by £0.5 billion since 31 December 2015, primarily driven by amortisation of UK mortgage assets.

**Eligible Liabilities Guarantee Scheme** *(unaudited)*
As described in note 49, the Group participated in the ELG Scheme, which guaranteed certain liabilities of Irish financial institutions. The scheme was withdrawn effective 28 March 2013. At 31 December 2016, the Group had no eligible liabilities for the purpose of the ELG Scheme and no further ELG fees will accrue.

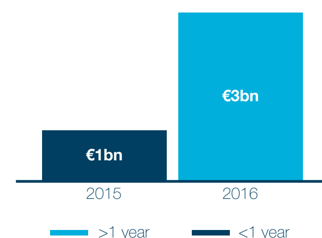
**Wholesale Funding Sources**




**Wholesale Market Funding** - *Maturity Profile*




**Monetary Authority Funding** - *Maturity Profile*



## 3.2 Funding and liquidity risk (continued)

| **Liquidity metrics** *(unaudited)* | **31 December 2016 %** | 31 December 2015 % |
|---|---|---|
| Liquidity Coverage Ratio[1] | 113% | 108% |
| Net Stable Funding Ratio[2] | 122% | 120% |
| Loan to deposit ratio | 104% | 106% |

[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.*
[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.*

| | **At 31 December 2016** | | | | At 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Wholesale funding maturity analysis[1]** *(unaudited)* | **Unsecured funding €bn** | **Secured funding from Monetary Authorities €bn** | **Secured funding private sources €bn** | **Total wholesale funding €bn** | Unsecured funding €bn | Secured funding from Monetary Authorities €bn | Secured funding private sources €bn | Total wholesale funding €bn |
| Less than three months | 2 | - | - | 2 | 1 | - | - | 1 |
| Three months to one year | 1 | - | 1 | 2 | 1 | 1 | - | 2 |
| One to five years | 1 | 3 | 4 | 8 | 2 | - | 5 | 7 |
| More than five years | - | - | 2 | 2 | - | - | 4 | 4 |
| **Wholesale funding** | **4** | **3** | **7** | **14** | **4** | **1** | **9** | **14** |

[1] *The maturity analysis has been prepared using the expected maturity of the liabilities.*

## 3.2 Funding and liquidity risk (continued)

**Funding and liquidity position** *(unaudited)*
The Group's senior debt credit ratings from Moody's, Standard & Poor's, Fitch and DBRS have remained stable during 2016 at Baa2, BBB-, BBB-, and BBB (High) respectively. DBRS revised the outlook on the Group's senior debt credit rating from stable to positive in May 2016.

| **Ireland - Senior debt** *(unaudited)* | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Standard & Poor's | A+ (Stable) | A+ (Stable) |
| Moody's | A3 (Positive) | Baa1 (Positive) |
| Fitch | A (Stable) | A- (Positive) |
| DBRS | A (High) (Stable trend) | A (Positive trend) |

| **BoI - Senior debt** *(unaudited)* | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Standard & Poor's | BBB- (Positive)[1] | BBB- (Positive) |
| Moody's | Baa2 (Positive) | Baa2 (Positive) |
| Fitch | BBB- (Positive) | BBB- (Positive) |
| DBRS | BBB (High) (Positive trend) | BBB (High) (Stable trend) |

[1] *Standard & Poor's upgraded its rating on the Group's senior debt from BBB- to BBB on 13 January 2017.*

**Balance sheet encumbrance** *(unaudited)*
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 ensure that the level of encumbrance of the balance sheet is consistent and supportive of the Group's unsecured funding issuance plans.

The Group's overall encumbrance level at year ended 31 December 2016 was 20% (31 December 2015: 18%) with c.€22 billion of the Group's assets encumbered (31 December 2015: €21 billion). The increase in encumbered assets is primarily related to the increase in the Group's borrowings via the ECB TLTRO and BoE TFS funding programmes.

## 3.3 Market risk

**Key points:**

- The Value at Risk (VaR) arising from discretionary risk-taking remained at relatively low levels, but this partly reflected the comparatively low levels of market volatility. The Group continues to take moderate interest rate positions in both Trading and Banking books in addition to positions in foreign exchange and traded credit markets.
- With the exception of basis risks, the Group manages its structural interest rate and FX positions according to passive conventions.

**Definition and background** *(audited)*
Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of shareholder value and the achievement of the Group's corporate objectives.

**Risk management, measurement and reporting** *(audited)*
The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Court. The Group has an established governance structure for market risk that involves the Court, the Court Risk Committee, the Group Risk Policy Committee and Group ALCO, which has primary responsibility for the oversight of market risk in the Group. Most of the limits and other controls that apply to market risk are set by the Group's Asset and Liability Committee (ALCO) which has primary responsibility for the oversight of market risk.

Group Market Risk is responsible for ensuring that the Group identifies, understands, measures and controls the market risks to which it is exposed.

It is Group policy to minimise exposure to market risk, subject to defined limits for discretionary risk. Nonetheless, certain structural market risks remain and, in some cases, are difficult to eliminate fully. In addition, the Group bears economic exposure to changes in the value of securities held as liquid assets, or held as matching assets in New Ireland Assurance Company plc (NIAC) as a result of credit spread movements. This is the predominant economic exposure arising on the NIAC fixed interest portfolio.

In the case of the Group's banking business, interest rate risk arising on customer lending and term deposit-taking is centralised by way of internal hedging transactions with Bank of Ireland Global Markets (BoIGM), which is the treasury execution arm of the Group. Market risk also arises through wholesale funding, investment in securities for liquid asset purposes, the creation of certain savings products (mainly equity-linked) and through servicing the foreign exchange and interest-rate risk management needs of corporate and business customers. These market risks are hedged by BoIGM as a matter of course with external markets or, in the case of a small quantum of the risks concerned, are run as short-term discretionary risk positions subject to policy and limits. Discretionary risk-taking is confined to interest rate, foreign exchange and traded credit risk.

Similarly, market risks in the Group's life assurance business, NIAC, are managed within defined tolerances. However, certain residual risks are inherent in this business, notably exposure to credit spreads on assets held  to match policyholder liabilities, and indirect exposure to equity markets through changes in the discounted value of fees applied to equity assets held by policy holders in insurance contracts. This is discussed in greater detail below.

**Classification of Market Risk** *(unaudited)*
In accordance with Group policy and aligned with regulatory requirements and guidance the Group classifies market risk as follows:

- **Interest Rate Risk in the Banking Book (IRRBB):** This is risk that arises naturally through the conduct of retail and wholesale banking business. By convention this is broken down into mismatch risk, yield curve risk, basis risk and optionality risk. To this can be added, earnings risk arising from non-interest, floored or perpetually fixed assets and liabilities. The Group distinguishes between *discretionary* IRRBB, which is mismatch and / or curve risk that is not closed out in liquid swap markets, and *structural* IRRBB, which encompasses the other risks listed above.
- **Trading Book Risk:** This consists of risk positions that are pro-actively assumed which are booked in the Trading Book in compliance with the Capital Requirements Regulation (CRR). Customer derivatives and foreign exchange transactions must also be booked in the Trading Book (whether they give rise to a risk position or not). The Group refers to discretionary IRRBB and open Trading Book risk collectively as Discretionary Risk.
- **Other Market-Related Risks to Earnings and / or Capital:** Risks to earnings and / or capital that do not fall naturally within the regulatory-defined categories of Trading Book and IRRBB fall under this heading. For the most part, these risks reflect the application of mark-to-market accounting to particular books or the impact of FX rate movements on what is de facto a dual-currency balance sheet. The most material risks arise from the fair valuation of credit risk in securities portfolios and derivative books.

## 3.3 Market risk (continued)

*Balance Sheet Linkage*
The accompanying table classifies the balance sheet in terms of Banking Book, Trading Book (as defined above) and Insurance assets and liabilities. The principal risk factors which drive changes in earnings or value in relation to each line item are also set out. Trading Book assets and liabilities were a small proportion of the balance sheet at 31 December 2016 and this is representative of the position throughout the year. Interest rates are the most significant risk factor.

**Market risk linkage to the balance sheet** *(unaudited)*

| 31 December 2016 | Total €m | Trading €m | Non-trading €m | Insurance €m | Primary Risk Sensitivity |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances at central banks | 5,192 | - | 5,192 | - | Interest Rate |
| Derivative financial instruments | 3,709 | 1,040 | 2,669 | - | Interest Rate, FX, Credit Spread |
| Trading and other financial assets at fair value through profit or loss | 13,267 | 18 | 33 | 13,216 | Interest Rate, FX, Credit Spread |
| Loans and receivables: | | | | | Interest Rate |
| - Loans and advances to banks | 3,349 | - | 2,918 | 431 | Interest Rate |
| - Loans and advances to customers | 78,477 | - | 78,477 | - | Interest Rate |
| - Debt securities (incl. NAMA bonds) | 451 | - | 451 | - | Interest Rate |
| Available for sale financial assets | 10,794 | - | 10,794 | - | Interest Rate, FX, Credit Spread |
| Held to maturity investments | 1,872 | - | 1,872 | - | Interest Rate |
| Value of in-force business | 537 | - | - | 537 | Equity |
| Other assets | 5,481 | - | 3,219 | 2,262 | Interest Rate |
| **Total assets** | **123,129** | **1,058** | **105,625** | **16,446** | |
| **Liabilities** | | | | | |
| Deposits from banks | 3,662 | - | 3,662 | - | Interest Rate |
| Customer deposits | 75,167 | - | 75,167 | - | Interest Rate |
| Derivative financial instruments | 2,873 | 916 | 1,957 | - | Interest Rate, FX, Credit Spread |
| Debt securities in issue | 10,697 | - | 10,697 | - | Interest Rate |
| Liabilities arising from insurance and investment contracts | 16,581 | - | - | 16,581 | Interest Rate, FX, Credit Spread, Equity |
| Other liabilities | 3,322 | 47 | 2,795 | 480 | Credit Spread |
| Subordinated liabilities | 1,425 | - | 1,425 | - | Interest Rate |
| **Total liabilities** | **113,727** | **963** | **95,703** | **17,061** | |

*Classification by Equivalent Risks*
Similar or equivalent risks arise in the three-way classification set out above and accordingly, for presentational purposes in the sections to follow, the risks will be collected into discretionary and structural risk.

**Discretionary Market Risk** *(unaudited)*
Discretionary risk is a risk that is carried in the expectation of gain from near-term movements in liquid financial markets realised through the closing-out of the positions concerned. Bank of Ireland Global Markets (BoIGM) is the sole Group business unit permitted to run discretionary market risk.

Discretionary risk can be taken by leaving naturally arising retail or wholesale-generated risks unhedged for a period (discretionary IRRBB) or by taking proprietary positions in the market (Trading Book risk). In conformity with the CRR, customer derivatives are booked in the Trading Book and can be a source of trading risk if not fully closed out.

Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. BoIGM's discretionary market risk is confined to interest rate risk, foreign exchange risk and credit

## 3.3 Market risk (continued)

spread exposure to sovereigns, banks and credit default swap (CDS) indices. A limit on discretionary risk and a high-level stop loss are set in the Risk Appetite Statement approved by the Court. A hierarchy of other limits and controls, based on Value at Risk (see below), scenario stress tests and sensitivities are set by ALCO. The Group does not seek to generate a material proportion of its earnings through discretionary risk-taking and it has a low tolerance for earnings volatility arising from this activity which is reflected in policy, limits and other controls applied.

The Group employs a Value at Risk (VaR) approach to measure, and set limits on, discretionary market risk. This applies to risk-taken in the Banking Book (naturally arising risk that is left unhedged) or risk that is pro-actively assumed in the Trading Book. The Group measures VaR for a one-day horizon at the 99% (two-tailed) level of statistical confidence. This means that, for a given set of market risk positions on a given day, the Group believes there is no more than a 1% chance of a gain or loss in excess of the VaR number over the following day. The volatilities and correlations which are used to generate VaR numbers are estimated using the *exponentially weighted moving average (EWMA)* approach which gives more weight to recent data and responds quickly to changes in market volatility. VaR is backtested on a daily basis with all exceptions subject to review and explanation.

The Group uses VaR to allocate capital to discretionary risk in its ICAAP but uses the standardised approach for Pillar I Trading Book capital.

The Group recognises that VaR is subject to certain inherent limitations and therefore VaR limits are supplemented by scenario-based stress tests. These are particularly important in periods of low market volatility when VaR numbers can understate the risks of loss from large adverse market moves. Position limits and ‘stop losses’ are also a central element of the control environment.

The Group’s peak, average and end-period VaR numbers for the Trading Book by risk class and discretionary IRRBB are shown in the table below for 31 December 2016 and for the preceding year end.

| **Value at Risk** *(unaudited)* | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| **Discretionary IRRBB** | | |
| Peak | 0.7 | 0.8 |
| Average | 0.3 | 0.3 |
| End period | 0.2 | 0.4 |
| **Trading book interest rate VaR** | | |
| Peak | 1.8 | 1.1 |
| Average | 0.7 | 0.6 |
| End period | 0.8 | 0.2 |
| **Foreign exchange VaR** | | |
| Peak | 1.6 | 0.8 |
| Average | 0.5 | 0.4 |
| End period | 0.6 | 0.4 |
| **Traded credit risk** | | |
| Peak | 1.2 | 1.0 |
| Average | 0.4 | 0.3 |
| End period | 0.4 | 0.1 |

## 3.3 Market risk (continued)

**Structural and other risks** *(audited)*
Notwithstanding the overriding objective of running minimal levels of market risk, certain structural market risks remain and are managed centrally as part of the Group's asset and liability management process.

*Structural interest rate risk (unaudited)*
Structural interest rate risk is the exposure of bank earnings to the interest rate cycle arising from the existence of non-interest bearing or behaviourally fixed-rate assets and liabilities on the balance sheet. The principal non-interest bearing liabilities are equity and non-interest bearing current accounts. It is Group policy to invest its net non-interest bearing liabilities (or free funds) in a portfolio of swaps with an average life of 3.5 years and a maximum life of 7 years. This has the effect of mitigating the impact of the interest rate cycle on net interest margin. The measurement of core free funds takes account of the current composition of the customer deposit book with a historically high share of current and demand accounts and a correspondingly low share of term liabilities.

Other structural risks arise from impaired loans and floored (or negative-rate) loans and deposits.

*Net Interest Income sensitivity analysis*
The Group uses net interest income sensitivity analysis to measure the responsiveness of earnings to scenarios for short and long term rates. This analysis incorporates structural risks and the reinvestment of structural hedges, the impact of changing short rates on other non-interest sensitive assets (notably impaired loans) and liabilities and the repricing behaviour of floored and administered-rate products. At a high level, this shows the Group to have a relatively low exposure to further falls in euro rates, but with a high positive sensitivity to a rise in rates mainly through margin de-compression. The sterling balance sheet is generally less sensitive to interest rate changes.

*Basis risk (unaudited)*
Basis risk is the exposure of the Group's earnings to sustained changes in the differentials between the floating rates to which the Group's assets, liabilities and derivative hedges are linked. In the Group's case, the principal rates used for product and derivative repricing are one, three and six month Euribor and sterling Libor, the ECB Refinancing Rate and the Bank of England Base Rate. Changes in the level of systemic stress in financial markets, structural supply / demand factors and the policy actions of central banks can bring about sustained changes in the differential, or basis, between these different floating rate indices. This, in turn, can have an adverse impact on the Group's net interest margin. In addition, the requirement to fund the Group's sterling balance sheet in part from euro creates a structural exposure to the cost of hedging this.

The Group applies notional limits and stress scenario analysis to its basis positions.

*Credit spread risk (unaudited)*
Securities purchased as liquid assets and classified as available for sale are held at fair value on the balance sheet. Movements in fair value of these holdings as a consequence of changes in the spread to Euribor or Libor are recognised in reserves. At 31 December 2016, the Group held €10.8 billion in securities classified as available for sale financial assets (31 December 2015: €10.1 billion). Irish Government securities, covered bonds issued in a range of European countries and bonds issued by EU Agencies constitute the three largest categories. A 1% point increase in the average spread to Euribor or Libor of the book at 31 December 2016 would have reduced its value by €401 million (31 December 2015: €457 million).

An analogous economic risk exists in relation to securities held by New Ireland to match policyholder liabilities and to invest its capital. At 31 December 2016, New Ireland's bond portfolio had a market value of €1.4 billion (31 December 2015 €1.4 billion). Irish, French and Austrian Government bonds account for the major part of the book. In respect of the exposure of its earnings to spread changes, there is some offset arising on the liability side because changes in spreads are partly incorporated into discount rates under IFRS conventions. At 31 December 2016 a 1% point widening of all credit spreads (measured as bond yields minus the corresponding swap rate) would have had an impact on earnings of €46 million negative, while a 1% point tightening would have had a positive impact of €24 million (31 December 2015: €40 million negative and €24 million positive).

The Group also models the spread risk for both the AFS and NIAC portfolios over a 1-year horizon using a combination of stress testing and portfolio risk methods.

*Interest rate risk in New Ireland (unaudited)*
In managing the interest rate risk in its business, New Ireland has regard to the sensitivity of its capital position, as well as its IFRS earnings, to market movements. NIAC follows a policy of asset / liability matching to ensure that the exposure of its capital position to interest rate movements remains within tolerances, while also managing the impact on IFRS profits. At 31 December 2016, a 1% point fall in swap and yield rates would have reduced its excess own funds (own funds less solvency capital requirement) by €65 million and increased its IFRS profit by €9 million. A 1% fall from the market levels prevailing at year end was an unlikely scenario. Because Solvency II took effect on 1 January 2016, directly comparable sensitivities are not available for 31 December 2015.

## 3.3 Market risk (continued)

*Equity Risk* *(unaudited)*
NIAC's earnings are also indirectly exposed to changes in equity markets. This arises because a management fee is charged on the value of €4 billion of equities held for policy holders in insurance contracts in its unit-linked book. As equity markets move up and down, this gives rise to a change in current and discounted future streams of equity-related fees which is reflected in NIAC's earnings. Every 1% fall in equity markets applied to positions at 31 December 2016 would have reduced NIAC's earnings by €2 million (31 December 2015: €2 million reduction). Every 1% increase in equity markets would have had an equal and opposite impact.

*Structural FX* *(unaudited)*
The Group defines structural FX risk as the exposure of its key capital ratios to changes in exchange rates. Changes in exchange rates can increase or decrease the overall euro-equivalent level of RWAs. It is Group policy to manage structural FX risk by ensuring that the currency composition of its RWAs and its structural net asset position by currency are broadly similar. This is designed to minimise the impact of exchange rate movements on the principal capital ratios.

At 31 December 2016, the estimated sensitivity of the Group's fully loaded CET 1 ratio to a 10% depreciation of sterling and dollar combined against the euro was 1 basis point.

The structural FX positions at 31 December 2016 and the preceding year end were as follows:

| **Structural FX position** *(unaudited)* | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Sterling - net asset position | 2,170 | 2,716 |
| US dollar - net asset position | 641 | 599 |
| **Total structural FX position** | **2,811** | **3,315** |

*Unaudited:*

**Use of Derivatives in the Management of Market Risk**
The activities set out above involve, in many instances, transactions in a range of derivative instruments. The Group makes extensive use of derivatives to hedge its balance sheet, service its customer needs and, to a much lesser extent, assume discretionary risk. The Group's participation in derivatives markets is subject to policy approved by the Court Risk Committee. The Group makes a clear distinction between derivatives which must be transacted on a perfectly hedged basis and those whose risks can be managed within broader interest rate or foreign exchange books.

Discretionary market risk can only be assumed in clearly defined categories of derivatives which are traded in well-established liquid markets, supported by industry standard conventions and documentation and valued in accordance with generally accepted methods.

## 3.4 Life insurance risk

**Key points:**
- The Solvency II regulatory framework for insurance companies was implemented on 1 January 2016. The processes for completing the detailed quarterly reporting to the Central Bank of Ireland have been successfully embedded during 2016.
- The Solvency II regulatory framework also requires the publication of a detailed disclosure document called the Solvency and Financial Condition Report (SFCR) which will be published for the first time in May 2017.
- Overall mortality and morbidity experience in the period was favourable relative to the long term average assumptions.
- The level of annuity sales continues to be low, a trend which was continued from 2015, as there is limited demand for these products during times of low interest rates. As a result there has been little additional longevity risk exposure taken on in 2016.
- Persistency rates continued to show improvement during 2016 and are favourable relative to the long term average assumptions at an overall book level, notwithstanding a strengthening of assumptions on a small number of product lines. Management of persistency remains a key focus for the business.

**Definition** *(audited)*
Life insurance risk is defined as the volatility in the amount and timing of claims caused by an unexpected change in mortality, longevity, persistency or morbidity. Mortality risk is the risk of deviations in timing and amounts of cash flows due to the incidence of death. Longevity risk is the risk of such deviations due to increasing life expectancy trends among policyholders and pensioners, resulting in higher than normal payout ratios. Morbidity risk, primarily critical illness risk, is the risk of deviations in timing and amount of cash flows (such as claims) due to incidence or non-incidence of disability and sickness. Persistency or lapse risk is the risk to profitability if policies surrender early as the company will lose the future income streams on these contracts.

**Risk management** *(audited)*
Life insurance risk is controlled by the Group Risk Appetite and is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the Board of NIAC.

Reinsurance risk is managed by the NIAC Reinsurance Committee as delegated by the NIAC Board. The responsibilities of the committee include completing a review of the reinsurance arrangements at least annually. This includes a review of the panel of reinsurers that may be used and the structure of its reinsurance arrangements. The Reinsurance Committee comprises senior members of the management team with actuarial and underwriting expertise.

**Risk measurement** *(audited)*
Risk experience is monitored regularly where actual claims experience is compared to the underlying risk assumptions. The results of this analysis are used to inform management of the appropriateness of those assumptions for use in pricing, reserving and new product design.

Exposure to life insurance risk is measured by means of sensitivity testing. Risk capital is calculated for each individual risk by stressing the best estimate assumptions of future experience by extreme, but plausible, factors. The stress factors are pre-defined by regulation and are set at a level with an expected frequency of occurrence of one year in every 200.

**Risk mitigation** *(audited)*
NIAC mitigates the potential impact of insurance risk through a number of measures. Capital is held against exposure to life insurance risk. Exposure to risk is also managed and controlled by the use of medical and financial underwriting, risk mitigating contract design features and reinsurance as detailed in risk management policies.

**Risk reporting** *(audited)*
An update on the status of life insurance risk is included in the Court Risk Report which is presented to the GRPC, the CRC and the Court on a quarterly basis. The Own Risk and Solvency Assessment (ORSA) report in respect of NIAC is also presented to the GRPC on an annual basis.

## 3.5 Regulatory risk

**Key points:**

- During 2016, supervisory bodies focused on the key areas of business model and profitability risk, credit risk, capital adequacy, risk governance, culture, data quality, liquidity risk and recovery and resolution. In addition, new legislation came into effect including the Market Abuse Regulation, the Mortgage Credit Directive, the Lending to SME Regulation, the Access to Payments Accounts Directive and under the European Market Infrastructure Regulation, a new central clearing obligation for derivatives.
- Programmes continued / were established in the Group during the year to commence preparation for the significant regulatory change agenda over coming years, including the Markets in Financial Instruments Directive / Markets in Financial Instruments Regulation, the Regulation on the Collection of Granular Credit and Credit Risk Data (AnaCredit), the Fourth Money Laundering Directive, the General Data Protection Regulation and the Payment Services Directive 2.
- The heavy regulatory and compliance agenda is expected to continue in 2017. The Group will maintain its focus on continuing compliance with the existing regulatory requirements of the jurisdictions in which it operates.
- Regulators conduct investigations and examinations on an industry wide basis from time to time; the durations and outcomes can be uncertain at any point in time. The Group is also working closely with the Central Bank to address matters raised such as compliance with aspects of the various legislative and regulatory frameworks, for example the Criminal Justice Act 2010. Significant progress has been made, however the potential for enforcement exists.

**Definition**

Regulatory Risk includes Regulatory Change Risk, Regulatory Compliance Risk, Anti-Money Laundering (AML) / Combating the Financing of Terrorism (CFT) Risk and Sanctions Risk. Regulatory change risk is the risk that a change in laws and regulations that govern the Group will materially impact the Group's business, profitability, capital, liquidity, products or markets. The associated risk is that the Group fails to take timely action to remediate and / or that the Group fails to effectively manage the regulatory change process. Regulatory compliance risk is the risk of failure to comply with existing regulatory / legislative requirements. It also includes the associated risk to earnings and capital and the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that the Group may suffer as a result of non-compliance. AML / CFT risk is the risk that the Group's systems, products and services are used by customers or third parties to facilitate money laundering, attempt to facilitate money laundering, or to facilitate or attempt to facilitate the financing of terrorist activities. Sanctions risk is the risk that the Group provides access to financial services to individuals, entities or countries on relevant 'sanctions list' (relevant UN, EU, UK and US lists) that would breach the sanctions regulations of any country in which the Group operates (Ireland, UK, US, France and Germany). The potential impacts of the AML / CFT and Sanctions risks materialising include loss / volatility in earnings, the occurrence of a regulatory sanction / fine, the conviction of the Directors and the ensuing reputational damage.

**Risk management and measurement**

The Group manages regulatory risk under the Group Risk Framework. The framework identifies the Group's formal governance process around risk, including its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives, monitored by the Group Regulatory Compliance and Operational Risk Committee (GRCORC), and within the overall Group risk governance structure outlined on pages 72 to 79. The effective management of regulatory risk is primarily the responsibility of business management and is supported by the Group Regulatory Compliance and Operational Risk (GRCOR) function.

As detailed in the Group's Risk Appetite Statement, the Group has no appetite to knowingly breach any of its regulatory obligations. However, it acknowledges that instances may occur as a consequence of being in business. The Group has therefore established an approach to ensure the identification, assessment, monitoring, management and reporting of these instances. The Group also undertakes risk based regulatory and compliance monitoring.

**Risk mitigation**

Risk mitigants include the early identification, appropriate assessment and measurement and reporting of risks. The primary risk mitigants for regulatory risk are the existence of appropriate controls in place throughout the business.

**Risk reporting**

The current status of regulatory risk is reported to senior executives and Court members through the Court Risk Report on a monthly basis. The Group Head of Compliance and Regulatory Risk reports to the GRCORC on the status of regulatory risk in the Group, including the status of the top regulatory risks, the progress of risk mitigation plans, issues and breaches, and significant regulatory interactions. Furthermore, the Group Head of the Compliance and Regulatory Risk function provides reports to the Group Audit Committee and the Court Risk Committee on regulatory risk matters.

## 3.6 Conduct risk

**Key points:**

- During 2016, the Group developed, implemented and rolled out the Conduct Risk Framework. The framework, which was approved by the Court Risk Committee in June 2016, sets out the approach used by the Group in managing Conduct Risk to achieve a robust and effective conduct risk control environment.
- Throughout 2016, the Group also developed and implemented a number of Group wide conduct risk policy standards to ensure that key conduct risks are managed in a consistent manner.
- There has been significant progress in 2016 developing and enhancing the Conduct Risk Framework. In 2017 the Group will continue to improve and integrate Conduct Risk Management policy standards, tools and processes to ensure Conduct Risk continues to be managed effectively across the Group.

**Definition**

Conduct risk is defined as the risk that the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes. It includes an expectation that customers have their own responsibilities in the conduct of their financial affairs.

The key conduct risk exposure areas managed by the Group include the following:

**Customers:** The risk of customer detriment, regulatory sanction, loss and / or reputational damage due to inadequate or failed customer-facing or internal processes including improper / inappropriate advice, sales practice, product / service misrepresentation and / or inadequate client account management. It includes the risk that products or services that have been provided fail to respond to changing customer needs over their lifetime, and so deliver inappropriate customer outcomes. It also includes the risk that the Group fails to fully consider, and where appropriate take steps to mitigate, the impact of actions and business decisions on customers, including vulnerable customers;

**Market:** The risk of misalignment of market performance expectations and underlying fundamentals, including the risk that dealings with market participants and stakeholders disrupt market practices or the societies we serve as an unintended consequence; and

**Staff:** The risk that staff misconduct damages the Group's reputation, whether through corruption or negligence.

**Risk management and measurement**

The Group manages Conduct risk under the Group Conduct Risk Management Framework (CRMF).

The CRMF specifies the component parts of the approach used by the Group to manage its Conduct risk exposure. The CRMF is consistent with the overarching Group Risk Framework. It sets out the risk management activities and underlying enablers (tools, structures and roles) established by the Group to ensure an effective, prudent and proportionate response to its principal Conduct risks. The risk management activities and enablers together form a framework for identifying, measuring, mitigating, controlling and reporting on the performance and status of Conduct risk within the Group. A key priority of the CRMF is the avoidance of systemic unfair customer outcomes.

The CRMF comprises the following **risk management activities**, namely:

- Governance and oversight;
- Appetite and policy setting;
- Risk identification and assessment;
- Risk treatment;
- Incident and issue management;
- Risk and control monitoring; and
- Risk management information and assurance reporting.

While the structure of the CRMF is intended to remain relatively constant over time, specific initiatives are pursued in respect of risk management activities and the underlying enablers to ensure the CRMF:

- remains fit for purpose;
- is aligned with business and strategic objectives, and the Court's approved appetite; and
- is responsive to regulatory developments and relevant external events and changes.

In particular, the Group seeks to ensure that its Conduct risk management practices comply with any specific Conduct risk related obligations arising within the jurisdictions in which it operates. In accordance with the Group Risk Framework, the Court defines the amount and nature of the risk the Group is prepared to accept in pursuit of its business objectives. On an annual basis, the Court approves the Group RAS, which incorporates statements for all material risks, including Conduct risk.

## 3.6 Conduct risk (continued)

**Risk mitigation**

The primary risk mitigants for Conduct risk are the clearly defined expected standards of behaviour, including accountabilities and management processes. These are detailed in the Group Code of Conduct to which all management and staff must adhere to and affirm annually. A Speak-Up Policy is also in place and this sets out the steps staff can take to raise any concerns they might have of wrongdoing, risk or malpractice in the Group. The Group has put in place a training programme across the Group to support staff and management in this regard.

**Risk reporting**

The current status of Conduct risk is reported to senior executives and Court members through the Court Risk Report on a monthly basis. The Head of Group Compliance and Regulatory Risk (GCRR) reports to the GRCORC on the status of Conduct risk in the Group, including the progress of associated risk mitigation initiatives, issues and breaches, and significant regulatory interactions. Furthermore, the Head of GCRR provides reports to the Group Audit Committee and the Court Risk Committee on Conduct Risk matters.

## 3.7 Operational risk

**Key points:**

- Throughout 2016, regulatory bodies within all relevant jurisdictions focused on overseeing the development and embedding of operational risk standards and practices. The Group maintained constructive engagements with supervisors and continued to ensure it is in a position to meet its regulatory obligations including fulfilling specified risk mitigation requirements within expected timeframes.
- In 2017, the Group will continue to make substantial investment in its IT systems and improve and integrate its operational risk management tools and processes, as well as engage constructively with the regulatory agenda.

**Definition**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

**Risk management**

The Group faces operational risks in the normal pursuit of its business objectives. The primary goals of operational risk management and assurance are ensuring the sustainability and integrity of the Group's operations and the protection of its reputation by controlling, mitigating or transferring the impact of operational risk. Operational risk cannot be fully eliminated. The Group has established a formal approach to the management of operational risk in the form of an 'Operational Risk Management Framework' which defines the Group's approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Group's business objectives.

This framework outlines, inter alia the following:

- formulation and dissemination of a Group Operational Risk policy specifying the risk management obligations of management within the Group;
- establishment of organisational structures for the oversight, monitoring and management of operational risk throughout the Group; and
- embedding formal operational risk management processes and standards within business and support units throughout the Group.

**Operational risk policy**

The Group's exposure to operational risk is governed by policy formulated by the GRCORC in accordance with the Court's risk appetite and is approved by the CRC within the overall Group risk governance structure outlined on pages 72 to 79.

**Risk Assessment**

A systematic identification and assessment of the operational risks faced by the Group is a core component of the Group's overall operational risk framework. This is known as the Risk and Control Self-Assessment (RCSA) and is a framework for capturing, measuring and managing operational risk as well as providing a mechanism for the consistent identification, monitoring, reviewing, updating and reporting of risks throughout the Group. A key element of this process is the categorisation of risks by taxonomy.

**Risk mitigation and transfer**

In addition to business unit risk mitigation initiatives, the Group implements specific policies and risk mitigation measures for key operational risks, including but not limited to, financial crime, outsourcing, technology and business disruption risks. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, whereby selected risks are reinsured externally.

The Group's total capital requirement arising from operational risk is covered by the Pillar I regulatory capital, calculated using the Standardised Approach (TSA), and the Pillar II capital add-on, calculated per an internal model as part of the ICAAP process.

**Risk reporting**

The current status of operational risk is reported to senior executives and the Court through the Court Risk Report on a monthly basis.

At least eight times a year, the Head of Group Operational Risk reports to the GRCORC on the status of operational risk in the Group, including the status of the top operational risks, the progress of risk mitigation initiatives and programmes, significant loss events, and the nature, scale and frequency of overall losses.

## 3.8 Business and strategic risk

**Key points:**

- On an annual basis, the Court reviews the Group's strategic objectives and key underlying assumptions to confirm that the strategic shape and focus of the Group remains appropriate.
- The Group continues to effectively manage a range of programmes including ongoing investment in its infrastructure, complying with the evolving regulatory environment whilst continuing to invest in improving resilience, efficiencies and customer experience across channels.
- The economies in which the Group operates are growing, however the impact of Brexit has created uncertainties which may impact momentum, as may the low interest rate environment.
- Following Brexit, macroeconomic assumptions within a one year timeframe have been revised downwards in both the UK and RoI, although the Group currently expects economic expansion in both economies in 2017.

**Definition**

Business and strategic risk assesses (1) the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment and (2) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns based on its strategic plans and financial forecasts, and an assessment of the business environment.

It includes the risk that the Group fails to develop or to execute successful strategies to deliver acceptable returns in the context of the economic, competitive, regulatory / legal and interest rate environments that arise.

**Risk management, measurement and reporting**

Divisions and business units are responsible for delivery of their business plans and management of such factors as pricing, sales and loan volumes, operating expenses and other factors that may introduce earnings volatility. Business divisional and portfolio strategy is developed within the boundaries of the Group's strategy as well as the Group's Risk Appetite Statement. These strategies are approved by business divisional CEOs and presented to the Court on an annual basis.

Monitoring of business and strategic risk is performed on a divisional basis, and measured quarterly, with a scorecard addressing movements in key indicators around income diversification, margin trends, customer advocacy, direct and indirect costs, and staff turnover. In addition to this, Business and strategic risk is evaluated through quarterly updates in the Court Risk Report which is reviewed by the GRPC, the CRC and the Court. The key dimensions evaluated within business and strategic risk are;

- appropriate strategic plan and financial projections;
- strength of the Group's competitive position;
- management capability, technology capability and resource availability;
- concentration of the Group's assets, funding and income streams; and
- the strength and stability of the Group's returns.

The Group also reviews Business and strategic risk as part of the annual risk identification process. In addition there is an annual review of Business and strategic risk to ensure that the Court is comfortable with the processes in place to manage business and strategic risk and that residual risk is within the Group's risk appetite.

**Risk mitigation**

The Group mitigates Business risk through business planning methods, such as the diversification of revenue streams, cost base management and oversight of business plans which are informed by expectations of the external environment and the Group's strategic priorities.

At an operational level, the Group's annual budget process sets expectation at a business unit level for volumes and margins. The tracking of actual and regularly forecasted volumes and margins against budgeted levels is a key financial management process in the mitigation of business risk.

In the case of Strategic risk, this risk is mitigated through regular updates to the Court on industry developments, the macroeconomic environment and associated trends which may impact the Group's activities, review of the competitive environment and strategies at a divisional and business unit level.

## 3.9 Pension risk

**Key points:**

- Defined benefit pension funds are subject to market fluctuations, and interest rate and inflation risks, thus a level of volatility is associated with defined benefit pension funding.
- In order to further address this volatility, a review of the Group sponsored defined benefit pension schemes was initiated and completed in 2013. The resulting proposals arising from the review were accepted by employee members of the main defined benefit scheme, the Bank Staff Pensions Fund (BSPF).
- These proposals have now been implemented for the BSPF. Similar proposals were implemented for two other Group defined benefit schemes during 2014 and a third scheme in 2015.
- Further liability and risk management exercises have continued in 2016 and will be considered on an ongoing basis in 2017.

**Definition**

Pension risk is the risk in the Group defined benefit pension schemes that the assets are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities. This risk crystallises for the sponsor when a deficit emerges of a size which implies a material probability that the liabilities will not be met.

**Risk management, measurement and reporting**

The Group sponsors a number of defined benefit pension schemes for past and current employees. The Group's net IAS 19 pension deficit at 31 December 2016 was €0.4 billion (31 December 2015: €0.7 billion) (see note 42). The investment policy pursued to meet the schemes' estimated future liabilities is a matter for the Trustees and the schemes' Investment Committees. The Group, as sponsor, has an opportunity to communicate its views on investment strategy to the Trustees and receives regular updates including scenario analysis of pension risk.

The Court receives monthly updates on movements in assets, liabilities and the size of the deficit and also more detailed quarterly updates through the Court Risk Report. In addition, there is an annual review of pension risk to ensure that the Court is satisfied with the processes in place to manage the risk and that residual risk is within the Group's risk appetite.

**Risk mitigation**

In order to mitigate pension risk, a new hybrid scheme was introduced in 2007 for all new entrants (see note 42) and the defined benefit schemes were closed to new entrants. A defined contribution scheme was introduced during 2014 for all new employees and the hybrid scheme was closed to new entrants.

In 2010 the Group carried out an extensive pensions review in order to address the pension deficit by a combination of benefit restructuring and additional employer contributions over a period of time to 2017.

In 2013 a further review, which also incorporated benefit restructuring, was carried out which reduced the pension deficit and is expected to further reduce the deficit through additional employer financial support in the period from 2016 to 2020. This additional financial support will broadly match the deficit reduction as a result of the benefit restructuring.

Volatility and interest rate exposure was further reduced in 2014 when the Group agreed with the Trustees to transfer 20% of the listed equity portfolio to bonds during 2014. Further liability and risk management exercises have continued in 2016 and are considered on an ongoing basis. Nevertheless a deficit still exists and as the pension funds are subject to market fluctuations, interest rate and inflation risks, a level of volatility associated with IAS 19 pension deficits (see note 42) and their impact on the Group's capital ratios remains.

## 3.10 Reputation risk

**Key points:**
The Group's reputation continues to be influenced and shaped by a range of factors; macroeconomic and political environment, media and public commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and their interaction with the external environment will also influence reputation.

Within this context, the actions and achievements of the Group over the past twelve months or so have impacted positively on the Group's reputation, most notably:
- continuing to be the largest lender to the Irish economy in 2016;
- the Group's Enterprise programme, support for startups and entrepreneurs, and enhanced customer offerings;
- publication of the Group's third Responsible Business Report and;
- award of the Business Working Responsibly Mark in Ireland.

During the past year the Group has also managed the potential impact on its reputation, through successful identification of potential risks, communication and risk mitigation planning when dealing with challenges.

**Definition**
Reputation risk is defined as the risk to earnings or franchise value arising from adverse perception of the Group's image on part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners.

This risk typically materialises through a loss of business in the areas affected. Reputation is not a standalone risk but overlaps with other risk areas and may often arise as a consequence of external events or operational risk related issues.

**Risk management, measurement and reporting**
Group Communications is the primary function responsible for managing reputation risk in Bank of Ireland. With the exception of certain specific communications to, for example, investors and regulators, Group Communications manages all external and internal communications, stakeholder and government relations, and corporate social responsibility, helping to reinforce the Group's reputation with its employees, customers, government, general public and the wider community. Reputation risk indicators are tracked on an ongoing basis.

These indicators are:
- media monitoring;
- market trends and events;
- stakeholder engagement; and
- monitoring risk events which may have the potential to impact Group reputation.

The Group reviews Reputation risk as part of the annual risk identification process.

Quarterly updates are reported to the GRPC, the CRC and the Court as part of the Court Risk Report. In addition there is an annual review of Reputation risk to ensure that the Court is comfortable with the processes in place to manage reputation risk and that residual risk is within the Group's risk appetite.

**Risk mitigation**
A wide range of processes and structures are used to identify, assess and mitigate the potential risk to the Group's reputation. Managing the Group in a manner that ensures that the potential impact on the Group's reputation is taken into account in decision making is paramount in mitigating against reputation risk.

## 4 Capital management

**Key points:**

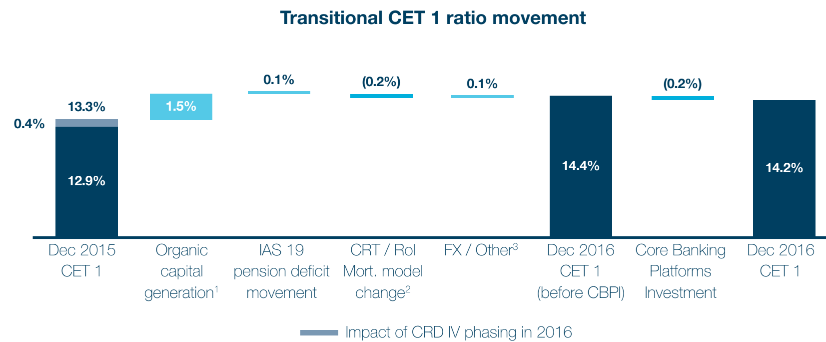
- Common equity tier 1 (CET 1) ratio is 14.2% under transitional rules at 31 December 2016.
- Following the 2016 Supervisory Review and Evaluation Process (SREP), the Group will be required to maintain a minimum CET 1 ratio of 8.0% on a transitional basis from 1 January 2017.
  - Includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2017 of 1.25%
  - Pillar II guidance (P2G) not disclosed in accordance with regulatory preference
- The Group expects to maintain a CET 1 ratio in excess of 12% on a transitional basis and on a fully loaded basis at the end of the phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.
- The pro-forma transitional CET 1 ratio at 1 January 2017 is estimated at 14.0% reflecting the phasing in of CRD IV deductions for 2017.
- Total capital ratio is 18.5% under transitional rules at 31 December 2016.
- On a fully loaded basis, the CET 1 ratio is 12.3% at 31 December 2016.
- Leverage ratio is 7.3% on a transitional basis and 6.4% on a fully loaded basis as at 31 December 2016.

### Capital Ratios

***Transitional CET 1***

The transitional CET 1 ratio at 31 December 2016 of 14.2% compares to the ratio at 31 December 2015 of 13.3%.

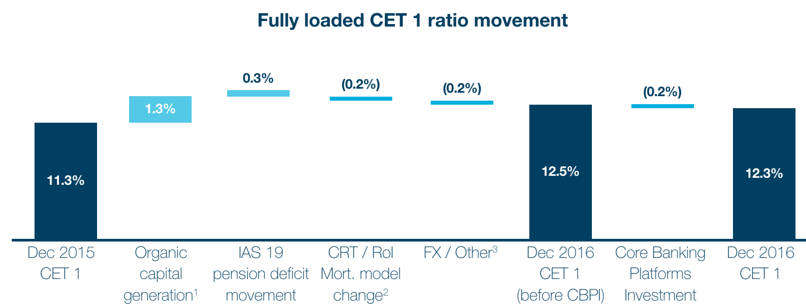
**Transitional CET 1 ratio movement**




***Fully Loaded CET 1***

The fully loaded CET 1 ratio is estimated at 12.3% at 31 December 2016, which has increased from 11.3% at 31 December 2015.

**Fully loaded CET 1 ratio movement**




¹ *Organic capital generation consists of attributable profit, AFS reserve movements, the reduction in the DTA deduction (DTAs that rely on future profitability), movements in the Expected Loss deduction and RWA book size and quality movements. Transitional organic capital generation is 20 basis points higher due to the phasing impacts on AFS reserves and the DTA / Expected Loss deductions.*

² *In December 2016, the Group executed a credit risk transfer (CRT) transaction while also revising its calculation of capital requirements under the IRB approach for its RoI mortgage non-defaulted loan portfolio in advance of the ECB's targeted review of internal models (TRIM).*

³ *Relates primarily to FX and other regulatory deductions. Transitional CET 1 also includes the positive impact from the removal of the sovereign filter.*

**Capital management objectives and policies** *(audited)*

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital 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.

## Capital management (continued)

**CRD IV** *(unaudited)*
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.

The CRD IV framework consists of three 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 at least 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 2016 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).

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 ECB regulation 2016/445 on the exercise of options and discretions. This regulation which was published in March 2016 replaced the previous options and discretions as published by the Central Bank of Ireland.

**CRD IV Developments** *(unaudited)*
CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards.

On 23 November 2016, the European Commission (EC) published a set of legislative proposals, including amendments of the existing Capital Requirement Directive (CRD) and the Capital Requirements Regulation (CRR), as well as the related EU Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation which aims to:

- Implement elements of the Basel Committee on Banking Supervision (BCBS) regulatory framework into EU law, including:
  - A binding net stable funding ratio (NSFR).
  - A binding leverage ratio.
  - A 'fundamental review of the trading book' (FRTB).
  - A new standardised approach for counterparty credit risk (SA-CCR).
  - Standards on the total loss-absorbing capacity (TLAC) / Minimum Requirement for own Funds and Eligible Liabilities (MREL).
- Propose targeted adjustments to the calibration of some new Basel standards to mirror the specificities of credit institutions in EU and the European economy.
- Promote investment in the economy through encouraging SME lending and infrastructure financing.
- Propose a phase in period for the capital impacts of IFRS 9 'expected credit losses' (ECL) accounting provisions.

The revised text of CRR is being submitted simultaneously to the European Parliament and the European Council before the ultimate ratification by both the Parliament and the Council. The proposed changes are expected to start entering into force in 2019 at the earliest (with the exception of the proposed IFRS 9 phasing which will apply from date of entry into force).

The Group actively monitors these developments and seeks to effectively comply with the new requirements when finalised.

**IFRS 9 Regulatory Treatment** *(unaudited)*
The prudential treatment of IFRS 9 has yet to be finalised with a number of regulatory proposals currently being considered.

In October 2016, the Basel Committee on Banking Supervision published a consultative document on interim and transitional arrangements in applying new ECL accounting provisions to the calculation of regulatory capital. The Basel Committee outlined three possible transitional arrangements, all of which apply a phased approach over 3 to 5 years, subject to national discretions, to avoid a day 1 capital impact on transition.

Additionally, as outlined in the CRD IV developments section, the EC published details of a package of proposed amendments to the CRR which included a transitional arrangement for IFRS 9 which would allow the add-back of stage 1 and stage 2 ECL loss allowances to CET 1 capital phased over 5 years. The outcome of the legislative process is expected to be known during 2017.

The Group will continue to monitor and review regulatory publications and assess the potential effects of IFRS 9 on the Group's capital requirements. Further detail on IFRS 9 implementation is set out in the credit risk section of the Risk Management Report on pages 108 to 110.

## Capital management (continued)

**Capital requirements / buffers** *(unaudited)*
The Group's key capital ratios are set out on pages 36 to 39.

Following the 2016 Supervisory Review and Evaluation Process (SREP), the Group will be required to maintain a minimum CET 1 ratio of 8.0% on a transitional basis from 1 January 2017. This includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2017 of 1.25%. Pillar II guidance (P2G) is not disclosed in accordance with regulatory preference.

The Group expects to maintain a CET 1 ratio in excess of 12% on a transitional basis and on a fully loaded basis at the end of the phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

The Central Bank of Ireland (CBI) 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 Single Resolution Mechanism (SSM) and the 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 2017. The countercyclical capital buffer is subject to quarterly review by the CBI and FPC. Should the CBI or FPC decide to introduce a countercyclical buffer they must announce this 12 months prior to the buffer increase coming into force (or justify a shorter period on the basis of exceptional circumstances).

**Capital actions completed in 2016**

*2009 Preference Stock redemption: (audited)*
On 4 January 2016, the Group redeemed the remaining €1.3 billion 2009 Preference Stock having received SSM approval in November 2015. The 2009 Preference Stock was derecognised from CET 1 regulatory capital in November 2015. See note 45 for further details.

*€1 billion 10% CCCN redemption: (unaudited)*
On 1 August 2016, the Group redeemed the €1 billion 10% Convertible Contingent Capital Note (CCCN) which had a fixed maturity of 30 July 2016. This was settled on 1 August 2016 being the next Target business day post maturity. There was limited capital impact as the CCCN had amortised from capital over the five years to maturity. See note 43 for further details.

*Credit risk transfer transaction: (unaudited)*
The Group executed a credit risk transfer transaction effective 29 December 2016 on a reference portfolio of €2.87 billion of loan assets. The transaction has reduced the Group's credit risk exposure, and consequently the risk weighted assets on the reference portfolio. The transaction resulted in a reduction in risk weighted assets of c.€1.9 billion. See note 51 for further details.

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

| Group capital resources | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Stockholders' equity | 8,661 | 8,372 |
| Other equity instruments | 740 | 740 |
| Non-controlling interests - equity | 1 | 1 |
| **Total equity** | **9,402** | **9,113** |
| Undated subordinated loan capital | 159 | 180 |
| Dated subordinated loan capital | 1,266 | 2,260 |
| **Total capital resources** | **10,827** | **11,553** |

*Audited:*
In the year ended 31 December 2016, the Group's total capital resources decreased by €0.7 billion to €10.8 billion due primarily to:
- the redemption of the €1 billion 10% CCCN; partially offset by
- attributable profit generated during the year and movements in other comprehensive income.

# Governance

## Corporate Governance Statement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## The Court of Directors

**Archie G Kane (64)**
*Governor*
***Appointed:*** *June 2012 (4.5 years)*
***Independent:*** *On Appointment*

**Committee Membership:**
Chairman of the Group Nomination and Governance Committee and member of the Group Remuneration Committee from June 2012 (4.5 years).

**External Appointments:**
Trustee of the Stratford Literary Festival.

**Relevant skills, experience and expertise**
Archie retired from Lloyds Banking Group plc in May 2011, where he was Group Executive Director - Insurance and Scotland. Prior to that, he held a number of senior and general management positions with Lloyds Banking Group plc and TSB Bank plc. He was Chairman of the Association of British Insurers and Chairman of the Association of Payments and Clearing Services. He is a former member of the UK Takeover Panel, the Financial Services Global Competitiveness Group, the Insurance Industry Working Group, HM Treasury Financial Services Committee and the Financial Services Advisory Board - Government of Scotland and TheCityUK Advisory Council.

Archie has extensive experience of the financial services industry, having spent more than twenty five years in various senior commercial, strategic and operational roles in Lloyds Banking Group plc and TSB Bank plc. He is a member of the Institute of Chartered Accountants Scotland (ICAS).

**Kent Atkinson (71)**
*Non-executive Director*
***Appointed:*** *January 2012 (5 years)*
***Independent:*** *Yes*

**Committee Membership:**
Member of the Group Audit Committee since January 2012 (5 years) and Chairman since April 2012. Member of the Court Risk Committee since January 2012 (5 years). Member of the Group Remuneration Committee from July 2016 (0.5 years).

**External Appointments:**
None.

**Relevant skills, experience and expertise**
Kent was Group Finance Director of Lloyds TSB Group between 1994 and 2002. Prior to that, he held a number of senior executive appointments in Retail Banking with Lloyds, including Regional Executive Director for their South East region, and worked for twenty two years in South America and the Middle East with the Group.

In addition to his extensive commercial and financial executive experience in the financial services industry, Kent has significant experience as a Non-executive Director across a range of international companies. Previous board appointments include Coca-Cola HBC AG, Cookson Group plc, Gemalto N.V., Standard Life plc, Telent plc (formerly Marconi plc), UK Asset Resolution Limited and Millicom International Cellular S.A.

Kent has significant experience in governance, risk management and financial oversight, including in the capacity of Senior Independent Director, Chair of Audit Committee of a number of entities, and as a member of Risk, Strategy and M&A, Remuneration and Nomination Committees.

## The Court of Directors (continued)

**Richie Boucher (58)**
*Group Chief Executive Officer; Executive Director*

***Appointed to the Court:***
*October 2006 (10 years)*
***Appointed Group Chief Executive Officer:***
*February 2009 (8 years)*
***Independent:*** *No*

**Committee Membership:**
None.

**External Appointments:**
Non-executive Director of Eurobank Ergasias S.A. and Director of IBEC CLG.

**Relevant skills, experience and expertise**
Richie was appointed Group Chief Executive Officer in 2009. He joined the Group as Chief Executive, Corporate Banking in December 2003 from Royal Bank of Scotland. He was appointed Chief Executive, Retail Financial Services Ireland in January 2006. He is a past President of the Institute of Banking in Ireland (2008) and of the Irish Banking Federation (2006). He is a Fellow of the Institute of Banking.

Richie has extensive experience in all aspects of financial services. He has held a number of key senior management roles within Bank of Ireland, Royal Bank of Scotland and Ulster Bank through which he has developed extensive leadership, strategy development, financial, people, operational and risk management skills.

**Pat Butler (56)**
*Non-executive Director*

***Appointed:*** *December 2011 (5 years)*
***Independent:*** *Yes*

**Committee Membership:**
Member of the Group Nomination and Governance Committee and member of the Court Risk Committee since December 2011 (5 years). Member of the Group Remuneration Committee since October 2013 (3.5 years).

**External Appointments:**
Non-executive Director of Hikma Pharmaceuticals plc, where he is Chairman of the Audit Committee and a member of the Nomination and Compliance, Responsibility and Ethics Committees. Director of Towergate Insurance Group and Chairman of the Risk Committee. Governor of the British Film Institute. Non-executive Director of The Resolution Foundation and Res Media Limited.

**Relevant skills, experience and expertise**
Pat is a partner of The Resolution Group, a financial services investment firm specialising in large scale restructuring. Prior to this he spent twenty five years with McKinsey & Co., where he was a senior Director and led the firm's UK Financial Services Practice and its EMEA Retail Banking Practice. At McKinsey & Co., he advised banks, insurance companies and asset managers in the UK, US, Australia, South Africa, Middle East and several European countries, as well as a range of companies outside financial services, on issues of strategy, operations, performance improvement and organisation. He is a Fellow of Chartered Accountants Ireland.

Pat has considerable strategic experience in a broad range of industries with an international profile, and an in-depth strategic and operational knowledge of the European and International Banking sector in particular. He is a Director of Bank of Ireland (UK) plc.

## The Court of Directors (continued)

**Tom Considine (72)**
*Non-executive Director*

***Appointed:*** *January 2009 (8 years)*
***Independent:*** *No*

**Committee Membership:**
Member of the Court Risk Committee since July 2009 (7.5 years) and Chairman until July 2016 (7 years). Member of the Group Audit Committee since January 2009 (8 years).

**External Appointments:**
None.

**Relevant skills, experience and expertise**
Tom is a former Secretary General of the Department of Finance and a former member of the Advisory Committee of the National Treasury Management Agency. He was also formerly a board member of the Central Bank and Financial Services Authority of Ireland and a former member of the Council of the Economic & Social Research Institute.

Tom was nominated as a Director of the Bank by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act, 2008 and is not required to stand for election or regular re-election by stockholders. Apart from the information available in the public domain at the time of nomination, a description of the skills and expertise brought to the Board by this appointment was not provided by the Government. However, the Court notes the value and benefit gained from Tom's membership of the Court and its Committees through his judgement and quality of contribution.

Tom has extensive experience in the public service, including at the most senior level in the Department of Finance and representing Ireland at European Union level. He is a former President of the Institute of Public Administration. He has experience in finance at a strategic level, financial regulation, fiscal policy and risk management. As a former Secretary General of the Department of Finance and board member of the Central Bank and Financial Services Authority, he has broad experience of the wider macroeconomic environment and related policy issues. He is a Fellow of the Association of Chartered Certified Accountants.

**Patrick Haren (66)**
*Senior Independent Director; Non-executive Director*

***Appointed:*** *January 2012 (5 years)*
***Independent:*** *Yes*

**Committee Membership:**
Member of the Group Remuneration Committee since January 2012 (5 years) and Chairman since May 2015 (1.5 years). Member of the Group Audit Committee since January 2012 (5 years) and member of the Group Nomination and Governance Committee since November 2015 (1 year).

**External Appointments:**
Advisory role to Green Sword Environmental Ltd.

**Relevant skills, experience and expertise**
Patrick is a former CEO of the Viridian Group, having joined Northern Ireland Electricity (NIE) in 1992 as Chief Executive. He previously worked with the ESB, including as Director - New Business Investment and also served as a board member of Invest Northern Ireland for a number of years.

Patrick is an experienced Chief Executive Officer who has gained extensive strategic, corporate development and transactional experience, having led the privatisation of NIE by IPO and grown the business under the new holding company Viridian through to 2007, positioning the company as the market leader in independent electricity generation and supply in competitive markets in Ireland, North and South. He is a past Director of Bank of Ireland (UK) plc where he also served as Chair of the Remuneration Committee and a member of the Nomination Committee. He was awarded a knighthood in 2008 for services to the electricity industry in Northern Ireland. He is a member of the Institute of Directors (UK).

## The Court of Directors (continued)

**Andrew Keating (46)**
*Group Chief Financial Officer; Executive Director*

***Appointed:*** *February 2012 (5 years)*
***Independent:*** *No*

**Committee Membership:**
None.

**External Appointments:**
Non-executive Director of Irish Management Institute CLG.

**Relevant skills, experience and expertise**
Andrew joined the Group in 2004, prior to which he held a number of senior finance roles with Ulster Bank, having qualified as a Chartered Accountant with Arthur Andersen. Prior to his appointment as Group Chief Financial Officer, Andrew held the role of Director of Group Finance.

Andrew is an experienced financial services professional who has held a number of senior finance roles in Bank of Ireland and Ulster Bank. He has in-depth knowledge of financial reporting and related regulatory and governance requirements. He is a Fellow of Chartered Accountants Ireland.

**Patrick Kennedy (47)**
*Deputy Governor; Non-executive Director*

***Appointed:*** *July 2010 (6.5 years)*
***Independent:*** *Yes*

**Committee Membership:**
Member of the Court Risk Committee since January 2011 (6 years) and Chairman since July 2016 (0.5 years). Member of the Group Nomination and Governance Committee since September 2014 (2.5 years). Member of the Group Audit Committee since July 2016 (0.5 years).

**External Appointments:**
Chairman of Cartrawler.

**Relevant skills, experience and expertise**
Patrick was Chief Executive of Paddy Power plc from 2006 to 2014. He served as an Executive Director of Paddy Power plc since 2005 and a Non-executive Director since 2004, during which time he served as Chairman of the Audit Committee. He was a member of the Risk Committee of Paddy Power plc from 2006 to 2014. Prior to joining Paddy Power plc, Patrick worked at Greencore Group plc for seven years where he was Chief Financial Officer and also held a number of senior strategic and corporate development roles. Patrick also worked with KPMG Corporate Finance in Ireland and the Netherlands and as a strategy consultant with McKinsey & Co. in London, Dublin and Amsterdam.

As an experienced Chief Executive Officer and Finance Director, Patrick has in-depth knowledge of international business, management, finance, corporate transactions, strategic development and risk management through his involvement in Paddy Power plc, Elan Corporation plc (where he was Chairman of the Leadership, Development and Compensation Committee and a member of the Transaction Committee), Greencore Group plc and McKinsey & Co. He is a Fellow of Chartered Accountants Ireland.

## The Court of Directors (continued)

**Davida Marston (63)**
*Non-executive Director*

***Appointed:*** *April 2013 (4 years)*
***Independent:*** *Yes*

**Committee Membership:**
Member of the Group Audit Committee and member of the Court Risk Committee since April 2013 (4 years).

**External Appointments:**
Non-executive Director of Liberbank S.A., where she is Chair of the Nomination Committee and a member of the Remuneration Committee.

**Relevant skills, experience and expertise**
Davida is a Non-executive Director of Liberbank S.A. and is a former Director of a number of companies, including CIT Bank Limited, ACE European Group Limited and Europe Arab Bank plc. She was a member of the UK senior management team of Citigroup's UK Corporate Bank (1990-2003), which included a period as Regional Head UK and Ireland for the Banks and Securities business, and a senior manager at Bank of Montreal (1981-1990).

Davida has considerable financial services experience, both as an Executive and Non-executive Director and as Chair of Audit and Risk Committees in financial services companies. She has extensive non-executive experience with banking, life assurance and non-financial services companies. She is a Fellow of the Institute of Directors.

**Brad Martin (57)**
*Non-executive Director*

***Appointed:*** *July 2013 (3.5 years)*
***Independent:*** *No*

**Committee Membership:**
None.

**External Appointments:**
Chairman of Resolute Forest Products Inc. Non-executive Director of Eurobank Ergasias S.A., where he is Vice Chairman of the Nomination and Remuneration Committees and a member of the Audit and Risk Committees. Non-executive Director of Blue Ant Media Inc.

**Relevant skills, experience and expertise**
Brad is Vice President, Strategic Investments, Fairfax Financial Holdings Limited, a publicly traded financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Brad gained 11 years' experience with the Canadian Law Firm, Torys LLP, including a year on secondment to the Ontario Securities Commission, becoming a Partner in the firm in 1995. He has worked in a variety of senior roles in the Fairfax Financial Group and served on the boards of a number of companies in which Fairfax is a significant investor. Previous Board appointments include Ridley Inc., HUB International Limited, Cunningham Lindsey Group Limited, Odyssey Re Group Limited, Northbridge Financial Corporation, The Brick Limited and Chairman of Imvescor Restaurant Group Inc. Brad is a highly qualified lawyer with strong experience in a legal professional firm and in-house with Fairfax Financial Holdings Limited. He has particular skills in the areas of corporate strategy, operations management, acquisitions, restructures, corporate finance, legal and corporate governance and people management.

At the date of his appointment, Fairfax noted that it was pleased to have been able to nominate someone of Brad's calibre and experience as its nominee to the Court.

## The Court of Directors (continued)

**Fiona Muldoon (49)**
*Non-executive Director*

***Appointed:** June 2015 (1.5 years)*
***Independent:** Yes*

**Committee Membership:**
Member of the Court Risk Committee since November 2015 (1 year).

**External Appointments:**
Group Chief Executive of FBD Holdings plc and Chief Executive of FBD Insurance plc. Director of Insurance Ireland (Member Association) CLG.

**Relevant skills, experience and expertise**
Fiona is Group Chief Executive of FBD Holdings plc and FBD Insurance plc, one of Ireland's largest property and casualty insurers.

Prior to this, Fiona served from 2011 to 2014 with the Central Bank of Ireland including as Director, Credit Institutions and Insurance Supervision. She also spent 17 years of her career with XL Group in Dublin, London and Bermuda, where she worked in various senior financial management positions with responsibilities for corporate treasury and strategic activities including capital management, rating agency engagement, corporate development, corporate finance, liquidity, foreign exchange and cash management.

Fiona has significant experience in governance, regulatory compliance and financial oversight and is an experienced financial services professional. She has significant previous experience within a financial institution with an international focus. Fiona has a Bachelor of Arts Degree from University College Dublin and is a Fellow of Chartered Accountants Ireland.

**Patrick Mulvihill (54)**
*Non-executive Director*

***Appointed:** December 2011 (5 years)*
***Independent:** Yes*

**Committee Membership:**
Member of the Group Audit Committee and member of the Court Risk Committee since December 2011 (5 years).

**External Appointments:**
Non-executive Director of International Fund Services (Ireland) Limited and Director of Beachvista Limited.

**Relevant skills, experience and expertise**
Patrick spent much of his career at Goldman Sachs, retiring in 2006 as Global Head of Operations covering all aspects of Capital Markets Operations, Asset Management Operations and Payment Operations. He previously held the roles of Co-Controller, Co-Head of Global Controller's Department, covering financial / management reporting, regulatory reporting, product accounting and payment services. He was also a member of the firm's Risk, Finance and Credit Policy Committees.

Patrick has over twenty years' experience of international financial services and has held a number of senior management roles based in London and New York with Goldman Sachs. As a result, he has an in-depth knowledge of financial and management reporting, regulatory compliance, operational, risk and credit matters within a significant financial institution with an international focus. Patrick is a Fellow of Chartered Accountants Ireland and Associate of the Institute of Directors.

## Court and other committees

**Senior Independent Director**
Patrick Haren

**Group Audit Committee (GAC)**
Kent Atkinson (Chairman)
Tom Considine
Patrick Haren
Patrick Kennedy
Davida Marston
Patrick Mulvihill

**Group Remuneration Committee (GRC)**
Patrick Haren (Chairman)
Kent Atkinson
Pat Butler
Archie G Kane

**Group Nomination and Governance Committee (N&G)**
Archie G Kane (Chairman)
Pat Butler
Patrick Haren
Patrick Kennedy

**Court Risk Committee (CRC)**
Patrick Kennedy (Chairman)
Kent Atkinson
Pat Butler
Tom Considine
Davida Marston
Fiona Muldoon
Patrick Mulvihill

**Directors who are Trustees of the Bank Staff Pensions Fund (BSPF)**
Tom Considine
Patrick Kennedy

**Group Risk Policy Committee (GRPC)**
Vincent Mulvey (Chairman)
Richie Boucher
Sean Crowe
Des Crowley
Tom Fee
Andrew Keating
Lewis Love
Liam McLoughlin
Peter Morris
Declan Murray
Helen Nolan
Gabrielle Ryan
Mick Sweeney
Michael Torpey

**Group Investment Committee (GIC)**
Richie Boucher (Chairman)
Donal Collins (Secretary)
Sean Crowe
Des Crowley
Andrew Keating
Lewis Love
Liam McLoughlin
Peter Morris
Vincent Mulvey
Helen Nolan
Julie Sharp
Michael Torpey

## Group Executive

| | |
|---|---|
| Richie Boucher | Group Chief Executive Officer |
| Donal Collins | Head of Group Strategy Development |
| Sean Crowe | Group Treasurer |
| Des Crowley | Chief Executive, Retail (UK) |
| Andrew Keating | Group Chief Financial Officer |
| Lewis Love | Chief Operating Officer |
| Liam McLoughlin | Chief Executive, Retail (Ireland) |
| Peter Morris | Chief Governance Risk Officer |
| Vincent Mulvey | Chief Credit and Market Risk Officer |
| Julie Sharp | Head of Group Human Resources |
| Michael Torpey | Chief Executive, Corporate and Treasury Division |

## Corporate Governance Report

**Archie G Kane,** Chairman

Dear Stockholder,

I am pleased to present our Corporate Governance Report for 2016. This report explains how the Group applies the principles of good governance. The Court of Directors (the 'Court') is accountable to stockholders for the overall direction and control of the Group. It is committed to high standards of governance designed to protect the long term interests of stockholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements. The Governor and Company of the Bank of Ireland (the 'Bank') is subject to the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the 'Irish Code' which is available on www.centralbank.ie) with effect from 11 January 2016. The Bank is also subject to the additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the Capital Requirements Directive (CRD IV)), respectively. Previously the Bank was subject to the requirements of the Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013. The Bank is also subject to the UK Corporate Governance Code 2014 published by the Financial Reporting Council in the UK (the 'UK Code' which is available on www.frc.org.uk) and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange (the 'Irish Annex' which is available on www.ise.ie).

I would like to thank each of the Directors for their commitment and support during 2016. We are committed to observing high standards of corporate governance, integrity and professionalism to deliver on our priorities and generate the long term sustainable value that will benefit all of the Bank's stakeholders.

**Archie G Kane**
Governor
23 February 2017

The Directors believe that the Bank complied with the provisions of the Irish Code throughout 2016. They also believe the Bank complied with the provisions of the UK Code and the Irish Annex throughout 2016, other than in the following respects:

- As Tom Considine was nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and is not required to stand for election or regular re-election by stockholders, he has not been classified as an independent Non-executive Director. In accordance with the Bye-Laws of the Bank, Directors nominated by the Minister for Finance may not serve as a Director of the Bank for a period of longer than nine years after his or her date of appointment.

  Tom Considine is a member of both the Group Audit Committee and Court Risk Committee, which continue to benefit from the judgement and the quality of his contributions and comprises a minimum of three independent Non-executive Directors, as per provision C.3.1 of the UK Code, as does the Risk Committee.

- Provision B.7.1 of the UK Code recommends annual election of directors by stockholders. In accordance with the Bye-Laws of the Bank, Government nominated Directors are not required to put themselves up for re-election on an annual basis and accordingly Tom Considine was not submitted for re-election at the Annual General Court held in 2016. Government nominated Directors are subject to an annual review of their fitness and probity.

- Brad Martin was a member of the Group Remuneration Committee (GRC) during 2016 and, as Brad Martin represents a significant stockholder in the Bank, he is therefore not considered independent. Brad Martin resigned from the GRC on 12 April 2016.

Details of how the Bank applied the main and supporting principles of the UK Code throughout the year ended 31 December 2016 are set out in this Corporate Governance Statement and in the Remuneration Report. These also cover the disclosure requirements set out in the Irish Annex, which supplement the requirements of the UK Code with additional corporate governance provisions.

## Corporate Governance Report (continued)

The Group believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed and appropriate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review.

Directors are aware that, should they have any material concern about the overall corporate governance of the Group, it should be reported without delay to the Court and, should their concerns not be satisfactorily addressed within five business days, the Directors should report the concern to the Central Bank of Ireland.

The Court's oversight of risk and control is supported through delegation of certain responsibilities to Committees of the Court, the principal Committees being the Group Audit Committee, the Court Risk Committee, the Group Nomination and Governance Committee and the Group Remuneration Committee. Details of these Committees are set out on pages 141 and 151 to 160. The Chairman of each Committee formally reports on key aspects of Committee proceedings to the subsequent scheduled meeting of the Court and minutes of principal Committees are tabled at the Court as soon as possible for noting and / or discussion as necessary. The terms of reference of the Committees are reviewed annually by the relevant Committees and by the Court and are available on the Group's website (www.bankofireland.com) or by request to the Group Secretary.

The Group's position on audit tendering is set out on page 158.

### The Court of Directors

***Role of the Court***

The Court's role is to provide leadership of the Group within the boundaries of Risk Appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. The Court sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. The Court also reviews management performance. The Court has a schedule of matters specifically reserved for its decision which is reviewed and updated regularly. Matters requiring Court approval include:

- the determination of strategy;
- determination of risk appetite, approval of the Group Risk Framework and approval of the Group's Risk Appetite Statement;
- approval of the Group's Internal Capital Adequacy Assessment Process;
- promoting the appropriate culture, values and ethics of the Group;
- overseeing the management of the business;
- overseeing the internal control and risk management systems of the Group;
- approval of the Group's business plans and budgets;
- overseeing corporate governance and succession planning;
- acquisitions or divestments of companies for sums greater than €40 million except for credit management purposes;
- approval of Common equity tier 1 capital investments of greater than €20 million in a regulated subsidiary and €40 million in any other subsidiary;
- approving capital expenditure (in excess of €40 million);
- approving guarantees entered into by the Group, other than in the normal course of business;
- approving changes in the funding / benefits of Group pension schemes;
- the approval of equity underwriting sums of greater than €20 million; and
- certain specified senior management appointments.

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

The Court is responsible for determining high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives.

The Court approves the Group Risk Framework on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through a Court Risk Report reviewed quarterly (and monthly for liquidity, credit, capital and operational risk). Further information on risk management and the Court's role in the risk governance of the Group is set out in the Risk Management Report at pages 72 to 79.

The work of the Court follows an agreed schedule of topics which evolves based on business need and is formally reviewed annually by the Court. The Court monitors and reviews the performance of the Group through a series of reports, receives updates from the Group's principal businesses on the execution of their business strategy and considers reports from each of the principal Court Committees. The strategy of the Group and performance against strategic goals continued to receive considerable focus throughout 2016. In addition the following are amongst matters which received Court attention during the year:

## Corporate Governance Report (continued)

***Business Environment***

- Economic, investor and stakeholder perspectives;
- Review of the macroeconomic, political and regulatory environment, including the implications of Brexit;
- Review of global and Irish retail banking trends and financial services in Ireland.

***Group Strategy and Risk Appetite***

- the Group's Risk Appetite;
- Group Strategy;
- Capital strategy and capital allocation;
- Funding and liquidity strategy and policy;
- Strategy reviews, including divisional and business unit strategies, product strategies and customer propositions;
- IT strategy;
- Leadership development, engagement and succession planning.

***Business Performance***

- Review of the performance of the Group's business divisions, its major subsidiaries and business units;
- Group Financial Performance updates, including budgets, forecasts and capital position.

***Risk Management***

- Group Risk Framework;
- Key Group risk policies;
- the Group Recovery Plan;
- Risk Mitigation Plans.

***Governance and Regulatory Matters***

- Developments in the regulatory and corporate governance environment;
- Outcomes of regulatory reviews and responses;
- Corporate governance matters.

***Court Size and Composition***

At close of business on 31 December 2016, the Court comprised twelve Directors; the Governor, who was independent on appointment, two executive Directors and nine Non-executive Directors, seven of whom have been determined by the Court to be independent Non-executive Directors in accordance with the requirements of the UK Code and Irish Code. There were no changes to the composition of the Court throughout 2016. Biographical details, including each Director's background, experience and independence classification, are set out on pages 135 to 140.

The composition of the Court and its Committees is reviewed by the Group Nomination and Governance Committee and the Court, on an annual basis, to ensure that there is an appropriate mix of skills and experience. This includes a review of tenure, an assessment of the skills profile of the Court and consideration of succession for key roles to ensure the Court and Committees comprise Directors having a comprehensive understanding of the Group's activities and the risks associated with them. In addition, where any appointment or resignation will alter the overall size of the Court, a review is undertaken to ensure that the composition remains appropriate. The Court regards its current size and composition as appropriate to provide the broad range of skills and experience necessary to govern the business effectively, while enabling full and constructive participation by all Directors. In 2016 the Group completed a review of the on-going fitness and probity of persons in 'pre-approval controlled functions' (PCFs) whereby Directors were asked to confirm any changes in circumstances in respect of their compliance with the Fitness and Probity Standards issued by the Central Bank of Ireland (the 'Standards'). All changes in circumstances disclosed were assessed and their materiality determined. Time commitments of Directors were considered as part of this review process and Directors confirmed that they continue to have sufficient time to perform their roles. The Court concluded that each of the Directors of the Court has the requisite standard of fitness, probity and financial soundness to perform their functions with reference to the Standards and provided the required confirmation to that effect to the Central Bank of Ireland.

*Court Meetings*

The Court held twelve meetings during the year ended 31 December 2016. As part of its oversight of major subsidiaries, the Court visited the registered office of its UK subsidiary, Bank of Ireland (UK) plc during the year. The Governor and Members of the Court, together with their attendance at Court meetings are shown below.

***Court attendance in 2016:***

| Court Meetings | Eligible to attend | Attended |
|---|---|---|
| Archie G Kane* | 12 | 12 |
| Kent Atkinson | 12 | 11 |
| Richie Boucher | 12 | 12 |
| Pat Butler | 12 | 12 |
| Tom Considine | 12 | 12 |
| Patrick Haren** | 12 | 12 |
| Andrew Keating | 12 | 12 |
| Patrick Kennedy*** | 12 | 12 |
| Davida Marston | 12 | 12 |
| Bradley Martin | 12 | 11 |
| Fiona Muldoon | 12 | 12 |
| Patrick Mulvihill | 12 | 12 |

**Governor **Senior Independent Director ***Deputy Governor*

Further details on the number of meetings of the Court, its Committees and attendance by individual Directors are set out on page 161.

## Corporate Governance Report (continued)

Agendas and papers are circulated prior to each meeting to provide the Directors with relevant information to enable them to discharge fully their duties.

The Group Secretary provides dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal Court process. The Bank has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors.

*Term of Appointment and Re-election of Directors*
Non-executive Directors are normally appointed for an initial three year term, with an expectation of a further term of three years, assuming satisfactory performance and subject to the needs of the business, stockholder re-election and continuing fitness and probity. On recommendation by the Nomination and Governance Committee, in order to maintain continuity and succession on the Court and its committees, the Court approved that Patrick Kennedy would be requested to serve for a third term of three years, starting from and subject to re-election at the Annual General Court to be held in April 2017. A rigorous review of his skills, experience, independence and knowledge was carried out and the Court concluded that Patrick Kennedy continues to be effective and make a valuable contribution to the deliberations of the Court. A Non-executive Director's term of office will not extend beyond nine years in total unless the Court, on the recommendation of the Nomination and Governance Committee, concludes that such extension is necessary due to exceptional circumstances. In respect of executive Directors, no service contract exists between the Bank and any Director which provides for a notice period from the Group of greater than one year. None of the Non-executive Directors has a contract of service with the Group.

It is Group practice that, following evaluation, all Court Directors, with the exception of Government nominated Directors, are subject to annual re-election by stockholders. All Directors retired at the Annual General Court held on 28 April 2016, with the exception of Tom Considine, who was nominated to the Court by the Minister for Finance. The requirement to stand for election and regular re-election is dispensed with for as long as a Director remains a Government nominated Director.

Fiona Muldoon was co-opted to the Court on 12 June 2015 and, being eligible, offered herself for election and was duly elected at the Annual General Court in 2016. The following Directors, being eligible, offered themselves for re-election and were re-elected at the Annual General Court in 2016: Kent Atkinson, Richie Boucher, Pat Butler, Patrick Haren, Archie G Kane, Andrew Keating, Patrick Kennedy, Davida Marston, Brad Martin and Patrick Mulvihill. The names of Directors submitted for election or re-election are accompanied by sufficient biographical details and any other relevant information in the Annual General Court documentation to enable shareholders to take an informed decision on their election.

***Conflicts of Interest***
The Court has an approved Conflicts of Interest Policy which sets out how actual, potential or perceived conflicts of interest are to be identified, reported and managed to ensure that Directors act at all times in the best interests of the Bank. This policy is reviewed on an annual basis.

The Group Code of Conduct, which applies to all employees and Directors of the Group, clarifies the duty on all employees to avoid conflicts of interests. The Code of Conduct is reviewed on an annual basis and communicated throughout the Group.

***Time Commitment***
The Group ensures that individual Directors of the Court have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships which may be held by any individual Director. The Bank has been classified as a 'significant institution' under the European Union (Capital Requirements) Regulations 2014 (the 'Regulations'). During the year ended 31 December 2016, all Directors were within the directorship limits set out for significant institutions under the Regulations.

***Governor, Deputy Governor, Senior Independent Director and Group Chief Executive Officer***
The respective roles of the Governor, who is Chairman of the Court, and the Group Chief Executive Officer, which are separate, are set out in writing and have been agreed by the Court. The Governor oversees the operation and effectiveness of the Court, including ensuring that agendas cover the key strategic items confronting the Group and encouraging all Directors to participate fully in the discussions and activities of the Court. He also ensures that there is effective communication with stockholders and promotes compliance with corporate governance standards. The Governor commits a substantial amount of time to the Group and his role has priority over any other business commitment. There were no changes to the other significant commitments of the Governor during the year ended 31 December 2016. During the year, the Governor and Non-executive Directors met without the executive Directors present, to discuss a range of business matters.

The Deputy Governor deputises for the Governor as required and is a Trustee of the Bank Staff Pension Scheme.

The 'Senior Independent Director' (SID) provides Court members, the Group Secretary, stockholders and customers with an additional channel, other than the Governor or the Group Chief Executive Officer, through which to convey, should the need so arise, concerns affecting the Governorship or the Court, or any other issue.

## Corporate Governance Report (continued)

The Group Chief Executive Officer is responsible for execution of approved strategy, holds delegated authority from the Court for the day to day management of the business and has ultimate executive responsibility for the Group's operations, compliance and performance. Procedures are in place to review the Group Chief Executive's contract at least every five years and this was formally reviewed in 2015.

***Balance and Independence***
The independence status of each Director on appointment is considered by the Group Nomination and Governance Committee and the Court. In addition, the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence status remains appropriate. In 2016, the Court considered the principles relating to independence contained in the Irish Code and the UK Code and concluded that the previously determined independence status of each Director was appropriate. Specifically, the Court concluded that the Governor was independent on appointment, and that each current Non-executive Director, with the exception of Tom Considine and Brad Martin, is independent within the meaning of the Irish Code and the UK Code. Tom Considine was nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and is not required to stand for election or regular re-election by stockholders. Brad Martin represents a significant stockholder in the Bank. For these reasons, neither is considered independent by reference to the terms of the Irish Code and the UK Code. The Court values and benefits from their judgement and the quality of their contribution to the deliberations of the Court and its Committees.

Each of the Governor, Deputy Governor and all of the Non-executive Directors bring independent challenge and judgement to the deliberations of the Court through their character, objectivity and integrity.

**Appointments to the Court**

The Court is committed to identifying the people best qualified and available to serve on the Court and is responsible for the appointment of Directors (with the exception of the Government nominated Director). The Court plans for its own renewal with the assistance of the Nomination and Governance Committee, which regularly reviews Court composition, tenure and succession planning. In accordance with the Director Assessment Policy and Court Diversity Policy, all appointments are made on merit against objective criteria (including the skills and experience the Court as a whole requires to be effective) with due regard for the benefits of diversity on the Court.

Prior to the appointment of a Director, the Nomination and Governance Committee approves a job specification, assesses the time commitment involved and identifies the skills and experience required for the role, having regard to the formal assessment of the skills profile of the Court and succession planning. The recruitment process for Non-executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews / meetings (including meetings with members of the Nomination and Governance Committee and the Court) and complete comprehensive due diligence. In accordance with the Director Assessment Policy of the Court, the assessment process and the due diligence completed is extensive and includes self-certification confirmations of probity and financial soundness and external checks involving a review of various publicly available sources. It also involves the Nomination and Governance Committee satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity, and assessing and documenting its consideration of possible conflicts of interests. The Nomination and Governance Committee then makes a recommendation to the Court. Appointments will not proceed where conflicts emerge which are significant to the overall work of the Court.

No new Directors were appointed to the Court in 2016 or up to the date of approval of this Annual Report.

All newly-appointed Directors are provided with a comprehensive letter of appointment detailing their responsibilities as Directors, the terms of their appointment and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of Non-executive Directors can be inspected during normal business hours by contacting the Group Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, Non-executive Directors (with the exception of Brad Martin) are normally required to sit on at least one Committee of the Court, which involves the commitment of additional time. Certain Non-executive Directors, such as the Deputy Governor, Senior Independent Director and Committee Chairmen, are required to allocate additional time in fulfilling those roles.

***Induction and Professional Development***
On appointment, all Non-executive Directors receive a comprehensive induction programme designed to familiarise them with the Group's operations, management and governance structures, including the functioning of the Court and the role of the key committees. In addition, new Non-executive Directors undertake significant induction in relation to risk and business matters, including visits to or presentations by Group businesses and briefings with senior management. Further meetings are arranged as required based on the particular circumstances of each Director.

## Corporate Governance Report (continued)

On an ongoing basis, briefings appropriate to the business of the Group are provided to all Non-executive Directors. In order to ensure that the Directors continue to further their understanding of the issues facing the Group, Directors are provided with professional development sessions and briefings on a range of technical matters, tailored to their particular requirements. During the year ended 31 December 2016, the modules attended by Directors included 'deep dives' on specific business areas; IFRS 9 Strategic Awareness; Market Abuse Directive / Market Abuse Regulation; Anti-Money Laundering; Internal Capital Adequacy Assessment Process (ICAAP); Enterprise Risk Management and Individual Accountability Regime (UK). Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors.

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Court on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them to consider issues for decision and to discharge their oversight responsibilities. The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required. Committees of the Court have similar access and are provided with sufficient resources to undertake their duties.

**Performance Evaluation**

There is a formal process in place for annual evaluation of the Court's own performance, and that of its principal Committees and of individual Directors (including the Governor). An evaluation of the performance of the Court and its Committees is conducted every year, with an externally facilitated review conducted at least every third year. The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Court/Committee as a whole is effective in discharging its responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

***Court Evaluation***

In 2016, a comprehensive process to review and appraise available suppliers of an external evaluation service was conducted, including third party referencing. Following the completion of this process, Independent Audit Limited ('Independent Audit') was commissioned to facilitate the review of the effectiveness of the Court and its Committees. Independent Audit has been conducting Board evaluations for a number of years for a wide range of boards, including the boards of UK Regulators, UK and Irish corporations and major international financial services groups. Independent Audit does not supply any other services to the Group.

The process for the external evaluation involved a review of relevant documentation and confidential one to one interviews with each Court member, conducted by the Independent Audit evaluator, with the aim of ascertaining views on current performance and identifying any underlying issues or concerns, and observation of meetings. In considering the effectiveness of the operation of the Court and its Committees the review considered:

- the role of the Court, its responsibilities and those of its Committees;
- oversight, covering how the Court oversees risk, business ethics and corporate governance and the arrangements for reviewing the performance of Directors and senior managers;
- the arrangements for and effectiveness of Court meetings;
- the support and training for the Court;
- Court composition, including the range of skills required, diversity, succession planning and effectiveness of the Governor, Senior Independent Director and Committee Chairmen;
- how the Court works together and its engagement with shareholders; and
- outcomes and achievements including how the Court is perceived externally.

The Independent Audit report concluded that the Court is working effectively, in particular due to the combination of director commitment, management transparency, a good mix of experience and a strong Secretariat.

The results of the evaluation were presented by the Independent Audit evaluator at a meeting of the Court for its review and consideration. Five recommendations, although not material to the effectiveness of the Court, were suggested as enhancements to Board process and accepted by the Court. The Court, taking account of the external evaluation report, concluded that it remains effective.

***Committee Evaluations***

The effectiveness of each of the principal Court Committees was also assessed by Independent Audit which concluded that they remain effective.

***Director Evaluations***

The annual individual Director performance evaluation was led by the Governor and involved:

- input from Independent Audit, based on their review of Court effectiveness;
- one to one discussions between the Governor and each Director;
- consideration of the findings by the Nomination and Governance Committee; and
- presentation of the overall findings to the Court for consideration.

## Corporate Governance Report (continued)

The Court concluded that each individual Director continues to make a valuable contribution to the deliberations of the Court, continues to be effective and demonstrates continuing commitment to the role.

***Governor Evaluation***

Independent Audit assessed the Governor's performance, including through one to one discussion with each Director and observation of a Court meeting. Independent Audit presented their report to the Court. The Senior Independent Director led the discussion with the Court on the Governor's performance, without the Governor being present, and then met the Governor to present him with the Court's conclusions on his effectiveness. The Senior Independent Director also meets individual Directors on such other occasions as are deemed appropriate.

Based on the positive report from Independent Audit, the Court concluded that the Governor continues to lead the Court effectively, continues to make a valued contribution and demonstrates continuing commitment to the role.

***Directors' Loans***

The Companies Act, International Accounting Standard 24 - Related Party Disclosures (IAS 24) and a condition imposed on the Bank's licence by the Central Bank of Ireland in August 2009 require the disclosure in the Annual Report of information on transactions between the Bank and its Directors and their connected persons. The amount of outstanding loans to Directors (and relevant loans to connected persons) is set out on pages 276 to 281.

A condition imposed on the Bank's licence by the Central Bank of Ireland in May 2010 requires the Bank to maintain a register of loans to Directors and relevant loans to their connected persons, which is updated quarterly and is available for inspection by stockholders on request for a period of one week following quarterly updates. The Group's process for ensuring compliance with the Central Bank of Ireland's Code of Practice on Lending to Related Parties as amended ('Related Party Lending Code') has been in place since 1 January 2011 and is subject to regular review. A Related Party Lending Committee of the Court is in place which is authorised to review and approve lending to Related Parties as more particularly defined in the Related Party Lending Code.

### Accountability and Audit

The Report of the Directors, including a going concern statement and a viability statement, is set out on pages 162 to 164. This Corporate Governance Statement forms part of the Report of the Directors.

***Internal Controls***

The Directors acknowledge their overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. Such systems are designed to ensure that there are thorough and regular evaluations of the nature and extent of risks and the ability of the Group to react accordingly. Such systems are designed to control, rather than eliminate, the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. Such losses could arise because of the nature of the Group's business in undertaking a wide range of financial services that inherently involves varying degrees of risk.

The Group's overall control systems include:

- a clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Court, which support the maintenance of a strong control environment;
- a three lines of defence approach to the management of risk across the Group: line management in individual businesses and relevant Group functions; central risk management functions; and Group Internal Audit;
- Court and Management Committees with responsibility for core policy areas;
- a set of policies and processes relating to key risks; business and strategic risk, conduct risk, credit risk, funding and liquidity risk, life insurance risk, market risk, operational risk, pension risk, regulatory risk and reputation risk (further details are given in the Risk Management Report on pages 62 to 133);
- monthly reporting by business units which enables progress against business objectives to be monitored, trends to be evaluated and variances to be acted upon by the Court and relevant subsidiary Boards;
- regular meetings of the senior management teams, where the executive Directors and other senior executives responsible for running the Group's businesses, amongst other matters, review performance and explore strategic and operational issues;
- reconciliation of data consolidated into the Group's financial statements to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the financial position and results of the Group are appropriately reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions; and
- a Code of Conduct setting out the standards expected of all Directors, officers and employees. This covers arrangements, should the need arise, for the independent investigation and follow up of any concerns raised by staff regarding matters of financial and non-financial reporting.

## Corporate Governance Report (continued)

The Group operates a comprehensive internal control framework over financial reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements. The main features are as follows:

- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with International Financial Reporting Standards as adopted by the European Union;
- a Group Internal Audit function with responsibility for providing independent, reasonable assurance to key internal (Court, Group & Subsidiary Audit and Risk committees and Senior Management) and external (Regulators and External Auditors) stakeholders on the effectiveness of the Group's risk management and internal control framework;
- a compliance framework incorporating the design and testing of specific controls over key financial processes to confirm that the Group's key controls are appropriate to mitigate the financial reporting risks;
- a robust control process is followed as part of interim and annual financial statements preparation, involving the appropriate level of management review and attestation of the significant account line items, and where judgements and estimates are made, they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the interim and annual financial statements is presented fairly and disclosed appropriately;
- the Annual Report and Interim Report are also subject to detailed review and approval through a structured governance process involving senior and executive finance personnel;
- summary and detailed papers are prepared for review and approval by the Group Audit Committee covering all significant judgmental and technical accounting issues, together with any significant presentation and disclosure matters; and
- user access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

The Directors confirm that the Court, through its Committees, has reviewed the effectiveness of the Group's systems of internal control for the year ended 31 December 2016. This review involved consideration of the reports of the internal audit and the risk management functions, (including regulatory compliance and operational risk) and establishing that appropriate action is being taken by management to address issues highlighted. In addition, any reports of the external auditors which contain details of any material control issues identified arising from their work are reviewed by the Group Audit Committee, if they arise.

Following the year ended 31 December 2016, the Court reviewed the Group Audit Committee's conclusions in relation to the Group's systems of internal control and the appropriateness of the structures in place to manage and monitor them. This process involved a confirmation that a system of internal control in accordance with the Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014) was in place throughout the year and up to the date of the signing of these financial statements. It also involved an assessment of the ongoing process for the identification, evaluation and management of individual risks and of the roles of the various Committees and Group risk management functions and the extent to which various significant challenges facing the Group are understood and are being addressed. Further details of the risk management framework are included in the Risk Management Report on pages 72 to 79.

**Group Code of Conduct and Speak-Up Policy**

The Group has a Code of Conduct in place which is applicable to all Employees and Directors of the Group and which is reviewed annually. The Code of Conduct sets out the standards that are expected from all those who work for the Group and gives guidance on how these standards should be applied. Training on the Code of Conduct is mandatory across the Group.

The Group has a Speak-Up Policy in place for all staff, including Directors, which is in accordance with international practice. This policy is reviewed on an annual basis in line with the Group Code of Conduct. The Speak-Up Policy gives an assurance that it is safe and acceptable to raise a concern about malpractice, risk or potential wrongdoing and outlines how to speak up and raise a concern. The Court and Group Chief Executive are committed to this policy, which encourages staff to raise concerns openly and locally. Where this is not possible or the problem has not been resolved effectively at that level, there are clear alternative senior contacts within the Group to whom the concern may be addressed. If staff would prefer independent, confidential advice, this is available from Public Concern at Work, an independent, not-for-profit organisation, through a free phone number and a dedicated email address. In the case of concerns regarding fraudulent financial reporting, fraudulent accounting or irregularities in audit work, these can be raised directly with the Chairman of the Group Audit Committee, an independent Non-executive Director, whose contact details are available from Public Concern at Work. With reference to the Protected Disclosures Act 2014, a review of the Group Speak-Up Policy was conducted to ensure that the standards set out in this Act are being met.

## Corporate Governance Report (continued)

**Relations with Stockholders**

Communication with stockholders is given high priority. One of the responsibilities of the Governor is to ensure effective communication with stockholders and to ensure that Directors develop an understanding of the views of major investors. The Group seeks to provide through its Annual Report a fair, balanced and understandable assessment of the Group's performance and prospects. The Group uses its website (www.bankofireland.com) to provide stockholders and potential investors with recent and relevant financial information, including annual and interim reports. Copies of presentations to analysts and investors are also made available on the Group website, so that information is available to all stockholders. Annual and interim results presentations are webcast live so that all stockholders can receive the same information at the same time.

The Investor Relations section on the Group's website is updated with presentations and all stock exchange releases as they are made. It also contains investor relations contact details. The Group has an active and well developed Investor Relations programme, which involves regular meetings by Executive Directors, selected senior executives and the Director of Group Investor Relations and other authorised speakers with the Group's principal institutional stockholders, other investors, financial analysts and brokers. All meetings with stockholders are conducted in such a way as to ensure that price sensitive information is not divulged. A dedicated Debt Investor section of the Group website provides access to relevant information, including presentations, publications and bond tables.

Directors receive an investor relations update from management at all scheduled Court meetings. The content of this update is varied, based on recent investor activities, but typically includes market updates, details of recent equity and debt investor interactions, share price and valuation analysis, analyst updates, and share register analysis. All Directors are encouraged and facilitated to hear the views of investors and analysts at first hand. The Governor met with a number of major stockholders to discuss governance and remuneration matters in 2016 and the Court was updated on the outcome of these discussions. The Governor and / or the Senior Independent Director are available to all stockholders if they have concerns that cannot be resolved through the normal channels.

*Annual General Court*

The aim of the Court is to make constructive use of the Annual General Court (AGC) and all stockholders are encouraged to participate in the proceedings. Questions are invited from stockholders in advance of the AGC, and a dedicated email address is provided for this purpose. A substantial part of the agenda of the AGC is dedicated to responding to stockholder questions. A 'Help Desk' facility is provided by the Group's registrar to assist stockholders to resolve any specific queries that they may have in relation to their stockholding. The AGC was held on 28 April 2016 in the O'Reilly Hall, UCD, Belfield, Dublin 4 ('2016 AGC').

In line with the Group's policy to issue notice of the AGC at least 20 working days before the meeting, notice of the 2016 AGC was circulated to stockholders on 14 March 2016. The Governor (who is also Chairman of the Group Nomination and Governance Committee) and the Chairmen of the Group Audit Committee, Court Risk Committee and Group Remuneration Committee were in attendance to hear the views of stockholders and answer questions. It is usual for all Directors of the Court at the time of the AGC to attend and all members of the Court attended the 2016 AGC.

At the 2016 AGC separate resolutions were proposed on each substantially separate issue and voting was conducted by way of poll. The results of every general court of the Bank, including details of votes cast for, against and withheld on each resolution, are posted on the Group's website and released to the Irish and London Stock Exchanges. As soon as the results of the 2016 AGC were calculated and verified, they were released to applicable exchanges, as set out above, and were made available on the Group's website.

The AGC of the Bank in 2017 is scheduled to be held on Friday 28 April 2017. Stockholders who will be unable to attend on this date are encouraged to submit queries and vote in advance to ensure continued participation.

*New York Stock Exchange (NYSE)*

On 22 April 2016, the Group voluntarily filed a Form 15F with the U.S. Securities and Exchange Commission (SEC) to terminate the registration of the Group's stock under the U.S. Securities Exchange Act of 1934. As a result of this filing, the Group's obligations under Section 13(a) and 15(d) of the Exchange Act, to file certain reports with the SEC, including annual reports on Form 20-F, were immediately suspended.

# Report of the Group Nomination and Governance Committee

**Archie G Kane,** Chairman

Dear Stockholder,

On behalf of the Group Nomination and Governance Committee ('N&G Committee'), I am pleased to present our report on the N&G Committee's activity during the financial year ended 31 December 2016.

**Membership and meetings**

At 31 December 2016, the N&G Committee comprised four Non-executive Directors. I chair the Committee, as Governor, other than when the N&G Committee is dealing with the appointment of a successor to the role of Governor, and its composition is fully compliant with the Irish Code, the UK Code and CRD IV. There were no changes to the composition of the N&G Committee during 2016. Biographical details, including each member's background and experience, are set out on pages 135 to 140.

The N&G Committee met eight times in 2016. The Chairman and Members of the N&G Committee, together with their attendance at meetings are shown below. The Group Chief Executive is invited to attend meetings. The N&G Committee meets annually with no management present.

***Member attendance in 2016:***

| N&G Committee Meetings | Eligible to attend | Attended |
|---|---|---|
| Archie G. Kane | 8 | 8 |
| Pat Butler | 8 | 7 |
| Patrick Haren | 8 | 8 |
| Patrick Kennedy | 8 | 8 |

**Role and responsibilities**

The key responsibilities of the N&G Committee are set out in its terms of reference and include:

- leading the process for appointments and renewals for the Court and Court Committees;
- overseeing the process for key subsidiary Board Non-executive Director appointments and renewals;
- with the support of the Group Secretary, keeping Court governance arrangements under review and making appropriate recommendations to the Court to ensure corporate governance practices are consistent with good practice corporate governance standards;
- overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries; and
- overseeing the Group's Corporate Responsibility Programme.

**Matters considered by the N&G Committee**

The N&G Committee considered the following key topics in 2016:

***Appointments and Renewals***

- the Court and Court Committee composition and succession plans, including consideration of the skills profile of the Court;
- the annual Court performance evaluation including individual Director evaluations; and
- the fitness and probity of pre-approval controlled function holders in the Bank.

***Governance Arrangements***

- Group values and culture;
- the Court Governance Policy;
- the Code of Conduct and Speak-Up Policy;
- the Group Corporate Governance Statement and Annual Compliance Statement;
- upstream corporate governance developments;
- delegations and matters reserved for the Court;
- the Conflicts of Interest Policy;
- the Director Assessment Policy;
- the Key Function Holder Assessment Policy;
- the Diversity Policy and targets;
- feedback from governance meetings with investors; and
- appointments to the Bank's pension schemes.

***Subsidiary Governance***

- the Subsidiary Governance Policy and Guidelines;
- the effectiveness of the boards of substantial regulated subsidiaries;
- the succession plans of boards of substantial regulated subsidiaries (including tenure of Non-executive Directors);
- appointments to the boards of substantial regulated subsidiaries; and
- subsidiary nomination committee minutes.

***Corporate Responsibility***

- the Corporate Social Responsibility Statement of the Group and Responsible Business Report.

***Board Composition and Diversity***

The Court benefits from the diverse range of skills, knowledge and experience acquired by the Non-executive Directors as directors of other companies, both national and international, or as leaders in the public and private sectors. The effectiveness of the Court depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience. Following review in 2016, the N&G Committee determined that the skills profile of the Court was appropriate in the areas identified as relevant to the business of the Group including; financial services (incorporating retail, corporate and insurance sector experience), financial expertise, strategic insight, risk management, business experience,

## Report of the Group Nomination and Governance Committee (continued)

economics, corporate finance / M&A, human resources / organisation development, customer engagement, international experience, engagement with investors / capital markets, credit skills, IT skills and experience of dealing with regulators and governments. Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group.

The Group recognises the benefits of having a diverse board. In reviewing Court composition and identifying suitable candidates, the N&G Committee considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, regional and industry experience, background, nationality, gender, age and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Court. During 2016 the N&G Committee reviewed the Court Diversity Policy (the latest version of which is available on the Group's website) and the measurable objectives set out thereunder. The Court had set a target of maintaining a minimum of 15% female representation on the Court for the year ending 31 December 2016. The 15% target was maintained during 2016. As at 31 December 2016, there was 17% female representation on the Court. The Court has set a revised target of achieving and maintaining a minimum of 25% female representation on the Court by end of the year 2018.

As Chairman of the N&G Committee, I reported to the Court after each meeting to ensure all Directors were fully informed of the N&G Committee's activities. I would like to thank the N&G Committee members and attendees for their contribution and support in steering the work of the N&G Committee throughout 2016.

**Archie G Kane**
Chairman of the Group Nomination & Governance Committee
23 February 2017

# Report of the Group Remuneration Committee

Patrick Haren, Chairman

Dear Stockholder,

On behalf of the Group Remuneration Committee (GRC), I am pleased to present our report on the GRC's activities during the financial year ended 31 December 2016.

**Membership and meetings**

At 31 December 2016, the GRC comprised four independent Non-executive Directors from diverse backgrounds to provide a balanced and independent view on remuneration matters. The GRC is chaired by the Senior Independent Director and its composition is compliant with the requirements of the Irish Code and CRD IV, and with the recommendations of the UK Code.

Brad Martin resigned from the GRC on 12 April 2016 and Patrick Kennedy resigned from the GRC on 27 July 2016. Kent Atkinson was appointed to the GRC on 27 July 2016. In order to ensure that remuneration policies and procedures are consistent with effective risk management, there is common membership between the GRC and the Court Risk Committee. Kent Atkinson and Pat Butler have been members of both committees in 2016. Biographical details, including each member's background and experience, are set out on pages 135 to 140.

The GRC met five times in 2016. The Chairman and Members of the GRC, together with their attendance at meetings, are shown below. The Group Chief Executive, Head of Group HR and the Head of Group Performance and Reward are invited to attend meetings as appropriate.

*Member attendance in 2016:*

| GRC Meetings | Eligible to attend | Attended |
|---|---|---|
| Patrick Haren | 5 | 5 |
| Kent Atkinson | 2 | 2 |
| Pat Butler | 5 | 5 |
| Archie G Kane | 5 | 5 |
| Patrick Kennedy | 3 | 3 |
| Bradley Martin | 2 | 2 |

**Role and responsibilities**

The Group Remuneration Committee holds delegated responsibility from the Court of Directors for the oversight of Group-wide remuneration policy with specific reference to the Governor, Directors and senior management across the Group, and those employees whose activities have a material impact on the Group's risk profile.

The Group Remuneration Committee is responsible for overseeing the annual review of the Group Remuneration Policy with input from the relevant risk management functions and the Court Risk Committee.

The remuneration of Non-executive Directors is determined and approved by the Court. Neither the Governor nor any Director participates in decisions relating to their own personal remuneration.

The Group is currently operating under a number of remuneration restrictions which cover all Directors, senior management, employees and certain service providers across the Group. For further information, please see page 169 of the Remuneration Report.

Deloitte are the current advisors to the Group Remuneration Committee. In addition to the provision of remuneration services to the Remuneration Committee of Bank of Ireland UK plc, Deloitte provided other services to the Group including regulatory, digital capability, IT finance infrastructure reviews, branch role reviews, enhanced reporting capabilities and a review of customer propositions.

**Matters considered by the GRC**

The GRC considered the following key topics in 2016:

*Annual Remuneration Review*

- the annual review of the Group Remuneration Policy with input from the relevant risk management functions and the Court Risk Committee;
- the performance and remuneration of the Group Chief Executive Officer and Group Executive Committee;
- the proposed appointment terms for senior management appointments;
- the remuneration of Heads of Control Functions, Senior Risk Management and Compliance Officers ('Code Roles' in accordance with the Remuneration Guidelines of the European Banking Authority (EBA)); and
- the remuneration elements of the Basel Committee for Banking Supervision Corporate Governance Principles for Banks.

*Risk and Conduct*

- the Group Risk Profile and its relationship to remuneration.

## Report of the Group Remuneration Committee (continued)

***Disclosures and Governance***

- the draft Remuneration Report in the Annual Report;
- reviewing and approving the remuneration element of the Pillar III disclosures;
- the minutes of remuneration committee meetings of material subsidiaries;
- evaluation of the GRC's effectiveness; and
- review of the GRC's Terms of Reference.

As Chairman of the GRC, I reported to the Court after each meeting to ensure all Directors were fully informed of the GRC's activities. I would like to thank the GRC members and attendees for their contributions and support in steering the work of the GRC throughout 2016.

**Patrick Haren**
Chairman of the Group Remuneration Committee
23 February 2017

## Report of the Group Audit Committee

**Kent Atkinson,** Chairman

Dear Stockholder,

On behalf of the Group Audit Committee (GAC), I am pleased to present our report on the GAC's activity during the financial year ended 31 December 2016.

**Membership and meetings**

At 31 December 2016, the GAC comprised six Non-executive Directors. Patrick Kennedy was appointed to the GAC on 27 July 2016. The Court believes that I am considered independent and may be regarded as an Audit Committee financial expert and that the GAC as a whole has an appropriate mix of skills and relevant financial / banking experience. Patrick Kennedy is the Chairman of the Court Risk Committee (CRC) and Tom Considine, Patrick Mulvihill, Davida Marston and I are also members of the CRC. Patrick Haren is Chairman of the Group Remuneration Committee (GRC). I am also a member of the GRC. This common membership helps facilitate effective governance across all finance and risk issues, and ensures that agendas are aligned and overlap of responsibilities is avoided where possible.

Biographical details, including each member's background and experience, are set out on pages 135 to 140.

The Chairman and Members of the GAC, together with their attendance at meetings are shown below.

***Member attendance in 2016:***

| GAC Meetings | Eligible to attend | Attended |
|---|---|---|
| Kent Atkinson | 10 | 10 |
| Tom Considine | 10 | 10 |
| Patrick Haren | 10 | 10 |
| Patrick Kennedy | 3 | 3 |
| Davida Marston | 10 | 10 |
| Patrick Mulvihill | 10 | 10 |

**Role and responsibilities**

The key responsibilities of the GAC are set out in its terms of reference, which are available on the Group's website (www.bankofireland.com) and are reviewed annually and approved by the Court. One of the key responsibilities of the GAC is to assist the Court in monitoring the integrity of the financial statements and to recommend to the Court that it believes that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for stockholders to assess the Group's position and performance, business model and strategy. To achieve this for the current reporting period, the GAC reviewed the Annual Report and considered whether the financial statements were consistent with the operating and financial reviews elsewhere in the Annual Report. The GAC also reviewed the governance and approval processes in place in the Group relating to the financial statements and the GAC Report within the Corporate Governance Statement. These governance and approval processes include the completion by management of disclosure checklists to ensure all required disclosures from applicable company law, listing requirements and accounting standards are included and the draft Annual Report review by the Disclosure Committee. In considering whether the Annual Report was fair, balanced and understandable, the GAC also considered the treatment and disclosure of key events as presented in the financial statements.

***Matters considered by the GAC***

The GAC met ten times in 2016 and matters considered included:

*Internal Controls and Risk Management*

- review of the effectiveness of the Group's internal controls, including financial reporting controls review, reports from Group Internal Audit, Group Regulatory Compliance and Operational Risk and the Group Anti-Money Laundering Officer;
- review of the Group's fraud protection and prevention programme; and
- reports from the Group Investment Committee regarding post-implementation reviews for individual capital expenditure programmes of over €20 million.

*External Reporting*

- year end and interim reporting, including the significant issues;
- the Group Impairment Policy and impairment provisions;
- the governance and approval arrangements underlying the fair, balanced and understandable assessment;
- a review of the Group's existing accounting policies, and new and significant changes in existing policies, prior to implementation;
- the Group's preparations for IFRS 9;
- review of the Group's viability statement; and
- the Group's Pillar III Disclosure Policy and Disclosures.

## Report of the Group Audit Committee (continued)

*Internal Auditors*
- approval of the Internal Audit plan and budget for 2017;
- Group Internal Audit (GIA) reports and findings; and
- annual review of GIA's Charter.

*External Auditors*
- the External Auditor's plan, report and external audit findings;
- the effectiveness of the External Auditor;
- approval of audit and non-audit fees for the External Auditor; and
- the Group's audit tender plans.

*Governance*
- review of the minutes of Audit Committees of material subsidiaries;
- review of the Corporate Governance Requirements Compliance Statement;
- annual Group Audit Committee evaluation process; and
- internal governance arrangements for risk appetite and regulatory reporting.

**Significant issues**

The GAC considered, inter alia the following significant issues in its review of the financial statements for the year ended 31 December 2016. In addressing these issues, the GAC considered the appropriateness of management's judgements and estimates and, where appropriate, discussed those judgements and estimates with the External Auditor.

*Loan Impairment*

The GRPC approves the Group's provisioning methodology on a half yearly basis. The CRC, on an annual basis, 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 GAC considered the methodology for loan loss provisioning, including the specific trigger events which are considered as an indicator of impairment, as set out on pages 103 to 107 and an asset quality report from the CRC. The GAC also discussed and challenged management's assumptions used in determining the overall level of impairments recognised in the financial year and the total impairment allowance at the year end with management noting the requirements of IAS 39 in respect of the timing of recognition of impairments (the incurred loss methodology) and the requirements of the relevant regulatory authorities.

The GAC reviewed management papers and was satisfied that the level of loans classified as impaired at year end was consistent with the Group's methodology, and that the calculation and resulting provision recognised and disclosures were appropriate based on the relevant accounting and disclosure standards including, among others, IAS 39 and IFRS 7.

*Deferred tax assets*

The GAC considered the extent of deferred tax assets to be recognised in respect of unutilised tax losses, and in particular the projections for future taxable profits against which those losses may be utilised in the future. In order for the Group to recognise these assets, it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised.

The Group has prepared financial projections which are being used to support the Group's Internal Capital Adequacy Assessment Process (ICAAP). The projections for future taxable profits incorporate economic factors (e.g. economic activity including projected GDP and GNP growth levels, unemployment level, interest rates, etc.) and expected performance targets from each division within the Group (e.g. expected new business, margins, costs, loan losses, etc.). As part of this process, the Group prepares impairment projections, involving a review of projection models for loan loss provisions and challenge of key assumptions and scenarios.

The financial projections are prepared for the purpose of the Group's assessment of its capital adequacy. They are subjected to considerable internal governance at a divisional and Group level and are reviewed in detail and approved by executive management and the Court. Management's assessment of the projections determined that it was probable that there would be sufficient taxable profits in the future to recover the deferred tax asset arising from unused tax losses.

The GAC discussed with management its assessment of the recoverability of the deferred tax asset and the related disclosures. The GAC and the Court concluded that it was probable that there would be sufficient taxable profits in the future to recover the deferred tax asset arising from unused tax losses, and that the related disclosures were as required under IAS 12.

*Retirement benefit obligations*

The GAC considered management's key assumptions and judgements used in determining the actuarial values of the liabilities of each of the Group's sponsored defined benefit pension schemes under IAS 19. Management considered advice from independent actuaries, Willis Towers Watson, for the determination of significant actuarial assumptions including discount rates and inflation. The key assumptions proposed by management and considered by the GAC were assumptions relating to inflation rates, demographic assumptions and discount rates in Ireland and the UK which are used in determining liabilities at the balance sheet date.

During 2016, the Group, with the support of the independent actuary, refined its approach to the determination of the euro discount rate used to value euro denominated liabilities under

## Report of the Group Audit Committee (continued)

IAS 19. The GAC considered this refinement and its appropriateness for the determination of the discount rate applied to the Group's euro schemes.

The GAC was satisfied that the inflation rates, discount rates and other significant assumptions were appropriate and that the accounting for the Group's sponsored defined benefit pension schemes and related disclosures was in accordance with IAS 19.

Further detail on the inflation rates, discount rates and other significant assumptions related to retirement benefit obligations are set out in note 42 to the Consolidated Financial Statements.

*Life assurance operations*

The GAC considered management's key assumptions and judgements used in determining the value of in-force business and insurance contract liabilities. The key assumptions in projecting future surpluses and other net cash flows attributable to the shareholder arising from business written were the risk discount rate, unit growth rate, realistic interest rate, lapse rates, mortality, morbidity and expenses.

The GAC was satisfied that the significant assumptions are consistently applied and that the accounting for the Group's value of in-force business and insurance contract liabilities is appropriate.

Further information on these significant items is set out in the Critical Accounting Estimates and Judgements on pages 217 to 220.

*Going concern*

The GAC considered management's assessment of the appropriateness of preparing the financial statements of the Group for the year ended 31 December 2016 on a going concern basis. In making this assessment, matters considered include the performance of 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 the ongoing developments in the Eurozone. The considerations assessed by the GAC are set out on page 197 in the Going Concern disclosure within the Accounting Policies in note 1 to the Consolidated Financial Statements.

On the basis of the review performed and the discussions with management, the GAC was satisfied that there were no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment. This assessment together with the Going Concern disclosure (as set out on page 197) was subsequently approved by the Court of Directors.

*IT operational risk*

The GAC considered and discussed management's assessment of IT risks and the ongoing risk management programme to identify, rate, mitigate and report on IT risks, including GIA's review of the internal control considerations related to the Group's IT investment programme. On the basis of the review performed, discussions with management, and the continued operation of the comprehensive internal control framework over financial reporting, the GAC was satisfied that these risks do not impact financial reporting.

**Other responsibilities**

The GAC is responsible for the appropriateness and completeness of the system of internal control. In close liaison with the Court Risk Committee, it reviews the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintains an effective system of internal control.

In addition the GAC has responsibility for:

- assisting the Court in meeting obligations under relevant Stock Exchange listing rules and other applicable laws and regulations;
- monitoring and reviewing the effectiveness of the Group's Internal Audit function and its operations; and
- discharging the statutory responsibility of the Bank under relevant statutes or regulations.

The GAC is also responsible for overseeing all matters relating to the relationship between the Group and its External Auditor, including the external audit plan, terms of engagement, audit and non-audit fee budgets, interim findings and audit finding reports. The GAC also meets annually with the External Auditors without management present. PricewaterhouseCoopers (PwC) have acted as sole auditors to the Group since 1990. An audit tender has not taken place since then. The External Auditors are required to rotate the Group audit engagement partner every five years and this process occurred in 2015. The Group is committed to ensuring the independence and objectivity of the External Auditor and on an annual basis the GAC formally reviews the effectiveness, independence and performance of the External Auditor. This process is supported by tailored questionnaires completed by GAC members and relevant senior management personnel. The responses received in 2016 were collated and presented to the GAC for discussion. Based on the results and assessment of the review process and GAC's own interactions with the External Auditors, the GAC concluded that they remain satisfied with the performance of PwC as External Auditor.

## Report of the Group Audit Committee (continued)

As an additional check on independence, the GAC has developed and implemented a Group Policy on the Provision of Non-Audit Services by the Group's Statutory Auditor. The Group policy ensures, among other things, that auditor objectivity and independence are not compromised. Under this policy, a key procedural control requires that any engagement of the external auditors to provide non-audit services must be pre-approved by the GAC. It is the Group's policy to engage PwC to provide non-audit services where they are required by legislation, regulation or where this is required by an underwriter in a capital markets transaction. Further details of non-audit services provided during the year are set out in note 14 to the financial statements 'Auditors' remuneration'. The GAC monitors compliance with the Group policy on the provision of non-audit services and receives reports on the performance of such services. During 2016, the GAC considered the changing EU regulatory framework in respect of the provision of non-audit services by the statutory auditor. Compliance with the transitional timeline in respect of relevant changes will continue to be monitored by the GAC.

On 16 June 2014, the European parliament and council passed into law a new Audit Directive and Regulation ('Directive') which updated the EU regulatory framework on statutory audits. Member states had two years to implement legislation to transpose, adopt and publish the provisions to comply with the directive, and on 15 June 2016 a Statutory Instrument was signed in Ireland that gave effect to the Directive. Accordingly, such legislation will apply to the year ended 31 December 2017, being the first financial year starting on or after 15 June 2016. The legislation covers mandatory audit firm rotation, additional restrictions on the provision of non-audit services, requirements relating to audit committee oversight of the performance of the audit, and new requirements regarding reporting by the Auditor.

In accordance with the transitional provisions under the new EU Framework, the Group must change external audit firm no later than 2020. The EU Framework supplements the UK Code which recommends the tendering of the external audit contract at least every ten years. During 2014, the GAC considered the impact of the EU framework and the recommendation of the UK code and being conscious of the need to facilitate a smooth transition, and to ensure the continuing quality and effectiveness of the external audit service, it is the intention of the Group to conduct an Audit tender in 2017. This tender will be in respect of appointment to the role of Group External Auditor for the year ended 31 December 2018.

The GAC was provided with a technical training session on relevant accounting matters during the year. The GAC also meets annually with the Group Chief Internal Auditor and with the PwC Group Audit Partner without any other management present and with senior management.

As Chairman of the GAC, I reported to the Court after each meeting to ensure all Directors were fully informed of the GAC's activities. I wish to thank the GAC members and attendees for their contributions and support in steering the work of the GAC throughout 2016.

**Kent Atkinson**
Chairman of the Group Audit Committee
23 February 2017

# Report of the Court Risk Committee

**Patrick Kennedy,** Chairman

Dear Stockholder,

On behalf of the Court Risk Committee (CRC), I am pleased to present our report on the CRC's activity during the financial year ended 31 December 2016.

The CRC is established to monitor risk governance and to assist the Court in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed; that risks are properly controlled; and that strategy is informed by and aligned with the Group's risk appetite.

**Membership and meetings**

At 31 December 2016, the CRC comprised seven Non-executive Directors. Tom Considine resigned as Chairman of the CRC on 27 July 2016 and I was appointed Chairman on that date. Kent Atkinson is Chairman of the Group Audit Committee (GAC) and Tom Considine, Patrick Mulvihill, Davida Marston and I are also members of the GAC. Pat Butler and I are members of the Group Nomination and Governance Committee. Pat Butler and Kent Atkinson are members of the Group Remuneration Committee. This common membership helps facilitate effective governance across all finance and risk issues, including remuneration decisions, ensures that agendas are aligned and overlap of responsibilities is avoided where possible.

Biographical details, including each member's background and experience, are set out on pages 135 to 140.

The CRC met eleven times in 2016. The Chairman and Members of the CRC, together with their attendance at meetings are shown below.

***Member attendance in 2016:***

| CRC Meetings | Eligible to attend | Attended |
|---|---|---|
| Patrick Kennedy | 11 | 11 |
| Kent Atkinson | 11 | 10 |
| Pat Butler | 11 | 10 |
| Tom Considine | 11 | 11 |
| Davida Marston | 11 | 11 |
| Fiona Muldoon | 11 | 10 |
| Patrick Mulvihill | 11 | 11 |

**Role and responsibilities**

The CRC makes recommendations to the Court on risk issues where the Court has reserved authority, maintains oversight of the Group's risk profile, including adherence to Group risk principles, policies and standards, and approves material risk policies within delegated discretion. Further information on the risk management framework of the Group, the risk governance of the Group and the role of the CRC is set out in the Risk Management Report on pages 72 to 79.

The CRC also provides advice to the Group Remuneration Committee to inform remuneration decisions from a risk perspective, monitors the risk elements of any due diligence appraisal of any acquisition or divestment activity reserved for Court decision, as required, and considers the findings of Group Internal Audit and Group Credit Review in respect of risk management.

The Group Risk Policy Committee (GRPC) is the most senior management risk committee and reports to the CRC. During 2016, the CRC reviewed the terms of reference of the GRPC and considered the findings of the GRPC annual review of effectiveness of its operations. On an on-going basis, the CRC reviews decisions of the GRPC through its minutes as presented to the CRC and receives reports from the committee chairman. Further details on the role of the GRPC in the risk governance of the Group are set out in the Risk Management Report on page 76.

**Matters considered by the CRC**

Key areas of focus for the CRC during 2016 included consideration of:

*Risk Strategy and Management*

- the Group Risk Appetite Statement;
- the Group Risk Framework;
- Group Risk Identification Process;
- Quarterly Risk Reports;
- the Top 5 Risks facing the Group;
- the quality of Risk disclosures; and
- the Group Recovery Plan.

*Credit Risk*

- the Group's asset quality. The observations of this asset quality review were brought to the attention of the GAC in the context of its assessment of impairment provisions;
- the Group Credit Policy;
- the Group Country Risk Policy and limits; and
- the Commercial Property Valuation Policy.

## Report of the Court Risk Committee (continued)

*Market Risk*
- the Group Policy on Market Risk; and
- the Group Policy on Derivatives.

*Capital Management*
- the Group's Internal Capital Adequacy Assessment Process (ICAAP); and
- the Group ICAAP policies, including Contingency Capital Plan.

*Liquidity Risk*
- the Group's Internal Liquidity Adequacy Assessment Process (ILAAP);
- Group Funding and Liquidity Policy, and management strategy, including Contingency Funding Plan; and
- the review of the Group Liquidity stress testing position.

*Operational and Other Risk*
- Operational and Regulatory Risk;
- Conduct Risk Framework;
- IT Risk and Cybercrime;
- Sourcing Risk Strategy and Framework;
- Group Policies as follows, including:
  - Operational Risk Policy
  - AML Policy
  - Group Sanctions and Countering the Financing of Terrorism Policy
  - Reputation Risk Policy
- half-yearly reports from the Head of Group Regulatory Compliance and Operational Risk;
- the Risk Mitigation Programme and material regulatory interactions; and
- the minutes of risk committee meetings of material subsidiaries.

As Chairman of the CRC, I reported to the Court after each meeting to ensure all Directors were fully informed of the CRC's activities. I would like to thank Tom Considine for his service as Chairman of the CRC since 2009 and all of the CRC members and attendees for their contributions and support in steering the work of the CRC throughout 2016.

**Patrick Kennedy**
Chairman of the Court Risk Committee
23 February 2017

## Attendance at scheduled and unscheduled meetings of the Court and its Committees during the year ended 31 December 2016

| Name | Court Scheduled | | Court Unscheduled | | Group Audit Committee Scheduled | | Group Audit Committee Unscheduled | | Group Nomination and Governance Committee Scheduled | | Group Nomination and Governance Committee Unscheduled | | Group Remuneration Committee Scheduled | | Group Remuneration Committee Unscheduled | | Court Risk Committee Scheduled | | Court Risk Committee Unscheduled | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| Kent Atkinson<br>*(Appointed to the Group Remuneration Committee on 27 July 2016)* | 11 | 10 | 1 | 1 | 9 | 9 | 1 | 1 | - | - | - | - | 2 | 2 | - | - | 9 | 8 | 2 | 2 |
| Richie Boucher | 11 | 11 | 1 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Pat Butler | 11 | 11 | 1 | 1 | - | - | - | - | 5 | 5 | 3 | 2 | 5 | 5 | - | - | 9 | 8 | 2 | 2 |
| Tom Considine | 11 | 11 | 1 | 1 | 9 | 9 | 1 | 1 | - | - | - | - | - | - | - | - | 9 | 9 | 2 | 2 |
| Patrick Haren | 11 | 11 | 1 | 1 | 9 | 9 | 1 | 1 | 5 | 5 | 3 | 3 | 5 | 5 | - | - | - | - | - | - |
| Archie G Kane | 11 | 11 | 1 | 1 | - | - | - | - | 5 | 5 | 3 | 3 | 5 | 5 | - | - | - | - | - | - |
| Andrew Keating | 11 | 11 | 1 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Patrick Kennedy<br>*(Appointed to the Group Audit Committee on 27 July 2016 and resigned from Group Remuneration Committee on 27 July 2016).* | 11 | 11 | 1 | 1 | 3 | 3 | - | - | 5 | 5 | 3 | 3 | 3 | 3 | - | - | 9 | 9 | 2 | 2 |
| Davida Marston | 11 | 11 | 1 | 1 | 9 | 9 | 1 | 1 | - | - | - | - | - | - | - | - | 9 | 9 | 2 | 2 |
| Bradley Martin<br>*(Resigned from Group Remuneration Committee on 12 April 2016)* | 11 | 10 | 1 | 1 | - | - | - | - | - | - | - | - | 2 | 2 | - | - | - | - | - | - |
| Fiona Muldoon | 11 | 11 | 1 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | 9 | 8 | 2 | 2 |
| Patrick Mulvihill | 11 | 11 | 1 | 1 | 9 | 9 | 1 | 1 | - | - | - | - | - | - | - | - | 9 | 9 | 2 | 2 |

*Column A* *Indicates the number of meetings held during the period the Director was a member of the Court and / or the Committee and was eligible to attend.*
*Column B* *Indicates the number of meetings attended.*

# Report of the Directors

### Results
For the year ended 31 December 2016 the Group made a profit before tax of €1,032 million and an after tax profit of €793 million. No profit is attributable to non-controlling interests, and a €793 million profit is attributable to ordinary stockholders.

### Dividends
No dividend on ordinary stock will be paid in respect of the year ended 31 December 2016. See distribution policy on page 18 in the Strategic report.

### Group activities
The Group provides a range of banking and other financial services. The Chairman's Review, Group Chief Executive's Review and the Operating and Financial Review (pages 6 to 61) contain a review of the results and operations of the Group, of most recent events, and of likely future developments.

In relation to the Group's business, no contracts of significance to the Group within the meaning of LR 6.8.1(10) of the Irish Stock Exchange (ISE) Listing Rules existed at any time during the year ended 31 December 2016.

### Principal Risks and Uncertainties
Information concerning the Principal Risks and Uncertainties facing the Group is set out on pages 63 to 71 in the Risk Management Report.

### Capital stock
As at 31 December 2016, the Group has 32,385,283,763 units of ordinary stock of €0.05 each, of which 48,751,727 units were held in treasury stock.

### Takeover Bids Regulations
The disclosures required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on pages 165 to 168.

### Directors
The names of the members of the Court of Directors together with a short biographical note on each Director appear on pages 135 to 140.

At the Annual General Court (AGC) held on 28 April 2016, all Directors (with the exception of Tom Considine) retired. Fiona Muldoon was elected, having been appointed by the Court in June 2015. Kent Atkinson, Richie Boucher, Pat Butler, Patrick Haren, Archie G Kane, Andrew Keating, Patrick Kennedy, Davida Marston, Brad Martin, and Patrick Mulvihill were re-elected.

### Remuneration
See Remuneration Report on pages 169 to 176.

### Directors' and Secretary's interests
The interests of the Directors and Secretary in office at 31 December 2016 in the stock issued by the Bank as disclosed to the Bank are shown in the Remuneration Report on page 176.

### Substantial stockholdings
There were 105,314 registered holders of the ordinary stock of the Bank at 31 December 2016. An analysis of these holdings is shown on page 418. In accordance with LR 6.8.3(2) of the ISE Listing Rules, details of notifications received by the Bank in respect of substantial interests in its ordinary stock are provided in the table below as at 31 December 2016 and 17 February 2017. Other than the Directors interests set out on page 176 there were no other interests disclosed to the Bank in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from July 2016 to 17 February 2017.

| | 31 December 2016 % | 17 February 2017 % |
|---|---|---|
| Ireland Strategic Investment Fund (ISIF) / Minister for Finance | 13.95 | 13.95 |
| The Capital Group Companies, Inc. | 7.02 | 7.02 |
| *EuroPacific Growth Fund[1]* | *4.07* | *4.07* |
| FMR LLC | 5.99 | 5.99 |
| Blackrock, Inc. | 5.98 | 5.98 |
| AKO Capital LLP | 3.00 | 3.00 |

*1 EuroPacific Growth Fund has granted proxy voting authority to The Capital Research and Management Company, its investment adviser, and consequently holds no voting rights. Notifications submitted in respect of the voting rights held by The Capital Group Companies, Inc. include EuroPacific Growth Fund's holdings.*

**Listing Rules Disclosures**

Information required under UK Listing Rule LR9.8.4C can be found on page 173 for Directors' Emoluments and above under 'Group activities' for Contracts of Significance.

**Corporate Governance**

Statements by the Directors in relation to the Group's compliance with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 with effect from 11 January 2016, (the 'Irish Code') and additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the Capital Requirements Directive (CRD IV)), respectively are set out on pages 142 to 161. Previously the Bank was subject to the requirements of the Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013. The Bank is also subject to the UK Corporate Governance Code 2014 published by Financial Reporting Council in the UK and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange. The Corporate Governance Statement forms part of the Report of the Directors.

**Directors' Compliance Statement**

As required by section 225 of the Companies Act 2014 of Ireland, the Directors acknowledge that they are responsible for securing the Bank's compliance with its 'relevant obligations' (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

**Environment**

The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the Group's 'Responsible Business Report' which is available on the Group's website.

**Political donations**

Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2016.

**Branches outside the State**

The Bank has established branches in the UK, France, Germany and the US.

**Going concern**

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2016 on page 197 which forms part of the Report of the Directors and on page 157 in the Corporate Governance Statement.

**Viability statement**

In accordance with the requirements of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the principal risks facing the Group.

The Directors have selected a three-year period for this assessment, reflecting the time horizon that they consider fits with the various risk and planning frameworks taken in to account in arriving at the viability statement.

The Directors have assessed the prospects of the Group through a number of frameworks, including the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), the monitoring of key risks identified under the Group's risk identification process by the GPRC, the CRC and the Court (see pages 77 and 78 of the Risk Management Report), and the assessment of Principal Risks and Uncertainties (see pages 63 to 71). Within those Principal Risks and Uncertainties, the Directors consider Credit risk, Funding and Liquidity risk and Capital adequacy to be the most relevant to the viability assessment.

The ICAAP process facilitates the Court and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. ICAAP is subject to review by the Group's prudential regulator, the ECB SSM. Underpinning the ICAAP process, the Group prepares detailed financial projections under both a base case and a stress case. Base case projections are prepared using consensus macroeconomic forecasts together with Group-specific assumptions, and the stress case is prepared based on a severe but plausible stress economic scenario. The ICAAP process demonstrates that the Group has sufficient capital under both the base and stress case scenarios to support its business and achieve its objectives having regard to Board approved Risk Appetite and Strategy, and to meet its CRD IV regulatory capital, leverage and liquidity requirements.

The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both business as usual and severe but plausible stress scenarios and to meet regulatory requirements including the Liquidity Coverage and Net Stable Funding Ratios.

The Directors confirm that their assessment of the principal risks facing the Group, through the processes set out above, was robust. Based upon this assessment, and their assessment of the Group's prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019.

**Accounting records**

The Directors ensure that adequate accounting records are kept at the Bank's registered office, through the appointment of suitably qualified competent personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

**Auditors**

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 383(2) of the Companies Act 2014.

**Relevant audit information**

The Directors in office at the date of this report have each confirmed that as far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

**Post balance sheet events**

These are described in note 58 to the financial statements.

**Archie G Kane**
Governor

**Patrick Kennedy**
Deputy Governor

Bank of Ireland
Registered Office
40 Mespil Road,
Dublin 4

23 February 2017

# Schedule to the Report of the Directors

## Information required under the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position at 31 December 2016.

### 1. Structure of the Bank's capital

The capital of the Bank is divided into ordinary stock, non-cumulative dollar preference stock, non-cumulative sterling preference stock, non-cumulative euro preference stock undesignated dollar, euro and sterling preference stock, collectively '2005 preference stock' and deferred stock.

At 31 December 2016, there was no non-cumulative dollar preference stock in issue. At 31 December 2016, there were in issue 1,876,090 units of non-cumulative sterling preference stock and 3,026,598 units of non-cumulative euro preference stock. As at 31 December 2016, there was no unit of 2005 preference stock in issue. As at 31 December 2016, there were 91,980,594,628 units of deferred stock.

Further detail on the structure of the Bank's capital is set out in note 44 to the Consolidated financial statements.

### (i) Rights and Obligations attaching to the classes of stock

**Ordinary stock**

**Dividend rights**

Under Irish law and under the Bye-Laws of the Bank, dividends are payable on the ordinary stock of the Bank only out of profits available for distribution. Holders of the ordinary stock of the Bank are entitled to receive such dividends as may be declared by the stockholders in General Court, provided that the dividend cannot exceed the amount recommended by the Directors. The Bank may pay stockholders such interim dividends as appear to the Directors to be justified by the profits of the Bank. No dividend on the ordinary stock may be declared unless the dividend on the dollar preference stock, the sterling preference stock, the euro preference stock and the 2005 Preference Stock most recently payable prior to the relevant General Court shall have been paid in cash. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

**Voting rights**

Voting at any General Court is by a show of hands or by poll. On a show of hands, every stockholder who is present in person or by proxy has one vote regardless of the number of units of stock held by him or her. On a poll, every stockholder who is present in person or by proxy has one vote for every unit of ordinary stock of €0.05 each.

A poll may be demanded by the Chairman of the meeting or by at least nine members of the Bank present in person or by proxy and entitled to vote on a poll. The necessary quorum for a General Court is ten persons present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Court as is all business transacted at an Annual General Court other than the declaration of a dividend, the consideration of the financial statements, the balance sheet and reports of the Directors and Auditors, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors, and the determination of the remuneration of the Auditors, all of which is deemed ordinary business. Special business is dealt with by way of an ordinary resolution save where a special resolution is expressly required by the Bye-Laws or the Companies Act 2014 in so far as it applies to the Bank from time to time (the 'Companies Act'). A special resolution must be passed by not less than three fourths of the votes cast by such members as being entitled so to do, vote in person or, where proxies are allowed, by proxy at a General Court at which not less than twenty one days' notice specifying the intention to propose a resolution as a special resolution has been duly given.

Ordinary business is dealt with by way of an ordinary resolution which requires a simple majority of the votes cast by the members voting in person or by proxy at a General Court. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is entitled to a second or casting vote.

An Extraordinary General Court (other than an Extraordinary General Court called for the passing of a special resolution) may be called on fourteen days' notice in writing, at least, where: (i) the Bank offers the facility for stockholders to vote by electronic means accessible to all stockholders; and (ii) a special resolution reducing the period of notice to fourteen days has been passed at the immediately preceding Annual General Court or at an Extraordinary General Court held since the immediately preceding Annual General Court.

**Liquidation rights**

In the event of any surplus arising on the occasion of the liquidation of the Bank, the ordinary stockholders would be entitled to a share in that surplus pro rata to their holdings of ordinary stock.

**Renominalisation of ordinary stock - deferred stock**

The Bank's ordinary stock was renominalised by Stockholders to €0.05 at the Extraordinary General Court held on 11 July 2011. Refer to note 44 for further information on the deferred stock created on the renominalisation.

The deferred stock created on the renominalisation has no voting or dividend rights and, on a return of capital on a winding up of the Bank, will have the right to receive the amount paid up thereon only after stockholders have received, in aggregate, any amounts paid up thereon plus €10 million per unit of €0.05 ordinary stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

The deferred stock is not transferable at any time, other than with the prior written consent of the Directors. At the appropriate time, the Bank may redeem or repurchase the deferred stock, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire or cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the Directors may determine.

**Preference stock**

Any non-cumulative dollar preference stock issued will rank equivalently to the existing euro or sterling preference stock as regards entitlements to dividends.

The holders of non-cumulative sterling and euro preference stock are entitled to a fixed annual dividend, at the discretion of the Bank, in accordance with the terms and conditions relating to the issue of the particular class of preference stock. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

The non-cumulative sterling preference stock and the non-cumulative euro preference stock rank pari passu inter se and the right to a fixed dividend is in priority to the dividend rights of ordinary stock in the capital of the Bank. On a winding-up or other return of capital by the Bank, the non-cumulative sterling preference stockholders and the non-cumulative euro preference stockholders are entitled to receive, out of the surplus assets available for distribution to the Bank's members, an amount equal to the amount paid up on their preference stock including any preference dividend outstanding at the date of the commencement of the winding-up or other return of capital. Otherwise the preference stockholders are not entitled to any further or other right of participation in the assets of the Bank.

Bye-Law 7 enables the Directors to issue and allot new preference stock (2005 preference stock) which can be either redeemable or nonredeemable, and can be denominated in dollars, in euro or in sterling. Unless otherwise determined by the Directors prior to their allotment, any preference stock issued under Bye-Law 7 will rank equivalently to the existing euro and sterling preference stock as regards entitlements to dividends. Bye-Law 7 permits the substitution of all of the outstanding preferred securities in the event of the occurrence of a trigger event.

A trigger event will occur when the capital adequacy requirements of the Central Bank of Ireland have been, or are expected to be, breached.

**(ii) 2011 agreements**

On 17 October 2011, the National Pensions Reserve Fund Commission (NPRFC) sold a portion of its holding in the Bank to a group of significant institutional investors and fund managers ('Investors'), thereby reducing its holding in the ordinary stock of the Bank from 36% to 15.13% on that date. The NPRFC's remaining holding was transferred by operation of law pursuant to the National Treasury Management Agency (Amendment) Act 2014 (the '2014 Act') to a new fund created pursuant to the 2014 Act, the Ireland Strategic Investment Fund, on 22 December 2014.

In a Deed of Undertaking executed contemporaneously with that sale the Bank agreed, inter alia, that it would issue relevant securities only on a pre-emptive basis up to 29 July 2016, subject to certain specified exceptions, including any issue pursuant to existing or future authorities granted by Stockholders at an Annual General Court or an extraordinary general court to permit the Bank to issue relevant securities on a non pre-emptive basis.

The Bank has in a separate agreement also agreed to file at the request of the Investors one or more registration statements under the U.S. Securities Act to facilitate resale of their ordinary stock by the Investors under the U.S. Securities Act subject to customary exceptions and procedures.

**(iii) Variation of class rights**

The rights attached to the ordinary stock of the Bank may be varied or abrogated, either while the Bank is a going concern or during or in contemplation of a winding up, with the sanction of a resolution passed at a class meeting of the holders of the ordinary stock. Similarly, the rights, privileges, limitations or restrictions attached to the euro preference stock and the sterling preference stock may be varied, altered or abrogated, either while the Bank is a going concern or during or in contemplation of a winding up, with the written consent of the holders of not less than 75% of such class of stock or with the sanction of a resolution passed at a class meeting at which the holders of 75% in nominal value of those in attendance vote in favour of the resolution.

**(iv) Percentage of the Bank's capital represented by class of stock**

The ordinary stock represents 62% of the authorised capital stock and 64% of the issued capital stock. The preference stock represents 7% of the authorised capital stock and 0.2% of the issued capital stock. The deferred stock represents 31% of the authorised capital stock and 36% of the issued capital stock.

**2. Restrictions on the transfer of stock in the Bank**

There are no restrictions imposed by the Bank on the transfer of stock (other than the deferred stock, the transfer of which requires the prior written consent of the Directors), nor are there any requirements to obtain the approval of the Bank or other stockholders for a transfer of stock, save in certain limited circumstances set out in the Bye-Laws. A copy of the Bye-Laws may be found on www.bankofireland.com or may be had on request from the Group Secretary.

**3. Persons with a significant direct or indirect holding of stock in the Bank.**

Details of significant stockholdings may be found on page 162.

**4. Special rights with regard to the control of the Bank**

There are no special rights with regard to control of the Bank.

**5. Stock relating to an employee share scheme that carry rights with regards to the control of the Bank that are not directly exercisable directly by employees.**

Details of shares relating to employees may be found in capital stock note 44.

**6. Restrictions on voting rights**

There are no unusual restrictions on voting rights.

**7. Agreements between stockholders that are known to the Bank and may result in restrictions on the transfer of securities or voting rights.**

There are no arrangements between stockholders, known to the Bank, which may result in restrictions on the transfer of securities or voting rights.

**8. Rules of the Bank concerning the:**

**(a) appointment and replacement of Directors**

With the exception of Tom Considine, who was nominated by the Minister for Finance, all Directors nominated between Annual General Courts are submitted to stockholders for election at the first Annual General Court following their co-option. In accordance with the UK Corporate Governance Code (adopted by the Irish Stock Exchange and the London Stock Exchange) all Directors other than those nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Directors nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a Director of the Bank for a period longer than nine years after the date of his or her appointment. In proposing the election or re-election of any individual Director to the Annual General Court, the reasons why the Court believes that the individual should be elected or re-elected are provided in the Governor's Letter to stockholders.

**(b) amendment of the Bank's Bye-Laws**

The Bank's Bye-Laws may be amended by special resolution passed at an Annual General Court or Extraordinary General Court. An Annual General Court and a Court called for the passing of a special resolution shall be called on twenty one days' notice in writing at the least. Special resolutions must be approved by not less than 75% of the votes cast by stockholders entitled to vote in person or by proxy. No business may be transacted at any General Court unless a quorum of members is present at the time when the Court proceeds to business. Ten persons present in person or by proxy and entitled to vote shall constitute a quorum.

**9. Powers of the Bank's Directors, including powers in relation to issuing or buying back by the Bank of its stock**

Under its Bye-Laws, the business of the Bank is managed by the Directors, who exercise all powers of the Bank as are not, by the Charter, the Bank of Ireland Act 1929 (as amended) or the Bye-Laws, required to be exercised by the Bank in General Court. The Directors may exercise all the borrowing powers of the Bank and may give security in connection therewith. These borrowing powers may be amended or restricted only by the stockholders in General Court. The members of the Bank in General Court may at any time and from time to time by resolution enlarge the capital stock of the Bank by such amount as they think proper. Whenever the capital stock of the Bank is so enlarged, the Directors may, subject to various provisions of the Bye-Laws, issue stock to such amount not exceeding the amount of such enlargement as they think proper. All ordinary stock so issued shall rank in equal priority with existing ordinary stock.

Subject to provisions of the Companies Act, to any rights conferred on any class of stock in the Bank and to the Bye-Laws, the Bank may purchase any of its stock of any class (including any redeemable stock) and may cancel any stock so purchased. The Bank may hold such stock as treasury stock, in accordance with Section 109 of the Companies Act 2014 (the 'treasury stock') with liberty to re-issue any such treasury stock on such terms and conditions and in such manner as the Directors may from time to time determine. The Bank shall not make market purchases of its own stock unless such purchases shall have been authorised by a special resolution passed by the members of the Bank at a General Court.

**10. Significant agreements to which the Bank is a party that take effect, alter or terminate upon a change of control of the Bank following a bid and the effects of any such agreements.**

Certain Group agreements may be altered or terminated upon a change of control of the Bank following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between the Bank and Post Office Limited in the UK (in respect of foreign exchange and Post Office branded retail financial service products) and the agreement between Bank of Ireland (UK) plc, AA plc and AA Financial Services Limited in the UK (in respect of AA branded financial services products).

**11. Agreements between the Bank and its Directors or employees providing for compensation for loss of office or employment that occurs because of a bid.**

There are no agreements between the Bank and its Executive Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a bid. There are however provisions for early maturity of employee stock schemes in the event of a change of control.

The service contracts for Non-executive Directors do not make provision for benefits on termination in the event of a bid.

# Remuneration Report

## Remuneration Restrictions

The Group is currently operating under a number of Remuneration Restrictions which cover all Directors, senior management, employees and certain service providers across the Group. In addition, any variable incentive payments over a certain level which may be made to employees based in Ireland currently would be subject to an additional tax charge. The Remuneration Restrictions were contained within the Covered Institutions Financial Support Scheme 2008 and the 'Minister's Letter' (July 2011), under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister's Letter was a further condition of the Transaction and Underwriting Agreement entered into with the Irish Government (July 2011) during the 2011 Recapitalisation of the Group.

The Group considers itself to be in compliance with these Remuneration Restrictions.

## Remuneration Report

The Bank of Ireland Group's objective of attracting, retaining and motivating high calibre people is deemed fundamental to the delivery of our business strategy. Subject to the Remuneration Restrictions, we want to ensure we have the right people in the right roles and we recognise the importance that our shareholders place in the management of our remuneration strategy, frameworks, policies and practices. To reflect this, we operate strong governance across the organisation on the management of remuneration frameworks, policies and practices that support our strategy.

## Governance Structures

Subject to the Remuneration Restrictions, it is the Group Remuneration Committee's responsibility to consider, agree and approve a remuneration strategy that supports the Group's objectives of long term sustainability and success, sound and responsible risk management and good corporate governance.

During 2016 independent advice was received by the Bank from a number of external advisers on a range of issues relating to remuneration including evolving pay regulations, market pay practices, international mobility and benefits.

## European Banking Authority (EBA) Remuneration Guidelines (the 'EBA Guidelines')

The objective of these guidelines is to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. They apply to all institutions which are currently covered by the Capital Requirements Directive including the Bank of Ireland Group.

Whereas the Group seeks to ensure it operates remuneration policies which are compliant with regulatory guidelines, the Group is currently operating under significant governmental and legal constraints in relation to remuneration. The Group's Remuneration Policy, therefore, can only be implemented to the extent possible given these Remuneration Restrictions.

As a result of these Remuneration Restrictions, the Group is currently unable to provide a fixed / variable remuneration mix, which results in risks in terms of attraction, retention and alignment with the needs of the business and some inflexibilities with the cost base. If the Group fails to recruit and retain skilled and qualified people, its businesses may be negatively impacted.

**Code Role Holders**
In accordance with EBA Guidelines for the identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these employees, known as Code Role Holders.

**Disclosure**
During 2016, the Group continued to comply with its annual requirements to provide disclosures relating to:
- Remuneration at Bank of Ireland
- Decision-making processes related to the remuneration policy
- Code Role Holders assessment and reporting
- Remuneration Restrictions
- Link between pay and performance
- Group Remuneration Strategy
- Remuneration Expenditure

## European Banking Authority (EBA) Remuneration Guidelines (the 'EBA Guidelines') (continued)

These disclosures were made as part of the Group's 2015 Pillar III disclosure in March 2016. The Group's 2016 Pillar III disclosures were made in February 2017. Both are available on the Group's website.

As a significant institution in an Irish banking context, the Group is required to submit additional disclosures under the EBA Remuneration data collection exercises. The Group continued to comply with its annual reporting requirements in 2016, submitting the following reports via the Central Bank of Ireland (the Central Bank) to the Single Supervisory Mechanism:

- 2015 European Benchmarking exercise; and
- 2015 High Earners report.

**Alignment of performance and reward with risk**
The Group's Risk Appetite Statement as set out on pages 72 and 73 forms an integral element of remuneration structures, practices and frameworks. The Group's Risk Appetite Statement has been cascaded, as appropriate, throughout the Group.

**Involvement of Risk Function**
The Chairman of the Court Risk Committee and the Head of Risk Strategy, Analysis & Reporting attended the Group Remuneration Committee meeting in November 2016. At this meeting, the Head of Risk Strategy, Analysis & Reporting reported on the Group's risk profile and its relationship to remuneration.

## Attraction, Motivation and Retention

The Group's success depends in part on the availability of high calibre people and the continued services of members of its management team, both at its head office and at each of its business units.

If the Group fails to attract and appropriately train, motivate and retain high calibre people, its businesses may be negatively impacted. Restrictions, including the Remuneration Restrictions, imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Group's control in relation to the retention and recruitment of employees may adversely impact on the Group's ability to attract and retain such staff.

The Remuneration Restrictions place the Group at an increasing competitive disadvantage in seeking to retain and attract staff, particularly those with certain skill sets and in international locations.

## Group Remuneration Strategy

Subject to the Remuneration Restrictions, the Group's Remuneration Strategy, which aims to support the Group's objectives of long term sustainability and success, sound and responsible risk management and good corporate governance, was reviewed in 2016.

The application of this strategy is consistent with the Group's Risk Appetite Statement and regulations that govern remuneration in the jurisdictions where the Group operates.

Subject to the Remuneration Restrictions, the Group Remuneration Strategy seeks to ensure that:

- the Group's efforts are aligned with, and contribute to, the long term strategy, sustainability, value creation and success of the Group;
- the Group has the necessary remuneration philosophy, strategy and framework to attract, retain and motivate high calibre employees;
- the Group offers a competitive remuneration package across all markets, in a cost effective manner;
- remuneration frameworks, policies and practices are simple, transparent, easy to understand and implement;
- sound and effective risk management is reflected in performance management and remuneration frameworks and their alignment to performance targets and governance structures;
- remuneration frameworks, policies and practices are applied in consideration of and in alignment with the Group's Risk Appetite Statement and overall risk governance framework;
- risk adjusted financial performance is an important measure when evaluating performance;
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and is based on a balanced scorecard approach;
- all remuneration policies are subject to appropriate governance;
- the Group is compliant with all applicable regulatory remuneration requirements as they relate to the Group; and
- remuneration frameworks, policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial, customer and public interests.

## Group Remuneration Strategy (continued)

Subject to the Remuneration Restrictions, the Group will continue to seek to ensure that its remuneration strategy enables it to be competitive and comprehensively adhere to regulatory principles and guidelines set out by relevant regulatory authorities, including the EBA. These design features support all remuneration frameworks, policies and processes across the Group, being applied proportionately depending on the nature, scale and complexity of the particular business area.

## Performance Management

A robust performance management system and process, incorporating performance planning and review, remains critical and is a key pillar of the Group's compliance with remuneration guidelines.

The performance management framework enables the Group to align individual, business unit and divisional performance to the Group's strategic objectives through an ongoing dialogue between managers and their direct team members ensuring a strong alignment to risk.

Managers have mandatory risk goals which reflect the nature of their role and their seniority within the Group and have an appropriate weighting attached to them.

**The Balanced Scorecard and Key Result Areas**
The Balanced Scorecard approach incorporated within the Group's Performance Planning and Review Process is consistent with the EBA Guidelines.
It ensures that:

- organisational performance is continually enhanced by measuring staff against the four Key Result Areas in the balanced scorecard;
- all key deliverables and accountabilities of a role are taken into account when performance is assessed.  For example, financial results, risk management, impact on customers, leadership and development of people, regulatory and compliance requirements; and
- a comprehensive view of an individual's performance is taken, rather than focusing on one or two key areas to the detriment of others.

Each of the Key Result Areas that apply to all employees in the Group has a minimum weighting of 10%, dependent on the type of role the individual is performing. All weightings must add up to 100%. The Key Result Areas are:

- Customer
- Leadership, People and Personal Development
- Financial / Revenue / Cost / Efficiency
- Risk (covers all areas of Risk including Credit, Regulatory, Operational Risk and Conduct Risk).

Goals set within these Key Result Areas are linked to overall Divisional and Group Strategy, support the achievement of business unit objectives and are aligned to the Group's Risk Appetite Statement.

Key deliverables are agreed for each employee with his / her line manager at the beginning of the performance cycle. Regular informal reviews take place at times during the performance cycle. A formal end of year review occurs at the end of the performance cycle.

## Remuneration packages for Executive Directors

The following change to the remuneration package for Executive Directors took place during 2016:

- The CFO's salary was increased in 2016 to seek to reduce the gap between salary at the time of adjustment and the market. This amendment was made within the conditions of the Remuneration Restrictions.

For the year ended 31 December 2016, the remuneration packages for Executive Directors were governed by the Remuneration Restrictions.

The key elements of the remuneration package in respect of the year ended 31 December 2016 were as follows (further detail is available in table 1 on page 173):

- **Salary -** Executive Director Salaries are paid monthly and reviewed annually by the Group Remuneration Committee; and
- **Retirement Benefits -** The Executive Directors are members of the Bank of Ireland Staff Pensions Fund, which is a contributory defined benefit (DB) scheme. In addition, the CFO is a member of the supplementary section of the contributory RetireWell defined contribution (DC) arrangement.

Other potential elements of the remuneration package for Executive Directors are as follows:

- **Performance-related bonus scheme -** No bonuses were paid to Executive Directors in respect of the year ended 31 December 2016. No bonuses have been paid to an Executive Director since 2008.

- **Employee Stock Issue Scheme -** There was no stock issue award under the Employee Stock Issue Scheme in 2016. The last award made under the Employee Stock Issue Scheme was in 2008.

## Directors' remuneration

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 196.*

**Directors' remuneration for the year ended 31 December 2016 (all figures in €000s)**

**TABLE: 1**

| | Gross salary (1-2) | Fees (3) | Performance bonus (4) | Other remuneration (5) | Pension funding contributions (6) | Total 2016 (7) |
|---|---|---|---|---|---|---|
| **Governor** | | | | | | |
| A Kane | 394 | 59 | | 37 | | 490 |
| **Deputy Governor** | | | | | | |
| P Kennedy | 126 | | | | | 126 |
| **Executive Directors** | | | | | | |
| R Boucher | 690 | | | 34 | 234 | 958 |
| A Keating | 468 | | | 31 | 53 | 552 |
| **Non-executive Directors** | | | | | | |
| K Atkinson | | 106 | | | | 106 |
| P Butler | | 87 | | | | 87 |
| T Considine | | 93 | | | | 93 |
| P Haren | | 165 | | | | 165 |
| D Marston | | 79 | | | | 79 |
| B Martin | | 65 | | | | 65 |
| F Muldoon | | 71 | | | | 71 |
| P Mulvihill | | 79 | | | | 79 |
| **Totals** | **1,678** | **804** | **-** | **102** | **287** | **2,871** |
| **Ex-gratia payments paid to former Directors / dependents** | | | | | | **199** |

*Notes:*

*(1) The Governor and Deputy Governor, as Non-executive Officers of the Bank, are remunerated by way of non-pensionable salary.*

*A Kane receives an annual non-pensionable salary of €394,000 for his role as Governor. In addition he has a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he receives an annual fee of €59,000. He also receives an accommodation, utilities and car allowance of €37,000 per annum.*

*(2) The Group Chief Financial Officer, A Keating, receives an annual salary of €468,000. His annual salary for pension purposes is €240,000 and the balance of his salary (€228,000) is excluded for pension purposes.*

*(3) Fees are paid to Non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees are paid to the Senior Independent Director, Committee Chairmen and for Committee membership. On 1 February 2009, all Non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2016. The basic fee of €63,000 is the reduced fee.*

*In addition to the above, P Haren served as Non-executive Director and committee member of Bank of Ireland (UK) plc until 15 September 2016 and received separate fees for these roles (Stg£38,958, equivalent €48,831 for the year ended 31 December 2016).*

*(4) No bonuses were awarded in respect of the year ended 31 December 2016.*

*(5) The figures include car allowances and, where applicable, benefits in kind.*

*(6) The amounts shown for R Boucher and A Keating relate to the Group's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2016. There were no changes to Executive Directors' contractual pension benefit entitlements in the year.*

*The pension funding cost to the Group, in relation to the Group's sponsored defined benefit schemes, is updated following triennial pension scheme valuations to reflect changing market conditions and actuarial assumptions. The pension funding cost also reflects the increased actuarial cost of each year's accrual as each Executive Director's term to normal retirement age reduces.*

*All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the Group Remuneration Committee.*

*(7) In addition to the amounts shown, the Group bears the total costs of Directors' travel and subsistence to and from Court and committee meetings or while on the business of the Group.*

## Directors' remuneration (continued)

**Directors' remuneration for the year ended 31 December 2015 (all figures in €000s)**

TABLE: 2

| | Gross salary (1-3) | Fees (4) | Performance bonus (5) | Other remuneration (6) | Pension funding contributions (7) | Total 2015 before amounts waived | Amounts waived during the year (8) | Total 2015 (after amounts waived) (9) |
|---|---|---|---|---|---|---|---|---|
| Governor | | | | | | | | |
| A Kane | 394 | 59 | | 37 | | 490 | | 490 |
| Deputy Governor | | | | | | | | |
| P O'Sullivan *(retired 29 April 2015)* | **42 | | | | | 42 | | 42 |
| P Kennedy *(appointed Deputy Governor 29 April 2015)* | 85 | 28 | | | | 113 | | 113 |
| Executive Directors | | | | | | | | |
| R Boucher | 690 | | | 34 | 254 | 978 | (17) | 961 |
| A Keating | 422 | | | *31 | 38 | 491 | | 491 |
| Non-executive Directors | | | | | | | | |
| K Atkinson | | 102 | | | | 102 | | 102 |
| P Butler | | 87 | | | | 87 | | 87 |
| T Considine | | 98 | | | | 98 | | 98 |
| P Haren | | 175 | | | | 175 | | 175 |
| D Marston | | 79 | | | | 79 | | 79 |
| B Martin | | 64 | | | | 64 | | 64 |
| F Muldoon *(appointed 12 June 2015)* | | **35 | | | | 35 | | 35 |
| P Mulvihill | | 79 | | | | 79 | | 79 |
| Totals | 1,633 | 806 | - | 102 | 292 | 2,833 | (17) | 2,816 |
| Ex-gratia payments paid to former Directors / dependents | | | | | | 201 | | 201 |

* *This figure has been restated by €3,075 to reflect benefit in kind received in 2015 which was invoiced in 2016.*
** *From date of appointment or to date of retirement as a Non-executive Director, as indicated.*

## Directors' remuneration (continued)

*Notes:*

*(1) The Governor and Deputy Governor, as Non-executive Officers of the Bank, are remunerated by way of non-pensionable salary.*

*A Kane receives an annual non-pensionable salary of €394,000 for his role as Governor. In addition he has a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he receives an annual fee of €59,000. He also receives an accommodation, utilities and car allowance of €37,000 per annum.*

*(2) The Chief Executive Officer, R Boucher, had, with effect from 1 May 2009, waived a portion of his salary (€17,000 for the year ended 31 December 2015). The salary shown in the table is the gross amount before that waiver. The salary waiver ceased on 31 March 2015.*

*(3) The Group Chief Financial Officer, A Keating, receives an annual salary of €429,000. His annual salary for pension purposes is €220,000 and the balance of his salary (€209,000) is excluded for pension purposes.*

*(4) Fees are paid to Non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees are paid to the Senior Independent Director, Committee Chairmen and for Committee membership. On 1 February 2009, all Non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2015. The basic fee of €63,000 is the reduced fee.*

*In addition to the above, P Haren serves as Non-executive Director and committee member of Bank of Ireland (UK) plc and received separate fees for these roles (Stg£55,000, equivalent €75,791 for the year ended 31 December 2015).*

*(5) No bonuses were awarded in respect of the year ended 31 December 2015.*

*(6) The figures include car allowances and, where applicable, benefits in kind.*

*(7) The amounts shown for R Boucher and A Keating relate to the Group's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2015. There were no changes to Executive Directors' contractual pension benefit entitlements in the year.*

*The pension funding cost to the Group, in relation to the Group's sponsored defined benefit schemes, is updated following triennial pension scheme valuations to reflect changes in market yields, which have increased the cost of defined benefit funding. The pension funding cost also reflects the increased actuarial cost of each year's accrual as each Executive Director's term to normal retirement age reduces.*

*All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the Group Remuneration Committee.*

*(8) Amounts of salary waived are as set out in note (2) above. The voluntary pension waiver for R Boucher ceased on 31 December 2014.*

*(9) In addition to the amounts shown, the Group bears the costs of Directors' travel to and from Court and committee meetings or while on the business of the Group.*

## Executive stock options held by Directors and Secretary

No awards have been made under the 2004 Executive Stock Option Scheme since 2008. This scheme ceased in 2014 and no further grants can be made under this scheme. There are no outstanding grants awaiting vesting under this scheme.

## Directors' pension benefits

Set out below are details of the change in accrued pension benefits for the Directors during the year ended 31 December 2016.

| TABLE: 3 | (a) Additional inflation-adjusted accrued DB pension in the year € | (b) Increase in DB transfer value € | (c) Accrued DB pension benefits at 31 December 2016 € | (d) Group DC contributions € |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| R Boucher | 13,019 | 299,777 | 356,530 | - |
| A Keating | 3,333 | 28,578 | 40,771 | 8,000 |

*Column (a) represents the inflation-adjusted increase in each individual's accrued defined benefit (DB) pension during the year. Increases are shown after the opening position has been adjusted for known statutory revaluation, and comprise allowance for additional pensionable service, any increases in pensionable earnings and any agreed adjustment in the individual's pension accrual. This is in line with the requirements of the Listing Rules and the related actuarial professional guidance.*

*Column (b) is the additional capital value, less each Director's contributions, of Column (a) which could arise if the defined benefit pension were to be transferred to another pension plan on the Director leaving the Group and is calculated using factors supplied by the actuary in accordance with actuarial guidance notes ASP PEN-2, and is based on leaving service pension benefits becoming payable at normal retirement date, age 60.*

*Column (c) is the aggregate defined benefit pension benefit payable at normal retirement age based on each Director's pensionable service with the Group at 31 December 2016.*

*Column (d) is the Group's contributions to the supplementary section of its RetireWell defined contribution (DC) arrangement.*

## Directors’ and Secretary’s interests in stock

The interests of the Directors and Secretary in stock issued by the Bank as disclosed to the Bank are detailed below in accordance with the Listing Rules 6.8.3(1):

**TABLE: 4**

| | Units of €0.05 of ordinary stock at 31 December 2016 beneficial | Units of €0.05 of ordinary stock at 1 January 2016 or at date of appointment beneficial |
|---|---|---|
| **DIRECTORS** | | |
| K Atkinson | 2,000 | 2,000 |
| R Boucher | 670,355 | 380,957 |
| P Butler | 92,519 | 22,519 |
| T Considine | 57,500 | 57,500 |
| P Haren | 40,000 | 40,000 |
| A G Kane | 211,074 | 11,074 |
| A Keating | 328,805 | 233,608 |
| P Kennedy | 2,254,642 | 254,642 |
| D Marston | 100,000 | 100,000 |
| B Martin | 100,000 | 100,000 |
| F Muldoon | 85,979 | 10,979 |
| P Mulvihill | 5,000 | 5,000 |
| **SECRETARY** | | |
| H Nolan | 80,043 | 80,043 |

Apart from the interests set out above, the Directors and Secretary had no other interests in the stock / securities of the Bank or its Group undertakings at 31 December 2016. There has been no change in the interests of each Director disclosed to the Bank under the provisions of article 19 of the Market Abuse Regulation occurring between the end of the period under review and 17 February 2017.

*End of information in the Remuneration Report that forms an integral part of the audited financial statements.*

## Changes in the Directorate during the year

**TABLE: 5**

| | Executive Directors | Non-executive Directors |
|---|---|---|
| Number at 31 December 2015 | 2 | 10 |
| **Changes during 2016** | | |
| **Appointments** | | |
| **Retirements** | | |
| Number at 31 December 2016 | 2 | 10 |
| Average number during 2016 | 2 | 10 |
| (Average number during 2015) | (2) | (10) |

# Financial Statements

## Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out on pages 178 to 186, is made with a view to distinguishing for stockholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and, in respect of the Consolidated financial statements, Article 4 of the IAS Regulation.

Under Irish law the Directors shall not approve the Group's and Bank's financial statements unless they are satisfied that they give a true and fair view of the Group's and the Bank's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS adopted by the EU and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:
- correctly record and explain the transactions of the Bank;
- enable, at any time, the assets, liabilities, financial position of the Bank to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the Companies Act 2014, and as regards the Group financial statements, Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish and London Stock Exchanges, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and corporate governance. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the Principal Risks and Uncertainties facing the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:
- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Group and the Bank and of the profit of the Group;
- the management report contained in the Business Review includes a fair review of the development and performance of the business and the position of the Group and the Bank, together with a description of the Principal Risks and Uncertainties that they face; and
- the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Court by
23 February 2017

| ***Archie G Kane*** | ***Patrick Kennedy*** | ***Richie Boucher*** |
|---|---|---|
| *Governor* | *Deputy Governor* | *Group Chief Executive* |

# Independent Auditors' Report

## to the members of the Governor and Company of the Bank of Ireland

## Report on the financial statements

**Our opinion**

In our opinion:

- The Governor and Company of the Bank of Ireland's Consolidated financial statements and Bank financial statements (the 'financial statements') give a true and fair view of the Group's and the Bank's assets, liabilities and financial position as at 31 December 2016 and of the Group's profit and the Group's and the Bank's cash flows for the year then ended;
- the Consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Consolidated financial statements, Article 4 of the IAS Regulation.

**What we have audited**

The financial statements, included within the Annual Report, comprise:

- the Consolidated and Bank balance sheets as at 31 December 2016;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated and Bank cash flow statements for the year then ended;
- the Consolidated and Bank statements of changes in equity for the year then ended; and
- the notes to the Consolidated and Bank financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements and are described as being an integral part of the financial statements as set out in the Basis of preparation on page 196. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the Bank financial statements, as applied in accordance with the provisions of the Companies Act 2014.

**Our audit approach**

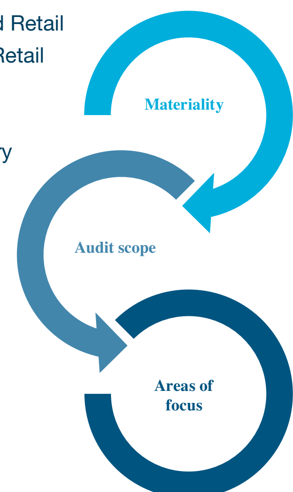
***Overview***

*Materiality*

- Overall Group materiality: €50 million which represents 5% of profit before tax. The Group is profit oriented and profit before tax is one of the key metrics used to assess its performance. See pages 183 and 184 for further details.

*Audit scope*

- Our audit work addressed each of the Group's five operating segments which are headquartered in Ireland and the UK: Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre.
- We performed full scope audits of the complete financial information of the Bank of Ireland Life and Retail UK operating segments and of the two individually financially significant business units within the Retail Ireland and Corporate and Treasury operating segments.
- Audits of or specified audit procedures on selected account balances, classes of transactions or disclosures were performed at other business units within the Retail Ireland, Corporate and Treasury and Group Centre operating segments.
- Audit coverage for individual line items within the Consolidated income statement and Consolidated balance sheet falls in the range 62% to 100%; most line items have audit coverage above 90%.
- See pages 183 and 184 for further details.




*Areas of focus*

- Impairment provision on loans and advances to customers.
- Recoverability of deferred tax assets.
- Valuation of the insurance contract liabilities and the Value of in Force (ViF) business asset.
- Retirement benefit obligation - determination of the pension liability.
- IT operational risk.

***The scope of our audit and our areas of focus***

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.

| Area of focus | How our audit addressed the area of focus |
|---|---|
| ***Impairment provisions on loans and advances to customers***<br><br>*Refer to page 156 (Corporate Governance Statement), pages 207 and 208 (Group accounting policies), pages 217 to 219 (Critical accounting estimates and judgements), pages 80 to 110 (credit risk section of the Risk Management Report), note 27 of the Notes to the Consolidated Financial Statements on page 245 and pages 361 to 414 (supplementary asset quality and forbearance disclosures).*<br><br>We focused on this area as the determination of impairment provisions requires a significant amount of management judgement and the calculations are reliant upon available reliable data, particularly the impairment provisions for certain secured lending portfolios.<br><br>We focused on the assumptions underlying the calculation of modelled provisions relating to Residential mortgages (Ireland and UK) and the discounted cash flow assessments in Business Banking Ireland and UK (which includes property and non property / SME lending) as these assumptions are complex. | Provisions for Residential mortgages (Ireland and UK) are determined by modelling techniques. Historical experience and management judgement are incorporated into the model assumptions.<br><br>• We assessed and tested the design and operating effectiveness of the controls over source data and calculations. This included controls over the identification of loans and advances classified as impaired and the calculation of the resulting impairment provision.<br>• We tested the completeness and accuracy of underlying data from the Group's source systems.<br>• Where changes were made to the model parameters and assumptions, we understood the rationale and considered the appropriateness of such changes.<br>• We challenged key assumptions by comparison to externally available information.<br>• We used specialists from our Data Services team and Actuarial practice in the evaluation of the operation of the models.<br><br>Provisions for loans identified as impaired in the secured lending portfolios in Business Banking Ireland and the UK (which includes property and non property / SME lending) are determined by means of discounted cash flows.<br><br>• We assessed and tested the design and operating effectiveness of the controls over lending, including those relating to the appropriateness of loan grading and the robustness of internal reviews.<br>• Our testing incorporated the selection of samples of individual loans. We critically assessed, by reference to the underlying documentation and through discussion with management, whether the trigger for an impairment had occurred. We challenged the reasonableness of management's judgement in this regard.<br>• For impaired loans, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision. We challenged the assumptions and compared estimates to external support where available.<br><br>Where appropriate, this work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and / or externally prepared reports to determine whether appropriate valuation methodologies were employed.<br><br>We critically assessed the Group's rationalisation of the overall provision levels to consider in particular whether all relevant risks are reflected in the provisions. We also assessed the reasonableness of the total provisions having regard to available external data. |

| Area of focus | How our audit addressed the area of focus |
|---|---|
| ***Recoverability of deferred tax assets***<br><br>*Refer to page 156 (Corporate Governance Statement), pages 211 to 212 (Group accounting policies), pages 219 and 220 (Critical accounting estimates and judgements) and pages 251 and 252 (note 33 to the Consolidated financial statements).*<br><br>The Group has deferred tax assets (net of offsetable deferred tax liabilities) of €1,298 million of which €1,270 million arise from tax losses carried forward.<br><br>As set out in note 2(b) to the consolidated financial statements 'Critical Accounting Estimates and Judgements', 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 future taxable profits against which the losses can be utilised. This relies, inter alia, on management's judgements surrounding the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance and legislation governing the use of historical trading losses carried forward.<br><br>Under UK and Irish tax legislation, there is no time limit on the utilisation of the Group's tax losses. The UK Finance Act 2016 further restricted, from 1 April 2016, the amount of a bank's annual profits that can be sheltered with trading losses carried forward, to 25%.<br><br>We focused on this area because the Group's deferred tax assets primarily arise from historical operating losses and a key judgement is whether there is convincing evidence of the availability of sufficient future taxable profits against which those losses can be utilised.<br><br>In particular, we focused on the impact on the recoverability assessment of the deferred tax assets of changes in legislation governing the use of historical operating losses carried forward and / or updated forecasts of future taxable profits as these caused the periods over which the Group's deferred tax assets are expected to be recovered to lengthen. | As set out on page 156 of the Corporate Governance Statement, detailed projections of future taxable profits for a five year period are prepared by the Group. These projections for the final year are then extrapolated at estimated annual long term growth rates for the Irish and UK economies for the purpose of projecting future taxable profits beyond five years.<br><br>We understood and tested key controls over the production and approval of the forecast taxable profits used to support the recognition of the deferred tax assets. We also tested management's basis for allocating forecast profits between legal entities by testing the allocation methodology, challenging significant assumptions and using our experience of the Group's activities.<br><br>We considered whether the combination of the Group's current profitability and the Directors' projections provide convincing evidence that sufficient taxable profits will be available to utilise unused tax losses. As part of our audit work, we evaluated the relevant macroeconomic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts.<br><br>We assessed the basis for management's conclusion that the recovery period for trading losses carried forward in the Bank's UK branch should be restricted to ten years being the period over which the Directors can conclude that it is probable that future taxable profits will be available in the UK branch.<br><br>We also assessed management's judgement that the UK branch trading losses remaining after this ten year period will be used to offset taxable profits of the Bank arising in the Republic of Ireland as permitted under current tax legislation (in the UK and Republic of Ireland). |

| Area of focus | How our audit addressed the area of focus |
|---|---|
| ***Valuation of the insurance contract liabilities and the Value of in Force (ViF) business asset***<br><br>*Refer to page 157 (Corporate Governance Statement), page 214 (Group accounting policies), page 220 (critical accounting estimates and judgements), and pages 253, 254, 257 and 258 (notes 35 and 39 to the Consolidated financial statements).*<br><br>We focused on these balances because the estimation of the insurance contracts liabilities and the valuation of the ViF asset (being the discounted future margins on insurance contracts or 'embedded value') are complex calculations and involve the use of detailed methodologies, multiple assumptions and significant judgements. | We evaluated, with the assistance of our actuarial specialists, the processes and controls surrounding the selection and determination of the methodologies applied, assumptions used and judgements reached.<br><br>We assessed and challenged the bases used to set the underlying assumptions (the key assumptions being the risk discount rate, unit growth rate, realistic interest rate, persistency, mortality, morbidity and expenses) with reference to Group experience, standard industry mortality tables and wider market practice.<br><br>We assessed the design and operating effectiveness of controls operated by management to first, ensure that actuarial models used to value insurance contract liabilities and the ViF asset were consistent with those used in prior years and second, to determine that authorised changes to the models had been properly applied to them.<br><br>We assessed the calculations underpinning the insurance contract liabilities and ViF asset which are performed on management's actuarial models by:<br>• checking that the data and the assumptions input into the actuarial models were in agreement with those that we had evaluated;<br>• assessing management's controls over the output of the calculations including comparison and understanding of how that output agrees / differs from management's detailed estimations of the sources of profit within the principal classes of insurance and investment products; and<br>• considering the report of the Group's external actuarial experts retained to undertake an independent examination of management's methodologies, judgements and assumptions. |
| ***Retirement benefit obligation - determination of the pension liability***<br><br>*Refer to pages 156 and 157 (Corporate Governance Statement), pages 210 and 211 (Group accounting policies), page 220 (critical accounting estimates and judgements), and pages 260 to 269 (note 42 to the consolidated financial statements).*<br><br>The Group operates a number of defined benefit pension schemes and has an aggregate IAS19 defined benefit pension deficit of €454 million.<br><br>As disclosed on page 261, during 2016, the Group, with the support of its external actuarial advisers, refined its approach to the determination of the euro discount rate used to value euro denominated liabilities on an IAS19 basis. The effect of the refinement was to reduce the Group's IAS 19 pension deficit by €316 million.<br><br>We focused on this area because the valuation of the retirement benefit obligation is complex and requires judgement in choosing appropriate actuarial assumptions. These assumptions can have a material impact on the calculation of the liability. | We considered the reasonableness of the key actuarial assumptions (principally the discount rates, inflation rates and demographic assumptions) used to determine the pension liability.<br><br>With the assistance of PwC actuarial experts, we considered the changes which the Group made to its approach to the determination of the discount rate for its euro schemes and we assessed their reasonableness in the circumstances of those euro pension schemes and their consistency with the requirements of IAS19. Because the changes relied to a significant extent on the advice of the Group's external actuarial experts, we considered their independence, reviewed reports prepared by them for management and subsequently, met with them to discuss and challenge their work.<br><br>We used our actuarial experts to assist the audit team to challenge management in relation to the assumptions and methodology applied including benchmarking to external data as appropriate. |

| Area of focus | How our audit addressed the area of focus |
|---|---|
| ***IT operational risk***<br><br>*Refer to page 157 (Corporate Governance Statement).*<br><br>The Group has a complex IT environment and operates a large number of IT applications to support its business activities. A significant number of these applications (whether developed by management or purchased from third party vendors) have been in place for many years. There is a mix of automated and manual interfaces between applications. The Group's IT control framework over financial reporting includes standardised IT general controls most of which relate to a number of applications, designed to prevent or detect material misstatements in the Group's recording, processing and reporting of financial information.<br><br>The Group has announced a multi-year investment programme to replace its core banking IT platform and to upgrade its payments applications. This programme will operate alongside existing initiatives to maintain the operating effectiveness of the Group's IT systems as well as managing other factors including increased expectations from regulators and customers. Each of these elements has been brought together in an Integrated IT Plan which inter alia, establishes priorities and identifies resource needs. Group Internal Audit (GIA) has reported on the related internal control and operational risk considerations.<br><br>Management has an ongoing risk management programme in place to identify, rate, mitigate and report on risk including IT and Operational risk considerations.<br><br>We focused on this area because the Group's business is highly IT dependent, the IT environment is complex and the design and operating effectiveness of IT controls and of IT risk mitigants supports the financial reporting process. | Using IT audit specialists, we updated our understanding of the Group's IT environment and of changes made to it during 2016. In particular, we reviewed management's Integrated IT Plan, external reviews of aspects of the Group's IT infrastructure and the findings of reviews conducted by GIA. We considered the impact of the assessed risks on our audit approach.<br><br>We considered those IT risks and significant GIA IT audit issues that management assessed as relevant to financial reporting and tested and challenged management's assessment of the mitigation of these risks relevant to financial reporting.<br><br>We also considered management's documentation and testing of the design and operating effectiveness of the IT controls within the Group's Internal Control Framework over financial reporting and tested the design and operating effectiveness of those controls upon which we wished to rely. Where relevant, we considered whether compensating controls acted as effective mitigants of design or operating deficiencies identified by management or us. |

***How we tailored the audit scope***

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic and operational structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along five operating segments being Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre. Each operating segment comprises a number of business units. The Group financial statements are a consolidation of the business units.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each operating segment and business unit by us, as the Group engagement team, or by component PwC auditors operating under our instructions ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Consolidated financial statements as a whole.

We performed a full scope audit of the complete financial information of the Bank of Ireland Life and Retail UK operating segments due to their size, location and risk characteristics. We also performed full scope audits of the complete financial information of the two individually financially significant business units within the Retail Ireland and Corporate and Treasury operating segments.

In order to achieve the desired level of audit evidence on each account balance in the Consolidated and Bank financial statements, audits of or specified audit procedures on selected account balances, classes of transactions or disclosures were performed at other business units within the Retail Ireland, Corporate and Treasury and Group Centre operating segments. The nature and extent of audit procedures was determined by our risk assessment.

Together with additional procedures performed at the Group level, this gave us the evidence we needed for our opinion on the financial statements as a whole.

Audit coverage for individual line items within the Consolidated income statement and Consolidated balance sheet falls in the range of 62% to 100%; most line items have coverage above 90%.

The overwhelming majority of Group activity outside Ireland is in the UK and PwC UK was engaged to perform full scope audit procedures on the Retail UK operating segment. No other PwC network firm was engaged for the Group audit. In relation to audit procedures that were performed by PwC UK, we arranged joint planning meetings, regular telephone meetings throughout the audit and reviewed extracts from PwC UK's audit file to corroborate that our audit plan was appropriately executed. In addition, the Group Engagement Leader attended the Bank of Ireland UK plc Audit Committee meeting in November 2016 and the PwC UK Audit Partner attended the Group Audit Committee meetings in December 2016.

***Materiality***

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall Group materiality | €50 million (2015: €60 million). |
| How we determined it | 5% of profit before tax. |
| Rationale for benchmark applied | The Group is profit oriented and profit before tax is one of the key metrics used to assess its performance. Given the profitability of the Group in recent years, this benchmark continues to be appropriate. |
| Component materiality | For each business unit in our audit scope, we allocated a materiality that is less than our overall Group materiality, The range of allocated materiality is €10 million to €40 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €2.5 million (2015: €3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. Such misstatements include disclosure matters that we identify when assessing the overall presentation of the financial statements.

***Going concern***

Under the Listing Rules we are required to review the Directors' statement, set out on pages 163 and 197, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Report of the Directors, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Bank have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Bank's ability to continue as a going concern.

## Other required reporting

**Consistency of other information**

***Companies Act 2014 opinion***

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

***ISAs (UK and Ireland) reporting***

Under ISAs (UK and Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| • information in the Annual Report is:<br>- materially inconsistent with the information in the audited financial statements; or<br>- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Bank acquired in the course of performing our audit; or<br>- otherwise misleading. | We have no exceptions to report. |
| • the statement given by the Directors on page 177, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Bank's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Bank acquired in the course of performing our audit. | We have no exceptions to report. |
| • the section of the Annual Report on pages 155 to 158, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report. |

**The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

Under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

| | |
|---|---|
| • the Directors' confirmation on page 163 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. | We have nothing material to add or to draw attention to. |
| • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. | We have nothing material to add or to draw attention to. |
| • the Directors' explanation on page 163 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw attention to. |

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

**Directors' remuneration and transactions**

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosure of Directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made, and under the Listing Rules we are required to review the six specified elements of disclosures in the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

**Corporate Governance Statement**

- In our opinion, based on the work undertaken in the course of our audit of the financial statements:
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014 included in the Schedule to the Report of the Directors;

  is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014.
- Based on our knowledge and understanding of the Bank and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement and Schedule to the Report of the Directors, respectively.
- In our opinion, based on the work undertaken during the course of our audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Corporate Governance Statement.
- Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Bank's compliance with ten provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

**Other matters on which we are required to report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Bank were sufficient to permit the Bank financial statements to be readily and properly audited.
- The Bank balance sheet is in agreement with the accounting records.

## Responsibilities for the financial statements and the audit

**Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 177, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Bank's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kevin Egan
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

23 February 2017

# Consolidated financial statements

## Consolidated income statement for the year ended 31 December 2016

| | Note | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|---|
| Interest income | 4 | 2,861 | 3,269 |
| Interest expense | 5 | (598) | (825) |
| **Net interest income** | | **2,263** | **2,444** |
| Net insurance premium income | 6 | 1,226 | 1,350 |
| Fee and commission income | 7 | 559 | 561 |
| Fee and commission expense | 7 | (222) | (242) |
| Net trading income | 8 | 113 | 58 |
| Life assurance investment income, gains and losses | 9 | 446 | 334 |
| Other operating income | 10 | 287 | 299 |
| **Total operating income** | | **4,672** | **4,804** |
| Insurance contract liabilities and claims paid | 11 | (1,564) | (1,511) |
| **Total operating income, net of insurance claims** | | **3,108** | **3,293** |
| Other operating expenses | 12 | (1,897) | (1,819) |
| Cost of restructuring programme | 13 | (35) | (43) |
| **Operating profit before impairment charges on financial assets** | | **1,176** | **1,431** |
| Impairment charges on financial assets | 15 | (178) | (296) |
| **Operating profit** | | **998** | **1,135** |
| Share of results of associates and joint ventures (after tax) | 16 | 41 | 46 |
| (Loss) / profit on disposal / liquidation of business activities | 17 | (7) | 51 |
| **Profit before tax** | | **1,032** | **1,232** |
| Taxation charge | 18 | (239) | (285) |
| **Profit for the year** | | **793** | **947** |
| | | | |
| Attributable to stockholders | | 793 | 940 |
| Attributable to non-controlling interests | | - | 7 |
| **Profit for the year** | | **793** | **947** |
| | | | |
| Earnings per unit of €0.05 ordinary stock | 19 | 2.2c | 2.3c |
| | | | |
| Diluted earnings per unit of €0.05 ordinary stock | 19 | 2.2c | 2.3c |

# Consolidated statement of comprehensive income for the year ended 31 December 2016

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Profit for the year** | | **793** | **947** |
| **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 | | (20) | 110 |
| Transfer to income statement | | | |
| - Asset disposal | | (134) | (181) |
| - Amortisation | | (15) | (10) |
| **Net change in available for sale reserve** | | **(169)** | **(81)** |
| ***Cash flow hedge reserve, net of tax:*** | | | |
| Changes in fair value | | 1,337 | (258) |
| Transfer to income statement | | (1,341) | 213 |
| **Net change in cash flow hedge reserve** | | **(4)** | **(45)** |
| ***Foreign exchange reserve:*** | | | |
| Foreign exchange translation (losses) / gains | | (423) | 249 |
| Transfer to income statement on liquidation of non-trading entities | 17 | 4 | 6 |
| **Net change in foreign exchange reserve** | | **(419)** | **255** |
| **Total items that may be reclassified to profit or loss in subsequent years** | | **(592)** | **129** |
| **Items that will not be reclassified to profit or loss in subsequent years:** | | | |
| Remeasurement of the net defined benefit pension liability | | 167 | 91 |
| Revaluation of property, net of tax | | 3 | 11 |
| **Total items that will not be reclassified to profit or loss in subsequent years** | | **170** | **102** |
| **Other comprehensive income for the year, net of tax** | | **(422)** | **231** |
| **Total comprehensive income for the year, net of tax** | | **371** | **1,178** |
| Total comprehensive income attributable to equity stockholders | | 371 | 1,171 |
| Total comprehensive income attributable to non-controlling interests | | - | 7 |
| **Total comprehensive income for the year, net of tax** | | **371** | **1,178** |

The effect of tax on these items is shown in note 18.

## Consolidated balance sheet as at 31 December 2016

| | Note | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | 5,192 | 6,603 |
| Items in the course of collection from other banks | | 242 | 294 |
| Trading securities | | 18 | 3 |
| Derivative financial instruments | 20 | 3,709 | 3,064 |
| Other financial assets at fair value through profit or loss | 21 | 13,249 | 12,280 |
| Loans and advances to banks | 22 | 3,349 | 4,578 |
| Available for sale financial assets | 23 | 10,794 | 10,128 |
| Held to maturity financial assets | 24 | 1,872 | 1,922 |
| NAMA senior bonds | 25 | 451 | 1,414 |
| Loans and advances to customers | 26 | 78,477 | 84,689 |
| Assets classified as held for sale | | - | 20 |
| Interest in associates | 28 | 56 | 56 |
| Interest in joint ventures | 29 | 71 | 83 |
| Intangible assets | 30 | 635 | 526 |
| Investment properties | 31 | 864 | 841 |
| Property, plant and equipment | 32 | 353 | 334 |
| Current tax assets | | 4 | 13 |
| Deferred tax assets | 33 | 1,298 | 1,453 |
| Other assets | 34 | 2,487 | 2,640 |
| Retirement benefit assets | 42 | 8 | 19 |
| **Total assets** | | **123,129** | **130,960** |
| **Equity and liabilities** | | | |
| Deposits from banks | 36 | 3,662 | 952 |
| Customer accounts | 37 | 75,167 | 80,164 |
| Items in the course of transmission to other banks | | 223 | 239 |
| Derivative financial instruments | 20 | 2,873 | 3,619 |
| Debt securities in issue | 38 | 10,697 | 13,243 |
| Liabilities to customers under investment contracts | 39 | 5,647 | 5,729 |
| Insurance contract liabilities | 39 | 10,934 | 10,403 |
| Other liabilities | 40 | 2,465 | 4,103 |
| Current tax liabilities | | 19 | 35 |
| Provisions | 41 | 96 | 97 |
| Deferred tax liabilities | 33 | 65 | 68 |
| Retirement benefit obligations | 42 | 454 | 755 |
| Subordinated liabilities | 43 | 1,425 | 2,440 |
| **Total liabilities** | | **113,727** | **121,847** |
| **Equity** | | | |
| Capital stock | 44 | 2,545 | 2,558 |
| Stock premium account | | 571 | 1,135 |
| Retained earnings | | 5,214 | 4,950 |
| Other reserves | | 342 | (260) |
| Own stock held for the benefit of life assurance policyholders | | (11) | (11) |
| **Stockholders' equity** | | **8,661** | **8,372** |
| Other equity instruments | 46 | 740 | 740 |
| **Total equity excluding non-controlling interests** | | **9,401** | **9,112** |
| Non-controlling interests | | 1 | 1 |
| **Total equity** | | **9,402** | **9,113** |
| **Total equity and liabilities** | | **123,129** | **130,960** |

| ***Archie G Kane*** | ***Patrick Kennedy*** | ***Richie Boucher*** | ***Helen Nolan*** |
|---|---|---|---|
| *Governor* | *Deputy Governor* | *Group Chief Executive* | *Group Secretary* |

# Consolidated statement of changes in equity for the year ended 31 December 2016

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Capital stock** | | | |
| Balance at the beginning of the year | | 2,558 | 2,558 |
| Redemption of 2009 Preference Stock | 45 | (13) | - |
| **Balance at the end of the year** | 44 | **2,545** | **2,558** |
| **Stock premium account** | | | |
| Balance at the beginning of the year | | 1,135 | 1,135 |
| Redemption of 2009 Preference Stock | 45 | (564) | - |
| **Balance at the end of the year** | | **571** | **1,135** |
| **Retained earnings** | | | |
| Balance at the beginning of the year | | 4,950 | 4,196 |
| Profit retained | | 712 | 683 |
| *- Profit for year attributable to stockholders* | | *793* | *940* |
| *- Dividends on 2009 Preference Stock* | | *-* | *(249)* |
| *- Dividends on other preference equity interests paid in cash* | | *(8)* | *(8)* |
| *- Distribution on other equity instruments - Additional tier 1 coupon, net of tax* | 46 | *(73)* | *-* |
| Redemption of 2009 Preference Stock | 45 | (727) | - |
| Transfer from capital contribution | | 116 | - |
| Transfer to capital reserve | | (3) | (22) |
| Remeasurement of the net defined benefit pension liability | 18 | 167 | 91 |
| Transfer from share based payment reserve | | - | 1 |
| Other movements | | (1) | 1 |
| **Balance at the end of the year** | | **5,214** | **4,950** |
| **Other Reserves:** | | | |
| **Available for sale reserve** | | | |
| Balance at the beginning of the year | | 519 | 600 |
| Net changes in fair value | | (19) | 143 |
| Transfer to income statement (pre tax) | | | |
| - Asset disposal | 10 | (174) | (207) |
| - Amortisation | 4 | (17) | (11) |
| Deferred tax on reserve movements | | 41 | (6) |
| **Balance at the end of the year** | | **350** | **519** |
| **Cash flow hedge reserve** | | | |
| Balance at the beginning of the year | | 160 | 205 |
| Changes in fair value | | 1,525 | (316) |
| Transfer to income statement (pre tax) | | | |
| - Net trading expense (foreign exchange) | | (1,517) | 321 |
| - Net interest income | 4 | (9) | (63) |
| Deferred tax on reserve movements | | (3) | 13 |
| **Balance at the end of the year** | | **156** | **160** |

# Consolidated statement of changes in equity for the year ended 31 December 2016 (continued)

| | Note | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Foreign exchange reserve** | | | |
| Balance at the beginning of the year | | (277) | (532) |
| Exchange adjustments during the year | | (423) | 249 |
| Transfer to income statement on liquidation of non-trading entities | 17 | 4 | 6 |
| **Balance at the end of the year** | | **(696)** | **(277)** |
| **Capital contribution** | | | |
| Balance at the beginning of the year | | 116 | 116 |
| Transfer to retained earnings | | (116) | - |
| **Balance at the end of the year** | | **-** | **116** |
| **Capital reserve** | | | |
| Balance at the beginning of the year | | 502 | 480 |
| Transfer from retained earnings | | 3 | 22 |
| Redemption of 2009 Preference Stock | 45 | 7 | - |
| **Balance at the end of the year** | | **512** | **502** |
| **Share based payment reserve** | | | |
| Balance at the beginning of the year | | - | 1 |
| Transfer to retained earnings | | - | (1) |
| **Balance at the end of the year** | | **-** | **-** |
| **Revaluation reserve** | | | |
| Balance at the beginning of the year | | 17 | 6 |
| Revaluation of property | | 4 | 14 |
| Deferred tax on reserve movements | | (1) | (3) |
| **Balance at the end of the year** | | **20** | **17** |
| **Reserve for 2009 Preference Stock to be redeemed** | | | |
| Balance at the beginning of the year | | (1,297) | - |
| Redemption of 2009 Preference Stock | 45 | 1,297 | (1,297) |
| **Balance at the end of the year** | | **-** | **(1,297)** |
| **Total other reserves** | | **342** | **(260)** |
| **Own stock held for the benefit of life assurance policyholders** | | | |
| Balance at the beginning of the year | | (11) | (12) |
| Changes in value and amount of stock held | | - | 1 |
| **Balance at the end of the year** | | **(11)** | **(11)** |
| **Total stockholders' equity excluding other equity instruments and non-controlling interests** | | **8,661** | **8,372** |
| **Other equity instruments** | | | |
| Balance at the beginning of the year | | 740 | - |
| Issue of other equity instruments | 46 | - | 740 |
| **Balance at the end of the year** | | **740** | **740** |
| **Non-controlling interests** | | | |
| Balance at the beginning of the year | | 1 | (6) |
| Share of net profit | | - | 7 |
| **Balance at the end of the year** | | **1** | **1** |
| **Total equity** | | **9,402** | **9,113** |

## Consolidated cash flow statement for the year ended 31 December 2016

| | Note | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 1,032 | 1,232 |
| Share of results of associates and joint ventures | 16 | (41) | (46) |
| Loss / (profit) on disposal / liquidation of business activities | 17 | 7 | (51) |
| Depreciation and amortisation | 12 | 132 | 130 |
| Impairment charges on financial assets | 15 | 178 | 296 |
| Reversal of impairment on property | 12 | (5) | (6) |
| Revaluation of investment property | 31 | (14) | (80) |
| Loss / (gain) on sale of assets classified as held for sale | | 1 | (23) |
| Interest expense on subordinated liabilities | | 169 | 218 |
| Charge for pension and similar obligations | 42 | 114 | 158 |
| Impact of amendments to defined benefit pension schemes | 12 | - | (4) |
| Loss on liability management exercises | 10 | 19 | 1 |
| Gains 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 | (5) | (11) |
| Net change in accruals and interest payable | | (118) | (148) |
| Net change in prepayments and interest receivable | | 25 | 63 |
| Non-cash and other items | | 16 | 12 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **1,510** | **1,741** |
| Net change in items in the course of collection from other banks | | 35 | 5 |
| Net change in trading securities | | (15) | 9 |
| Net change in derivative financial instruments | | (1,346) | 220 |
| Net change in other financial assets at fair value through profit or loss | | (969) | (752) |
| Net change in loans and advances to banks | | (36) | 288 |
| Net change in loans and advances to customers | | 623 | (762) |
| Net change in NAMA senior bonds | | 967 | 968 |
| Net change in other assets | | 102 | 70 |
| Net change in deposits from banks | | 2,732 | (2,916) |
| Net change in customer accounts | | (708) | 3,691 |
| Net change in debt securities in issue | | (1,782) | (2,881) |
| Net change in liabilities to customers under investment contracts | | (82) | 49 |
| Net change in insurance contract liabilities | | 531 | 485 |
| Net change in other operating liabilities | | (148) | (362) |
| **Net cash flow from operating assets and liabilities** | | **(96)** | **(1,888)** |
| **Net cash flow from operating activities before tax** | | **1,414** | **(147)** |
| Tax paid | | (98) | (67) |
| **Net cash flow from operating activities** | | **1,316** | **(214)** |
| Investing activities (section a below) | | (1,167) | 1,772 |
| Financing activities (section b below) | | (3,329) | 361 |
| Effect of exchange translation and other adjustments | | 504 | (401) |
| **Net change in cash and cash equivalents** | | **(2,676)** | **1,518** |
| Opening cash and cash equivalents | | 10,975 | 9,457 |
| **Closing cash and cash equivalents** | 47 | **8,299** | **10,975** |

# Consolidated cash flow statement for the year ended 31 December 2016 (continued)

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **(a) Investing activities** | | | |
| Additions to available for sale financial assets | 23 | (4,082) | (2,648) |
| Disposal / redemption of available for sale financial assets | 23 | 3,194 | 4,309 |
| Additions to property, plant and equipment | 32 | (61) | (23) |
| Disposal of property, plant and equipment | 32 | 1 | 2 |
| Additions to intangible assets | 30 | (219) | (202) |
| Additions to investment property | 31 | (65) | (80) |
| Disposal of investment property | 31 | 13 | 34 |
| Disposal of assets held for sale | | 17 | 158 |
| Dividends received from joint ventures | 29 | 40 | 48 |
| Proceeds received from joint ventures | 29 | - | 124 |
| Additions to joint ventures | 29 | - | (15) |
| Net change in interest in associates | 28 | (2) | 8 |
| Net (cost) / proceeds from disposal of business activity | 17 | (3) | 57 |
| **Cash flows from investing activities** | | **(1,167)** | **1,772** |
| **(b) Financing activities** | | | |
| Redemption of 2009 Preference Stock | 45 | (1,300) | - |
| Repayment of subordinated liabilities | 43 | (1,000) | - |
| Interest paid on subordinated liabilities | | (190) | (192) |
| Dividend paid on 2009 Preference Stock and other preference equity interests | | (124) | (141) |
| Consideration paid in respect of liability management exercises | | (632) | (46) |
| Net proceeds from the issue of other equity instruments | 46 | - | 740 |
| Distributions paid on other equity instruments - Additional tier 1 coupon | 46 | (83) | - |
| **Cash flows from financing activities** | | **(3,329)** | **361** |

# Notes to the consolidated financial statements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# 1 Group accounting policies

## Accounting policies index


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## 1 Group accounting policies (continued)

### Basis of preparation

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Bank balance sheets, the Consolidated and Bank statements of changes in equity, the Consolidated and Bank cash flow statements, the notes to the Consolidated financial statements on pages 194 to 305 and the notes to the Bank financial statements on pages 312 to 357.

The financial statements include the information that is described as being an integral part of the audited financial statements contained in:
(i) Sections 3.1, 3.2, 3.3, 3.4 and 4 of the Risk Management Report as described further on the bottom of page 62;
(ii) the Remuneration Report as described further on page 173; and
(iii) Other Information - Group exposures to selected countries as described further on the top of page 358.
The financial statements also include the tables in Other Information - Supplementary asset quality disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 362.

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 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.

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.

Foreign exchange rates used during the year are as follows:

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing |
| € / Stg£ | 0.8195 | 0.8562 | 0.7259 | 0.7340 |
| € / US$ | 1.1069 | 1.0541 | 1.1095 | 1.0890 |

## 1 Group accounting policies (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 2016 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, taking due account of the availability of collateral to access the Eurosystem under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, 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.

## 1 Group accounting policies (continued)

### Adoption of new accounting standards

The following amendments to standards have been adopted by the Group during the year ended 31 December 2016:

- IAS 1 (Amendment) - Disclosure Initiative.
- IFRS 10, IFRS 12 and IAS 28 (Amendments) Investment Entities: Applying the Consolidation Exception.
- IFRS 11 (Amendment) - Accounting for Acquisitions of Interests in Joint Operations.
- IAS 16 and IAS 38 (Amendments) - Clarification of Acceptable Methods of Depreciation and Amortisation.
- IAS 27 (Amendment) - Equity Method in Separate Financial Statements.
- Annual Improvements 2012 - 2014.

None of these amendments have had a significant impact on the financial position of the Group.

### 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. Any adjustments to comparatives are disclosed in the relevant note or supplementary asset quality disclosures as appropriate.

The impact of amendments to defined benefit pension schemes, being gains of €4 million for the year ended 31 December 2015, previously shown on the face of the income statement, has been reclassified to other operating expenses in accordance with IAS 1 (note 12).

### Group accounts

***(1) Subsidiaries***

Subsidiary undertakings are investees (including structured entities) controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

*Business combinations*

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. In addition, foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

## 1 Group accounting policies (continued)

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Upon adoption of IFRS, the Group availed of the exemption not to restate the Group financial statements for any acquisitions or business combinations that took place prior to 1 April 2004.

***(2) Associates and Joint Ventures***

Associates are all entities over which the Group has significant influence, but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. Under this method, the Group's share of the post-acquisition profits or losses in associates and joint ventures is recognised in the Group's income statement, its share of other comprehensive income is recognised in the Group's other comprehensive income and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate / joint venture; unrealised losses are also eliminated on the same basis unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates and joint ventures includes goodwill (net of any accumulated impairment losses) on acquisition.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

***(3) Non-controlling Interests***

Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity is settled through equity.

***(4) Securitisations***

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers.

## 1 Group accounting policies (continued)

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

### Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Bank, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS framework or any other IFRS or interpretation.

Accordingly the Bank has applied the guidance as set out in Financial Reporting Standards as issued by the Accounting Standards Board. Where the transactions meet the definition of a group reconstruction or achieve a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity upon initial recognition at their existing book value in the Group, as measured under IFRS. The Bank incorporates the results of the acquired businesses only from the date on which the business combination occurs.

### Foreign currency translation

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated financial statements of the Group and the financial statements of the Bank are presented in euro.

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities, held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified as available for sale, are recognised in other comprehensive income. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in other comprehensive income.

Assets, liabilities and equity of all the Group entities that have a functional currency different from the presentation currency (foreign operations) are translated at the closing rate at the balance sheet date and items of income and expense are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation the amount accumulated in the separate component of equity is reclassified from equity to profit or loss. The Group may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, abandonment or through loss of control or significant influence.

## 1 Group accounting policies (continued)

The Group availed of the exemption to deem all accumulated balances arising from translation of foreign subsidiaries to be nil on transition to IFRS on 1 April 2004.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

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

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss. Where the Group revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying amount of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

### Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised as the related services are provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn.

### Operating profit / loss

Operating profit / loss includes the Group’s earnings from ongoing activities after impairment charges on financial assets, and before share of profit or loss on associates and joint ventures (after tax) and profit / loss on disposal / liquidation of business activities.

# 1 Group accounting policies (continued)

## Leases

***(1) A Group company is the lessee***

The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

***(2) A Group company is the lessor***

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

## Financial assets

***(1) Classification, Recognition and Measurement***

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

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

Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short-term, or designated at fair value through profit or loss at inception.

A financial asset may be designated at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency, (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or

(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The principal category of assets designated at fair value through profit or loss are those held by the Group's life assurance business, which are managed on a fair value basis.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

Financial assets may not be transferred out of this category, except for non-derivative financial assets held for trading, which may be transferred out of this category where:

(i) in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the short-term; or

(ii) they are no longer held for trading, they meet the definition of loans and receivables at the date of reclassification and the Group has the intention and ability to hold the assets for the foreseeable future or until maturity.

## 1 Group accounting policies (continued)

***(b) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

***(c) 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.

***(d) Available for sale***

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

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in other comprehensive income. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Available for sale financial assets that would have met the definition of loans and receivables may be reclassified to loans and receivables if the Group has the intention and ability to hold the asset for the foreseeable future or until maturity.

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.

***(2) Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

## 1 Group accounting policies (continued)

### Financial liabilities

The Group has two categories of financial liabilities: those that are carried at amortised cost and those that are carried at fair value through profit or loss. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

A liability may be designated as at fair value through profit or loss only when:
- it eliminates or significantly reduces a measurement or recognition inconsistency, (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
- a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The Group designates certain financial liabilities at fair value through profit or loss as set out in note 53 to the financial statements. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

### Valuation of financial instruments

The Group recognises trading securities, other financial assets and liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

The fair values of the Group's financial assets and liabilities are disclosed within note 54 together with a description of the valuation technique used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

## 1 Group accounting policies (continued)

***Transfers between levels of the fair value hierarchy***
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 54.

## Sale and repurchase agreements and lending of assets

Assets sold subject to repurchase agreements (repos) are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell (reverse repos) are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

## Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

## Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

## 1 Group accounting policies (continued)

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where a hedging instrument is novated to a clearing counterparty, the Group does not discontinue hedge accounting where the following criteria are met:

- the novation arises due to laws or regulations, or the introduction of laws and regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

***(a) Fair value hedge (micro)***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate commercial loan or an AFS bond. If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

***(b) Fair value hedge (macro)***

Similar to micro fair value hedging, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

***(c) Cash flow hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

## 1 Group accounting policies (continued)

### Impairment of financial assets

***Assets carried at amortised cost***

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

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

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

## 1 Group accounting policies (continued)

When a loan is deemed uncollectable, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

***Forbearance***

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change ('forbearance measure') to a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Where a forborne loan in the non-mortgage book is subject to forbearance and no specific provision is required, the asset is reported as forborne. However, where a specific provision is required the asset is reported as impaired and is not reported as forborne. For Residential mortgages, exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired.

Assets to which forbearance has been applied continue to be reported as forborne until the forbearance measure expires or the asset is repaid.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition is recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

***Non-forbearance renegotiation***

Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39 i.e. the carrying amount of the asset is adjusted to reflect any change to estimated cash flows discounted at the original effective interest rate, before the modification of terms. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Any difference between the asset's carrying amount and the present value of estimated future cash flows is reflected in the income statement. However, where cash flows on the original asset have been considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

***Available for sale financial assets***

The Group assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## 1 Group accounting policies (continued)

### Property, plant and equipment

Freehold land and buildings are initially recognised at cost, and subsequently are revalued annually to fair value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the balance sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on the revaluation of land and buildings, are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:
- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified directly to retained earnings on disposal rather than the income statement.

### Investment property

Property held for long-term rental yields and capital appreciation is classified as investment property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

### Intangible assets

***(a) Computer software***

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

## 1 Group accounting policies (continued)

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between five and ten years.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

***(b) Other intangible assets***

Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives, which range from five years to twenty years, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

### Employee benefits

***(a) Pension obligations***

The Group operates various pension schemes. The schemes are funded and the assets of the schemes are held in separate trustee administered funds. The Group has both defined contribution and defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Service cost and net interest on the net defined benefit liability / (asset) are recognised in profit or loss, within operating expenses.

Remeasurements of the net defined benefit liability / (asset), including:

- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability / (asset);

are recognised in other comprehensive income.

## 1 Group accounting policies (continued)

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, and is recognised as an expense at the earlier of:

- when the plan amendment or curtailment occurs; and
- when the Group recognises related restructuring costs or termination benefits.

Past service cost and settlements are recognised within operating expenses unless they meet the criteria for separate presentation as set out in IAS 1.

A plan amendment occurs when the Group introduces, or withdraws, a defined benefit plan, or changes the benefits payable under an existing plan. A curtailment occurs when the Group significantly reduces the number of employees covered by a plan. Past service cost may be either positive or negative. A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

For defined contribution plans, once the contributions have been paid, the company has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

***(b) Short-term employee benefits***

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

***(c) Termination payments***

Termination payments are recognised as an expense at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:

- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Termination benefits are recognised within operating expenses unless they meet the criteria for separate presentation as set out in IAS 1.

The Group measures termination benefits on initial recognition, and measures and recognises subsequent changes, in accordance with the nature of the benefit.

## Income taxes

***(a) Current income tax***

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Tax provisions are provided on a transaction by transaction basis using a best estimate approach. 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.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation.

## 1 Group accounting policies (continued)

***(b) Deferred income tax***

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

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items taken to other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity.

***(c) Investment tax credits***

Investment tax credits are not recognised until there is reasonable assurance that: (a) the Group has complied with the conditions attaching to them; and (b) the credits will be received. They are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the credits are intended. Investment tax credits related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

## Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances with central banks and banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

## Capital stock and reserves

***(1) Equity transaction costs***

Incremental external costs directly attributable to equity transactions, including the issue of new equity stock or options, are shown as a deduction from equity, net of tax.

***(2) Dividends on ordinary stock and preference stock***

Dividends on ordinary stock and preference stock are recognised in equity in the period in which they are approved by the Bank's stockholders or the Court of Directors, as appropriate.

***(3) Treasury stock***

Where the Bank or its subsidiaries purchase the Bank's equity capital stock, the consideration paid is deducted from total stockholders' equity as treasury stock until they are cancelled. Where such stock is subsequently sold or reissued, any consideration received is included in stockholders' equity. Any changes in the value of treasury stock held are recognised in equity at the time of the disposal and dividends are not recognised as income or distributions. This is particularly relevant in respect of Bank of Ireland stock held by Bank of Ireland Life for the benefit of policyholders.

***(4) Capital Reserve***

The capital reserve represents transfers from retained earnings and other reserves in accordance with relevant legislation. The capital reserve is not distributable.

## 1 Group accounting policies (continued)

***(5) Foreign exchange reserve***

The foreign exchange reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations since 1 April 2004. Gains and losses accumulated in this reserve are reclassified to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

***(6) Revaluation reserve***

The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Group businesses, included within property, plant and equipment and non-financial assets classified as held for sale. The revaluation reserve is not distributable.

***(7) Available for sale reserve***

The available for sale reserve represents the cumulative change in fair value of available for sale financial assets together with the impact of any fair value hedge accounting adjustments.

***(8) Cash flow hedge reserve***

The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

***(9) Share based payment reserve***

The share based payment reserve represents amounts expensed in the income statement in connection with share based payments, net of transfers to retained earnings on the exercise, lapsing or forfeiting of share awards.

***(10) Capital contribution***

Where a financial instrument is issued by the Group to a party acting in its capacity as a stockholder, a portion of the proceeds received, equal to the initial fair value of the financial instrument, is considered to be consideration for the issuance of the financial instrument, with any amount received in excess of this considered to be a capital contribution from the stockholder, and credited directly to this reserve.

***(11) Stock premium account***

Where, pursuant to Section 84 of the Companies Act 2014, there has been a reduction of the Bank's share capital by the cancellation of stock premium, the resulting profits available for distribution, as defined by Section 117 of the Companies Act 2014, are reclassified from the stock premium account to retained earnings.

***(12) Reserve for 2009 Preference Stock to be redeemed***

The Reserve for 2009 Preference Stock to be redeemed represents the reduction in Stockholders' equity arising on the recognition on 23 November 2015 of the liability to redeem the 2009 Preference Stock. On 4 January 2016, the Group completed the redemption of the 2009 Preference Stock and the resulting impact on the reserve is set out in note 45.

## 1 Group accounting policies (continued)

### Life assurance operations

In accordance with IFRS 4, the Group classifies all life assurance products as either insurance or investment contracts for accounting purposes.

Insurance contracts are those contracts that transfer significant insurance risk. These contracts are accounted for using an embedded value basis.

Investment contracts are accounted for in accordance with IAS 39. All of the Group's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

The Group recognises an asset for deferred acquisition costs relating to investment contracts. Upfront fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

Non-unit linked insurance liabilities are calculated using either a gross premium or net premium method of valuation. The assumptions are also set in accordance with the guidelines as laid down in the European Communities (Life Assurance) Framework Regulations, 1994 (the 'Insurance Regulations') and contain a margin for adverse development. The key assumptions used in the valuation of insurance contract liabilities are:

| | |
|---|---|
| Interest rate | The interest rates are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates. |
| Mortality and morbidity | The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data. |
| Maintenance expenses | Allowance is made for future policy costs and expense inflation explicitly. |

The Group recognises the Value of in Force life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The asset has been calculated in accordance with the embedded value achieved profits methodology in the Statement of Recommended Practice issued by the Association of British Insurers which came into force in 2002. The asset is determined by projecting the future statutory surpluses attributable to stockholders estimated to arise from insurance contracts. The surpluses are projected using appropriate assumptions as to future investment returns, persistency, mortality and expense levels and include consideration of guarantees and options. These surpluses are then discounted at a risk adjusted rate. Thus, the use of best estimate assumptions in the valuation of the Value of in Force asset ensures that the net carrying amount of insurance liabilities less the Value of in Force asset is adequate.

The Value of in Force asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both stockholders and policyholders for the period.

***Premiums and claims***
Premiums receivable in respect of non-unit linked insurance contracts are recognised as revenue when due from policyholders.

Premiums received in respect of unit linked insurance contracts are recognised in the same period in which the related policyholder liabilities are created. Claims are recorded as an expense when they are incurred.

***Reinsurance***
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

## 1 Group accounting policies (continued)

### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### Collateral

The Group enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customers' assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

### Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities (facility guarantees), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees issued are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement and recognised on the balance sheet within provisions for undrawn contractually committed facilities and guarantees.

Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

### Operating segments

The segment analysis of the Group's results and financial position is set out in note 3. The Group has identified five reportable operating segments, which are as follows: Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre.

These segments have been identified on the basis that the chief operating decision maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

Transactions between the operating segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to operating segments on a reasonable basis.

### Materiality

In its assessment of materiality, the Group considers the impact of any misstatements based on both:

- the amount of the misstatement originating in the current year income statement; and
- the effects of correcting the misstatement existing in the balance sheet at the end of the current year irrespective of the year in which the misstatement occurred.

## 1 Group accounting policies (continued)

### Impact of new accounting standards

The following standards and amendments to standards will be relevant to the Group but were not effective at 31 December 2016 and have not been applied in preparing these financial statements. The Group's current view of the impact of these accounting changes is outlined below.

| Pronouncement | Nature of change | Effective date | Impact |
|---|---|---|---|
| **IAS 7 'Statement of cash flows', - Narrow-scope amendments** | The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.<br><br>The amendment is still subject to EU endorsement | Financial periods beginning on or after 1 January 2017 | These amendments are not expected to have a significant impact on the financial statements of the Group. |
| **IAS 12 'Income taxes', - Narrow-scope amendments** | The IASB has issued amendments to IAS12 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value<br><br>The amendment is still subject to EU endorsement | Financial periods beginning on or after 1 January 2017 | These amendments are not expected to have a significant impact on the financial statements of the Group |
| **IFRS 9 'Financial instruments'** | IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income without recycling to the income statement for certain equity instruments. IFRS 9 contains a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there is no change to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. However, the Group intends to make the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.<br><br>The standard was endorsed by the EU on 22 November 2016. | Financial periods beginning on or after 1 January 2018. | The Group expects that IFRS 9 is likely to have an impact on its financial statements and the Group is currently assessing the nature and likely extent of the impact.<br><br>Further detail *(unaudited)* is set out in the credit risk section of the Risk Management Report on pages 108 to 110. |

## 1 Group accounting policies (continued)

| Pronouncement | Nature of change | Effective date | Impact |
|---|---|---|---|
| **IFRS 15 'Revenue from Contracts with Customers'** | IFRS 15 specifies how and when revenue will be recognised as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.<br><br>The revised standard was endorsed by the EU on 22 September 2016. | Financial periods beginning on or after 1 January 2018 | The Group is currently assessing the nature and extent of the impact of the standard which is not expected to be significant to the financial statements of the Group. |
| **IFRS 16 'Leases'** | IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases will be accounted for on-balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations.<br><br>The revised standard is still subject to EU endorsement. | Financial periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. | The Group is currently assessing the nature and extent of the impact of the standard. |

## 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

## 2 Critical accounting estimates and judgements (continued)

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 102 to 107 of the Risk Management Report.

At 31 December 2016, the Retail Ireland Residential mortgage portfolio before impairment provisions amounted to €24 billion (31 December 2015: €25 billion), against which the Group held provisions for impairment of €0.9 billion (31 December 2015: €1.2 billion), which comprised of collectively assessed provisions of €0.4 billion and individually assessed provisions of €0.5 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 105, at 31 December 2016, 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 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 provisions 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.

- A 1% decrease in the discounted index values would give rise to estimated additional collective impairment provisions of c.€6 million to €8 million;
- A 1% increase in the 'forced sale discount' assumptions would give rise to estimated additional collective impairment provisions of c.€4 million to €6 million;
- A 1% increase in the 'disposal costs' assumption would give rise to estimated additional collective impairment provisions of c.€4 million to €6 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.€3 million to €4 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.€1 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.€1 million to €2 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.€4 million to €5 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 2016 amounted to €10.3 billion (31 December 2015: €13.4 billion) including non-performing loans of €2.8 billion (31 December 2015: €4.9 billion), against which the Group held provisions for impairment of €1.7 billion (31 December 2015: €3.0 billion).

## 2 Critical accounting estimates and judgements (continued)

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 2016, 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.€25 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 2016, emergence periods for Non-property SME and corporate 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.€17 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 2016, the Group had a net deferred tax asset of €1,233 million (31 December 2015: €1,385 million), of which €1,270 million (31 December 2015: €1,416 million) related to trading losses. See note 33.

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.

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.

The UK Budget 2016 included a further reduction in the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses from 50% to 25% from 1 April 2016. 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 measurement and recognition of the deferred tax asset at 31 December 2016.

Notwithstanding the absence of any expiry date for trading losses in the UK, the Group has concluded that for the purpose of valuing its deferred tax asset 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 has been reduced by a further €14 million in the year ended 31 December 2016 (31 December 2015: €52 million).

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.

## 2 Critical accounting estimates and judgements (continued)

The Group projects to recover the majority of the deferred tax asset within 13 years of the balance sheet date (31 December 2015: 10 years). 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.€1.3 billion at 31 December 2016, c.€1.2 billion related to Irish trading losses and c.€0.1 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 development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member 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 42.

***(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 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. A quantitative analysis of the sensitivity of profit to changes in the key life assurance assumptions is set out in note 35 on the life assurance business.

## 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 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), the Group's business banking business in NI and the Northridge motor and asset finance business. The Group also has a business banking business in Great Britain (GB) which is being run-down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

## 3 Operating segments (continued)

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

**Group Centre**
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.

**Other reconciling items**
Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.

**Basis of preparation of segmental information**
The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. 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.

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Group accounting policies' on pages 195 to 217. 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.

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.

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:
- Cost of restructuring programme;
- Gains / losses on liability management exercises;
- Gross-up for policyholder tax in the Life business;
- Gain / loss on disposal / liquidation of business activities;
- Gains / charges arising on the movement in the Group's credit spreads;
- Investment return on treasury stock held for policyholders;
- Impact of Group's pensions reviews (2010 and 2013); and
- Payment in respect of the career and reward framework.

## 3 Operating segments (continued)

| Year ended 31 December 2016 | 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** | **1,032** | **31** | **609** | **576** | **15** | **-** | **2,263** |
| Other income, net of insurance claims | 407 | 190 | (9) | 238 | (16) | 32 | 842 |
| **Total operating income, net of insurance claims** | **1,439** | **221** | **600** | **814** | **(1)** | **32** | **3,105** |
| Other operating expenses | (764) | (95) | (387) | (196) | (323) | - | (1,765) |
| *- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)* | *(763)* | *(94)* | *(384)* | *(196)* | *(178)* | *-* | *(1,615)* |
| *- Core Banking Platforms Investment charge* | *-* | *-* | *-* | *-* | *(41)* | *-* | *(41)* |
| *- Levies and regulatory charges:* | | | | | | | |
| *- Irish bank levy* | *-* | *-* | *-* | *-* | *(38)* | *-* | *(38)* |
| *- FSCS costs* | *-* | *-* | *-* | *-* | *(5)* | *-* | *(5)* |
| *- DGS, SRF and other regulatory charges* | *(1)* | *(1)* | *(3)* | *-* | *(61)* | *-* | *(66)* |
| Depreciation and amortisation | (55) | (5) | (25) | (10) | (37) | - | (132) |
| **Total operating expenses** | **(819)** | **(100)** | **(412)** | **(206)** | **(360)** | **-** | **(1,897)** |
| **Underlying operating profit / (loss) before impairment charges on financial assets** | **620** | **121** | **188** | **608** | **(361)** | **32** | **1,208** |
| Impairment (charges) / reversals on financial assets | (2) | - | (99) | (77) | - | - | (178) |
| Share of results of associates and joint ventures | (3) | - | 44 | - | - | - | 41 |
| **Underlying profit / (loss) before tax** | **615** | **121** | **133** | **531** | **(361)** | **32** | **1,071** |

| Reconciliation of underlying profit before tax to profit before tax | Group €m |
|---|---|
| Underlying profit before tax | 1,071 |
| Cost of restructuring programme | (35) |
| Loss on liability management exercises | (19) |
| Gross-up for policyholder tax in the Life business | 15 |
| Loss on disposal / liquidation of business activities | (7) |
| Gain arising on the movement in the Group's credit spreads | 5 |
| Investment return on treasury stock held for policyholders | 2 |
| Impact of Group’s pensions reviews (2010 and 2013) | - |
| Payment in respect of the career and reward framework | - |
| **Profit before tax** | **1,032** |

[1] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*

## 3 Operating segments (continued)

| 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 (before Core Banking Platforms Investment and levies and regulatory charges)* | *(781)* | *(95)* | *(392)* | *(185)* | *(163)* | - | *(1,616)* |
| *- Core Banking Platforms Investment charge* | - | - | - | - | - | - | - |
| *- Levies and regulatory charges:* | | | | | | | |
| *- Irish bank levy* | - | - | - | - | *(38)* | - | *(38)* |
| *- FSCS costs* | - | - | - | - | *(15)* | - | *(15)* |
| *- DGS, SRF and other regulatory charges* | *(2)* | *(1)* | *(4)* | - | *(15)* | - | *(22)* |
| 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 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 Group's pensions reviews (2010 and 2013) | 4 |
| Payment in respect of the career and reward framework | (2) |
| Loss on liability management exercises | (1) |
| Profit before tax | 1,232 |

[1] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*

## 3 Operating segments (continued)

| **Year ended 31 December 2016 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 | - | 71 | - | - | - | 127 |
| External assets | 36,739 | 16,446 | 35,317 | 28,901 | 5,715 | 11 | 123,129 |
| Inter segment assets | 56,530 | 1,555 | 8,717 | 81,500 | 16,245 | (164,547) | - |
| **Total assets** | **93,269** | **18,001** | **44,034** | **110,401** | **21,960** | **(164,536)** | **123,129** |
| External liabilities | 48,884 | 17,061 | 26,557 | 18,598 | 2,617 | 10 | 113,727 |
| Inter segment liabilities | 42,750 | 184 | 14,852 | 90,578 | 16,154 | (164,518) | - |
| **Total liabilities** | **91,634** | **17,245** | **41,409** | **109,176** | **18,771** | **(164,508)** | **113,727** |

| 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 |

## 3 Operating segments (continued)

| **Year ended 31 December 2016**<br>**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** | **1,489** | **1,787** | **1,311** | **898** | **75** | **(27)** | **5,533** |
| Inter segment revenues | 689 | 66 | 30 | 600 | 291 | (1,676) | - |
| **Gross revenue** | **2,178** | **1,853** | **1,341** | **1,498** | **366** | **(1,703)** | **5,533** |
| Insurance contract liabilities and claims paid | - | (1,553) | - | - | (11) | - | (1,564) |
| **Gross revenue after claims paid** | **2,178** | **300** | **1,341** | **1,498** | **355** | **(1,703)** | **3,969** |
| **Capital expenditure** | **45** | **7** | **24** | **6** | **198** | **-** | **280** |

| Year ended 31 December 2015<br>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 |

## 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 2016 Geographical analysis** | **Republic of Ireland €m** | **United Kingdom €m** | **Rest of World €m** | **Other reconciling items €m** | **Total €m** |
|---|---|---|---|---|---|
| **Gross external revenue** | 4,055 | 1,399 | 106 | (27) | 5,533 |
| Inter segment revenues | 192 | 74 | 15 | (281) | - |
| **Gross revenue** | **4,247** | **1,473** | **121** | **(308)** | **5,533** |
| Insurance contract liabilities and claims paid | (1,553) | - | (11) | - | (1,564) |
| **Gross revenue after claims paid** | **2,694** | **1,473** | **110** | **(308)** | **3,969** |
| **Capital expenditure** | **253** | **24** | **3** | **-** | **280** |
| External assets | 83,345 | 38,011 | 1,773 | - | 123,129 |
| Inter segment assets | 18,171 | 9,830 | 1,161 | (29,162) | - |
| **Total assets** | **101,516** | **47,841** | **2,934** | **(29,162)** | **123,129** |
| External liabilities | 85,498 | 27,938 | 291 | - | 113,727 |
| Inter segment liabilities | 9,515 | 17,335 | 2,316 | (29,166) | - |
| **Total liabilities** | **95,013** | **45,273** | **2,607** | **(29,166)** | **113,727** |

| 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 |

# 4 Interest income

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Loans and advances to customers | 2,532 | 2,870 |
| Finance leases and hire purchase receivables | 146 | 136 |
| Available for sale financial assets | 121 | 198 |
| Held to maturity financial assets[1] | 31 | 21 |
| Loans and advances to banks | 22 | 32[2] |
| NAMA senior bonds | 4 | 11 |
| | **2,856** | **3,268** |
| Negative interest on liabilities | 5 | 1[2] |
| **Interest income** | **2,861** | **3,269** |

[1] *Includes €17 million (31 December 2015: €11 million) of amortisation transferred from the available for sale reserve in relation to the assets reclassified from available for sale to held to maturity.*

[2] *Comparative figures have been adjusted for negative interest on liabilities of €1 million from loans and advances to banks, with no change to total interest income.*

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than offset against interest expense.

*Interest income recognised on loans and advances to customers*

- €103 million (year ended 31 December 2015: €148 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 €77 million (year ended 31 December 2015: €111 million) relates to loans on which specific provisions have been individually assessed and €26 million (year ended 31 December 2015: €37 million) relates to loans on which specific provisions have been collectively assessed;
- €51 million (31 December 2015: €76 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
- €226 million (31 December 2015: €270 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 2016, interest recognised on total forborne loans and advances to customers was €261 million (31 December 2015: €317 million).

*Interest income received on loans and advances to customers*

- €109 million (31 December 2015: €144 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;
- €51 million (31 December 2015: €72 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
- €224 million (31 December 2015: €268 million) of interest income was received on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2016, interest income received on total forborne loans and advances to customers was €257 million (31 December 2015: €314 million).

*Interest income recognised on available for sale financial assets*

Interest income on available for sale assets is recognised net of interest expense of €89 million (31 December 2015: €115 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 €9 million (year ended 31 December 2015: €63 million) transferred from the cash flow hedge reserve (see page 190).

## 5 Interest expense

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Customer accounts | 365 | 469 |
| Subordinated liabilities | 139 | 179 |
| Debt securities in issue | 80 | 164 |
| Deposits from banks | 6 | 8[1] |
| 2009 Preference Stock fair value unwind | - | 3 |
| | **590** | **823** |
| Negative interest on assets | 8 | 2[1] |
| **Interest expense** | **598** | **825** |

[1] *Comparative figures have been adjusted for negative interest on assets of €2 million from deposits from banks, with no change to total interest expense.*

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than offset against interest income.

Included within interest expense for the year ended 31 December 2016 is an amount of €20 million (year ended 31 December 2015: €10 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.

The Group has incurred total ELG charges of c.€1.3 billion since the launch of the scheme in 2010. With the Group's involvement in the ELG scheme drawing to a close, the Group conducted a review of certain technical matters and the charge for the year ended 31 December 2016 includes an amount of €14 million in relation to matters arising from this review, along with €6 million of fees arising during the year ended 31 December 2016 in respect of covered liabilities outstanding. Further information on this scheme is outlined in note 49(b).

*Interest expense recognised on subordinated liabilities*
Interest expense on subordinated liabilities is recognised net of interest income of €30 million (31 December 2015: €39 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 income of €68 million (31 December 2015: €67 million) on derivatives which are in a hedge relationship with the relevant liability.

## 6 Net insurance premium income

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Gross premiums written | 1,306 | 1,438 |
| Ceded reinsurance premiums | (80) | (88) |
| **Net insurance premium income** | **1,226** | **1,350** |

## 7 Fee and commission income and expense

| Income | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Retail banking customer fees | 442 | 472 |
| Credit related fees | 46 | 30 |
| Insurance commissions | 19 | 23 |
| Asset management fees | 3 | 3 |
| Brokerage fees | 2 | 3 |
| Other | 47 | 30 |
| **Fee and commission income** | **559** | **561** |

**Expense**

Fee and commission expense of €222 million (year ended 31 December 2015: €242 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

## 8 Net trading income

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Financial assets designated at fair value | 3 | - |
| Financial liabilities designated at fair value | (105) | (40) |
| Related derivatives held for trading | 66 | 9 |
| | **(36)** | **(31)** |
| Other financial instruments held for trading | 149 | 86 |
| Net fair value hedge ineffectiveness | - | 3 |
| **Net trading income** | **113** | **58** |

Net trading income 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 €15 million (year ended 31 December 2015: €24 million) in relation to net gains arising from foreign exchange.

Net fair value hedge ineffectiveness reflects a net charge from hedging instruments of €87 million (year ended 31 December 2015: net charge of €24 million) offsetting a net gain from hedged items of €87 million (year ended 31 December 2015: net gain of €27 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement in 2016 amounted to €nil (year ended 31 December 2015: €nil million).

## 8 Net trading income (continued)

The table below sets out the impact on the Group's income statement of the 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 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Recognised in | | |
| - Net trading income | 3 | 11 |
| - Insurance contract liabilities and claims paid | 2 | - |
| | **5** | **11** |
| Cumulative charges arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss | (22) | (27) |

## 9 Life assurance investment income, gains and losses

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Gross life assurance investment income, gains and losses | 446 | 334 |
| **Life assurance investment income, gains and losses** | **446** | **334** |

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 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Transfer from available for sale reserve on asset disposal (note 23) | 174 | 207 |
| Other insurance income | 121 | 39 |
| Dividend income | 14 | 11 |
| Movement in Value of in Force asset (note 35) | (7) | (3) |
| Loss on liability management exercises | (19) | (1) |
| Other income | 4 | 46 |
| **Other operating income** | **287** | **299** |

A loss of €19 million on liability management exercises was recognised in the year ended 31 December 2016 primarily reflecting the repurchase of €0.6 billion nominal value of the Group's senior unsecured debt securities.

Other income includes a loss on investment property disposals and revaluations of €3 million (year ended 31 December 2015: gain €30 million).

## 11 Insurance contract liabilities and claims paid

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| **Claims paid** | | |
| Policy surrenders | 741 | 825 |
| Death and critical illness claims | 152 | 143 |
| Annuity payments | 77 | 76 |
| Policy maturities | 1 | 1 |
| Other claims | 59 | 66 |
| **Gross claims paid** | **1,030** | **1,111** |
| Recovered from reinsurers | (90) | (84) |
| **Net claims paid** | **940** | **1,027** |
| **Change in insurance contract liabilities** | | |
| Change in gross liabilities | 531 | 485 |
| Change in reinsured liabilities | 93 | (1) |
| **Net change in insurance contract liabilities** | **624** | **484** |
| **Insurance contract liabilities and claims paid** | **1,564** | **1,511** |

## 12 Other operating expenses

| **Administrative expenses and staff costs** | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Staff costs excluding restructuring and platforms investment staff costs | 881 | 898 |
| Levies and regulatory charges | 109 | 75 |
| *- Irish bank levy* | *38* | *38* |
| *- Financial Services Compensation Scheme (FSCS) costs* | *5* | *15* |
| *- Deposit Guarantee Scheme (DGS), Single Resolution Fund (SRF) and other regulatory charges* | *66* | *22* |
| Amortisation of intangible assets (note 30) | 98 | 92 |
| Core Banking Platforms Investment charge | 41 | - |
| Depreciation of property, plant and equipment (note 32) | 34 | 38 |
| Reversal of impairment on property | (5) | (6) |
| Retirement benefit gain | - | (4) |
| Other administrative expenses excluding cost of restructuring programme | 739 | 726 |
| **Total** | **1,897** | **1,819** |
| **Total staff costs are analysed as follows:** | | |
| Wages and salaries | 664 | 659 |
| Social security costs | 73 | 71 |
| Retirement benefit costs (defined benefit plans) (note 42) | 118 | 148 |
| Retirement benefit costs (defined contribution plans) | 17 | 10 |
| Payment in respect of the career and reward framework | - | 2 |
| Other staff expenses | 12 | 13 |
| | **884** | **903** |
| Staff costs capitalised | (3) | (5) |
| **Staff costs excluding restructuring and platforms investment staff costs** | **881** | **898** |
| *Additional restructuring and platforms investment staff costs:* | | |
| Included in Core Banking Platforms Investment charge | 6 | - |
| Included in cost of restructuring programme (note 13) | 38 | 47 |
| Retirement benefit gain (note 42) | - | (4) |
| **Total staff costs recognised in the income statement** | **925** | **941** |

## 12 Other operating expenses (continued)

The Group has incurred levies and regulatory charges of €109 million (year ended 31 December 2015: €75 million). The charge for the year ended 31 December 2016 primarily reflects the Group's full year contribution to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund, along with the charges for the FSCS levy and the Irish bank levy.

Defined benefit retirement costs of €118 million for the year ended 31 December 2016 (year ended 31 December 2015: €148 million) include a negative past service cost of €20 million (year ended 31 December 2015: €1 million). Further details are included in note 42.

Other administrative expenses includes an amount of €54 million (31 December 2015: €49 million) relating to operating lease payments.

**Staff numbers**

At 31 December 2016, the number of staff (full time equivalents) was 11,208 (31 December 2015: 11,145).

During the period, the average number of staff (full time equivalents) was 11,228 (year ended 31 December 2015: 11,302) 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 2016** | Year ended 31 December 2015 |
|---|---|---|
| Retail Ireland | 4,251 | 4,560 |
| Retail UK | 1,830 | 1,624 |
| Bank of Ireland Life | 940 | 918 |
| Corporate and Treasury | 646 | 603 |
| Group Centre | 3,561 | 3,597 |
| **Total** | **11,228** | **11,302** |

## 13 Cost of restructuring programme

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Staff costs (note 12) | 38 | 47 |
| Property and other | (3) | (4) |
| **Total** | **35** | **43** |

## 14 Auditors' remuneration (excluding VAT)

| Auditors' remuneration (excluding VAT and including expenses) | Notes | RoI (i) €m | Overseas (ii) €m | Year ended 31 December 2016 Total €m | Year ended 31 December 2015 Total €m |
|---|---|---|---|---|---|
| **Audit and assurance services** | | | | | |
| Statutory audit | | 2.7 | 0.9 | 3.6 | 2.7 |
| Assurance services | iii | 0.9 | 0.1 | 1.0 | 2.5 |
| | | **3.6** | **1.0** | **4.6** | **5.2** |
| **Other services** | | | | | |
| Taxation services | | 0.1 | - | 0.1 | 0.1 |
| Other non-audit services | iv | 0.1 | 0.1 | 0.2 | 0.2 |
| **Total auditors' remuneration** | | **3.8** | **1.1** | **4.9** | **5.5** |

The figures in the above table relate to fees payable to PricewaterhouseCoopers (PwC). The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

(i) Fees paid to the Statutory Auditor, PricewaterhouseCoopers Ireland;
(ii) Fees to overseas auditors principally consist of fees to PricewaterhouseCoopers LLP in the UK;
(iii) Assurance services consist primarily of fees in connection with reporting to regulators including the Central Bank of Ireland, review of the interim financial statements, letters of comfort, review of compliance with the Government Guarantee Schemes, reporting accountants' work and other accounting matters. Assurance services for year ended 31 December 2015 included procedures in connection with internal controls over financial reporting. Following the Bank's deregistration from the Securities and Exchange Commission during July 2016, equivalent auditing procedures are included within the statutory audit line above for year ended 31 December 2016; and
(iv) Other non-audit services consist primarily of fees for translation services and other assignments.

## 15 Impairment charges on financial assets

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Loans and advances to customers (note 27) | 176 | 296 |
| Available for sale financial assets (note 23) | 2 | - |
| **Impairment charges on financial assets** | **178** | **296** |

## 16 Share of results of associates and joint ventures (after tax)

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| First Rate Exchange Services (note 29) | 43 | 49 |
| Property unit trust and other joint ventures (note 29) | - | (11) |
| Associates (note 28) | (2) | 8 |
| **Share of results of associates and joint ventures (after tax)** | **41** | **46** |

## 17 (Loss) / profit on disposal / liquidation of business activities

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| **Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities** | (4) | (6) |
| **Retail Ireland Division** | | |
| Joint venture | (3) | - |
| **Retail UK Division** | | |
| Insurance joint operation with the UK Post Office | - | 57 |
| **(Loss) / profit on disposal / liquidation of business activities** | **(7)** | **51** |

**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 2016, 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 foreign operation 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 €4 million relating to this foreign operation from the foreign exchange reserve to the income statement during the year ended 31 December 2016 (year ended 31 December 2015: losses of €6 million) (see page 191).

## 18 Taxation

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| **Current tax** | | |
| Irish Corporation Tax | | |
| - Current year | 53 | 27 |
| - Adjustment in respect of prior year | (2) | - |
| Double taxation relief | (1) | (2) |
| Foreign tax | | |
| - Current year | 68 | 64 |
| - Adjustments in respect of prior year | (3) | (13) |
| | **115** | **76** |
| **Deferred tax** | | |
| Current year profits | 84 | 116 |
| Reassessment of the value of tax losses carried forward | 14 | 52 |
| Impact of Corporation Tax rate change (note 33) | 8 | 26 |
| Adjustments in respect of prior year | 7 | 5 |
| Origination and reversal of temporary differences | 11 | 10 |
| **Taxation charge** | **239** | **285** |

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 2016 and 31 December 2015 is as follows:

| | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Profit before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2015: 12.5%) | 129 | 154 |
| *Effects of:* | | |
| Reassessment of the value of tax losses carried forward | 14 | 52 |
| Foreign earnings subject to different rates of tax | 37 | 40 |
| Other adjustments for tax purposes | 34 | 27 |
| Impact of corporation tax rate change on deferred tax | 8 | 26 |
| Adjustments in respect of prior year | 2 | (8) |
| Share of results of associates and joint ventures shown post tax in the income statement | (5) | (6) |
| Bank of Ireland Life companies - different basis of accounting | 20 | - |
| **Taxation charge** | **239** | **285** |

The effective taxation rate on a statutory profit basis for the year ended 31 December 2016 is 23% (year ended 31 December 2015: 23%).

## 18 Taxation (continued)

The tax effects relating to each component of other comprehensive income are as follows:

| | Year ended 31 December 2016 | | | Year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | 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 | (19) | (1) | (20) | 143 | (33) | 110 |
| Transfer to income statement | | | | | | |
| - On asset disposal | (174) | 40 | (134) | (207) | 26 | (181) |
| - Amortisation | (17) | 2 | (15) | (11) | 1 | (10) |
| **Net change in reserve** | **(210)** | **41** | **(169)** | **(75)** | **(6)** | **(81)** |
| **Remeasurement of the net defined benefit pension liability** | **184** | **(17)** | **167** | **97** | **(6)** | **91** |
| **Cash flow hedge reserve** | | | | | | |
| Changes in fair value | 1,525 | (188) | 1,337 | (316) | 58 | (258) |
| Transfer to income statement | (1,526) | 185 | (1,341) | 258 | (45) | 213 |
| **Net change in cash flow hedge reserve** | **(1)** | **(3)** | **(4)** | **(58)** | **13** | **(45)** |
| **Net change in foreign exchange reserve** | **(419)** | **-** | **(419)** | **255** | **-** | **255** |
| **Net change in revaluation reserve** | **4** | **(1)** | **3** | **14** | **(3)** | **11** |
| **Other comprehensive income for the year** | **(442)** | **20** | **(422)** | **233** | **(2)** | **231** |

## 19 Earnings per share

| | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| **Basic and diluted earnings per share** | | |
| Profit attributable to stockholders | 793 | 940 |
| Distribution on other equity instruments - Additional tier 1 coupon, net of tax | (73) | - |
| Dividend on 2009 Preference Stock | - | (135) |
| Adjustment on redemption of 2009 Preference Stock[1] | - | (52) |
| Dividend on other preference equity interests | (8) | (8) |
| **Profit attributable to ordinary stockholders** | **712** | **745** |
| | **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] | 32,343 | 32,346 |
| **Basic and diluted earnings per share (cent)** | **2.2c** | **2.3c** |

[1] *A liability to redeem 1,300,000,000 units of 2009 Preference Stock at par was recognised at 31 December 2015 as disclosed in note 45. 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 was reflected in the earnings per share (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 42.3 million units (year ended 31 December 2015: 39.4 million units).*

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 2016 and the year ended 31 December 2015, 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.

## 20 Derivative financial instruments

The Group's use of, objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Risk Management Report on pages 118 to 122. The notional amounts of certain types of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Group are set out in the following tables:

| | | Fair Values | |
|---|---|---|---|
| **31 December 2016** | **Contract / notional amount €m** | **Assets €m** | **Liabilities €m** |
| **Derivatives held for trading** | | | |
| **Foreign exchange derivatives** | | | |
| Currency swaps | 4,419 | 100 | 57 |
| Currency forwards | 1,583 | 27 | 49 |
| Over the counter currency options | 432 | 6 | 6 |
| **Total foreign exchange derivatives held for trading** | **6,434** | **133** | **112** |
| | | | |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 110,819 | 1,625 | 1,978 |
| Cross currency interest rate swaps | 2,079 | 275 | 270 |
| Over the counter interest rate options | 6,368 | 15 | 30 |
| Interest rate futures | 6,504 | 4 | 3 |
| Exchange traded interest rate options | 1,771 | - | - |
| Forward rate agreements | - | - | - |
| **Total interest rate derivatives held for trading** | **127,541** | **1,919** | **2,281** |
| | | | |
| **Equity contracts, commodity contracts and credit derivatives** | | | |
| Equity index-linked contracts held | 3,332 | 203 | 7 |
| Commodity contracts | 98 | 4 | 4 |
| Credit derivatives | 124 | - | - |
| Equity conversion feature in Convertible Contingent Capital Note | - | - | - |
| **Total equity contracts and credit derivatives** | **3,554** | **207** | **11** |
| **Total derivative assets / liabilities held for trading** | **137,529** | **2,259** | **2,404** |
| | | | |
| **Derivatives held for hedging** | | | |
| **Derivatives designated as fair value hedges** | | | |
| Interest rate swaps | 23,128 | 294 | 405 |
| Cross currency interest rate swaps | 13 | 1 | - |
| **Total designated as fair value hedges** | **23,141** | **295** | **405** |
| | | | |
| **Derivatives designated as cash flow hedges** | | | |
| Cross currency interest rate swaps | 8,220 | 853 | - |
| Interest rate swaps | 12,500 | 302 | 64 |
| **Total designated as cash flow hedges** | **20,720** | **1,155** | **64** |
| **Total derivative assets / liabilities held for hedging** | **43,861** | **1,450** | **469** |
| **Total derivative assets / liabilities** | **181,390** | **3,709** | **2,873** |

## 20 Derivative financial instruments (continued)

| 31 December 2015 | Contract / notional amount €m | Fair Values Assets €m | Fair Values Liabilities €m |
|---|---|---|---|
| Derivatives held for trading | | | |
| Foreign exchange derivatives | | | |
| Currency swaps | 4,688 | 55 | 66 |
| Currency forwards | 1,851 | 26 | 28 |
| Over the counter currency options | 662 | 4 | 4 |
| Total foreign exchange derivatives held for trading | 7,201 | 85 | 98 |
| | | | |
| Interest rate derivatives | | | |
| Interest rate swaps | 141,743 | 1,643 | 2,075 |
| Cross currency interest rate swaps | 4,729 | 410 | 272 |
| Over the counter interest rate options | 5,149 | 26 | 30 |
| Interest rate futures | 3,220 | 1 | 1 |
| Exchange traded interest rate options | 9,791 | - | - |
| Forward rate agreements | 1,066 | - | - |
| Total interest rate derivatives held for trading | 165,698 | 2,080 | 2,378 |
| | | | |
| Equity contracts, commodity contracts and credit derivatives | | | |
| Equity index-linked contracts held | 3,979 | 200 | 28 |
| Commodity contracts | 136 | 22 | 22 |
| Equity conversion feature in Convertible Contingent Capital Note | 1,000 | 3 | - |
| Credit derivatives | 224 | - | 1 |
| Total equity contracts and credit derivatives | 5,339 | 225 | 51 |
| Total derivative assets / liabilities held for trading | 178,238 | 2,390 | 2,527 |
| | | | |
| Derivatives held for hedging | | | |
| Derivatives designated as fair value hedges | | | |
| Interest rate swaps | 21,794 | 279 | 431 |
| Cross currency interest rate swaps | 13 | 1 | - |
| Total designated as fair value hedges | 21,807 | 280 | 431 |
| | | | |
| Derivatives designated as cash flow hedges | | | |
| Interest rate swaps | 14,422 | 322 | 61 |
| Cross currency interest rate swaps | 9,642 | 72 | 600 |
| Total designated as cash flow hedges | 24,064 | 394 | 661 |
| Total derivative assets / liabilities held for hedging | 45,871 | 674 | 1,092 |
| Total derivative assets / liabilities | 224,109 | 3,064 | 3,619 |

Derivatives held for trading above comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting. Derivatives classified as held for hedging in the table above comprise only those derivatives to which the Group applies hedge accounting.

The Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €3.7 billion at 31 December 2016 (31 December 2015: €3.1 billion):

- €1.9 billion (31 December 2015: €2.0 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €1.8 billion (31 December 2015: €1.1 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2016, cash collateral of €1.1 billion (31 December 2015: €0.5 billion) was held against these assets and is reported within deposits from banks (note 36).

## 20 Derivative financial instruments (continued)

Placements with other banks and loans and advances to customers include cash collateral of €0.8 billion at 31 December 2016 (31 December 2015: €1.4 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.8 billion (31 December 2015: €1.5 billion) and is reported within loans and advances to banks (note 22) and loans and advances to customers (note 26).

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

**Fair value hedges**
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and foreign exchange exposure on the Group's fixed rate debt held, fixed rate mortgages and debt issued portfolios.

**Cash flow hedges**
The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (page 190).

The years in which the hedged cash flows are expected to occur are shown in the table below:

| **31 December 2016** | **Up to 1 year €m** | **1 to 2 years €m** | **2 to 5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 5,037 | 2,374 | 60 | 46 | 7,517 |
| Forecast payable cash flows | (35) | (26) | (31) | (22) | (114) |

| 31 December 2015 | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 7,302 | 2,435 | 125 | 83 | 9,945 |
| Forecast payable cash flows | (16) | (29) | (15) | (30) | (90) |

The hedged cash flows are expected to impact the income statement in the following years:

| **31 December 2016** | **Up to 1 year €m** | **1 to 2 years €m** | **2 to 5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 7,402 | 15 | 62 | 38 | 7,517 |
| Forecast payable cash flows | (38) | (27) | (29) | (20) | (114) |

| 31 December 2015 | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 9,716 | 28 | 131 | 70 | 9,945 |
| Forecast payable cash flows | (29) | (18) | (14) | (29) | (90) |

During the year ended 31 December 2016, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur.

## 21 Other financial assets at fair value through profit or loss

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Assets linked to policyholder liabilities** | | |
| Equity securities | 8,596 | 7,668 |
| Government bonds | 1,191 | 1,194 |
| Unit trusts | 1,074 | 951 |
| Debt securities | 735 | 808 |
| | **11,596** | **10,621** |
| **Other financial assets** | | |
| Government bonds | 1,209 | 1,223 |
| Other | 444 | 436 |
| | **1,653** | **1,659** |
| **Other financial assets at fair value through profit or loss** | **13,249** | **12,280** |

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 2016, such assets amounted to €11,596 million (31 December 2015: €10,621 million).

Other financial assets of €1,653 million (31 December 2015: €1,659 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.

## 22 Loans and advances to banks

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Placements with other banks | 1,899 | 2,830 |
| Mandatory deposits with central banks | 1,378 | 1,568 |
| Securities purchased with agreement to resell | 47 | 150 |
| Funds placed with the Central Bank of Ireland not on demand | 25 | 30 |
| **Loans and advances to banks** | **3,349** | **4,578** |

Placements with other banks includes cash collateral of €0.7 billion (31 December 2015: €1.3 billion) placed with derivative counterparties in relation to net derivative liability positions (note 20).

Mandatory deposits with central banks includes €1,334 million relating to collateral in respect of the Group's issued bank notes in Northern Ireland (31 December 2015: €1,437 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 2016 was €48 million (31 December 2015: €150 million).

Loans and advances to banks of €3,349 million (31 December 2015: €4,578 million) included €368 million (31 December 2015: €341 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 €3,349 million (31 December 2015: €4,578 million) are included within other financial instruments of €26.3 billion (31 December 2015: €27.2 billion) in the table in the Risk Management Report on page 101.

## 23 Available for sale financial assets

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Government bonds | 5,141 | 5,700 |
| Other debt securities | | |
| - listed | 5,322 | 3,930 |
| - unlisted | 294 | 371 |
| Equity securities | | |
| - unlisted | 37 | 127 |
| **Available for sale financial assets** | **10,794** | **10,128** |

Included within unlisted debt securities are subordinated bonds issued by NAMA with a nominal value of €281 million (31 December 2015: €281 million) and a fair value of €274 million (31 December 2015: €269 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.

At 31 December 2016, available for sale financial assets with a fair value of €0.1 billion (31 December 2015: €0.1 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.

At 31 December 2016, available for sale financial assets included €0.6 billion (31 December 2015: €nil) pledged as collateral in respect of customer deposits and debt securities in issue (excluding Monetary Authority secured funding).

The movement on available for sale financial assets is analysed as follows:

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 10,128 | 13,580 |
| Additions | 4,082 | 2,648 |
| Disposals | (2,164) | (2,746) |
| Reclassifications to held to maturity financial assets | - | (1,955) |
| Redemptions | (1,030) | (1,563) |
| Revaluation, exchange and other adjustments | (220) | 164 |
| Impairment | (2) | - |
| **At end of year** | **10,794** | **10,128** |

In the year ended 31 December 2016, the Group recognised a gain of €20 million in other comprehensive income on the revaluation of the Group's shareholding in VISA Europe to €95 million from €75 million at 31 December 2015. Following the completion of the acquisition of VISA Europe by VISA Inc. on 21 June 2016, the Group's shareholding in VISA Europe was disposed of in exchange for cash consideration of €61 million, deferred cash consideration of €5 million and preference stock in VISA Inc. with a fair value of €29 million which has been recognised in other financial assets at fair value through profit or loss. The disposal has resulted in a transfer of €95 million from the available for sale reserve to the income statement (note 10).

## 23 Available for sale financial assets (continued)

During the year ended 31 December 2016, the Group sold other available for sale financial assets of €2.1 billion (31 December 2015: €2.7 billion) which resulted in a transfer of €79 million from the available for sale reserve to the income statement (31 December 2015: €207 million) (note 10).

Prior to 2015, the Group reclassified certain available for sale financial assets to loans and advances to customers. The carrying amount and the fair value of these assets is €104 million (31 December 2015: €150 million) and €100 million (31 December 2015: €153 million) respectively.

Interest income of €5 million (year ended 31 December 2015: €9 million) and a reversal of an impairment charge of €1 million (year ended 31 December 2015: €4 million) have been recognised in the income statement for the year ended 31 December 2016 in relation to these assets. If the assets had not been reclassified a fair value loss of €6 million (year ended 31 December 2015 fair value gain: €4 million) would have been recognised in Other comprehensive income.

## 24 Held to maturity financial assets

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Irish Government bonds | 1,872 | 1,922 |
| **Held to maturity financial assets** | **1,872** | **1,922** |

## 25 NAMA senior bonds

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| **NAMA senior bonds** | **451** | **1,414** |

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).

During the year ended 31 December 2016, NAMA redeemed senior bonds held by the Group with a nominal value of €967 million (year ended 31 December 2015: €968 million).

At 31 December 2016, the total nominal value of NAMA senior bonds held was €454 million, of which, €nil million (31 December 2015: €nil) was pledged to Monetary Authorities.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (March 2016: 0%) and 1 September (September 2016: 0%). The contractual maturity of these bonds is 1 March 2017. 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 3 February 2017, the Group agreed to accept the issuance of new bonds, maturing on 1 March 2018 in settlement of the existing debt.

## 26 Loans and advances to customers

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Loans and advances to customers | 79,772 | 88,262 |
| Finance leases and hire purchase receivables (see below) | 2,590 | 2,313 |
| | 82,362 | 90,575 |
| Less allowance for impairment charges on loans and advances to customers (note 27) | (3,885) | (5,886) |
| **Loans and advances to customers** | **78,477** | **84,689** |
| **Amounts include** | | |
| Due from joint ventures and associates | 151 | 144 |

**Finance leases and hire purchase receivables**

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Gross investment in finance leases:** | | |
| Not later than 1 year | 989 | 930 |
| Later than 1 year and not later than 5 years | 1,819 | 1,598 |
| Later than 5 years | 9 | 7 |
| | 2,817 | 2,535 |
| Unearned future finance income on finance leases | (227) | (222) |
| **Net investment in finance leases** | **2,590** | **2,313** |
| **The net investment in finance leases is analysed as follows:** | | |
| Not later than 1 year | 913 | 851 |
| Later than 1 year and not later than 5 years | 1,669 | 1,456 |
| Later than 5 years | 8 | 6 |
| | **2,590** | **2,313** |

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

At 31 December 2016, the accumulated allowance for minimum lease payments receivable was €nil (31 December 2015: €nil).

**Securitisations**

Loans and advances to customers include balances that have been securitised but not derecognised, comprising both residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to structured entities, which then issue securities to third party investors or to other entities within the Group. All of the Group's securitisation structured entities are consolidated. See note 51 for further details.

## 27 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 2016 and 31 December 2015.

| **31 December 2016** | **Residential mortgages €m** | **Non-Property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total impairment provisions €m** |
|---|---|---|---|---|---|
| Provision at 1 January 2016 | 1,297 | 1,445 | 3,001 | 143 | 5,886 |
| Exchange adjustments | (12) | (15) | (108) | (7) | (142) |
| Charge / (reversal) in income statement | (142) | 113 | 213 | (8) | 176 |
| Provisions utilised | (173) | (433) | (1,477) | (54) | (2,137) |
| Other movements | 18 | (28) | 88 | 24 | 102 |
| **Provision at 31 December 2016** | **988** | **1,082** | **1,717** | **98** | **3,885** |

| 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 |

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.

## 28 Interest in associates

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 56 | 56 |
| Increase in investments | 13 | 5 |
| Decrease in investments | (11) | (13) |
| Share of results after tax | (2) | 8 |
| **At end of year** | **56** | **56** |

The Group has availed of the venture capital exemption in accounting for its interests in associates. In line with the accounting policy set out on page 199, these interests have been designated at initial recognition at fair value through profit or loss. Changes in the fair value of these interests are included in the share of results of associates (after tax) line on the income statement.

In presenting details of the associates of the Group, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

## 29 Interest in joint ventures

| Joint ventures (JV) | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 83 | 233 |
| Exchange adjustments | (15) | 10 |
| Additions | - | 15 |
| Share of results after tax (note 16) | 43 | 38 |
| *- First Rate Exchange Services* | *43* | *49* |
| *- Property unit trust* | *-* | *4* |
| *- Other joint ventures* | *-* | *(15)* |
| Dividends received | (40) | (48) |
| Disposal | - | (124) |
| Reclassifications | - | (41) |
| **At end of year** | **71** | **83** |

During the year ended 31 December 2015, the Group sold the majority of its investment in a UK property unit trust for £93 million.

For further information on joint ventures refer to note 51 Interests in other entities.

## 30 Intangible assets

| | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January 2016** | **114** | **1,233** | **219** | **1,566** |
| Exchange adjustments | (3) | (29) | (20) | (52) |
| Additions | 1 | 206 | 12 | 219 |
| Disposals / write-offs | (11) | (31) | (10) | (52) |
| **At 31 December 2016** | **101** | **1,379** | **201** | **1,681** |
| **Accumulated amortisation** | | | | |
| **At 1 January 2016** | **(113)** | **(803)** | **(124)** | **(1,040)** |
| Exchange adjustments | 3 | 23 | 14 | 40 |
| Disposals / write-offs | 11 | 31 | 10 | 52 |
| Charge for the year (note 12) | - | (80) | (18) | (98) |
| **At 31 December 2016** | **(99)** | **(829)** | **(118)** | **(1,046)** |
| **Net book value at 31 December 2016** | **2** | **550** | **83** | **635** |

**Impairment review - intangible assets**
Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount. There was no impairment identified in the year ended 31 December 2016 (year ended 31 December 2015: €nil).

## 30 Intangible assets (continued)

| | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2015 | 117 | 1,066 | 183 | 1,366 |
| Exchange adjustments | 1 | 11 | 9 | 21 |
| Additions | - | 168 | 34 | 202 |
| Disposals / write-offs | (4) | (12) | (7) | (23) |
| At 31 December 2015 | 114 | 1,233 | 219 | 1,566 |
| | | | | |
| Accumulated amortisation | | | | |
| At 1 January 2015 | (115) | (732) | (109) | (956) |
| Exchange adjustments | (1) | (9) | (5) | (15) |
| Disposals / write-offs | 4 | 12 | 7 | 23 |
| Charge for the year (note 12) | (1) | (74) | (17) | (92) |
| At 31 December 2015 | (113) | (803) | (124) | (1,040) |
| Net book value at 31 December 2015 | 1 | 430 | 95 | 526 |

## 31 Investment properties

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 841 | 701 |
| Exchange adjustment | (43) | 14 |
| Additions | 65 | 80 |
| Revaluation | 14 | 80 |
| Disposals | (13) | (34) |
| **At end of year** | **864** | **841** |

Rental income from investment property amounted to €44 million for the year ended 31 December 2016 (year ended 31 December 2015: €70 million). Expenses directly attributable to investment property generating rental income amounted to €8 million for the year ended 31 December 2016 (year ended 31 December 2015: €11 million). There were no expenses directly attributable to investment properties which are not generating rental income for the year ended 31 December 2016 or the year ended 31 December 2015.

At 31 December 2016, the Group held investment property of €864 million (31 December 2015: €841 million) on behalf of Bank of Ireland Life policy holders.

## 32 Property, plant and equipment

| | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **At 1 January 2016** | **167** | **189** | **478** | **21** | **5** | **860** |
| Exchange adjustments | (8) | (5) | (20) | - | - | (33) |
| Additions | - | - | 8 | 4 | 49 | 61 |
| Disposals / write-offs | - | (16) | (187) | - | - | (203) |
| Reversal of impairment (note 12) | 5 | - | - | - | - | 5 |
| Revaluation recognised in other comprehensive income | 4 | - | - | - | - | 4 |
| Reclassifications | (1) | 19 | 22 | - | (40) | - |
| **At 31 December 2016** | **167** | **187** | **301** | **25** | **14** | **694** |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2016** | **-** | **(127)** | **(381)** | **(18)** | **-** | **(526)** |
| Exchange adjustments | - | 3 | 14 | - | - | 17 |
| Disposals / write-offs | - | 16 | 186 | - | - | 202 |
| Charge for the year (note 12) | - | (10) | (21) | (3) | - | (34) |
| **At 31 December 2016** | **-** | **(118)** | **(202)** | **(21)** | **-** | **(341)** |
| **Net book value at 31 December 2016** | **167** | **69** | **99** | **4** | **14** | **353** |

Property, plant and equipment at 31 December 2016 held at fair value was €167 million (31 December 2015: €167 million). The historical cost of property, plant and equipment held at fair value at 31 December 2016 was €97 million (31 December 2015: €105 million). The net book value of property, plant and equipment at 31 December 2016 held at cost less accumulated depreciation and impairment amounted to €186 million (31 December 2015: €167 million).

## 32 Property, plant and equipment (continued)

| | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2015 | 144 | 181 | 467 | 19 | 6 | 817 |
| Exchange adjustments | 3 | 2 | 9 | - | - | 14 |
| Additions | - | 1 | 5 | 2 | 15 | 23 |
| Disposals / write-offs | - | (1) | (13) | - | - | (14) |
| Reversal of impairment (note 12) | 6 | - | - | - | - | 6 |
| Revaluation recognised in other comprehensive income | 14 | - | - | - | - | 14 |
| Reclassifications | - | 6 | 10 | - | (16) | - |
| At 31 December 2015 | 167 | 189 | 478 | 21 | 5 | 860 |
| Accumulated depreciation | | | | | | |
| At 1 January 2015 | - | (116) | (363) | (14) | - | (493) |
| Exchange adjustments | - | (1) | (6) | - | - | (7) |
| Disposals / write-offs | - | 1 | 11 | - | - | 12 |
| Charge for the year (note 12) | - | (11) | (23) | (4) | - | (38) |
| At 31 December 2015 | - | (127) | (381) | (18) | - | (526) |
| Net book value at 31 December 2015 | 167 | 62 | 97 | 3 | 5 | 334 |

**Property**

A revaluation of Group property was carried out as at 31 December 2016.

**Future capital expenditure**

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

| **Future capital expenditure** | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Contracted but not provided for in the financial statements | 20 | 11 |
| Authorised by the Directors but not contracted | 179 | 194 |

**Operating leases**

The Group leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with five-yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group also holds a number of short-term leases for less than ten years and a number of long-term leases at market rent with less than 135 years unexpired.

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Group has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

## 32 Property, plant and equipment (continued)

Minimum future rentals under non-cancellable operating leases are as follows:

| | **Payable 31 December 2016 €m** | **Receivable 31 December 2016 €m** | Payable 31 December 2015 €m | Receivable 31 December 2015 €m |
|---|---|---|---|---|
| Not later than 1 year | 63 | 3 | 62 | 3 |
| Later than 1 year and not later than 5 years | 236 | 9 | 211 | 10 |
| Later than 5 years | 494 | 4 | 421 | 6 |

Included in the table above, at 31 December 2016, is an amount of €12 million in relation to sub-lease rental (31 December 2015: €14 million).

**Finance leases**

The Group leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

| | **At 31 December 2016** | | | At 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **Total minimum future payments €m** | **Future finance charges €m** | **Present value of finance lease commitments €m** | Total minimum future payments €m | Future finance charges €m | Present value of finance lease commitments €m |
| Not later than 1 year | 2 | - | 2 | 3 | - | 2 |
| Later than 1 year not later than 5 years | 3 | - | 3 | 2 | - | 2 |

The net carrying amount of the assets held under finance leases at 31 December 2016 was €5 million (31 December 2015: €4 million).

## 33 Deferred tax

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| The movement on the deferred tax account is as follows: | | |
| At beginning of year | 1,385 | 1,567 |
| Income statement charge (note 18) | (124) | (209) |
| Available for sale financial assets - credit / (charge) to other comprehensive income | 41 | (6) |
| Cash flow hedges (charge) / credit to other comprehensive income | (3) | 13 |
| Pensions and other retirement benefits | (17) | (6) |
| Revaluation of property | (1) | (3) |
| Additional tier 1 - credit to equity (note 46) | 10 | - |
| Other movements (including foreign exchange) | (58) | 29 |
| **At end of year** | **1,233** | **1,385** |
| | | |
| Deferred tax assets and liabilities are attributable to the following items: | | |
| **Deferred tax assets** | | |
| Unutilised tax losses | 1,270 | 1,416 |
| Pensions and other post retirement benefits | 65 | 102 |
| Accelerated capital allowances on equipment used by the Group | 14 | 26 |
| Provision for loan impairment | 12 | 14 |
| Other temporary differences | 27 | 17 |
| **Deferred tax assets** | **1,388** | **1,575** |
| | | |
| **Deferred tax liabilities** | | |
| Life companies | (67) | (69) |
| Available for sale reserve | (51) | (90) |
| Property revaluation surplus | (12) | (12) |
| Cash flow hedge reserve | (11) | (8) |
| Other temporary differences | (14) | (11) |
| **Deferred tax liabilities** | **(155)** | **(190)** |
| | | |
| **Represented on the balance sheet as follows:** | | |
| Deferred tax assets | 1,298 | 1,453 |
| Deferred tax liabilities | (65) | (68) |
| | **1,233** | **1,385** |

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 €479 million (31 December 2015: €662[1] million).

The deferred tax asset of €1,298 million (31 December 2015: €1,453 million) shown on the balance sheet is after netting by jurisdiction (€1,388 million before netting by jurisdiction (31 December 2015: €1,575 million)). This includes an amount of €1,270 million at 31 December 2016 (31 December 2015: €1,416 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 €0.1 billion relates to UK tax losses.

[1] *The comparative figure has been restated by €503 million from €159 million to €662 million following a reassessment of unremitted earnings for overseas subsidiaries in the current year.*

## 33 Deferred tax (continued)

The UK Budget 2016 included a further restriction on the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses from 50% to 25% from 1 April 2016. 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 measurement and recognition of the deferred tax asset at 31 December 2016.

The UK corporation tax rate will reduce to 19% for the years beginning on or after 1 April 2017 and 17% for years beginning on or after 1 April 2020. The reduction in the corporation tax rate to 17% from 1 April 2020 was enacted at the balance sheet date and the effect of this change has been to reduce the deferred tax asset at 31 December 2016 by €8 million.

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, margins, costs 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 three years.

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 purpose of valuing its deferred tax asset 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 a further €14 million in the year ended 31 December 2016 (31 December 2015: €52 million).

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.

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 project to recover the majority of the deferred tax asset within 13 years of the balance sheet date (31 December 2015: 10 years). 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.€1.2 billion (31 December 2015: c.€1.4 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.1 billion (31 December 2015: c.€0.1 billion).

At 31 December 2016, deferred tax assets of €91 million (31 December 2015: €88 million) have not been recognised in respect of US tax losses. Of these unrecognised US tax losses, €42 million (31 December 2015: €32 million) will expire in the period 2020 to 2028 with €49 million due to expire in 2029. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use. Furthermore, deferred tax assets in the amounts of €1 million (31 December 2015: €nil) for US capital losses and €10 million (31 December 2015: €2 million) for US temporary differences have not been recognised. There is no expiry date on these tax credits.

## 34 Other assets

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Reinsurance asset | 1,230 | 1,323 |
| Value of in Force asset (note 35) | 537 | 544 |
| Interest receivable | 314 | 331 |
| Sundry and other debtors | 271 | 298 |
| Accounts receivable and prepayments | 135 | 144 |
| **Other assets** | **2,487** | **2,640** |
| Other assets are analysed as follows: | | |
| Within 1 year | 652 | 701 |
| After 1 year | 1,835 | 1,939 |
| | **2,487** | **2,640** |
| The movement in the reinsurance asset is noted below: | | |
| At beginning of year | 1,323 | 1,322 |
| New business | 72 | 112 |
| Changes in business | (165) | (111) |
| **At end of year** | **1,230** | **1,323** |

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €26.3 billion (31 December 2015: €27.2 billion) in the table in the Risk Management Report on page 101.

## 35 Life assurance business

| Value of in Force asset | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 544 | 547 |
| Income statement movement in Value of in Force asset (gross of tax) | (7) | (3) |
| **At end of year** | **537** | **544** |

The Group recognises as an asset the Value of in Force assurance business in respect of insurance contracts. The Value of in Force asset has been calculated in accordance with the achieved profits embedded value methodology in the Statement of Recommended Practice issued by the Association of British Insurers which came into force in 2002, with reference to the Insurance Regulations in respect of long term provisions and solvency requirements. The Value of in Force asset, which is presented gross of attributable tax, represents the present value of future profits, less an allowance for the cost of required capital, expected to arise from insurance contracts written by the balance sheet date. It is determined by projecting future surpluses and other cash flows attributable to the shareholder arising from insurance contracts and discounting at an appropriate rate. The useful life of the asset is based on the length of the underlying individual policies upon which the asset is calculated. This useful life is expected to be 6.7 years as at 31 December 2016 (31 December 2015: 6.6 years).

## 35 Life assurance business (continued)

The key economic assumptions used in the calculation of the Value of in Force business are set out below:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Risk discount rate | 5.83% | 6.13% |
| Unit growth rate | 3.25% | 3.60% |
| Shareholder tax rate | 12.5% | 12.5% |

The process used in determining the key economic and experience assumptions is set out below:

| | |
|---|---|
| Risk discount rate: | The risk discount rate is the rate used to discount the future surpluses that will arise on insurance business in the long-term funds. The interest rates used to calculate policyholder liabilities are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates. In line with December 2015, the Euro Swap curve is used as a benchmark for an international mix of fixed interest assets. The risk discount rate applied to future cash flows at December 2016 is 5.83% (31 December 2015: 6.13%). |
| Unit growth rate: | The unit growth rate is the assumed rate of return on the unit linked assets before taxation and management fees in future years. The growth rate reflects the mix of assets held. The unit growth rate has decreased to 3.25% at 31 December 2016 (31 December 2015: 3.60%). |
| Shareholder tax rate: | The current rate of corporation tax is assumed to be maintained over the term of the business. Deferred tax is allowed for on the release of retained surplus in the life business. |
| Mortality and morbidity: | Mortality and morbidity assumptions, which include allowances for improvements in longevity for annuitants, are set by reference to the Group's actual experience and / or relevant industry data. |
| Persistency rate: | Persistency rates refer to the rate of policy termination for insurance policies. These rates are based on historical experience and management's views on future experience. |
| Maintenance expenses: | Allowance is made for future policy costs by reference to current and expected future costs. Explicit allowance is made for future expense inflation. |

**Sensitivities**

The table below indicates the standalone impact of changes in the key assumptions on profit.

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| 1% increase in risk discount rate | (34) | (34) |
| 1% decrease in risk discount rate | 38 | 37 |
| 1% increase in unit growth rate | 24 | 23 |
| 1% decrease in unit growth rate | (23) | (21) |
| 10% improvement in mortality | 12 | 12 |
| 10% improvement in longevity | (21) | (19) |
| 10% improvement in morbidity | 6 | 7 |
| 10% deterioration in persistency | (16) | (14) |
| 5% improvement in maintenance expenses | 12 | 10 |
| 1% increase in equity markets | 2 | 2 |

While the table above shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

## 36 Deposits from banks

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Monetary Authority secured funding | 1,973 | 20 |
| Deposits from banks | 1,676 | 829 |
| Securities sold under agreement to repurchase - private market repos | 13 | 103 |
| **Deposits from banks** | **3,662** | **952** |

Deposits from banks include cash collateral of €1.1 billion (31 December 2015: €0.5 billion) received from derivative counterparties in relation to net derivative asset positions (note 20).

| | **31 December 2016** | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Monetary Authority secured funding** | **TLTRO €m** | **TFS €m** | **ILTR €m** | **Total €m** | TLTRO €m | TFS €m | ILTR €m | Total €m |
| Deposits from banks | 799 | 701 | 473 | 1,973 | - | - | 20 | 20 |
| Debt securities in issue (note 38) | 1,447 | - | - | 1,447 | 1,495 | - | - | 1,495 |
| **Total** | **2,246** | **701** | **473** | **3,420** | **1,495** | **-** | **20** | **1,515** |

The Group's secured funding from the ECB Monetary Authority comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). In June 2016, the Group replaced all of its TLTRO I funding with TLTRO II funding. The Group's TLTRO borrowings will be repaid between September 2018 and March 2019, in line with the terms and conditions of the TLTRO facility. Subject to certain lending targets being achieved by the Group between 1 February 2016 and 31 January 2018, the Group will be charged the ECB deposit interest rate on this funding which is currently a negative interest rate.

Drawings under the Term Funding Scheme (TFS) from the Bank of England will be repaid within four years from the date of drawdown. The interest to be charged on this funding is dependent on the quantum of net lending by the Bank's UK branch and by Bank of Ireland (UK) plc to UK resident households, private non-financial corporations and certain non-bank credit providers from June 2016 to December 2017.

Index Long Term Repo (ILTR) funding from the Bank of England has a maturity of less than one year.

The Group's Monetary Authority funding is secured by available for sale financial assets and loans and advances to customers.

## 37 Customer accounts

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Current accounts | 26,199 | 23,552 |
| Term deposits and other products | 25,482 | 32,666 |
| Demand deposits | 23,486 | 23,946 |
| **Customer accounts** | **75,167** | **80,164** |
| **Amounts include:** | | |
| Due to associates and joint ventures | 39 | 31 |

At 31 December 2016, the Group's largest 20 customer deposits amounted to 3% (31 December 2015: 3%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 113 in the Risk Management Report.

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. An analysis of the contractual maturity profile of customer accounts is set out in note 52.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk and profile note (see page 287).

Term deposits and other products include €63 million (31 December 2015: €29 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 2015, eligible deposits of up to €100,000 per depositor per credit institution are covered. Eligible deposits includes credit balances in current accounts, demand deposit accounts and term deposit accounts. The scheme is administered by the Central Bank of Ireland and is funded by the credit institutions covered by the scheme.

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 European Union (Bank Recovery and Resolution) Regulations 2015, which transposed the Bank Recovery and Resolution Directive (BRRD) into Irish Law, 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.

In addition to the deposits covered by these Regulations, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of eligible deposits with Bank of Ireland (UK) plc).

## 38 Debt securities in issue

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Bonds and medium term notes | 7,859 | 10,286 |
| Monetary Authorities secured funding (note 36) | 1,447 | 1,495 |
| Other debt securities in issue | 1,391 | 1,462 |
| **Debt securities in issue** | **10,697** | **13,243** |

The movement on debt securities in issue is analysed as follows:

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Opening balance | 13,243 | 16,040 |
| Issued during the year | 3,939 | 4,076 |
| Redemptions | (5,474) | (6,895) |
| Repurchases | (941) | (45) |
| Other movements | (70) | 67 |
| **Closing balance** | **10,697** | **13,243** |

A loss of €19 million on liability management exercises was recognised in the year ended 31 December 2016, primarily reflecting the repurchase of €0.6 billion nominal value of the Group's senior unsecured debt securities (note 10).

## 39 Liabilities to customers under investment and insurance contracts

| **Investment contract liabilities** | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Liabilities to customers under investment contracts, at fair value** | **5,647** | **5,729** |

The movement in gross life insurance contract liabilities can be analysed as follows:

| **Insurance contract liabilities** | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 10,403 | 9,918 |
| New business | 1,220 | 1,343 |
| Changes in existing business | (689) | (858) |
| **At end of year** | **10,934** | **10,403** |

Bank of Ireland Life writes the following life assurance contracts that contain insurance risk:

**Non-unit linked life assurance contracts**
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

**Non-unit linked annuity contracts**
These contracts provide the policyholder with an income until death (principally longevity and market risk).

## 39 Liabilities to customers under investment and insurance contracts (continued)

**Linked insurance contracts**
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated based on the principles laid down in the European Communities (Life Assurance) Framework Regulations 1994 (the 'Insurance Regulations'). Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using either a gross premium or net premium method of valuation.

The assumptions are also set out in accordance with the principles of the Insurance Regulations and contain a margin for adverse development. The key assumptions used in the valuation of insurance contract liabilities are:

| | |
|---|---|
| Interest rate: | The interest rates are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates. |
| Mortality and morbidity: | The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data. |
| Maintenance expenses: | Allowance is made for future policy costs and expense inflation explicitly. |

**Options and guarantees**
The Group has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

**Uncertainties associated with insurance contract cash flows and risk management activities**
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of prudent insurance contract liabilities.

**Credit risk**
Reinsurance programmes are in place to restrict the amount of exposure on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

**Capital management and available resources**
The Solvency II framework came into full effect from 1st January 2016 and introduced new capital, risk management, governance and reporting requirements for all European insurance entities. Under Solvency II, insurance entities are required to hold technical provisions to meet liabilities to policyholders using best estimate assumptions plus a risk margin. In addition entities are required to hold a risk based Solvency Capital Requirement (SCR) which is calculated by considering the capital required to withstand a number of shock scenarios.

As part of the new disclosure requirements, the Group's life assurance entity New Ireland Assurance Company plc (NIAC), will also be required to publish a public document called the Solvency and Financial Condition Report (SFCR) for the year ended 31 December 2016, setting out more detail on the solvency and capital management. This will be published in May 2017.

While NIAC reports its Solvency II capital ratio to the Central Bank, the accounting information shown uses the Solvency I basis for financial reporting.

## 40 Other liabilities

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| 2009 Preference Stock | - | 1,416 |
| Notes in circulation | 1,210 | 1,298 |
| Sundry creditors | 247 | 306 |
| Accrued interest payable | 245 | 406 |
| Accruals and deferred income | 148 | 178 |
| Finance lease obligations | 5 | 4 |
| Short position in trading securities | 47 | - |
| Other | 563 | 495 |
| **Other liabilities** | **2,465** | **4,103** |
| Other liabilities are analysed as follows: | | |
| Within 1 year | 2,356 | 3,990 |
| After 1 year | 109 | 113 |
| | **2,465** | **4,103** |

On 4 January 2016, the Group completed the redemption of the 2009 Preference Stock and the liability of €1,416 million recognised at 31 December 2015 was settled in full (note 45).

## 41 Provisions

| | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| As at 1 January 2016 | 28 | 4 | 65 | 97 |
| Exchange adjustment | (2) | - | (1) | (3) |
| Charge to income statement | 41 | - | 32 | 73 |
| Utilised during the year | (40) | - | (18) | (58) |
| Unused amounts reversed during the year | (6) | - | (7) | (13) |
| **As at 31 December 2016** | **21** | **4** | **71** | **96** |

Of the €21 million closing provision for restructuring, €11 million relates to staff exits and €10 million relates to property and other costs.

| **Expected utilisation** | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| Less than 1 year | 15 | 1 | 66 | 82 |
| 1 to 2 years | 2 | 1 | 2 | 5 |
| 2 to 5 years | 4 | 1 | 1 | 6 |
| 5 to 10 years | - | 1 | 2 | 3 |
| **Total** | **21** | **4** | **71** | **96** |

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.

## 42 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 2016. 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.

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to assess whether the scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS 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 was carried out as at 31 December 2015.

The triennial valuation disclosed that the fair value of scheme assets represented 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. In respect of future service, the actuary recommended a joint employer / employee future service contribution rate, using the Attained Age method, of 23.4% (increased from 19.8% at the previous triennial valuation).

In addition to the future service contributions, the Group continues to make additional contributions to the BSPF arising from the 2013 Group Pensions Review. During 2016, the Group accelerated the payment of €100 million of these additional contributions. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €250 million for the BSPF and are payable between 2017 and 2020.

The next formal triennial valuation of the BSPF will be carried out during 2019 based on the position at 31 December 2018.

The actuarial valuations are available for inspection by members but are not available for public inspection.

## 42 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. There was no levy in 2016. The levy was 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 no charge in respect of the pension levy for the year ended 31 December 2016 (year ended 31 December 2015: €7 million charge through other comprehensive income).

**Group UK pension scheme**

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €19 million at 31 December 2016 (31 December 2015: €34 million).

**Settlement gain in 2016**

During 2016, a settlement gain of €1 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 (31 December 2015: €6 million).

**Negative past service cost**

A negative past service cost of €20 million was recognised at 31 December 2016, as a result of a change in benefits payable in one of the Group's schemes together with a liability management exercise in another of the Group's schemes.

**Plan details**

The following table sets out details of the membership of the BSPF.

| Plan details at last valuation date (31 December 2015) | Number of members | Proportion of funding liability |
|---|---|---|
| Active members | 5,961 | 35.9% |
| Deferred members | 8,087 | 27.1% |
| Pensioner members | 3,793 | 37.0% |
| **Total** | **17,841** | **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. During 2016 following a detailed review and modelling with independent, international expert advisers, the Group has refined its approach to the determination of the euro discount rate used to value euro denominated liabilities on an IAS19 basis. The Group has enhanced its approach to the determination of the appropriate population of AA-rated bonds and the curve-fitting and extrapolation methodology used to determine the euro discount rate to be used for pension scheme cash flows. The euro discount rate determined using this approach was 2.20%. For information, the discount rate under the previous approach would have been 1.95%, which if used, would have increased pension obligations by approximately €316 million and increased deferred tax assets by approximately €40 million at 31 December 2016.

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.

## 42 Retirement benefit obligations (continued)

The salary assumption takes into account inflation, seniority, promotion and current employment markets relevant to the Group. Other financial assumptions are reviewed in line with changing market conditions to determine best estimate assumptions. Demographic assumptions are reviewed periodically in line with the actual experience of the Group's schemes.

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 2016 % p.a. | 31 December 2015 % p.a. |
|---|---|---|
| **Irish schemes** | | |
| Discount rate | 2.20 | 2.30 |
| Inflation rate | 1.55 | 1.60 |
| Rate of general increase in salaries[1] | 2.05 | 2.10 |
| Rate of increase in pensions in payment[1] | 0.93 | 1.04 |
| Rate of increase to deferred pensions | 1.50 | 1.55 |
| **UK schemes** | | |
| Discount rate | 2.55 | 3.80 |
| Consumer Price Inflation | 2.40 | 2.30 |
| Retail Price Inflation | 3.40 | 3.30 |
| Rate of general increase in salaries[1] | 3.90 | 3.80 |
| Rate of increase in pensions in payment[1] | 2.27 | 2.21 |
| Rate of increase to deferred pensions | 2.40 | 2.30 |

[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 2016 years | 31 December 2015 years |
|---|---|---|
| Longevity at age 70 for current pensioners | | |
| Males | 17.6 | 17.4 |
| Females | 19.1 | 19.0 |
| Longevity at age 60 for active members currently aged 60 years | | |
| Males | 27.0 | 26.9 |
| Females | 28.9 | 28.7 |
| Longevity at age 60 for active members currently aged 40 years | | |
| Males | 29.5 | 29.4 |
| Females | 31.0 | 30.9 |

## 42 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 2016** | **Irish Pension Plans €m** | **UK Pension[1] Plans €m** | **Total €m** |
|---|---|---|---|
| **Income statement credit / (charge)** | | | |
| - Other operating expenses | (97) | (21) | (118) |
| - Impact of Group's Pensions Reviews | - | - | - |
| - Cost of restructuring programme | 3 | 1 | 4 |
| **Statement of other comprehensive income** | | | |
| Impact of remeasurement | 249 | (65) | 184 |
| **Balance sheet obligations** | **(365)** | **(81)** | **(446)** |
| This is shown on the balance sheet as: | | | |
| Retirement benefit obligation | | | (454) |
| Retirement benefit asset | | | 8 |
| **Total net liability** | | | **(446)** |

All figures above are shown before deferred tax.

| 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 Group's Pensions Reviews | - | 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) |

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

## 42 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 2016** | **(7,548)** | **6,812** | **(736)** |
| Cost of restructuring programme | | | |
| - Negative past service cost | 4 | - | 4 |
| Other operating expenses | (275) | 157 | (118) |
| *- Current service cost* | *(123)* | *-* | *(123)* |
| *- Negative past service cost* | *20* | *-* | *20* |
| *- Interest (expense) / income* | *(180)* | *164* | *(16)* |
| *- Impact of settlements* | *8* | *(7)* | *1* |
| Return on plan assets not included in income statement | - | 464 | 464 |
| Change in demographic assumptions | 4 | - | 4 |
| Change in financial assumptions | (406) | - | (406) |
| Experience gains | 61 | - | 61 |
| Employer contributions | - | 220 | 220 |
| *- Deficit clearing*[1] | *-* | *128* | *128* |
| *- Other* | *-* | *92* | *92* |
| Employee contributions | (12) | 12 | - |
| Benefit payments | 210 | (210) | - |
| Changes in exchange rates | 224 | (163) | 61 |
| **At 31 December 2016** | **(7,738)** | **7,292** | **(446)** |

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 | (275) | 157 | (118) |
| Cost of restructuring programme | 4 | - | 4 |
| **Total amount recognised in income statement** | **(271)** | **157** | **(114)** |
| Changes in financial assumptions | (406) | - | (406) |
| Return on plan assets not included in income statement | - | 464 | 464 |
| Change in demographic assumptions | 4 | - | 4 |
| Changes in exchange rates | 224 | (163) | 61 |
| Experience gains | 61 | - | 61 |
| **Total remeasurements in other comprehensive income** | **(117)** | **301** | **184** |

| **Total Negative past service cost comprises** | |
|---|---|
| Impact of restructuring programme | 4 |
| Other operating expenses | 20 |
| **Total** | **24** |

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

# 42 Retirement benefit obligations (continued)

| | 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 Group's Pensions Reviews (2010 and 2013) | | | |
| - 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 Group's Pensions Reviews | 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 Group's Pensions Reviews | 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.*

## 42 Retirement benefit obligations (continued)

| Asset breakdown | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Liability Driven Investment (unquoted) | 2,300 | 1,413 |
| Equities (quoted) | 1,643 | 1,863 |
| Property (unquoted) | 541 | 339 |
| Corporate bonds (quoted) | 446 | 466 |
| Property and infrastructure (quoted) | 428 | 388 |
| Cash and other (quoted) | 423 | 495 |
| Government bonds (quoted) | 386 | 904 |
| Reinsurance (unquoted) | 299 | 274 |
| Senior secured loans (unquoted) | 297 | 226 |
| Private equities (unquoted) | 266 | 190 |
| Hedge funds (unquoted) | 263 | 254 |
| **Total fair value of assets** | **7,292** | **6,812** |

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €7 million (31 December 2015: €10 million) and one property occupied by Bank of Ireland Group companies to the value of €38 million (31 December 2015: €37 million).

## 42 Retirement benefit obligations (continued)

**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 | Impact on defined benefit obligation Increase / (decrease) 31 December 2016 €m | Impact on defined benefit obligation Increase / (decrease) 31 December 2015 €m |
|---|---|---|
| **RoI schemes** | | |
| Discount rate | | |
| - Increase of 0.25% | (293) | (303) |
| - Decrease of 0.25% | 316 | 328 |
| Inflation rate | | |
| - Increase of 0.10% | 81 | 75 |
| - Decrease of 0.10% | (78) | (81) |
| Salary growth | | |
| - Increase of 0.10% | 26 | 28 |
| - Decrease of 0.10% | (24) | (26) |
| Life expectancy | | |
| - Increase of 1 year | 174 | 179 |
| - Decrease of 1 year | (172) | (178) |
| **UK schemes** | | |
| Discount rate | | |
| - Increase of 0.25% | (85) | (68) |
| - Decrease of 0.25% | 91 | 73 |
| RPI inflation | | |
| - Increase of 0.10% | 21 | 20 |
| - Decrease of 0.10% | (22) | (19) |
| Salary growth | | |
| - Increase of 0.10% | 4 | 3 |
| - Decrease of 0.10% | (4) | (3) |
| Life expectancy | | |
| - Increase of 1 year | 42 | 34 |
| - Decrease of 1 year | (42) | (34) |

## 42 Retirement benefit obligations (continued)

The table below sets out the estimated sensitivity of plan assets to changes in equity markets and interest rates.

| Impact on plan assets | **Impact on plan assets Increase / (decrease) 31 December 2016 €m** | Impact on plan assets Increase / (decrease) 31 December 2015 €m |
|---|---|---|
| **All schemes** | | |
| Sensitivity of plan assets to a movement in global equity markets with allowance for other correlated diversified asset classes | | |
| - Increase of 5.00% | 122 | 128 |
| - Decrease of 5.00% | (124) | (128) |
| Sensitivity of liability-matching assets to a 25bps movement in interest rates | | |
| - Increase of 0.25% | (217) | (114) |
| - Decrease of 0.25% | 231 | 120 |

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.22 years for the UK plans.

Expected employer contributions for the year ended 31 December 2017 are €165 million, including c.€42 million in respect of the settlement of a liability management exercise in one of the Group's schemes. This excludes any additional contributions arising from the 2013 Group Pensions Review. Expected employee contributions for the year ended 31 December 2017 are €11 million.

**Risks and risk management**

The Group's defined benefit pension plans have a number of areas of risk.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Changes in bond yields, interest rate and inflation risks, along with equity risk, are the defined benefit schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its risk management, the largest Group sponsored pension scheme, the BSPF has invested 39% in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk.

The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the following table.

## 42 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 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.<br><br>For measurement of the obligation in the financial statements under IAS 19, however, the defined benefit obligation is calculated using a discount rate set with reference to high-quality corporate bond yields.<br><br>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.<br><br>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 2016, the equity portfolio of the BSPF was further reduced and the level of both euro and sterling interest rate and inflation hedging was increased in the Liability Driven Investment (LDI) portfolio. In December 2016, the Group supported the trustees' proposal to increase the level of euro interest rate and inflation hedging from 60% to 75% of assets. The level of sterling interest rate and inflation hedging is 60% of assets. The fund also invested in new private infrastructure and private equity real estate asset classes. These changes are expected to reduce asset volatility and provide a better match to the fund's liabilities.<br><br>The investment in bonds is discussed further below. |
| Changes in bond yields | The LDI approach invests in cash, government bonds, interest rate and inflation swaps, and other financial derivatives to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. It also provides a closer match to the expected timing of cash flow / pension payments. The portfolio 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.<br><br>However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced. |
| Inflation risk | The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the 2013 Group Pensions Review changes have further limited this exposure. The LDI portfolio will broadly hedge against movements in inflation expectations although it only hedges a portion of the BSPF's inflation risks.<br><br>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, foreign exchange risk, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

## 43 Subordinated liabilities

| | Notes | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|---|
| **Undated loan capital** | | | |
| Bank of Ireland | | | |
| Stg£75 million 13⅜% Perpetual Subordinated Bonds | a | 89 | 103 |
| Bristol & West plc | | | |
| Stg£32.6 million 8⅛% Non-Cumulative Preference Shares | b | 38 | 44 |
| Bank of Ireland UK Holdings plc | | | |
| €600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities | c | 32 | 33 |
| | | **159** | **180** |
| **Dated loan capital** | | | |
| €1,000 million 10% Convertible Contingent Capital Note 2016 | | - | 994 |
| €600 million Subordinated Floating Rate Notes 2017 | | 1 | 1 |
| €1,002 million 10% Fixed Rate Subordinated Notes 2020 | d | 229 | 234 |
| Stg£197 million 10% Fixed Rate Subordinated Notes 2020 | | 2 | 2 |
| €250 million 10% Fixed Rate Subordinated Notes 2022 | e | 270 | 266 |
| €750 million 4.25% Fixed Rate Subordinated Notes 2024 | f | 764 | 763 |
| | | **1,266** | **2,260** |
| **Total subordinated liabilities** | | **1,425** | **2,440** |

The €1,000 million 10% Convertible Contingent Capital Note 2016, was repaid in full during the year.

**Subordinated liabilities in issue at 31 December 2016**

**Undated loan capital**

The principal terms and conditions of the subordinated liabilities which were in issue by the Group at 31 December 2016 are set out below.

**(a)** The 13⅜% Perpetual Subordinated Bonds were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. The Bank became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to the Bank.

**(b)** These preference shares which are non-redeemable, non-equity shares rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc.

Holders of the Preference Shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. The preference dividend on the Preference Shares will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to the Bank, the Bank entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the Preference Shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to the preference shares that remained following the transfer of business would be protected. Under the Guarantee, the Bank agreed, subject to certain conditions, to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

In this connection the Guarantee contains provisions to the effect that the rights of the Bank's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of the Bank and (ii) subordinated creditors of the Bank other than those whose claims rank, or are expressed to rank pari passu or junior to the payments under the Guarantee.

## 43 Subordinated liabilities (continued)

**(c)** The securities are redeemable in whole or in part at the option of the issuer subject to the prior consent of the relevant Competent Authority and of the Bank, at their principal amount together with any outstanding payments on any coupon payment date. They bear interest at a rate of three month Euribor plus 3.26% per annum and reset quarterly each year on 7 March, 7 June, 7 September and 7 December.

The rights and claims of the holder of the Preferred Securities are subordinated to the claims of the senior creditors of the issuer or of the Bank (as the case may be) in that no payment in respect of the Preferred Securities or the guarantee in respect of them shall be due and payable except to the extent that the issuer or the Bank (as applicable) is solvent and could make such payment and still be solvent immediately thereafter. Upon any winding up of the issuer or the Bank (in respect of claims under the guarantee), the holders of the Preferred Securities will rank pari passu with the holders of the most senior class or classes of preference shares or stock (if any) of the issuer or of the Bank then in issue and in priority to all other shareholders of the issuer and of the Bank.

**Dated loan capital**

Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves.

The table on page 270 provides a description of the dated loan capital, including:

- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue at 31 December 2016 were issued under the Bank's Euro Note Programme.

**(d) €1,002 million 10% Fixed Rate Subordinated Notes 2020**

On 11 February 2010, the Group issued 10 year fixed rate subordinated notes. These notes have a coupon rate of 10% and the maturity date for these notes is February 2020. The notes rank pari passu with all other dated subordinated debt.

**(e) €250 million 10% Subordinated Debt 2022**

On 18 December 2012, the Group issued 10 year fixed rate loan notes. These notes have a coupon rate of 10% and the maturity date for these notes is December 2022. The notes rank pari passu with all other dated subordinated debt.

**(f) Fixed Rate Subordinated Notes 2024**

On 4 June 2014, the Group issued a €750 million 10 year (callable at the end of year five) Tier 2 capital instrument. The bond carries a coupon of 4.25%. Following the implementation in Ireland of the European Union (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event), or (ii) Tax reasons (additional amounts payable on the Notes). Any redemption before the Maturity Date is subject to such approval by the Competent Authority as may be required by the Capital Requirements Regulation (CRR) and / or such other laws and regulations which are applicable to the Issuer.

## 44 Capital stock

| Authorised | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **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 |
| **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 2016 €m | 31 December 2015 €m |
|---|---|---|
| 32.337 billion units of ordinary stock of €0.05 each (31 December 2015: 32.346 billion units) | 1,616 | 1,616 |
| 91.981 billion units of deferred stock of €0.01 each | 920 | 920 |
| 48.752 million units of treasury stock of €0.05 (31 December 2015: 39.584 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 |
| | **2,545** | **2,558** |

### Ordinary stock

All units of ordinary stock carry the same voting rights.

The weighted average number of units of ordinary stock in issue at 31 December 2016, 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 2016** | 31 December 2015 | **31 December 2016** | 31 December 2015 |
| At beginning of year | 32,345,699,711 | 32,345,992,667 | 39,584,052 | 39,291,096 |
| Stock sold / (purchased) and held for the benefit of life assurance policyholders | (9,167,675) | (292,956) | 9,167,675 | 292,956 |
| **At end of year** | **32,336,532,036** | **32,345,699,711** | **48,751,727** | **39,584,052** |

At 31 December 2016, New Ireland Assurance Company plc held 26,743,037 units of ordinary stock as 'own shares' (31 December 2015: 17,575,362 units). At 31 December 2016, the consideration paid for these shares amounted to €10.9 million (31 December 2015: €11.4 million).

## 44 Capital stock (continued)

**Deferred stock**

The total authorised deferred stock is 228 billion units at a par value of €0.01 per unit. The deferred stock has no voting or dividend rights and, on a winding up of, or other return of capital (other than on a redemption of stock of any class in the capital of the Bank) by the Bank, the deferred stockholders will be entitled to receive the amount paid up or credited as paid up on such unit of deferred stock only after ordinary stockholders have received, in aggregate, any amounts paid up or credited as paid up on those units of ordinary stock held by them at that time, plus €10 million in cash per unit of €0.05 ordinary stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

The deferred stock is not transferable at any time, other than with the prior written consent of the Directors. At the appropriate time, the Bank may redeem or repurchase the deferred stock, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire, cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the Directors may determine.

**2009 Preference Stock**

On 23 November 2015, following the receipt of ECB approval, 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 Baggot Securities Limited as holder of the Stock. A final dividend payment of €116 million was paid to Baggot Securities Limited on 4 January 2016 (see note 45).

**Preference stock - Stg£1 each and €1.27 each**

As at 31 December 2016 and 31 December 2015, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year.

On a winding up of, or other return of capital, by the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2016 and consequently the preference stockholders were not entitled to vote at the Annual General Court (AGC) held on 28 April 2016.

**Use of ordinary stock in employee schemes**

***Executive Stock Option Scheme (ESOS)***

The 2004 Executive Stock Option Scheme is now closed and no new grants may be made under this scheme. The following table summarises the movement in options between 2015 and 2016 and the price range at which they can be exercised.

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price (€)** | Number of options | Weighted average exercise price (€) |
| Outstanding at beginning of year | 9,137 | €13.68 | 491,137 | €12.87 |
| Expired during year | (9,137) | €13.68 | (482,000) | €12.85 |
| Outstanding at end of year | - | - | 9,137 | €13.68 |
| Exercisable at end of year | - | - | 9,137 | €13.68 |

*No options were either granted or exercised for the years ended 31 December 2016 and 31 December 2015.*

There were no remaining outstanding options under the ESOS as at 31 December 2016.

## 45 Redemption of 2009 Preference Stock

On 23 November 2015, following the receipt of ECB approval, 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 the holders of the stock. As a result, at 31 December 2015, a financial liability was recognised 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. At the same time a liability was also recognised within Other liabilities in respect of the obligation to make a final dividend payment of €116 million on the redemption date of 4 January 2016. This was 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 liability recognised at 31 December 2015 in Other liabilities was settled in full.

The following table shows the impact for the year ended 31 December 2016 of the redemption of the 2009 Preference Stock on Stockholders' equity:

| | **€m** |
|---|---|
| Reduction in retained earnings | (727) |
| Reduction in stock premium | (564) |
| Reduction in capital stock | (13) |
| Other reserves: | |
| - Increase in capital reserve | 7 |
| - Elimination of reserve for 2009 Preference Stock to be redeemed | 1,297 |
| **Impact on Stockholders' equity for the year ended 31 December 2016** | **-** |

## 46 Other equity instruments - Additional tier 1

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Balance at the beginning of the year | 740 | - |
| Additional tier 1 securities issued | - | 749 |
| Transaction costs (net of tax) | - | (9) |
| **Balance at the end of the year** | **740** | **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%.

During the year ended 31 December 2016, the Group paid €83 million relating to the coupons on its AT1 securities (year ended 31 December 2015: €nil). A deferred tax credit of €10 million was recognised by the Group in respect of this payment. The net distribution of €73 million has been recognised directly in equity.

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, pari-passu with preference shareholders and in priority to ordinary 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;

## 46 Other equity instruments - Additional tier 1 (continued)

- 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.

## 47 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Cash and balances at central banks | 5,192 | 6,603 |
| Loans and advances to banks (with an original maturity of less than 3 months) | 3,107 | 4,372 |
| **Cash and cash equivalents** | **8,299** | **10,975** |

Cash and cash equivalents at 31 December 2016 decreased by €2,676 million during the year of which €873 million was with respect to foreign currency exchange translation adjustments. For the year ended 31 December 2015, cash and cash equivalents increased by €1,518 million, of which €228 million was with respect to foreign currency exchange translation adjustments.

Cash and balances at central banks is made up as follows:

| **Cash and balances at central banks** | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|
| Republic of Ireland (Central Bank of Ireland) | 3,032 | 1,077 |
| United Kingdom (Bank of England) | 1,506 | 4,744 |
| United States (Federal Reserve) | 328 | 437 |
| Other (cash holdings) | 326 | 345 |
| **Total** | **5,192** | **6,603** |

## 48 Related party transactions

A number of banking transactions are entered into between the Bank and its subsidiaries in the normal course of business. These include extending secured and unsecured loans, investing in debt securities issued by subsidiaries, taking of deposits and undertaking foreign currency transactions.

***(a) Associates, joint ventures and joint operations***

The Group provides to and receives from its associates, joint ventures and joint operations certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding at 31 December 2016 are set out in notes 26 and 37.

Where appropriate under tax rules, the Group claims from or surrenders tax losses to its associates and joint ventures. In these cases, payments, equal to the value of the losses claimed or surrendered, are made to or received from the associates or joint ventures concerned.

***(b) Pension funds***

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Group for the benefit of its employees (principally to the Bank of Ireland Staff Pensions Fund (BSPF)), which are conducted on similar terms to third party transactions. Details on the Group's contributions to the pension funds are set out in note 42.

The Group occupies one property owned by the Group's pension schemes. The total value of this property at 31 December 2016 is €38 million (31 December 2015: €37 million). The total rental income paid to the Group's pension schemes during the year ended 31 December 2016 was €2 million (year ended 31 December 2015: €2 million).

The Group UK scheme has a charge over a portfolio of Group assets with a value of £17 million at 31 December 2016 (31 December 2015: £25 million).

The Group's pension schemes assets included Bank of Ireland stock amounting to €7 million at 31 December 2016 (31 December 2015: €10 million).

***(c) Transactions with the State***

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 49.

***(d) Transactions with Directors and Key Management Personnel***

***(i) Loans to Directors***

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, Directors means the Court of Directors and any past Directors who were Directors during the relevant period.

Directors' emoluments are set out in the Remuneration Report on pages 173 to 175.

## 48 Related party transactions (continued)

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of nil, or a balance of less than €500. The value of arrangements at the beginning and end of the financial year as stated below in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the financial year is less than 1%.

| Companies Acts disclosure<br>Loans | Balance as at 1 January 2016[1] €'000 | Balance as at 31 December 2016[1] €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2016[2] €'000 | Repayments during the year ended 31 December 2016[3] €'000 |
|---|---|---|---|---|
| **Directors at 31 December 2016** | | | | |
| **R Boucher** | | | | |
| Mortgage total | 49 | 16 | 49 | 33 |
| Other loans total | 181 | - | 181 | 183 |
| Credit card total | 9 | 1 | 15 | - |
| **Total** | **239** | **17** | **245** | **216** |
| **T Considine** | | | | |
| Credit card total | 1 | 2 | 4 | - |
| **Total** | **1** | **2** | **4** | **-** |
| **A Keating** | | | | |
| Credit card total[4] | 1 | 1 | 6 | - |
| **Total** | **1** | **1** | **6** | **-** |
| **P Kennedy** | | | | |
| Mortgages total | 3,002 | 2,991 | 3,001 | 30 |
| Credit card total | 6 | 4 | 7 | - |
| Current account total | - | - | - | - |
| **Total** | **3,008** | **2,995** | **3,008** | **30** |
| **F Muldoon** | | | | |
| Mortgage total | 188 | 165 | 187 | 29 |
| Credit card total | 5 | 6 | 11 | - |
| Current account total | - | - | - | - |
| **Total** | **193** | **171** | **198** | **29** |
| **P Mulvihill** | | | | |
| Credit card total | - | - | - | - |
| Current account total | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** |

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

K Atkinson, P Butler, P Haren, A Kane, D Marston and B Martin had no loans from the Group during the year ended 31 December 2016. No advances were made to any Director during the financial year.

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

All Directors except T Considine have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 280.

## 48 Related party transactions (continued)

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Group and of similar financial standing and do not involve more than normal risk of collectability.

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of nil, or a balance of less than €500. The value of arrangements at the beginning and end of the financial year as stated below in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the financial year is less than 1%.

| Companies Acts disclosure<br>Loans | Balance as at 1 January 2015[1] €'000 | Balance as at 31 December 2015[1] €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2015[2] €'000 | Repayments during the year ended 31 December 2015[3] €'000 |
|---|---|---|---|---|
| Directors at 31 December 2015 | | | | |
| R Boucher | | | | |
| Mortgage total | 81 | 49 | 81 | 33 |
| Other loans total | 229 | 181 | 229 | 48 |
| Credit card total | - | 9 | 10 | - |
| Total | 310 | 239 | 320 | 81 |
| T Considine | | | | |
| Credit card total | - | 1 | 2 | - |
| Total | - | 1 | 2 | - |
| A Keating | | | | |
| Credit card total[4] | 3 | 1 | 5 | - |
| Total | 3 | 1 | 5 | - |
| P Kennedy | | | | |
| Mortgages total | 3,012 | 3,002 | 3,011 | 31 |
| Credit card total | 9 | 6 | 10 | - |
| Current account total | - | - | - | - |
| Total | 3,021 | 3,008 | 3,021 | 31 |
| F Muldoon | | | | |
| Mortgage total | 195 | 188 | 195 | 15 |
| Credit card total | 4 | 5 | 10 | - |
| Current account total | - | - | 3 | - |
| Total | 199 | 193 | 208 | 15 |
| P Mulvihill | | | | |
| Credit card total | - | - | - | - |
| Current account total | - | - | - | - |
| Total | - | - | - | - |

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

## 48 Related party transactions (continued)

K Atkinson, P Butler, P Haren, A Kane, D Marston, B Martin and P O'Sullivan (retired 29 April 2015) had no loans from the Group during the year ended 31 December 2015. No advances were made to any Director during 2015.

There were no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There was no interest which having fallen due on the above loans had not been paid.

***(ii) Loans to connected persons on favourable terms***

There were no loans to connected persons, as defined by Section 220 of the Companies Act 2014, on favourable terms as at 31 December 2016 or 31 December 2015.

***(iii) Loans to connected persons - Central Bank licence condition disclosures***

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:
- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- the aggregate maximum amount outstanding during the year for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

| **2016 Connected persons[1] of the following Directors** | **Balance as at 31 December 2016[2] €'000** | **Maximum amounts outstanding during the year ended 31 December 2016[3] €'000** | **Number of persons as at 31 December 2016** | **Maximum number of persons during the year ended 31 December 2016** |
|---|---|---|---|---|
| Persons connected to P Butler | 404 | 434 | 1 | 1 |
| Persons connected to P Kennedy | 1,726 | 1,810 | 1 | 1 |
| Persons connected to F Muldoon | 307 | 332 | 1 | 1 |

| 2015 Connected persons[1] of the following Directors | Balance as at 31 December 2015[2] €'000 | Maximum amounts outstanding during the year ended 31 December 2015[3] €'000 | Number of persons as at 31 December 2015 | Maximum number of persons during the year ended 31 December 2015 |
|---|---|---|---|---|
| Persons connected to P Butler | 434 | 463 | 1 | 1 |
| Persons connected to P Kennedy | 1,806 | 1,879 | 1 | 1 |
| Persons connected to F Muldoon | 332 | 357 | 1 | 1 |

*[1] Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*
*[2] Balance includes principal and interest.*
*[3] These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*

***(iv) Key management personnel (KMP) - loans and deposits (IAS 24)***

For the purposes of IAS 24: Related Party Disclosures, the Group has 22 KMPs (31 December 2015: 23) which comprise the Directors of the Court, the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to Executive Directors, the GEC comprises the Chief Executive Retail (Ireland), Chief Executive Retail (UK), Chief Executive Corporate and Treasury Division, Chief Operating Officer, Group Treasurer, Chief Governance Risk Officer, Chief Credit and Market Risk Officer, Head of Group Strategy Development and the Head of Group Human Resources. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

## 48 Related party transactions (continued)

Other than as indicated, all loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, and do not involve more than the normal risk of collectability. Loans to key management personnel other than Non-executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank and its KMP, as defined above, together with members of their close families and entities influenced by them are shown in the table below:

**IAS 24 Disclosures**

| **2016 Key management personnel** | **Balance as at 1 January 2016[1,3] €'000** | **Balance as at 31 December 2016[1] €'000** | **Maximum amounts outstanding during the year ended 31 December 2016[2] €'000** | **Total number of relevant KMP as at 1 January 2016** | **Total number of relevant KMP as at 31 December 2016** |
|---|---|---|---|---|---|
| Loans | 5,907 | 6,092 | 6,777 | 16 | 16 |
| Deposits | 5,829 | 4,743 | 29,936 | 21 | 21 |

| 2015 Key management personnel | Balance as at 1 January 2015[1] €'000 | Balance as at 31 December 2015[1] €'000 | Maximum amounts outstanding during the year ended 31 December 2015[2] €'000 | Total number of relevant KMP as at 1 January 2015 | Total number of relevant KMP as at 31 December 2015 |
|---|---|---|---|---|---|
| Loans | 5,286 | 5,907 | 6,469 | 16 | 16 |
| Deposits | 6,374 | 5,829 | 28,561 | 22 | 21 |

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. In all cases key management personnel have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel is €30,000. The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability for any member of key management personnel, close family and entities influenced by them did not exceed €3.1 million during the year ended 31 December 2016 (year ended 31 December 2015: €3 million). In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *The opening balance includes balances and transactions with KMP who have retired during 2015 and are not related parties during the current year. Therefore these KMPs are not included in the maximum amounts outstanding.*

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2016 or 31 December 2015.

Included in the above IAS 24 loan disclosure figures are loans to key management personnel and close family members of KMP on preferential staff rates, amounting to €35,452 (31 December 2015: €41,314).

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon.

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

## 48 Related party transactions (continued)

*(v) Compensation of KMP*

Details of compensation paid to KMP are provided below:

| Remuneration | Year ended 31 December 2016 €'000 | Year ended 31 December 2015 €'000 |
|---|---|---|
| Salaries and other short-term benefits[1] | 7,246 | 7,231 |
| Post employment benefits[2] | 869 | 705 |
| Total remuneration before amounts waived | 8,115 | 7,936 |
| Amounts waived[3] | - | (41) |
| | **8,115** | **7,895** |

[1] *Comprises gross salary, Employer Pay Related Social Insurance contributions, fees, cash in lieu of pension, car allowance and other short-term benefits paid in the year.*
[2] *This comprises Employer contributions paid to pension funds.*
[3] *During 2009, the Executive Directors and members of the GEC who were in office on 1 May 2009 agreed to waive an amount equal to at least 10% of their salary. These waivers had ceased by 30 April 2015.*

## 49 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 2016, the State held through the Ireland Strategic Investment Fund (ISIF) 13.95% (31 December 2015: 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 €20 million for the year ended 31 December 2016 (year ended 31 December 2015: €10 million). See note 5 for further information.

***European Communities (Deposit Guarantee Schemes) Regulations 2015***

Details of the deposits protected by these schemes are set out in note 37.

**(c) 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 National Asset Management Agency (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 transferred 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

## 49 Summary of relations with the State (continued)

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 2016 (31 March 2015: €0.1 million).

**(d) Other transactions with the State and entities under its control or joint control**

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. This includes transactions with AIB, Permanent TSB Group Holdings plc, Government departments, local authorities, county councils, embassies, NAMA, NAMAIL and the National Treasury Management Agency (NTMA) which are all considered to be 'controlled' by the Government. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. The amounts outstanding at 31 December 2016 and 31 December 2015 in respect of these transactions, which are considered individually significant, are set out below:

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| **Assets** | | |
| NAMA senior bonds (guaranteed by the State) (note 25) | 451 | 1,414 |
| Available for sale financial assets: | | |
| - Unguaranteed senior bonds issued by AIB | 297 | 328 |
| - Unguaranteed subordinated bonds issued by AIB | 30 | - |
| - NAMA subordinated bonds (note 23) | 274 | 269 |
| - Bonds issued by the State | 2,248 | 2,750 |
| Held to maturity financial assets | | |
| - Bonds issued by the State (note 24) | 1,872 | 1,922 |
| Other financial assets at fair value through the profit and loss | | |
| - Bonds issued by the State | 376 | 480 |
| Loans and advances to banks | | |
| - AIB | 59 | 33 |
| - Permanent TSB Group Holdings plc | - | 150 |
| **Liabilities** | | |
| Customer Accounts | | |
| - State (including its agencies and entities under its control or joint control) | 1,527 | 1,200 |
| - IBRC (in Special Liquidation) and its associates | 464 | 434 |
| - National Treasury Management Agency (NTMA) | 90 | 395 |
| Debt securities in issue | | |
| - State (including its agencies and entities under its control or joint control) | 146 | 139 |

**(e) Irish bank levy**

The Finance Act (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 annual levy paid by the Group on 20 October 2016 was €38 million (20 October 2015: €38 million).

The Finance Act 2016, enacted in December 2016, confirmed the revised basis on which the levy will be calculated for the years 2017 to 2021. The revised levy will equal 59% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for a particular year with the levy for 2017 and 2018 to be based on the DIRT payment for 2016, the revised levy for 2019 and 2020 to be based on the 2017 DIRT payment and the revised levy for 2021 to be based on the 2019 DIRT payment.

## 50 Principal undertakings

The Parent company of the Group is the Governor and Company of the Bank of Ireland (the 'Bank').

The principal Group undertakings at 31 December 2016 were:

| Name | Principal activity | Country of incorporation | Statutory year end |
|---|---|---|---|
| Bank of Ireland (UK) plc[1] | Retail financial services | England and Wales | 31 December |
| New Ireland Assurance Company plc | Life assurance business | Ireland | 31 December |
| Bank of Ireland Mortgage Bank[1] | Mortgage lending and mortgage covered securities | Ireland | 31 December |
| First Rate Exchange Services Limited[2] | Foreign exchange | England and Wales | 31 March |
| N.I.I.B. Group Limited | Personal finance and leasing | Northern Ireland | 31 December |

[1] *Direct subsidiary of The Governor and Company of the Bank of Ireland*
[2] *This entity is a subsidiary of First Rate Exchange Services Holdings Limited, a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.*

All the Group undertakings are included in the consolidated financial statements. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Bank will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

**Bank of Ireland Mortgage Bank (BoIMB)**
BoIMB's principal activities are the issuance of Irish Residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. BoIMB asset covered securities may be purchased by the Bank and other members of the Group or third parties.

At 31 December 2016, the total amount outstanding in respect of mortgage covered securities issued was €7.9 billion (31 December 2015: €7.3 billion). At 31 December 2016, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €11.3 billion (31 December 2015: €12.4 billion).

BoIMB issues other debt securities under BoIMB's obligation to the Central Bank of Ireland within the terms of the Special Mortgage Backed Promissory Note (SMBPN) programme. At 31 December 2016, BoIMB had no such debt securities in issue (31 December 2015: €nil).

## 51 Interests in other entities

**(a) General**

The Group holds ordinary shares and voting rights in a significant number of entities. Management has assessed its involvement in all such entities in accordance with the definitions and guidance in:

- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of ‘structured entities’, management’s judgement is required in determining how the investee should be accounted for.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group assesses whether it has power over the relevant activities in assessing control over such an entity by considering factors such as who manages the assets of these entities and whether the Group has lending to, or a residual interest in such entities.

In the case of structured entities, the Group considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In each case the Group considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, even though the Group normally owns less than half of the voting rights of those entities.

The Group does not consider it controls an investee when:

- the Group’s only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

In the case of some venture capital investments, the Group may hold 50% or more of the voting power of an entity, but has been considered to have significant influence, rather than control of the entity because the Group is not involved in directing the relevant activities of the entity and does not have the right to remove the manager of the entity.

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity’s operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it could be clearly demonstrated that this was not the case. There are no such cases where the Group holds 20% or more of the voting power of an entity, and is not considered to have significant influence over that entity.

A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture.

## 51 Interests in other entities (continued)

**(b) Significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group**

Regulated banking and insurance subsidiaries are required to maintain minimum regulatory liquidity and solvency ratios and are subject to other regulatory restrictions that may impact on transactions between these subsidiaries and the Bank, including on the subsidiaries ability to make distributions.

Certain transactions between Bank of Ireland (UK) plc and the Bank are subject to regulatory limits and approvals agreed with the Prudential Regulatory Authority. Total assets of Bank of Ireland (UK) plc amounted to €30.3 billion (31 December 2015: €38.1 billion) and liabilities amounted to €27.9 billion (31 December 2015: €35.2 billion).

The activities of Bank of Ireland Mortgage Bank (BoIMB) are subject to the Asset Covered Securities Act 2001 to 2007 which imposes certain restrictions over the assets of BoIMB. Total assets of BoIMB amounted to €20.8 billion (31 December 2015: €21.0 billion) and liabilities amounted to €19.5 billion (31 December 2015: €20.0 billion).

The Group's Life Assurance Business is required to hold shareholder equity that exceeds a certain margin, see note 39 for details. In addition, the Isle of Man Insurance and Pension authority requires the Group's Isle of Man insurance business to hold shareholder equity that exceeds a statutory margin.

Under Section 357 (1)(b) of the Companies Act 2014, the Bank has given an irrevocable guarantee to meet the liabilities of certain Group undertakings. For further details on the Group's undertakings please see note ai (d) to the Bank financial statements. The liabilities of these undertakings amounted to €32 million as at 31 December 2016 (31 December 2015: €38 million).

**(c) Structured entities**

The Group holds a number of structured entities (Brunel, Bowbell plc), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. All of the assets and liabilities are restricted. Total assets amounted to €5.7 billion (31 December 2015: €9.1 billion) and liabilities amounted to €3.3 billion (31 December 2015: €6.1 billion). During 2016, the securities issued by two of the Group's structured entities, Kildare Securities Limited and Partholon CDO 1 plc were either redeemed or matured.

The Group also holds a structured entity (Avondale Securities S.A.) whose purpose is to issue debt securities, the debt securities being secured on a defined set of unit-linked policies written by New Ireland Assurance Company plc. All of the assets and liabilities of this entity are restricted. The unit-linked polices acting as security amounted to €350 million (31 December 2015: €393 million) and liabilities amounted to €20 million (31 December 2015: €92 million).

During the year ended 31 December 2016, the Group entered into a credit default swap transaction transferring a portion of the credit risk on a reference portfolio of performing Irish SME and corporate exposures to Grattan Securities DAC (Grattan), a newly established structured entity. No assets or liabilities were transferred to Grattan as part of the transaction. Grattan cash collateralised its exposure under the credit default swap through the issue of credit linked notes to third party investors. The reference portfolio can, at the option of the Group, be replenished up to the third anniversary of the date of issue of the notes. The protection provided by Grattan matures in 2024.

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In the years ended 31 December 2016 and 31 December 2015 the Group did not provide financial or other support, nor does it expect or intend to do so. All of these entities were consolidated in the Group's financial statements for the years ended 31 December 2016 and 31 December 2015.

**(d) Treatment of changes in control of a subsidiary during the reporting period**

From time to time, the Group may wind up a wholly owned company. During this process, the Group voluntarily appoints a liquidator to manage the winding up of relevant entities. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and accounts for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative foreign exchange losses relating to these companies from the foreign exchange reserve to the income statement. During the year ended 31 December 2016, €4 million was transferred (year ended 31 December 2015: €6 million) (page 191).

## 51 Interests in other entities (continued)

**(e) Joint arrangements**

The following table shows the Group's principal joint arrangements for the year ended 31 December 2016.

| Joint arrangement | Holding | Classification | Country of operation | Nature of activities |
|---|---|---|---|---|
| First Rate Exchange Services Holdings Limited | 50% | Joint venture | UK | Sale of financial products through the UK Post Office relationship |
| Enterprise 2000 Fund | 50% | Joint venture | Ireland | Investment in venture capital companies |

All joint ventures investments are unquoted and are measured using the equity method of accounting. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for the year ended 31 December 2016 or cumulatively in respect of these entities. Other than disclosed in note 57, the Group does not have any further commitments or contingent liabilities in respect of these entities other than its investment to date.

**(f) Associates**

The Group holds a number of investments in associates, none of which is individually material. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for the year ended 31 December 2016 or cumulatively in respect of these entities. The Group does not have any contingent liabilities in respect of these entities other than its investment to date.

**(g) Unconsolidated structured entities**

The Group has incorporated certain entities to provide investment opportunities to clients in international commercial properties. The Group considers that it sponsors these entities where it continues to be involved in the entity or if it is in receipt of income from the entity during the year. At 31 December 2016, there were 2 of these entities (31 December 2015: 3). The total gross asset value of these entities at 31 December 2016 was €134 million (31 December 2015: €456 million).

With regard to the remaining unconsolidated structured entities, they are all property holding companies whose principal activity is managing property investments. In the year ended 31 December 2016, the Group earned asset management fees from these entities.

These structured entities are not consolidated, but the associated income in relation to these entities, is included in the Group's financial statements as follows:

| Unconsolidated structured entities | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| **Fee and commission income** | **-** | **1** |

The carrying amount of assets and liabilities in relation to these entities in the Group's financial statements is €nil (31 December 2015: €nil).

The Group's maximum exposure to loss in respect of its unconsolidated structured entities is €nil (31 December 2015: €nil).

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support.

**(h) Coterminous year end dates**

The Group consolidates certain entities where the entity does not have the same year end reporting date as the Group. This is to ensure the reporting dates of these Group entities are kept consistent with the principal legal agreements used to engage in its core business.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

## 52 Liquidity risk and profile

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life) at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,647 million and €10,934 million respectively (31 December 2015: €5,729 million and €10,403 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

| **As at 31 December 2016**<br>**Contractual maturity** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| Deposits from banks | 74 | 1,617 | - | - | - | 1,691 |
| Monetary Authorities secured funding | - | 181 | 294 | 2,963 | - | 3,438 |
| Customer accounts | 55,534 | 9,395 | 6,909 | 3,290 | 280 | 75,408 |
| Debt securities in issue | - | 448 | 1,869 | 3,298 | 4,519 | 10,134 |
| Subordinated liabilities | - | 22 | 72 | 559 | 1,366 | 2,019 |
| Contingent liabilities | 475 | 15 | 119 | 123 | 180 | 912 |
| Short positions in trading securities | 47 | - | - | - | - | 47 |
| Commitments | 11,687 | 22 | 497 | 2,317 | - | 14,523 |
| **Total** | **67,817** | **11,700** | **9,760** | **12,550** | **6,345** | **108,172** |

| As at 31 December 2015<br>Contractual maturity | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Deposits from banks | 76 | 856 | - | - | - | 932 |
| Monetary Authorities secured funding | - | 7 | 1,513 | - | - | 1,520 |
| Customer accounts[1] | 54,251 | 12,262 | 9,367 | 4,424 | 388 | 80,692 |
| Debt securities in issue | - | 250 | 698 | 6,575 | 5,294 | 12,817 |
| Subordinated liabilities | - | 18 | 1,171 | 1,470 | 943 | 3,602 |
| Contingent liabilities | 604 | - | - | - | 427 | 1,031 |
| Short positions in trading securities | - | - | - | - | - | - |
| Commitments | 11,513 | 103 | 883 | 2,707 | - | 15,206 |
| Total | 66,444 | 13,496 | 13,632 | 15,176 | 7,052 | 115,800 |

[1] *Comparative figures have been adjusted to reflect a change in assessment in the current year of the maturity dates of certain deposits with access features. Customer accounts repayable: on demand have been restated by €2,914 million from €51,337 million to €54,251 million; up to 3 months have been restated by €3,081 million from €15,343 million to €12,262 million; 3-12 months has been restated by €79 million from €9,446 million to €9,367 million; 1-5 years has been restated by €246 million from €4,178 million to €4,424 million, with no change to the total for customer accounts.*

## 52 Liquidity risk and profile (continued)

As set out in note 20, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered with economic hedging intent to which the Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting.

The tables below summarise the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

**As at 31 December 2016**

| **Derivative financial instruments** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| **Derivatives held with hedging intent** | | | | | | |
| Gross settled derivative liabilities - outflows | - | 351 | 323 | 268 | - | 942 |
| Gross settled derivative liabilities - inflows | - | (318) | (261) | (202) | - | (781) |
| Gross settled derivative liabilities - net flows | - | 33 | 62 | 66 | - | 161 |
| Net settled derivative liabilities | - | 122 | 303 | 943 | 452 | 1,820 |
| **Total derivatives held with hedging intent** | **-** | **155** | **365** | **1,009** | **452** | **1,981** |
| Derivative liabilities held with trading intent | 1,027 | - | - | - | - | 1,027 |
| **Total derivative cash flows** | **1,027** | **155** | **365** | **1,009** | **452** | **3,008** |

As at 31 December 2015

| Derivative financial instruments | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Derivatives held with hedging intent | | | | | | |
| Gross settled derivative liabilities - outflows | - | 3,163 | 4,053 | 1,952 | 11 | 9,179 |
| Gross settled derivative liabilities - inflows | - | (2,829) | (3,681) | (1,843) | (5) | (8,358) |
| Gross settled derivative liabilities - net flows | - | 334 | 372 | 109 | 6 | 821 |
| Net settled derivative liabilities | - | 157 | 394 | 966 | 441 | 1,958 |
| Total derivatives held with hedging intent | - | 491 | 766 | 1,075 | 447 | 2,779 |
| Derivative liabilities held with trading intent | 899 | - | - | - | - | 899 |
| Total derivative cash flows | 899 | 491 | 766 | 1,075 | 447 | 3,678 |

## 53 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

| | At fair value through profit or loss | | | At fair value through Other Comprehensive income (OCI) | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2016 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Insurance contracts €m | Total €m |
| **Financial assets** | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 5,192 | - | 5,192 |
| Items in the course of collection from other banks | - | - | - | - | - | 242 | - | 242 |
| Trading securities | - | 18 | - | - | - | - | - | 18 |
| Derivative financial instruments | 295 | 2,259 | - | - | 1,155 | - | - | 3,709 |
| Other financial assets at fair value through profit or loss | - | - | 13,249 | - | - | - | - | 13,249 |
| Loans and advances to banks | - | - | - | - | - | 3,349 | - | 3,349 |
| Available for sale financial assets | - | - | - | 10,794 | - | - | - | 10,794 |
| Held to maturity financial assets | - | - | - | - | - | 1,872 | - | 1,872 |
| NAMA senior bonds | - | - | - | - | - | 451 | - | 451 |
| Loans and advances to customers | - | - | - | - | - | 78,477 | - | 78,477 |
| Assets classified as held for sale | - | - | - | - | - | - | - | - |
| Interest in associates | - | - | 56 | - | - | - | - | 56 |
| **Total financial assets** | **295** | **2,277** | **13,305** | **10,794** | **1,155** | **89,583** | **-** | **117,409** |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | - | - | - | - | - | 3,662 | - | 3,662 |
| Customer accounts | - | - | 1,766 | - | - | 73,401 | - | 75,167 |
| Items in the course of transmission to other banks | - | - | - | - | - | 223 | - | 223 |
| Derivative financial instruments | 405 | 2,404 | - | - | 64 | - | - | 2,873 |
| Debt securities in issue | - | - | 660 | - | - | 10,037 | - | 10,697 |
| Liabilities to customers under investment contracts | - | - | 5,647 | - | - | - | - | 5,647 |
| Insurance contract liabilities | - | - | - | - | - | - | 10,934 | 10,934 |
| Subordinated liabilities | - | - | - | - | - | 1,425 | - | 1,425 |
| Short positions in trading securities | - | 47 | - | - | - | - | - | 47 |
| **Total financial liabilities** | **405** | **2,451** | **8,073** | **-** | **64** | **88,748** | **10,934** | **110,675** |

## 53 Measurement basis of financial assets and financial liabilities (continued)

| | At fair value through profit or loss | | | At fair value through Other Comprehensive income (OCI) | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 December 2015 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Insurance contracts €m | Total €m |
| Financial assets | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 6,603 | - | 6,603 |
| Items in the course of collection from other banks | - | - | - | - | - | 294 | - | 294 |
| Trading securities | - | 3 | - | - | - | - | - | 3 |
| Derivative financial instruments | 280 | 2,390 | - | - | 394 | - | - | 3,064 |
| Other financial assets at fair value through profit or loss | - | - | 12,280 | - | - | - | - | 12,280 |
| Loans and advances to banks | - | - | - | - | - | 4,578 | - | 4,578 |
| Available for sale financial assets | - | - | - | 10,128 | - | - | - | 10,128 |
| Held to maturity financial assets | - | - | - | - | - | 1,922 | - | 1,922 |
| NAMA senior bonds | - | - | - | - | - | 1,414 | - | 1,414 |
| Loans and advances to customers | - | - | - | - | - | 84,689 | - | 84,689 |
| Assets classified as held for sale | - | - | - | - | - | 20 | - | 20 |
| Interest in associates | - | - | 56 | - | - | - | - | 56 |
| Total financial assets | 280 | 2,393 | 12,336 | 10,128 | 394 | 99,520 | - | 125,051 |
| Financial liabilities | | | | | | | | |
| Deposits from banks | - | - | - | - | - | 952 | - | 952 |
| Customer accounts | - | - | 1,903 | - | - | 78,261 | - | 80,164 |
| Items in the course of transmission to other banks | - | - | - | - | - | 239 | - | 239 |
| Derivative financial instruments | 431 | 2,527 | - | - | 661 | - | - | 3,619 |
| Debt securities in issue | - | - | 685 | - | - | 12,558 | - | 13,243 |
| Liabilities to customers under investment contracts | - | - | 5,729 | - | - | - | - | 5,729 |
| Insurance contract liabilities | - | - | - | - | - | - | 10,403 | 10,403 |
| Subordinated liabilities | - | - | - | - | - | 2,440 | - | 2,440 |
| Short positions in trading securities | - | - | - | - | - | - | - | - |
| Total financial liabilities | 431 | 2,527 | 8,317 | - | 661 | 94,450 | 10,403 | 116,789 |

## 53 Measurement basis of financial assets and financial liabilities (continued)

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Fair values €m | Contractual amount due on maturity €m | Fair values €m | Contractual amount due on maturity €m |
| Customer accounts | 1,766 | 1,762 | 1,903 | 1,911 |
| Liabilities to customers under investment contracts | 5,647 | 5,647 | 5,729 | 5,729 |
| Debt securities in issue | 660 | 631 | 685 | 671 |
| **Financial liabilities designated at fair value through profit or loss** | **8,073** | **8,040** | **8,317** | **8,311** |

For financial assets and financial liabilities which are recognised and subsequently measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 54.

## 54 Fair values of assets and liabilities

**Fair value of assets and liabilities**
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include discounted cash flow models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

**Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3** inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

**(a) Financial assets and financial liabilities recognised and subsequently measured at fair value**

All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. These instruments are shown as either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income.

A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by the management of the relevant business unit. The valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent both across the Group and compared to prior reporting periods.

## 54 Fair values of assets and liabilities (continued)

***Financial assets and financial liabilities held for trading***
These instruments are valued using observable market prices (level 1 inputs), directly from a recognised pricing source or an independent broker or investment bank.

***Derivative financial instruments***
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit (level 2 inputs).

The fair values of the Group's derivative financial liabilities reflect the impact of changes in own credit spreads derived from observable market data (debit valuation adjustment). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment). The funding cost is derived from observable market data; however the model may perform numerical procedures in the pricing such as interpolation when market data input values do not directly correspond to the exact parameters of the trade. Both methodologies are considered to use level 2 inputs.

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as credit grade, which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €4 million or decrease their fair value by up to €4 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

***Other financial assets at fair value through profit or loss***
These consist of assets designated at fair value through profit or loss, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data i.e. level 1 or level 2 inputs. A small number of assets have been valued using discounted cash flow models, which incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

***Available for sale financial assets***
For available for sale financial assets for which an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

A small number of assets have been valued using vendor prices, which are not considered to represent observable market data, or discounted cash flow models which incorporate unobservable inputs (level 3 inputs).

During the year ended 31 December 2016, securities with terms and conditions substantially similar to the NAMA subordinated debt have been traded in an active market. The quoted price of these securities has been used to value the NAMA subordinated debt at 31 December 2016 (level 2 inputs).

***Interest in associates***
Investments in associates which are venture capital investments are accounted for at fair value through profit or loss and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as discounted cash flow analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

## 54 Fair values of assets and liabilities (continued)

***Customer accounts and deposits by banks***

Customer accounts and deposits by banks designated at fair value through profit or loss consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group (level 2 inputs).

A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see below), leaving the Group with no net valuation risk due to those non-observable inputs.

***Liabilities to customers under insurance and investment contracts***

In line with the accounting policy set out on page 214, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

***Debt securities in issue***

Debt securities in issue with a fair value of €660 million (31 December 2015: €685 million) are measured at fair value through profit or loss, in order to reduce an accounting mismatch which would otherwise arise from hedging derivatives. Their fair value is based on valuation techniques incorporating significant unobservable market data (level 3 inputs). The significant unobservable input is the Group's credit spread, the estimation of which is judgemental in current market circumstances. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group. In addition the Group considers the credit spread applicable to Irish Government bonds. A 1% increase / decrease in the estimated credit spread at 31 December 2016 would result in a decrease of €50 million / increase of €50 million respectively in the fair value of the liabilities, with a corresponding impact on the income statement.

**(b) Financial assets and liabilities held at amortised cost**

For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

***Loans and advances to banks***

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

***Loans and advances to customers***

Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques which include:

- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs); and
- recent arm's length transactions in similar assets (level 2 inputs).

***Held to maturity financial assets***

For held to maturity financial assets for which an active market exists, fair value has been determined directly from observable market prices (level 1 inputs).

## 54 Fair values of assets and liabilities (continued)

*NAMA senior bonds*
NAMA senior bonds are classified as loans and receivables and are carried net of provisions for impairment. As with all financial assets, NAMA senior bonds are measured at fair value at initial recognition. The bonds do not trade in an active market. Their fair value has been estimated by using a valuation technique which takes into consideration the contractual maturity date of the bonds, the Government guarantee, collateral and other support, valuations in the repo market and the yield on Irish Government bonds of similar maturity (level 2 inputs). The bonds are subsequently measured at amortised cost.

*Deposits from banks and customer accounts*
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new deposits with similar remaining maturity (level 2 inputs).

*Debt securities in issue and subordinated liabilities*
The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread (level 2 and level 3 inputs).

**(c) Fair value on offsetting positions**
Where the Group manages certain financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group applies the exception allowed under paragraph 48 of IFRS 13. That exception permits the Group to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, the Group measures the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

**(d) Fair value of non-financial assets**
*Investment properties*
Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs take into consideration occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

*Property*
A revaluation of Group property was carried out as at 31 December 2016. All freehold and long leasehold commercial properties were valued by Lisney as external valuers, with the exception of some select properties which were valued internally by the Bank's qualified surveyors. Lisney valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

## 54 Fair values of assets and liabilities (continued)

The following table sets out the level of the fair value hierarchy for assets and liabilities held at fair value. Information is also given for items carried at amortised cost where the fair value is disclosed.

| 31 December 2016 | Quoted prices in active market Level 1 €m | Valuation techniques observable inputs Level 2 €m | Valuation techniques unobservable inputs Level 3 €m | Total €m |
|---|---|---|---|---|
| **Financial assets held at fair value** | | | | |
| Trading securities | 18 | - | - | 18 |
| Derivative financial instruments | 4 | 3,651 | 54 | 3,709 |
| Other financial assets at FVTPL | 12,668 | 532 | 49 | 13,249 |
| AFS financial assets | 10,375 | 344 | 75 | 10,794 |
| Interest in associates | - | - | 56 | 56 |
| **Non-financial assets held at fair value** | | | | |
| Investment property | - | - | 864 | 864 |
| Property held at fair value | - | - | 167 | 167 |
| | **23,065** | **4,527** | **1,265** | **28,857** |
| **Financial liabilities held at fair value** | | | | |
| Customer accounts | - | 1,747 | 19 | 1,766 |
| Derivative financial instruments | 3 | 2,869 | 1 | 2,873 |
| Liabilities to customers under investment contracts | - | 5,647 | - | 5,647 |
| Insurance contract liabilities | - | 10,934 | - | 10,934 |
| Debt securities in issue | - | - | 660 | 660 |
| Short positions in trading securities | 47 | - | - | 47 |
| | **50** | **21,197** | **680** | **21,927** |
| **Fair value of financial assets held at amortised cost** | | | | |
| Loans and advances to banks | - | 3,349 | - | 3,349 |
| Loans and advances to customers | - | - | 74,246 | 74,246 |
| NAMA senior bonds | - | 454 | - | 454 |
| Held to maturity financial assets | 1,918 | - | - | 1,918 |
| **Fair value of financial liabilities held at amortised cost** | | | | |
| Deposits from banks | - | 3,662 | - | 3,662 |
| Customer accounts | - | 73,453 | - | 73,453 |
| Debt securities in issue | 5,445 | 4,340 | 303 | 10,088 |
| Subordinated liabilities | 48 | 1,375 | 135 | 1,558 |

## 54 Fair values of assets and liabilities (continued)

| 31 December 2015 | Quoted prices in active market Level 1 €m | Valuation techniques observable inputs Level 2 €m | Valuation techniques unobservable inputs Level 3 €m | Total €m |
|---|---|---|---|---|
| Financial assets held at fair value | | | | |
| Trading securities | 3 | - | - | 3 |
| Derivative financial instruments | 1 | 2,899 | 164 | 3,064 |
| Other financial assets at FVTPL | 11,692 | 571 | 17 | 12,280 |
| AFS financial assets | 9,518 | 409 | 201 | 10,128 |
| Interest in associates | - | - | 56 | 56 |
| Non-financial assets held at fair value | | | | |
| Investment property | - | - | 841 | 841 |
| Property held at fair value | - | - | 167 | 167 |
| | 21,214 | 3,879 | 1,446 | 26,539 |
| Financial liabilities held at fair value | | | | |
| Customer accounts | - | 1,903 | - | 1,903 |
| Derivative financial instruments | 1 | 3,614 | 4 | 3,619 |
| Liabilities to customers under investment contracts | - | 5,729 | - | 5,729 |
| Insurance contract liabilities | - | 10,403 | - | 10,403 |
| Debt securities in issue | - | - | 685 | 685 |
| Short positions in trading securities | - | - | - | - |
| | 1 | 21,649 | 689 | 22,339 |
| Fair value of financial assets held at amortised cost | | | | |
| Loans and advances to banks | - | 4,578 | - | 4,578 |
| Loans and advances to customers (including assets classified as held for sale) | - | - | 79,279 | 79,279 |
| NAMA senior bonds | - | 1,422 | - | 1,422 |
| Held to maturity financial assets | 1,887 | - | - | 1,887 |
| Fair value of financial liabilities held at amortised cost | | | | |
| Deposits from banks | - | 952 | - | 952 |
| Customer accounts | - | 78,316 | - | 78,316 |
| Debt securities in issue | 8,724 | 3,613 | 187 | 12,524 |
| 2009 Preference Stock and dividend | - | 1,416 | - | 1,416 |
| Subordinated liabilities | 55 | 2,452 | 147 | 2,654 |

## 54 Fair values of assets and liabilities (continued)

| **Movements in level 3 assets**<br>**31 December 2016** | **Other financial assets at FVTPL €m** | **Derivative financial instruments €m** | **Available for sale financial assets €m** | **Interest in associates €m** | **Investment property €m** | **Property held at fair value €m** | **Total €m** |
|---|---|---|---|---|---|---|---|
| Opening Balance | 17 | 164 | 201 | 56 | 841 | 167 | 1,446 |
| Exchange Adjustment | - | (19) | (3) | - | (43) | (8) | (73) |
| Total gains or losses in: | | | | | | | |
| Profit or loss | | | | | | | |
| - Net trading income / (expense) | 3 | 83 | - | - | - | - | 86 |
| - Reversal of impairment charges | - | - | - | - | - | 5 | 5 |
| - Impairment charge | - | - | (2) | - | - | - | (2) |
| - Interest income | - | - | - | - | - | - | - |
| - Share of results of associates | - | - | - | (2) | - | - | (2) |
| - Life assurance investment income and gains | - | - | - | - | 17 | - | 17 |
| - Other operating income | - | - | 14 | - | (3) | - | 11 |
| Other comprehensive income | - | - | 8 | - | - | 4 | 12 |
| Additions | 29 | - | 24 | 13 | 65 | - | 131 |
| Disposals | - | (9) | (183) | (11) | (13) | - | (216) |
| Redemptions | - | (2) | (6) | - | - | - | (8) |
| Reclassifications | - | - | - | - | - | (1) | (1) |
| Transfers out of level 3 | | | | | | | |
| - from level 3 to level 2 | - | (170) | - | - | - | - | (170) |
| Transfers into level 3 | | | | | | | |
| - from level 2 to level 3 | - | 7 | 22 | - | - | - | 29 |
| **Closing balance** | **49** | **54** | **75** | **56** | **864** | **167** | **1,265** |
| Other transfers | | | | | | | |
| - from level 1 to level 2 | - | - | 3 | - | - | - | 3 |
| - from level 2 to level 1 | - | - | - | - | - | - | - |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | | | |
| - Net trading income / (expense) | 3 | 23 | - | - | - | - | 26 |
| - Life assurance investment income and gains | - | - | - | - | 17 | - | 17 |
| - Other operating income | - | - | 8 | - | (3) | - | 5 |
| - Reversal of impairment charges | - | - | - | - | - | - | - |
| - Share of results of associates | - | - | - | (3) | - | - | (3) |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2016 which were unavailable at 31 December 2015.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 1 to level 2 arose as a result of the unavailability of level 1 inputs at 31 December 2016 which were available at 31 December 2015. For such assets observable inputs (other than level 1 inputs) were available at 31 December 2016.

## 54 Fair values of assets and liabilities (continued)

| Movements in level 3 assets<br>31 December 2015 | Other financial assets at FVTPL €m | Derivative financial instruments €m | Available for sale financial assets €m | Interest in associates €m | Investment property €m | Property held at fair value €m | Total €m |
|---|---|---|---|---|---|---|---|
| Opening Balance | 17 | 208 | 279 | 56 | 836 | 144 | 1,540 |
| Exchange Adjustment | - | 8 | - | - | 14 | 3 | 25 |
| Total gains or losses in: | | | | | | | |
| Profit or loss | | | | | | | |
| - Net trading income / (expense) | - | (39) | - | - | - | - | (39) |
| - Reversal of impairment charges | - | - | - | - | - | 3 | 3 |
| - Interest income | - | - | 14 | - | - | - | 14 |
| - Share of results of associates | - | - | - | 8 | - | - | 8 |
| - Life assurance investment income and gains | - | - | - | - | 74 | - | 74 |
| - Other operating income | - | - | 34 | - | 30 | 8 | 72 |
| Other comprehensive income | - | - | 110 | - | - | 9 | 119 |
| Additions | - | - | 76 | 5 | 80 | - | 161 |
| Disposals | - | (27) | (34) | (13) | (193) | - | (267) |
| Redemptions | - | - | (9) | - | - | - | (9) |
| Transfers out of level 3 | | | | | | | |
| - from level 3 to level 2 | - | (36) | (269) | - | - | - | (305) |
| Transfers into level 3 | | | | | | | |
| - from level 2 to level 3 | - | 50 | - | - | - | - | 50 |
| Closing balance | 17 | 164 | 201 | 56 | 841 | 167 | 1,446 |
| Other transfers | | | | | | | |
| - from level 1 to level 2 | - | - | 8 | - | - | - | 8 |
| - from level 2 to level 1 | - | - | 18 | - | - | - | 18 |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | | | |
| - Net trading income / (expense) | - | (57) | - | - | - | - | (57) |
| - Life assurance investment income and gains | - | - | - | - | 74 | - | 74 |
| - Other operating income | - | - | 5 | - | 6 | 8 | 19 |
| - Reversal of impairment charges | - | - | - | - | - | 3 | 3 |
| - Share of results of associates | - | - | - | 8 | - | - | 8 |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2015 which were unavailable at 31 December 2014.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 2 to level 1 arose as a result of the availability of level 1 inputs at 31 December 2015 which were unavailable at 31 December 2014.

The transfer from level 1 to level 2 arose as a result of the unavailability of level 1 inputs at 31 December 2015 which were available at 31 December 2014. For such assets observable inputs (other than level 1 inputs) were available at 31 December 2015.

## 54 Fair values of assets and liabilities (continued)

| **Movements in level 3 liabilities 31 December 2016** | **Customer accounts €m** | **Derivative financial instruments €m** | **Debt securities in issue €m** | **Subordinated liabilities €m** | **Total €m** |
|---|---|---|---|---|---|
| Opening balance | - | 4 | 685 | - | 689 |
| Exchange adjustments | - | (1) | - | - | (1) |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | (1) | 3 | 18 | - | 20 |
| Additions | 20 | - | 43 | - | 63 |
| Redemptions and maturities | - | - | (86) | - | (86) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | - | (5) | - | - | (5) |
| **Closing balance** | **19** | **1** | **660** | **-** | **680** |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year | | | | | |
| Net trading income / (expense) | 1 | (1) | (16) | - | (16) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

| Movements in level 3 liabilities 31 December 2015 | Customer accounts €m | Derivative financial instruments €m | Debt securities in issue €m | Subordinated liabilities €m | Total €m |
|---|---|---|---|---|---|
| Opening balance | 2 | 11 | 631 | 69 | 713 |
| Exchange adjustments | - | - | - | 7 | 7 |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | - | 6 | (6) | 1 | 1 |
| Additions | - | - | 165 | - | 165 |
| Redemptions and maturities | - | (10) | (105) | (77) | (192) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | (2) | (3) | - | - | (5) |
| Closing balance | - | 4 | 685 | - | 689 |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year | | | | | |
| Net trading income / (expense) | - | (2) | (17) | - | (19) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

## 54 Fair values of assets and liabilities (continued)

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3)**

| Level 3 assets | Valuation technique | Unobservable input | Fair value 31 December 2016 €m | Fair value 31 December 2015 €m | Range 31 December 2016 % | Range 31 December 2015 % |
|---|---|---|---|---|---|---|
| Derivative financial assets | Discounted cash flow | Credit Spread[1] | 54 | 164 | 0% - 4% | 0% - 4% |
| | Option pricing model | Credit Spread[1] | | | 0% - 4% | 0% - 4% |
| Other financial assets at fair value through profit or loss | Discounted cash flow | Discount rate[2] | 49 | 17 | Third party pricing | Third party pricing |
| | Equity Value less discount | Discount | | | 0%-50% | - |
| AFS financial assets | Market comparable companies | Discount rate[2] | 75 | 201 | Third party pricing | Third party pricing |
| | | EBITDA multiple[3] | | | | |
| | | Liquidity factor | | | | |
| Interest in associates | Market comparable companies | Price of recent investment | 56 | 56 | Third party pricing | Third party pricing |
| | | Earnings multiple[3] | | | | |
| | | Revenue multiple[3] | | | | |
| Investment property | Market comparable property transactions | Property valuation assumptions | 864 | 841 | Third party pricing | Third party pricing |
| Property held at fair value | Market comparable property transactions | Property valuation assumptions | 167 | 167 | Third party pricing | Third party pricing |

| Level 3 liabilities | Valuation technique | Unobservable input | Fair value 31 December 2016 €m | Fair value 31 December 2015 €m | Range 31 December 2016 % | Range 31 December 2015 % |
|---|---|---|---|---|---|---|
| Customer accounts | Discounted cash flow | Credit Spread[1] | 19 | - | 0% - 4% | - |
| | Option pricing model | | | | | |
| Derivative financial liabilities | Discounted cash flow | Credit Spread[1] | 1 | 4 | 0% - 4% | 0% - 4% |
| | Option pricing model | Credit Spread[1] | | | Third party pricing | Third party pricing |
| Debt securities in issue | Discounted cash flow | Credit Spread[1] | 660 | 685 | 0% - 4% | 0% - 4% |

*[1] The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
*[2] The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
*[3] The Group's multiples represent multiples that market participants would use in valuing these investments.*

*Note: 100 basis points = 1%*

## 54 Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost, are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

| Non-trading financial instruments | 31 December 2016 Carrying amount €m | 31 December 2016 Fair values €m | 31 December 2015 Carrying amount €m | 31 December 2015 Fair values €m |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to banks | 3,349 | 3,349 | 4,578 | 4,578 |
| Loans and advances to customers (including assets classified as held for sale) | 78,477 | 74,246 | 84,709 | 79,279 |
| NAMA senior bonds | 451 | 454 | 1,414 | 1,422 |
| Held to maturity financial assets | 1,872 | 1,918 | 1,922 | 1,887 |
| **Liabilities** | | | | |
| Deposits from banks | 3,662 | 3,662 | 952 | 952 |
| Customer accounts | 73,400 | 73,453 | 78,261 | 78,316 |
| Debt securities in issue | 10,037 | 10,088 | 12,558 | 12,524 |
| 2009 Preference Stock and dividend | - | - | 1,416 | 1,416 |
| Subordinated liabilities | 1,425 | 1,558 | 2,440 | 2,654 |

## 55 Transferred financial assets

The Group has transferred certain financial assets that are not derecognised from the Group's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including Credit and Market Risk associated with the transferred assets.

| 31 December 2016 Categories | Carrying amount of transferred assets €m | Carrying amount of associated liabilities[1] €m | Fair value of transferred assets €m | Fair value of associated liabilities[1] €m | Net fair value position €m |
|---|---|---|---|---|---|
| **Securitisation** | | | | | |
| Loans and receivables | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 770 | 968 | 725 | 889 | (164) |
| **Sale and repurchase** | | | | | |
| Available for sale financial assets[3] | 76 | 76 | n/a | n/a | n/a |

*Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:*

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation SPEs, held by other Group entities.*

[2] *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

[3] *Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

*n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

## 55 Transferred financial assets (continued)

| 31 December 2015<br>Categories | Carrying amount of transferred assets<br>€m | Carrying amount of associated liabilities[1]<br>€m | Fair value of transferred assets<br>€m | Fair value of associated liabilities[1]<br>€m | Net fair value position<br>€m |
|---|---|---|---|---|---|
| Securitisation | | | | | |
| Loans and receivables | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 1,109 | 1,307 | 1,029 | 1,211 | (182) |
| Irish Residential mortgages (Kildare SPE)[2] | 1,213 | 1,253 | 1,025 | 1,115 | (90) |
| Partholon CDO plc (corporate loans)[2] | 21 | 21 | 17 | 17 | - |
| Sale and repurchase | | | | | |
| Available for sale financial assets[3] | 139 | 131 | n/a | n/a | n/a |

*Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:*

1 *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation SPEs, held by other Group entities.*

2 *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

3 *Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

*n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

## 56 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group's financial position. This includes the effect or potential effect of rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

| **31 December 2016** | | | | **Related amounts not set off in the balance sheet** | | |
|---|---|---|---|---|---|---|
| **Assets** | **Gross amounts of recognised financial assets €m** | **Gross amounts of recognised financial liabilities set off in the balance sheet €m** | **Net amounts of financial assets presented in the balance sheet €m** | **Financial[1] instruments €m** | **Cash[2] collateral received €m** | **Net amount €m** |
| Derivative financial assets | 3,272 | - | 3,272 | (1,937) | (1,000) | 335 |
| Loans and advances to customers | 1,261 | (1,261) | - | - | - | - |
| **Total** | **4,533** | **(1,261)** | **3,272** | **(1,937)** | **(1,000)** | **335** |

1 *Amounts of €1,937 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*

2 *Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note 36).*

# 56 Offsetting financial assets and liabilities (continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

| **31 December 2016**<br><br>**Liabilities** | **Gross amounts of recognised financial liabilities €m** | **Gross amounts of recognised financial assets set off in the balance sheet €m** | **Net amounts of financial liabilities presented in the balance sheet €m** | **Related amounts not set off in the balance sheet**<br>**Financial[1] instruments €m** | **Cash[2] collateral pledged €m** | **Net amount €m** |
|---|---|---|---|---|---|---|
| Derivative financial liabilities | 2,763 | - | 2,763 | (1,937) | (698) | 128 |
| Customer deposits | 1,261 | (1,261) | - | - | - | - |
| **Total** | **4,024** | **(1,261)** | **2,763** | **(1,937)** | **(698)** | **128** |

*[1] Amounts of €1,937 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

| 31 December 2015<br><br>Assets | Gross amounts of recognised financial assets €m | Gross amounts of recognised financial liabilities set off in the balance sheet €m | Net amounts of financial assets presented in the balance sheet €m | Related amounts not set off in the balance sheet<br>Financial[1] instruments €m | Cash[2] collateral received €m | Net amount €m |
|---|---|---|---|---|---|---|
| Derivative financial assets | 2,648 | - | 2,648 | (1,982) | (495) | 171 |
| Loans and advances to customers | 2,049 | (2,049) | - | - | - | - |
| Total | 4,697 | (2,049) | 2,648 | (1,982) | (495) | 171 |

*[1] Amounts of €1,982 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note 36).*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

| 31 December 2015<br><br>Liabilities | Gross amounts of recognised financial liabilities €m | Gross amounts of recognised financial assets set off in the balance sheet €m | Net amounts of financial liabilities presented in the balance sheet €m | Related amounts not set off in the balance sheet<br>Financial[1] instruments €m | Cash[2] collateral pledged €m | Net amount €m |
|---|---|---|---|---|---|---|
| Derivative financial liabilities | 3,522 | - | 3,522 | (1,982) | (1,394) | 146 |
| Customer deposits | 2,049 | (2,049) | - | - | - | - |
| Total | 5,571 | (2,049) | 3,522 | (1,982) | (1,394) | 146 |

*[1] Amounts of €1,982 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

The ‘Financial Instruments’ column identifies financial assets and liabilities that are subject to set off under netting agreements such as ISDA Master agreement. The agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## 57 Contingent liabilities and commitments

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and irrevocable letters of credit | 595 | 620 |
| Acceptances and endorsements | 6 | 10 |
| Other contingent liabilities | 311 | 401 |
| | **912** | **1,031** |
| **Commitments** | | |
| Documentary credits and short-term trade related transactions | 99 | 77 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| - revocable or irrevocable with original maturity of 1 year or less | 11,441 | 12,027 |
| - irrevocable with original maturity of over 1 year | 2,983 | 3,102 |
| | **14,523** | **15,206** |

The table above 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.

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 2016, the Group continues to monitor an industry-wide issue with respect to technical compliance with the UK Consumer Credit Act and is engaged in an 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 €58 million of unrecognised loan commitments to the Group's joint ventures (31 December 2015: €82 million).

## 58 Post balance sheet events

**Update on the resolution strategy for the Group**
The Single Resolution Board, acting as the Group Level Resolution Authority, and the Bank of England, working together within the Resolution College, have reached a Joint Decision on the group resolution plan for the Group and have advised the Group that their preferred resolution strategy for the Group consists of a single point of entry bail-in strategy through a group holding company. Pursuant to this strategy, the Group announced on 3 February 2017 that it expects to establish a holding company (HoldCo) which would become the parent company of the Group.

Further details on the expected establishment of a HoldCo, which would require shareholder approval, will be announced in due course.

## 59 Approval of financial statements

The Court of Directors approved the consolidated and Bank financial statements on 23 February 2017.

# Bank Financial Statements


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# Bank balance sheet as at 31 December 2016

| | Note | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | aa | 3,822 | 2,149 |
| Items in the course of collection from other banks | | 90 | 93 |
| Trading securities | | 18 | 3 |
| Derivative financial instruments | d | 3,674 | 3,033 |
| Other financial assets at fair value through profit or loss | | 32 | - |
| Loans and advances to banks | e | 15,093 | 18,383 |
| Available for sale financial assets | f | 9,330 | 10,117 |
| Held to maturity financial assets | g | 1,872 | 1,922 |
| NAMA senior bonds | h | 451 | 1,414 |
| Other debt securities | i | 2,195 | - |
| Loans and advances to customers | j | 37,691 | 41,036 |
| Shares in Group undertakings | l | 4,060 | 4,415 |
| Intangible assets | m | 586 | 462 |
| Property, plant and equipment | n | 324 | 305 |
| Deferred tax assets | o | 1,143 | 1,221 |
| Other assets | p | 436 | 455 |
| Retirement benefit asset | v | 6 | 14 |
| **Total assets** | | **80,823** | **85,022** |
| | | | |
| **Equity and liabilities** | | | |
| Deposits from banks | q | 7,036 | 6,624 |
| Customer accounts | r | 56,515 | 56,500 |
| Items in the course of transmission to other banks | | 123 | 138 |
| Derivative financial instruments | d | 3,017 | 3,792 |
| Debt securities in issue | s | 3,693 | 5,086 |
| Current tax liability | | 8 | 19 |
| Other liabilities | t | 561 | 2,007 |
| Provisions | u | 64 | 78 |
| Retirement benefit obligations | v | 356 | 607 |
| Subordinated liabilities | w | 1,355 | 2,363 |
| **Total liabilities** | | **72,728** | **77,214** |
| | | | |
| **Equity** | | | |
| Capital stock | x | 2,545 | 2,558 |
| Stock premium account | | 561 | 1,125 |
| Retained earnings | | 4,018 | 3,954 |
| Other reserves | | 231 | (569) |
| **Stockholders' equity** | | **7,355** | **7,068** |
| Other equity instruments | | 740 | 740 |
| **Total equity** | | **8,095** | **7,808** |
| | | | |
| **Total equity and liabilities** | | **80,823** | **85,022** |

| ***Archie G Kane*** | ***Patrick Kennedy*** | ***Richie Boucher*** | ***Helen Nolan*** |
|---|---|---|---|
| *Governor* | *Deputy Governor* | *Group Chief Executive* | *Group Secretary* |

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# Bank statement of changes in equity for the year ended 31 December 2016

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Capital stock** | | | |
| Balance at the beginning of the year | | 2,558 | 2,558 |
| Redemption of 2009 Preference Stock | y | (13) | - |
| **Balance at the end of the year** | | **2,545** | **2,558** |
| **Stock premium account** | | | |
| Balance at the beginning of the year | | 1,125 | 1,125 |
| Redemption of 2009 Preference Stock | y | (564) | - |
| **Balance at the end of the year** | | **561** | **1,125** |
| **Retained earnings** | | | |
| Balance at the beginning of the year | | 3,954 | 3,720 |
| Profit retained | | 543 | 167 |
| *- Profit for year attributable to stockholders* | | *624* | *424* |
| *- Dividends on 2009 Preference Stock* | | *-* | *(249)* |
| *- Dividends on other preference equity interests paid in cash* | | *(8)* | *(8)* |
| *- Distribution on other equity instruments - Additional tier 1 coupon, net of tax* | | *(73)* | *-* |
| Redemption of 2009 Preference Stock | y | (727) | - |
| Transfer from capital contribution | | 116 | - |
| Remeasurement of the net defined benefit pension liability | | 131 | 67 |
| Transfer from share based payment reserve | | - | 1 |
| Other movements | | 1 | (1) |
| **Balance at the end of the year** | | **4,018** | **3,954** |
| **Other reserves:** | | | |
| **Available for sale reserve** | | | |
| Balance at the beginning of the year | | 482 | 568 |
| Net changes in fair value | | (26) | 134 |
| Transfer to income statement (pre tax) | | | |
| - Asset disposal | | (152) | (203) |
| - Amortisation | | (17) | (11) |
| Deferred tax on reserve movements | | 42 | (6) |
| **Balance at the end of the year** | | **329** | **482** |
| **Cash flow hedge reserve** | | | |
| Balance at the beginning of the year | | 158 | 199 |
| Changes in fair value | | 1,506 | (314) |
| Transfer from income statement (pre tax) | | | |
| - Net trading income (foreign exchange) | | (1,519) | 319 |
| - Net interest income | | - | (62) |
| Deferred tax on reserve movements | | - | 16 |
| **Balance at the end of the year** | | **145** | **158** |

# Bank statement of changes in equity for the year ended 31 December 2016 (continued)

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Foreign exchange reserve** | | | |
| Balance at the beginning of the year | | (93) | (237) |
| Exchange adjustments during the year | | (224) | 144 |
| **Balance at the end of the year** | | **(317)** | **(93)** |
| **Capital contribution** | | | |
| Balance at the beginning of the year | | 116 | 116 |
| Transfer to retained earnings | | (116) | - |
| **Balance at the end of the year** | | **-** | **116** |
| **Capital reserve** | | | |
| Balance at the beginning of the year | | 48 | 48 |
| Redemption of 2009 Preference Stock | y | 7 | - |
| **Balance at the end of the year** | | **55** | **48** |
| **Share based payment reserve** | | | |
| Balance at the beginning of the year | | - | 1 |
| Transfer to retained earnings | | - | (1) |
| **Balance at the end of the year** | | **-** | **-** |
| **Revaluation reserve** | | | |
| Balance at the beginning of the year | | 17 | 6 |
| Revaluation of property | | 3 | 14 |
| Deferred tax on reserved movements | | (1) | (3) |
| **Balance at the end of the year** | | **19** | **17** |
| **Reserve for 2009 Preference Stock to be redeemed** | | | |
| Balance at the beginning of the year | | (1,297) | - |
| Redemption of 2009 Preference Stock | y | 1,297 | (1,297) |
| **Balance at the end of the year** | | **-** | **(1,297)** |
| **Total other reserves** | | **231** | **(569)** |
| **Total stockholders' equity** | | **7,355** | **7,068** |
| **Other equity instruments** | | | |
| Balance at the beginning of the year | | 740 | - |
| Issue of other equity instruments | | - | 740 |
| **Balance at the end of the year** | z | **740** | **740** |
| **Total equity** | | **8,095** | **7,808** |

# Bank cash flow statement
for the year ended 31 December 2016

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 753 | 598 |
| Dividends received from Group undertakings | | (421) | (10) |
| Distributions from Group undertakings on other equity instruments | | (30) | - |
| Depreciation and amortisation | m, n | 118 | 112 |
| Impairment charges on financial assets | | 248 | 235 |
| Loss on disposal / liquidation of business activity | | 3 | - |
| Reversal of impairment on property | n | (3) | (6) |
| Interest expense on subordinated liabilities | | 165 | 214 |
| Charge for retirement benefit obligation | v | 118 | 141 |
| Impact of amendments to defined benefit pension schemes | v | - | (4) |
| Gains arising on the movement in credit spreads on the Bank's own debt and deposits accounted for at 'fair value through profit or loss' | | (3) | (11) |
| Loss on liability management exercises | | 19 | 1 |
| Net changes in accruals and interest payable | | (55) | (118) |
| Net changes in prepayments and interest receivable | | 7 | 54 |
| Non-cash and other items | | 69 | (45) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **988** | **1,161** |
| Net change in items in the course of collection from other banks | | (12) | 34 |
| Net change in trading securities | | (15) | 9 |
| Net change in derivative financial instruments | | (1,395) | 11 |
| Net change in other financial assets at fair value through profit or loss | | (32) | - |
| Net change in loans and advances to banks | | 2,155 | 1,629 |
| Net change in loans and advances to customers | | 1,474 | 2,463 |
| Net change in NAMA senior bonds | | 967 | 968 |
| Net change in other assets | | 6 | 85 |
| Net change in deposits from banks | | 804 | (5,801) |
| Net change in customer accounts | | 310 | (557) |
| Net change in debt securities in issue | | (809) | (1,432) |
| Net change in other operating liabilities | | (232) | (482) |
| **Net cash flows from operating assets and liabilities** | | **3,221** | **(3,073)** |
| **Net cash flows from operating activities before taxation** | | **4,209** | **(1,912)** |
| Tax paid | | (59) | (25) |
| **Net cash flows from operating activities** | | **4,150** | **(1,937)** |
| Investing activities (section a) | | (1,267) | 2,611 |
| Financing activities (section b) | | (3,324) | 412 |
| Effect of exchange translation and other adjustments | | 1,358 | (625) |
| **Net change in cash and cash equivalents** | | **917** | **461** |
| Opening cash and cash equivalents | | 3,770 | 3,309 |
| **Closing cash and cash equivalents** | aa | **4,687** | **3,770** |

# Bank cash flow statement
## for the year ended 31 December 2016 (continued)

| | Note | **Year ended 31 December 2016 €m** | Year ended 31 December 2015 €m |
|---|---|---|---|
| **(a) Investing activities** | | | |
| Additions to available for sale financial assets | f | (4,364) | (2,572) |
| Disposal / redemption of available for sale financial assets | f | 2,916 | 5,559 |
| Additions to property, plant and equipment | n | (61) | (23) |
| Disposal of property, plant and equipment | n | 3 | 1 |
| Disposal of assets held for sale | | - | 5 |
| Additions to intangible assets | m | (223) | (200) |
| Disposal of intangible assets | m | 8 | 19 |
| Dividends received from Group undertakings | | 421 | 10 |
| Distributions from Group undertakings on other equity instruments | | 30 | - |
| Additions to Group undertakings | l | - | (653) |
| Repayment / disposal of Group undertakings | l | 6 | 465 |
| Net (cost) / proceeds from disposal of business activity | | (3) | - |
| **Cash flows from investing activities** | | **(1,267)** | **2,611** |
| | | | |
| **(b) Financing activities** | | | |
| Redemption of the 2009 Preference Stock | y | (1,300) | - |
| Repayment of subordinated liabilities | | (1,000) | - |
| Interest paid on subordinated liabilities | | (185) | (187) |
| Dividend paid on 2009 Preference Stock and other preference equity interests | | (124) | (141) |
| Consideration paid in respect of liability management exercises | | (632) | - |
| Net proceeds from the issue of other equity instruments | z | - | 740 |
| Distributions paid on other equity instruments - Additional tier 1 coupon | | (83) | - |
| **Cash flows from financing activities** | | **(3,324)** | **412** |

# Notes to the Bank financial statements

## a Accounting policies and critical accounting estimates and judgements

The Bank financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, with the European Union (Credit Institutions: Financial Statements) Regulations 2015.

The financial statements reflect the financial position of the Bank only and do not consolidate the results of any subsidiaries. The accounts are presented in euro millions except where otherwise indicated. 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 accounting policies of the holding company are the same as those of the Group which are set out in the Group accounting policies section of the Annual Report on pages 195 to 217 where applicable. The Bank's investments in its subsidiaries are stated at cost less any impairment.

The preparation of 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 on pages 217 to 220 of the Group's Annual Report.

## 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. Any adjustments to comparatives are disclosed in the relevant note as appropriate.

**Impairment review of shares in Group undertakings**

The Bank reviews its shares in Group undertakings for impairment at each reporting date. Impairment testing involves the comparison of the carrying value of the investment with its recoverable amount. The recoverable amount is the higher of the investment's fair value or its value in use. Value in use is the present value of expected future cash flows from the investment. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of the investment; and the valuation of the separable assets comprising the overall investment in the Group undertaking. The use of reasonably possible alternative assumptions would not materially impact the carrying value of the Bank's shares in Group undertakings. See note l for further information.

## b Auditors' remuneration (excluding VAT)

| Auditors' remuneration (excluding VAT and including expenses) | Notes | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|---|
| **Audit and assurance services** | | | |
| Statutory audit | | 2.3 | 1.4 |
| Assurance services | (i) | 0.4 | 2.1 |
| | | **2.7** | **3.5** |
| **Other services** | | | |
| Taxation services | | 0.1 | - |
| Other non-audit services | (ii) | 0.2 | 0.1 |
| **Total auditors' remuneration** | | **3.0** | **3.6** |

The figures in the above table relate to fees payable to the Statutory Auditor, PricewaterhouseCoopers (PwC) Ireland. The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

(i) Assurance services consist primarily of fees in connection with reporting to regulators including the Central Bank of Ireland, review of the interim financial statements, letters of comfort, review of compliance with the Government Guarantee Schemes, reporting accountants' work and other accounting matters. Assurance services for year ended 31 December 2015 included procedures in connection with internal controls over financial reporting. Following the Bank's deregistration from the Securities and Exchange Commission during July 2016, equivalent auditing procedures are included within the statutory audit line above for year ended 31 December 2016; and

(ii) Other non-audit services consist primarily of fees for translation services and other assignments.

## c Staff costs

| Staff costs | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| **Aggregate staff costs are analysed as follows:** | | |
| Wages and salaries | 562 | 559 |
| Social security costs | 61 | 59 |
| Retirement benefit costs[1] (defined benefit plans) (note v) | 110 | 128 |
| Retirement benefit costs (defined contribution plans) | 15 | 9 |
| Other staff expenses | 6 | 8 |
| | 754 | 763 |
| Staff costs capitalised | (3) | (5) |
| **Staff costs excluding restructuring and platforms investment charge staff costs** | **751** | **758** |
| *Additional restructuring and platforms investments staff costs:* | | |
| Included in Core Banking Platforms Investment charge | 6 | - |
| Included in cost of restructuring programme | 38 | 45 |
| Retirement benefit gain (note v) | - | (4) |
| **Total staff costs recognised in the income statement** | **795** | **799** |

[1] *The retirement benefit cost is shown net of recoveries from subsidiaries.*

## c Staff costs (continued)

**Staff numbers**

At 31 December 2016, the number of staff (full time equivalents) was 9,657 (31 December 2015: 9,576).

The average number of staff (full time equivalents) during the year was 9,646 (year ended 31 December 2014: 9,782) categorised as follows in line with the operating segments as stated in the Consolidated financial statements note 3.

| **Average number of staff (full time equivalents)** | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|
| Retail Ireland | 4,336 | 4,630 |
| Retail UK | 1,683 | 1,681 |
| Corporate and Treasury | 683 | 637 |
| Group Centre | 2,944 | 2,834 |
| **Total** | **9,646** | **9,782** |

## d Derivative financial instruments

Information on derivatives is outlined in note 20 to the Consolidated financial statements.

The notional amounts and fair values of derivative instruments held by the Bank are set out in the following tables:

| 31 December 2016 | Contract / notional amount €m | Fair Values Assets €m | Fair Values Liabilities €m |
|---|---|---|---|
| **Derivatives held for trading** | | | |
| **Foreign exchange derivatives** | | | |
| Currency forwards | 1,586 | 30 | 55 |
| Currency swaps | 4,424 | 97 | 51 |
| Over the counter currency options | 432 | 6 | 6 |
| **Total foreign exchange derivatives held for trading** | **6,442** | **133** | **112** |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 163,172 | 1,920 | 2,205 |
| Cross currency interest rate swaps | 1,822 | 126 | 270 |
| Over the counter interest rate options | 6,358 | 15 | 26 |
| Interest rate futures | 6,504 | 3 | 3 |
| Exchange traded interest rate options | 1,771 | - | - |
| Forward rate agreements | - | - | - |
| **Total interest rate derivatives held for trading** | **179,627** | **2,064** | **2,504** |
| **Equity contracts, commodity contracts and credit derivatives** | | | |
| Equity index-linked contracts held | 3,332 | 204 | 7 |
| Commodity contracts | 98 | 4 | 4 |
| Credit derivatives | 310 | - | 2 |
| Equity conversion feature in Convertible Contingent Capital Note | - | - | - |
| **Total equity contracts and credit derivatives** | **3,740** | **208** | **13** |
| **Total derivative assets / liabilities held for trading** | **189,809** | **2,405** | **2,629** |
| **Derivatives held for hedging** | | | |
| **Derivatives designated as fair value hedges** | | | |
| Interest rate swaps | 11,388 | 120 | 329 |
| Credit derivatives | 14 | 1 | - |
| Cross currency interest rate swaps | - | - | - |
| **Total designated as fair value hedges** | **11,402** | **121** | **329** |
| **Derivatives designated as cash flow hedges** | | | |
| Cross currency interest rate swaps | 8,219 | 853 | - |
| Interest rate swaps | 11,191 | 295 | 59 |
| **Total designated as cash flow hedges** | **19,410** | **1,148** | **59** |
| **Total derivative assets / liabilities held for hedging** | **30,812** | **1,269** | **388** |
| **Total derivative assets / liabilities** | **220,621** | **3,674** | **3,017** |
| **Amounts include:** | | | |
| Due from / to Group undertakings | 39,848 | 121 | 161 |

## d Derivative financial instruments (continued)

| 31 December 2015 | Contract / notional amount €m | Fair Values Assets €m | Fair Values Liabilities €m |
|---|---|---|---|
| Derivatives held for trading | | | |
| Foreign exchange derivatives | | | |
| Currency forwards | 1,849 | 28 | 32 |
| Currency swaps | 4,711 | 54 | 62 |
| Over the counter currency options | 662 | 4 | 4 |
| Total foreign exchange derivatives held for trading | 7,222 | 86 | 98 |
| Interest rate derivatives | | | |
| Interest rate swaps | 195,523 | 1,864 | 2,299 |
| Cross currency interest rate swaps | 4,022 | 287 | 272 |
| Over the counter interest rate options | 5,133 | 26 | 26 |
| Interest rate futures | 3,220 | 1 | 1 |
| Exchange traded interest rate options | 9,790 | - | - |
| Forward rate agreements | 1,067 | - | - |
| Total interest rate derivatives held for trading | 218,755 | 2,178 | 2,598 |
| Equity contracts, commodity contracts and credit derivatives | | | |
| Equity index-linked contracts held | 3,979 | 200 | 28 |
| Commodity contracts | 136 | 22 | 22 |
| Equity conversion feature in Convertible Contingent Capital Note | 1,000 | 3 | - |
| Credit derivatives | 224 | - | 3 |
| Total equity contracts and credit derivatives | 5,339 | 225 | 53 |
| Total derivative assets / liabilities held for trading | 231,316 | 2,489 | 2,749 |
| Derivatives held for hedging | | | |
| Derivatives designated as fair value hedges | | | |
| Interest rate swaps | 13,289 | 159 | 385 |
| Cross currency interest rate swaps | 13 | 1 | - |
| Credit derivatives | - | - | - |
| Total designated as fair value hedges | 13,302 | 160 | 385 |
| Derivatives designated as cash flow hedges | | | |
| Interest rate swaps | 13,421 | 312 | 58 |
| Cross currency interest rate swaps | 9,642 | 72 | 600 |
| Total designated as cash flow hedges | 23,063 | 384 | 658 |
| Total derivative assets / liabilities held for hedging | 36,365 | 544 | 1,043 |
| Total derivative assets / liabilities | 267,681 | 3,033 | 3,792 |
| Amounts include: | | | |
| Due from / to Group undertakings | 44,755 | 95 | 183 |

Derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Bank does not apply hedge accounting. Derivatives classified as held for hedging in the table above comprise only those derivatives to which the Bank applies hedge accounting.

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €3.7 billion at 31 December 2016 (31 December 2015: €3.0 billion):

- €1.9 billion (31 December 2015: €2.0 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €1.8 billion (31 December 2015: €1.0 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

## d Derivative financial instruments (continued)

At 31 December 2016, cash collateral of €0.9 billion (31 December 2015: €0.4 billion) was held against these assets and is reported within deposits from banks (see note q).

Placements with other banks and loans and advances to customers include cash collateral of €1.1 billion (31 December 2015: €1.8 billion) placed with derivative counterparties in respect of the net derivative liability position of €0.9 billion (31 December 2015: €1.6 billion) and is reported within loans and advances to banks (note e) and loans and advances to customers (note j).

The Bank designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

**Fair value hedges**
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and foreign exchange exposure on the Bank's fixed rate debt held and debt issued portfolios.

**Cash flow hedges**
The Bank designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the statement of changes in equity (page 308).

The years in which the hedged cash flows are expected to occur are shown in the table below.

| **31 December 2016** | **Up to 1 year €m** | **1 to 2 years €m** | **2 to 5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 5,031 | 2,366 | 13 | 14 | 7,424 |
| Forecast payable cash flows | (34) | (25) | (29) | (22) | (110) |

| 31 December 2015 | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 7,277 | 2,417 | 57 | 18 | 9,769 |
| Forecast payable cash flows | (14) | (26) | (12) | (30) | (82) |

The hedged cash flows are expected to impact the income statement in the following years:

| **31 December 2016** | **Up to 1 year €m** | **1 to 2 years €m** | **2 to 5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 7,396 | 6 | 14 | 8 | 7,424 |
| Forecast payable cash flows | (37) | (26) | (27) | (20) | (110) |

| 31 December 2015 | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 9,689 | 11 | 59 | 10 | 9,769 |
| Forecast payable cash flows | (27) | (14) | (12) | (29) | (82) |

During the year ended 31 December 2016, there were no forecast transactions to which the Bank had applied hedge accounting which were no longer expected to occur.

## e Loans and advances to banks

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Placements with other banks | 15,020 | 18,122 |
| Securities purchased with agreement to resell | 47 | 151 |
| Mandatory deposits with central banks | 26 | 110 |
| **Loans and advances to banks** | **15,093** | **18,383** |
| **Amounts include:** | | |
| Due from Group undertakings | 14,111 | 16,099 |

Placements with other banks includes cash collateral of €1.0 billion (31 December 2015: €1.6 billion) placed with derivative counterparties in relation to net derivative liability positions (see note d).

The Bank 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 2016 was €48 million (31 December 2015: €150 million).

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €32.9 billion (31 December 2015: €35.1 billion) (see note k).

## f Available for sale financial assets

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Government bonds | 4,458 | 4,917 |
| Other debt securities | | |
| - listed | 4,598 | 3,295 |
| - unlisted | 274 | 1,830 |
| Equity securities | | |
| - unlisted | - | 75 |
| **Available for sale financial assets** | **9,330** | **10,117** |
| **Amounts include:** | | |
| Due from Group undertakings | - | 1,545 |

Included within unlisted debt securities are subordinated bonds issued by NAMA with a nominal value of €281 million (31 December 2015: €281 million) and a fair value of €274 million (31 December 2015: €269 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.

At 31 December 2016, available for sale financial assets with a fair value of €0.1 billion (31 December 2015: €0.1 billion) had been pledged to third parties in sale and repurchase agreements. The Bank has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

At 31 December 2016, available for sale financial assets included €0.6 billion (31 December 2015: €nil) pledged as collateral in respect of customer deposits.

## f Available for sale financial assets (continued)

The movement on available for sale financial assets is analysed as follows:

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 10,117 | 14,965 |
| Additions | 4,364 | 2,572 |
| Disposals | (2,082) | (2,745) |
| Reclassifications | | |
| - Held to maturity | - | (1,955) |
| - Other debt securities | (2,195) | - |
| Redemptions | (834) | (2,814) |
| Revaluation, exchange and other adjustments | (40) | 94 |
| **At end of year** | **9,330** | **10,117** |

During the year ended 31 December 2016, the Bank sold available for sale financial assets of €2.0 billion (31 December 2015: €2.7 billion) which resulted in a transfer of €152 million from the available for sale reserve to the income statement (31 December 2015: €203 million).

During the year ended 31 December 2016, the Bank reclassified available for sale financial assets with a carrying amount and fair value of €2,195 million to other debt securities. The effective negative interest rate at the date of reclassification of these assets ranged from 0.187% to 0.188% which is expected to generate negative cash flows of €26.9 million. During the year neither a fair value gain nor loss (31 December 2015: €nil) has been recognised in the available for sale reserve within shareholders' equity in relation to these reclassified assets. At the date of the reclassification, the Bank 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 at 31 December 2016 are set out below:

| | **Carrying amount €m** | **Fair value €m** |
|---|---|---|
| AFS financial assets reclassified in 2016 to other debt securities | 2,195 | 2,195 |

Interest income of €4.1 million has been recognised in the income statement for the year ended 31 December 2016 in relation to these assets. If the assets had not been reclassified a fair value gain of €nil would have been recognised in Other comprehensive income.

## g Held to maturity financial assets

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Irish Government bonds | 1,872 | 1,922 |
| **Held to maturity financial assets** | **1,872** | **1,922** |

## h NAMA senior bonds

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **NAMA senior bonds** | **451** | **1,414** |

The Bank 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).

During the year ended 31 December 2016, NAMA redeemed senior bonds held by the Bank with a nominal value of €967 million (year ended 31 December 2015: €968 million).

At 31 December 2016, the total nominal value of the NAMA senior bonds held was €454 million, of which €nil million (31 December 2015: €nil) was pledged to Monetary Authorities.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (March 2016: 0%) and 1 September (September 2016: 0%). The contractual maturity of these bonds is 1 March 2017. 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 3 February 2017, the Group agreed to accept the issuance of new bonds maturing on 1 March 2018 in settlement of the existing debt.

## i Other debt securities

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Other debt securities** | **2,195** | **-** |
| **Amounts include:** | | |
| Other debt securities issued by Group undertakings | 2,195 | - |

During the year ended 31 December 2016, the Bank reclassified €2,195 million of debt securities from available for sale to loans and receivables. The reclassified debt securities are accounted for in line with the Group’s accounting policy on loans and receivables set out on page 203. See note f for further details.

## j Loans and advances to customers

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Loans and advances to customers | 39,572 | 44,629 |
| Finance leases and hire purchase receivables (see below) | 942 | 663 |
| | 40,514 | 45,292 |
| Less allowance for impairment charges on loans and advances to customers | (2,823) | (4,256) |
| **Loans and advances to customers** | **37,691** | **41,036** |
| **Amounts include:** | | |
| Due from Group undertakings | 2,716 | 3,596 |

## j Loans and advances to customers (continued)

**Finance leases and hire purchase receivables**

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Gross investment in finance leases:** | | |
| Not later than 1 year | 373 | 290 |
| Later than 1 year and not later than 5 years | 656 | 442 |
| Later than 5 years | 2 | 1 |
| | 1,031 | 733 |
| Unearned future finance income on finance leases | (89) | (70) |
| **Net investment in finance leases** | **942** | **663** |
| **The net investment in finance leases is analysed as follows:** | | |
| Not later than 1 year | 343 | 265 |
| Later than 1 year and not later than 5 years | 597 | 397 |
| Later than 5 years | 2 | 1 |
| | **942** | **663** |

The Bank's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

Further details on loans and advances to customers are contained in note 26 to the Consolidated financial statements.

## k Credit risk exposures

**Asset Quality - Loans and advances to customers**

Details of the credit risk methodologies are set out on pages 102 to 107.

**Risk profile of loans and advances to customers**

The tables and analysis below summarise the Bank'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 2016**<br>Risk profile of loans and advances to customers (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 | 7,762 | 4,707 | 2,719 | 1,354 | 16,542 | 41% |
| Satisfactory quality | 509 | 10,741 | 1,604 | 224 | 13,078 | 32% |
| Acceptable quality | 499 | 1,456 | 1,252 | 22 | 3,229 | 8% |
| Lower quality but neither past due nor impaired | 150 | 820 | 977 | - | 1,947 | 5% |
| **Neither past due nor impaired** | **8,920** | **17,724** | **6,552** | **1,600** | **34,796** | **86%** |
| Past due but not impaired | 622 | 108 | 180 | 36 | 946 | 2% |
| Impaired | 509 | 1,694 | 2,490 | 79 | 4,772 | 12% |
| **Total loans and advances to customers** | **10,051** | **19,526** | **9,222** | **1,715** | **40,514** | **100%** |

## k Credit risk exposures (continued)

| 31 December 2015<br>Risk profile of loans and advances to customers (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 | 9,371 | 4,273 | 2,626 | 1,103 | 17,373 | 38% |
| Satisfactory quality | 400 | 11,325 | 1,725 | 205 | 13,655 | 30% |
| Acceptable quality | 410 | 1,561 | 1,406 | 31 | 3,408 | 8% |
| Lower quality but neither past due nor impaired | 146 | 967 | 1,314 | - | 2,427 | 5% |
| Neither past due nor impaired | 10,327 | 18,126 | 7,071 | 1,339 | 36,863 | 81% |
| Past due but not impaired | 846 | 84 | 230 | 46 | 1,206 | 3% |
| Impaired | 675 | 2,272 | 4,180 | 96 | 7,223 | 16% |
| Total loans and advances to customers | 11,848 | 20,482 | 11,481 | 1,481 | 45,292 | 100% |

**'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.

| **31 December 2016**<br>**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 | 182 | 82 | 27 | 23 | 314 |
| Past due 31 - 60 days | 208 | 10 | 74 | 9 | 301 |
| Past due 61 - 90 days | 75 | 16 | 79 | 4 | 174 |
| Past due greater than 90 days but not impaired | 157 | - | - | - | 157 |
| **Past due but not impaired** | **622** | **108** | **180** | **36** | **946** |
| Impaired | 509 | 1,694 | 2,490 | 79 | 4,772 |
| **Total loans and advances to customers - past due and / or impaired** | **1,131** | **1,802** | **2,670** | **115** | **5,718** |

| 31 December 2015<br>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 | 217 | 64 | 43 | 28 | 352 |
| Past due 31 - 60 days | 290 | 14 | 136 | 12 | 452 |
| Past due 61 - 90 days | 109 | 6 | 51 | 6 | 172 |
| Past due greater than 90 days but not impaired | 230 | - | - | - | 230 |
| Past due but not impaired | 846 | 84 | 230 | 46 | 1,206 |
| Impaired | 675 | 2,272 | 4,180 | 96 | 7,223 |
| Total loans and advances to customers - past due and / or impaired | 1,521 | 2,356 | 4,410 | 142 | 8,429 |

## k Credit risk exposures (continued)

**'Non-performing loans'**

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

| **31 December 2016**<br>**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 | 465 | | | | |
| *- Self-cure* | *283* | | | | |
| *- Forborne* | *182* | | | | |
| Defaulted loans | 666 | 1,694 | 2,490 | 79 | 4,929 |
| *- Past due greater than 90 days but not impaired* | *157* | *-* | *-* | *-* | *157* |
| *- Impaired* | *509* | *1,694* | *2,490* | *79* | *4,772* |
| **Total loans and advances to customers - non-performing** | **1,131** | **1,694** | **2,490** | **79** | **5,394** |

| 31 December 2015<br>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 | 672 | | | | |
| *- Self-cure* | *418* | | | | |
| *- Forborne* | *254* | | | | |
| Defaulted loans | 905 | 2,272 | 4,180 | 96 | 7,453 |
| *- Past due greater than 90 days but not impaired* | *230* | *-* | *-* | *-* | *230* |
| *- Impaired* | *675* | *2,272* | *4,180* | *96* | *7,223* |
| Total loans and advances to customers - non-performing | 1,577 | 2,272 | 4,180 | 96 | 8,125 |

**'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 2016 and 31 December 2015.

| **31 December 2016** | **Residential mortgages €m** | **Non-SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Provision at 1 January 2016 | 365 | 1,187 | 2,613 | 91 | 4,256 |
| Exchange adjustments | (7) | 3 | (73) | - | (77) |
| Charge / (reversal) against income statement | (41) | 104 | 198 | (13) | 248 |
| Recoveries | 1 | 8 | 5 | 13 | 27 |
| Provisions utilised | (45) | (320) | (1,283) | (30) | (1,678) |
| Other movements | 9 | (40) | 75 | 3 | 47 |
| **Provision at 31 December 2016** | **282** | **942** | **1,535** | **64** | **2,823** |

## k Credit risk exposures (continued)

| 31 December 2015 | Residential mortgages €m | Non-SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Provision at 1 January 2015 | 463 | 1,404 | 3,447 | 141 | 5,455 |
| Exchange adjustments | 3 | 8 | 52 | - | 63 |
| Charge / (reversal) against income statement | (48) | 124 | 177 | (18) | 235 |
| Recoveries | (3) | 5 | 2 | 11 | 15 |
| Provisions utilised | (61) | (354) | (1,130) | (44) | (1,589) |
| Other movements | 11 | - | 65 | 1 | 77 |
| Provision at 31 December 2015 | 365 | 1,187 | 2,613 | 91 | 4,256 |

**Asset quality - Other financial instruments**

Other financial instruments include trading securities, derivative financial instruments, other debt securities, other financial instruments at fair value through profit or loss (excluding equity instruments), loans and advances to banks, available for sale financial assets (excluding equity instruments), held to maturity financial assets, NAMA senior bonds, interest receivable and any reinsurance assets. The table below sets out the Bank'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 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| **Other financial instruments with ratings equivalent to:** | **€m** | **%** | €m | % |
| AAA to AA- | 4,655 | 14% | 4,970 | 14% |
| A+ to A- | 10,907 | 33% | 11,120 | 32% |
| BBB+ to BBB- | 16,004 | 48% | 17,538 | 50% |
| BB+ to BB- | 909 | 3% | 887 | 2% |
| B+ to B- | 153 | 1% | 286 | 1% |
| Lower than B- | 277 | 1% | 279 | 1% |
| **Total** | **32,905** | **100%** | **35,080** | **100%** |
| **Amounts include:** | | | | |
| Due from Group undertakings | 16,427 | | 17,739 | |

## I Shares in Group undertakings

| | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| At beginning of year | 4,415 | 4,102 |
| Exchange adjustments | (324) | 107 |
| Increase in investments | - | 653 |
| Repayment of investments | (6) | (465) |
| Impairment of investments | (25) | - |
| Other | - | 18 |
| **At end of year** | **4,060** | **4,415** |
| | | |
| **Group undertakings** | | |
| *of which;* | | |
| - Credit Institutions | 3,336 | 3,657 |
| - Others | 724 | 758 |
| | **4,060** | **4,415** |

The Bank's Shares in Group Undertakings are reviewed if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of each investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount. An impairment charge of €25 million was recognised in the year ended 31 December 2016 (31 December 2015: €nil).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the asset. The calculation of the recoverable amount for each cash generating unit is based upon a value in use calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both require the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement.

The recoverable amount calculations performed for the significant amount of shares in Group undertakings are sensitive to changes in the following key assumptions:

**Cash flow forecasts**
Cash flow forecasts are based on internal management information for a period of up to five years, after which a long-term growth rate appropriate for the business is applied (see below). The next five years' cash flows are consistent with approved plans for each business.

**Growth rates**
Growth rates beyond five years are determined by reference to long-term economic growth rates.

**Discount rate**
The discount rates applied is the pre-tax weighted average cost of capital for the Bank increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows.

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed in the review.

## m Intangible assets

| | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January 2016** | **89** | **1,098** | **110** | **1,297** |
| Exchange adjustments | (2) | (21) | (6) | (29) |
| Additions | - | 211 | 12 | 223 |
| Disposals / write-offs | (11) | (38) | (10) | (59) |
| **At 31 December 2016** | **76** | **1,250** | **106** | **1,432** |
| **Accumulated amortisation** | | | | |
| **At 1 January 2016** | **(89)** | **(692)** | **(54)** | **(835)** |
| Exchange adjustments | 2 | 16 | 5 | 23 |
| Disposals / write-offs | 11 | 30 | 10 | 51 |
| Charge for the year | - | (74) | (11) | (85) |
| **At 31 December 2016** | **(76)** | **(720)** | **(50)** | **(846)** |
| **Net Book Value at 31 December 2016** | **-** | **530** | **56** | **586** |

**Impairment review - intangible assets**

Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount. No impairment was identified in the year ended 31 December 2016 (year ended 31 December 2015: €nil).

| | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2015 | 92 | 953 | 81 | 1,126 |
| Exchange adjustments | 1 | 8 | 2 | 11 |
| Additions | - | 166 | 34 | 200 |
| Disposals / write-offs | (4) | (29) | (7) | (40) |
| At 31 December 2015 | 89 | 1,098 | 110 | 1,297 |
| Accumulated amortisation | | | | |
| At 1 January 2015 | (90) | (631) | (50) | (771) |
| Exchange adjustments | (2) | (6) | (2) | (10) |
| Disposals / write-offs | 4 | 10 | 7 | 21 |
| Charge for the year | (1) | (65) | (9) | (75) |
| At 31 December 2015 | (89) | (692) | (54) | (835) |
| Net Book Value at 31 December 2015 | - | 406 | 56 | 462 |

## n Property, plant and equipment

| | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **At 1 January 2016** | **141** | **184** | **471** | **22** | **5** | **823** |
| Exchange adjustments | (5) | (6) | (19) | - | - | (30) |
| Additions | - | - | 8 | 4 | 49 | 61 |
| Disposals / write-offs | (1) | (16) | (186) | - | - | (203) |
| Reversal of impairment | 3 | - | - | - | - | 3 |
| Revaluation recognised in other comprehensive income | 3 | - | - | - | - | 3 |
| Reclassification | (1) | 19 | 22 | - | (40) | - |
| **At 31 December 2016** | **140** | **181** | **296** | **26** | **14** | **657** |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2016** | **-** | **(125)** | **(375)** | **(18)** | **-** | **(518)** |
| Exchange adjustments | - | 4 | 14 | - | - | 18 |
| Disposals / write-offs | - | 15 | 185 | - | - | 200 |
| Charge for the year | - | (10) | (20) | (3) | - | (33) |
| **At 31 December 2016** | **-** | **(116)** | **(196)** | **(21)** | **-** | **(333)** |
| **Net book value at 31 December 2016** | **140** | **65** | **100** | **5** | **14** | **324** |

Property, plant and equipment at 31 December 2016 held at fair value was €140 million (31 December 2015: €141 million). The historical cost of property, plant and equipment held at fair value at 31 December 2016 was €71 million (31 December 2015: €79 million). The net book value of property plant and equipment at 31 December 2016 held at cost less accumulated depreciation and impairment amounted to €184 million (31 December 2015: €164 million).

## n Property, plant and equipment (continued)

| | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2015 | 122 | 176 | 463 | 19 | 6 | 786 |
| Exchange adjustments | 2 | 1 | 9 | - | - | 12 |
| Additions | - | 1 | 4 | 3 | 15 | 23 |
| Disposals / write-offs | - | - | (15) | - | - | (15) |
| Reversal of impairment | 6 | - | - | - | - | 6 |
| Revaluation recognised in other comprehensive income | 11 | - | - | - | - | 11 |
| Reclassification | - | 6 | 10 | - | (16) | - |
| At 31 December 2015 | 141 | 184 | 471 | 22 | 5 | 823 |
| Accumulated depreciation | | | | | | |
| At 1 January 2015 | - | (114) | (360) | (14) | - | (488) |
| Exchange adjustments | - | - | (7) | - | - | (7) |
| Disposals / write-offs | - | - | 14 | - | - | 14 |
| Charge for the year | - | (11) | (22) | (4) | - | (37) |
| At 31 December 2015 | - | (125) | (375) | (18) | - | (518) |
| Net book value at 31 December 2015 | 141 | 59 | 96 | 4 | 5 | 305 |

**Property**

A revaluation of Group property was carried out as at 31 December 2016.

**Future capital expenditure**

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

| **Future capital expenditure:** | **31 December 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Contracted but not provided for in the financial statements | 18 | 11 |
| Authorised by the Directors but not contracted | 178 | 187 |

**Operating leases**

The Bank leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with five-yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Bank also holds a number of short-term leases for less than 10 years and a number of long-term leases at market rent with less than 105 years unexpired.

## n Property, plant and equipment (continued)

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Bank has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Bank's own requirements.

Minimum future rentals under non-cancellable operating leases are as follows:

| | **Payable 31 December 2016 €m** | **Receivable 31 December 2016 €m** | Payable 31 December 2015 €m | Receivable 31 December 2015 €m |
|---|---|---|---|---|
| Not later than 1 year | 59 | 3 | 59 | 3 |
| Later than 1 year and not later than 5 years | 228 | 9 | 202 | 10 |
| Later than 5 years | 474 | 4 | 397 | 6 |

Included in the table above, at 31 December 2016, is an amount of €11 million in relation to sub-lease rental (31 December 2015: €13 million).

**Finance leases**

The Bank leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

| | **At 31 December 2016** | | | At 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **Total minimum future payments €m** | **Future finance charges €m** | **Present value of finance lease commitments €m** | Total minimum future payments €m | Future finance charges €m | Present value of finance lease commitments €m |
| Not later than 1 year | 2 | - | 2 | 3 | - | 2 |
| Later than 1 year not later than 5 years | 3 | - | 3 | 2 | - | 2 |

The net carrying amount of the assets held under finance leases at 31 December 2016 was €5 million (31 December 2015: €4 million).

## o Deferred tax

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| The movement on the deferred tax account is as follows: | | |
| At beginning of year | 1,221 | 1,358 |
| Income statement charge for year | (71) | (159) |
| Available for sale financial assets - charge to other comprehensive income | 42 | (6) |
| Cash flow hedges - credit / (charge) to other comprehensive income | - | 16 |
| Revaluation / reclassification of property during year | (1) | (3) |
| Pensions | (14) | (6) |
| Additional tier 1 - credit to equity | 10 | - |
| Other movements (including foreign exchange) | (44) | 21 |
| **At end of year** | **1,143** | **1,221** |
| Deferred tax assets and liabilities are attributable to the following items: | | |
| **Deferred tax assets** | | |
| Unutilised tax losses | 1,135 | 1,210 |
| Pensions and other post retirement benefits | 52 | 83 |
| Accelerated capital allowances on equipment used by the Bank | 13 | 25 |
| Provision for loan impairment | 12 | 12 |
| Other temporary differences | 11 | 7 |
| **Deferred tax assets** | **1,223** | **1,337** |
| **Deferred tax liabilities** | | |
| Available for sale reserve | (47) | (89) |
| Property revaluation surplus | (11) | (10) |
| Cash flow hedge reserve | (7) | (1) |
| Other temporary differences | (15) | (16) |
| **Deferred tax liabilities** | **(80)** | **(116)** |
| **Represented on the balance sheet as follows:** | | |
| **Deferred tax assets** | **1,143** | **1,221** |

This note should be read in conjunction with note 33 to the Consolidated financial statements.

The amount of the net deferred tax asset expected to be recovered after more than one year is c.€1.1 billion (31 December 2015: c.€1.2 billion).

During the year ended 31 December 2015, the Bank concluded that for the purpose of valuing its deferred tax asset its brought forward trading losses within the Bank's UK branch (the 'UK branch'), would 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 would then be 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 tax losses was reduced by €52 million in the year ended 31 December 2015. The UK Budget 2016 included a further reduction in the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses from 50% to 25% from 1 April 2016. This restriction significantly lengthens the period over which the Group can use its UK trading losses and has been considered in the context of the measurement and recognition of the deferred tax asset at 31 December 2016. As a result, the carrying value of deferred tax assets relating to the UK branch tax losses was reduced by a further €14 million in the year ended 31 December 2016. See note 33 in the Consolidated financial statements on page 251 for further details

Apart from this, the deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Bank will have future taxable profits against which the deferred tax asset can be utilised to the extent it is not already reversed. The Bank projects to recover the majority of the deferred tax asset within 13 years of the balance sheet date. Under accounting standards these assets are measured on an undiscounted basis.

## p Other assets

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Interest receivable | 272 | 282 |
| Sundry and other debtors | 82 | 94 |
| Accounts receivable and prepayments | 82 | 79 |
| **Other assets** | **436** | **455** |
| Other assets are analysed as follows: | | |
| Within 1 year | 407 | 434 |
| After 1 year | 29 | 21 |
| | **436** | **455** |

## q Deposits from banks

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Deposits from banks | 5,932 | 6,522 |
| Monetary Authority secured funding | 1,091 | - |
| Securities sold under agreement to repurchase - private market repos | 13 | 102 |
| **Deposits from banks** | **7,036** | **6,624** |
| **Amounts include:** | | |
| Due to Group undertakings | 4,464 | 5,889 |

Deposits from banks include cash collateral of €0.9 billion (31 December 2015: €0.4 billion) received from derivative counterparties in relation to net derivative asset positions (see note d).

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| **Monetary Authority secured funding** | **TLTRO €m** | **ILTR €m** | **Total €m** | TLTRO €m | ILTR €m | Total €m |
| Deposits from banks | 799 | 292 | 1,091 | - | - | - |
| Debt securities in issue (note s) | 1,447 | - | 1,447 | 1,495 | - | 1,495 |
| **Total** | **2,246** | **292** | **2,538** | **1,495** | **-** | **1,495** |

The Bank's secured funding from the ECB Monetary Authority comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). In June 2016, the Bank replaced all of its TLTRO I with TLTRO II funding. The Bank's TLTRO borrowings will be repaid between September 2018 and March 2019, in line with the terms and conditions of the TLTRO facility. Subject to certain lending targets being achieved by the Bank between 1 February 2016 and 31 January 2018, the Bank will be charged the ECB deposit interest rate on this funding which is currently a negative interest rate.

Index Long Term Repo (ILTR) funding from the Bank of England has a maturity of less than one year.

The Bank's Monetary Authority funding is secured by available for sale financial assets and loans and advances to customers.

## r Customer accounts

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Current accounts | 27,324 | 25,996 |
| Term deposits and other products | 15,219 | 18,420 |
| Demand deposits | 13,972 | 12,084 |
| **Customer accounts** | **56,515** | **56,500** |
| **Amounts include:** | | |
| Due to Group undertakings | 4,101 | 5,737 |

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. An analysis of the contractual maturity profile of customer accounts is set out in note ac.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk and profile note (see page 342).

At 31 December 2016, the Bank's largest 20 customer deposits amounted to 5% (31 December 2015: 5%) of customer accounts.

Included within Term deposits and other products is €63 million (31 December 2015: €29 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

## s Debt securities in issue

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Bonds and medium term notes | 2,005 | 3,453 |
| Monetary Authorities (note q) | 1,447 | 1,495 |
| Other debt securities in issue | 241 | 138 |
| **Debt securities in issue** | **3,693** | **5,086** |

## t Other liabilities

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| 2009 Preference Stock | - | 1,416 |
| Accrued interest payable | 102 | 206 |
| Sundry creditors | 73 | 98 |
| Short position in trading securities | 47 | - |
| Accruals and deferred income | 43 | 44 |
| Finance lease obligations | 5 | 4 |
| Other | 291 | 239 |
| **Other liabilities** | **561** | **2,007** |
| Other liabilities are analysed as follows: | | |
| Within 1 year | 526 | 1,995 |
| After 1 year | 35 | 12 |
| | **561** | **2,007** |

On 4 January 2016, the Bank completed the redemption of the 2009 Preference Stock and the liability of €1,416 million recognised at 31 December 2015 was settled in full (note y).

## u Provisions

| | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| As at 1 January 2016 | 28 | 4 | 46 | 78 |
| Exchange adjustments | (2) | - | - | (2) |
| Charge to income statement | 41 | - | 8 | 49 |
| Utilised during the year | (40) | - | (10) | (50) |
| Unused amounts reversed during the year | (6) | - | (5) | (11) |
| **As at 31 December 2016** | **21** | **4** | **39** | **64** |

Of the €21 million closing provision for restructuring, €11 million relates to staff exits and €10 million relates to property and other costs.

| **Expected utilisation** | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| Less than 1 year | 15 | 1 | 35 | 51 |
| 1 to 2 years | 2 | 1 | 1 | 4 |
| 2 to 5 years | 4 | 1 | 1 | 6 |
| 5 to 10 years | - | 1 | 2 | 3 |
| **Total** | **21** | **4** | **39** | **64** |

The Bank 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.

## v Retirement benefit obligations

The Bank operates 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 Bank has been advised by independent actuaries, Willis Towers Watson.

The most significant defined benefit scheme in the Bank is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 80% of the total liabilities across all Bank defined benefit schemes at 31 December 2016, and further details of which are provided in note 42 to the Consolidated financial statements.

## v Retirement benefit obligations (continued)

**Regulatory framework**
Further details on the regulatory framework in which the Bank's defined benefit schemes operate together with a description of the Bank's responsibilities for governance are provided in note 42 to the Consolidated financial statements.

**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. There was no levy for 2016. The levy was based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The Bank has no charge in respect of the pension levy for the year ended 31 December 2016, (31 December 2015: €7 million charge through other comprehensive income).

**Plan details**
Details of membership of the BSPF are set out in note 42 to the Consolidated financial statements.

Expected employer and employee contributions during the year ended 31 December 2017 are €152 million, including c.€42 million in respect of a settlement of a liability management exercise in one of the Bank's pension schemes, and €10 million respectively.

**Financial and mortality assumptions**
Financial and mortality assumptions used in deriving valuations of the Bank's defined benefit obligation are the same as those used in deriving the valuation of the Group's defined benefit obligation, see note 42 to the Consolidated financial statements for further details.

| Asset breakdown | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Liability driven Investment (unquoted) | 2,300 | 1,413 |
| Equities (quoted) | 1,430 | 1,680 |
| Property (unquoted) | 516 | 315 |
| Corporate bonds (quoted) | 437 | 457 |
| Property and infrastructure (quoted) | 428 | 388 |
| Cash and other (quoted) | 405 | 472 |
| Reinsurance (unquoted) | 299 | 274 |
| Senior secured loans (unquoted) | 297 | 226 |
| Government bonds (quoted) | 292 | 812 |
| Private equities (unquoted) | 266 | 190 |
| Hedge funds (unquoted) | 263 | 254 |
| **Total fair value of assets** | **6,933** | **6,481** |

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €7 million (31 December 2015: €10 million) and property occupied by Bank of Ireland Group companies to the value of €38 million (31 December 2015: €37 million).

## v Retirement benefit obligations (continued)

**Sensitivity analysis for each of the 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 | Impact on defined benefit obligation Increase / (decrease) 31 December 2016 €m | Impact on defined benefit obligation Increase / (decrease) 31 December 2015 €m |
|---|---|---|
| **RoI schemes** | | |
| Discount rate | | |
| - Increase of 0.25% | (271) | (279) |
| - Decrease of 0.25% | 293 | 302 |
| Inflation rate | | |
| - Increase of 0.10% | 75 | 68 |
| - Decrease of 0.10% | (73) | (73) |
| Salary growth | | |
| - Increase of 0.10% | 23 | 24 |
| - Decrease of 0.10% | (21) | (22) |
| Life expectancy | | |
| - Increase of 1 year | 162 | 166 |
| - Decrease of 1 year | (161) | (165) |
| **UK schemes** | | |
| Discount rate | | |
| - Increase of 0.25% | (81) | (66) |
| - Decrease of 0.25% | 87 | 70 |
| RPI inflation | | |
| - Increase of 0.10% | 20 | 19 |
| - Decrease of 0.10% | (21) | (18) |
| Salary growth | | |
| - Increase of 0.10% | 3 | 3 |
| - Decrease of 0.10% | (4) | (3) |
| Life expectancy | | |
| - Increase of 1 year | 40 | 33 |
| - Decrease of 1 year | (40) | (32) |

## v Retirement benefit obligations (continued)

The table below sets out the estimated sensitivity of plan assets to changes in equity markets and interest rates.

| Impact on plan assets | **Impact on plan assets Increase / (decrease) 31 December 2016 €m** | Impact on plan assets Increase / (decrease) 31 December 2015 €m |
|---|---|---|
| **All schemes** | | |
| Sensitivity of plan assets to a movement in global equity markets with allowance for other correlated diversified asset classes | | |
| - Increase of 5.00% | 112 | 119 |
| - Decrease of 5.00% | (112) | (119) |
| Sensitivity of liability-matching assets to a 25bps movement in interest rates | | |
| - Increase of 0.25% | (214) | (111) |
| - Decrease of 0.25% | 227 | 117 |

The sensitivity analysis is prepared by the independent actuaries calculating the defined benefit obligation under the alternative assumptions and the fair value of scheme 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.

**Risks and risk management**

Further details on the key areas of risk and the way in which the Bank has sought to manage them are included in note 42 to the Consolidated financial statements.

**Amounts recognised in financial statements**

The table below outlines where the Bank's defined benefit plans are recognised in the financial statements.

| **31 December 2016** | **Irish Pension Plans €m** | **UK Pension[1] Plans €m** | **Total €m** |
|---|---|---|---|
| Balance sheet obligations | (267) | (83) | (350) |
| This is shown on the balance sheet as: | | | |
| Retirement benefit obligation | | | (356) |
| Retirement benefit asset | | | 6 |
| **Total net liability** | | | **(350)** |

| 31 December 2015 | Irish Pension Plans €m | UK Pension[1] Plans €m | Total €m |
|---|---|---|---|
| Balance sheet obligations | (554) | (39) | (593) |
| This is shown on the balance sheet as: | | | |
| Retirement benefit obligation | | | (607) |
| Retirement benefit asset | | | 14 |
| Total net liability | | | (593) |

*[1] The UK Pension Plans include a portion of the BSPF which relates to UK members.*

## v Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year in respect of the Bank'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 2016** | **(7,074)** | **6,481** | **(593)** |
| Cost of restructuring programme | | | |
| - Negative past service cost | 2 | - | 2 |
| Other operating expenses | (269) | 149 | (120) |
| *- Current service cost* | *(113)* | *-* | *(113)* |
| *- Negative past service cost* | *4* | *-* | *4* |
| *- Interest (expense) / income* | *(168)* | *156* | *(12)* |
| *- Impact of settlements* | *8* | *(7)* | *1* |
| Return on plan assets not included in income statement | - | 435 | 435 |
| Change in demographic assumptions | - | - | - |
| Change in financial assumptions | (386) | - | (386) |
| Experience gains | 42 | - | 42 |
| Employer contributions | - | 209 | 209 |
| *- Deficit clearing[1]* | *-* | *123* | *123* |
| *- Other* | *-* | *86* | *86* |
| Employee contributions | (10) | 10 | - |
| Benefit payments | 197 | (197) | - |
| Changes in exchange rates | 215 | (154) | 61 |
| **At 31 December 2016** | **(7,283)** | **6,933** | **(350)** |

*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 | (269) | 149 | (120) |
| Cost of restructuring programme | 2 | - | 2 |
| **Total amount recognised in income statement** | **(267)** | **149** | **(118)** |
| Changes in financial assumptions | (386) | - | (386) |
| Return on plan assets not included in income statement | - | 435 | 435 |
| Change in demographic assumptions | - | - | - |
| Changes in exchange rates | 215 | (154) | 61 |
| Experience gains | 42 | - | 42 |
| **Total remeasurements in other comprehensive income** | **(129)** | **281** | **152** |

| ***Total Negative past service cost comprises*** | |
|---|---|
| Impact of restructuring programme | 2 |
| Other operating expenses | 4 |
| **Total** | **6** |

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

## v Retirement benefit obligations (continued)

| | Present value of obligation €m | Fair value of plan assets €m | Surplus / (deficit) of plans €m |
|---|---|---|---|
| At 1 January 2015 | (7,000) | 6,178 | (822) |
| Impact of Group's Pensions Reviews (2010 and 2013) | | | |
| - Negative past service cost | 4 | - | 4 |
| Cost of restructuring programme | | | |
| - Past service cost | (5) | - | (5) |
| Other operating expenses | (233) | 97 | (136) |
| *- Current service cost* | *(125)* | - | *(125)* |
| *- Negative past service cost* | - | - | - |
| *- Interest (expense) / income* | *(164)* | *147* | *(17)* |
| *- Impact of settlements* | *56* | *(50)* | *6* |
| Return on plan assets not included in income statement | - | 3 | 3 |
| Change in demographic assumptions | 17 | - | 17 |
| Change in financial assumptions | 91 | - | 91 |
| Experience gains | 35 | - | 35 |
| Employer contributions | - | 292 | 292 |
| *- Deficit clearing*[1] | - | 205 | 205 |
| *- Other* | - | *87* | *87* |
| Employee contributions | (11) | 11 | - |
| Benefit payments | 189 | (189) | - |
| Changes in exchange rates | (86) | 39 | (47) |
| Transfer between Group companies | (75) | 50 | (25) |
| At 31 December 2015 | (7,074) | 6,481 | (593) |
| *The above amounts are recognised in the financial statements as follows: (charge) / credit* | | | |
| Other operating expenses | (233) | 97 | (136) |
| Impact of Group's Pensions Reviews | 4 | - | 4 |
| Cost of restructuring programme | (5) | - | (5) |
| Total amount recognised in income statement | (234) | 97 | (137) |
| Changes in financial assumptions | 91 | - | 91 |
| Return on plan assets not included in income statement | - | 3 | 3 |
| Change in demographic assumptions | 17 | - | 17 |
| Changes in exchange rates | (86) | 39 | (47) |
| Experience gains | 35 | - | 35 |
| Transfer between Group companies | (75) | 50 | (25) |
| Total remeasurements in other comprehensive income | (18) | 92 | 74 |
| *Total Negative past service cost comprises* | | | |
| Impact of Group's Pensions Reviews | | | 4 |
| Impact of restructuring programme | | | (5) |
| Total | | | (1) |

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

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## w Subordinated liabilities

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| **Undated loan capital** | | |
| Bank of Ireland | | |
| Stg£75 million 13⅜% Perpetual Subordinated Bonds | 89 | 103 |
| | **89** | **103** |
| **Dated loan capital** | | |
| €1,000 million 10% Convertible Contingent Capital Notes 2016 | - | 994 |
| €600 million Subordinated Floating Rate Notes 2017 | 1 | 1 |
| €1,002 million 10% Fixed Rate Subordinated Notes 2020 | 229 | 234 |
| Stg£197 million 10% Fixed Rate Subordinated Notes 2020 | 2 | 2 |
| €250 million 10% Fixed Rates Subordinated Notes 2022 | 270 | 266 |
| €750 million 4.25% Fixed Rate Subordinated Notes 2024 | 764 | 763 |
| | **1,266** | **2,260** |
| **Total subordinated liabilities** | **1,355** | **2,363** |

Further details on subordinated liabilities are contained in note 43 to the Consolidated financial statements.

## x Capital stock

| **Authorised** | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **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 |
| **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 2016 €m | 31 December 2015 €m |
|---|---|---|
| 32.363 billion units of €0.05 ordinary stock | 1,617 | 1,617 |
| 91.981 billion units of deferred stock of €0.01 each | 920 | 920 |
| 22.0 million units of treasury stock of €0.05 each (31 December 2015: 22.0 million units) | 1 | 1 |
| 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 |
| | **2,545** | **2,558** |

## x Capital stock (continued)

| | Ordinary stock | | Treasury stock | |
|---|---|---|---|---|
| **Movements in ordinary and treasury stock (units)** | **31 December 2016** | 31 December 2015 | **31 December 2016** | 31 December 2015 |
| At beginning of year | 32,363,275,073 | 32,363,275,073 | 22,008,690 | 22,008,690 |
| Issue of ordinary stock | - | - | - | - |
| **At end of year** | **32,363,275,073** | **32,363,275,073** | **22,008,690** | **22,008,690** |

For further information on Capital stock refer to note 44 to the Consolidated financial statements.

Treasury stock in the table above represents units of ordinary stock which have been purchased by the Bank but not stock purchased by subsidiaries (including stock held by New Ireland Assurance Company plc on behalf of policyholders).

## y Redemption of 2009 Preference Stock

On 23 November 2015, following the receipt of ECB approval, the Bank 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 the holders of the stock. As a result, at 31 December 2015, a financial liability was recognised within the Bank'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. At the same time a liability was also recognised within Other liabilities in respect of the obligation to make a final dividend payment of €116 million on the redemption date of 4 January 2016. This was deducted from retained earnings in the year ended 31 December 2015.

On 4 January 2016, the Bank completed the redemption of the 2009 Preference Stock and the liability recognised at 31 December 2015 in Other liabilities was settled in full.

The following table shows the impact for the year ended 31 December 2016 of the redemption of the 2009 Preference Stock on Stockholders' equity:

| | **€m** |
|---|---|
| Reduction in retained earnings | (727) |
| Reduction in stock premium | (564) |
| Reduction in capital stock | (13) |
| Other reserves: | |
| - Increase in capital reserve | 7 |
| - Elimination of reserve for 2009 Preference Stock to be redeemed | 1,297 |
| **Impact on Stockholders' equity for the year ended 31 December 2016** | **-** |

## z Other equity instruments - Additional tier 1

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Balance at the beginning of the year | 740 | - |
| Additional tier 1 securities issued | - | 749 |
| Transaction costs (net of tax) | - | (9) |
| **Balance at the end of the year** | **740** | **740** |

Further details on other equity instruments - Additional tier 1 are contained in note 46 to the Consolidated financial statements.

## aa Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

| | 31 December 2016 €m | 31 December 2015 €m |
|---|---|---|
| Cash and balances at central banks | 3,822 | 2,149 |
| Loans and advances to banks (with an original maturity of less than 3 months) | 865 | 1,621 |
| **Cash and cash equivalents** | **4,687** | **3,770** |

Cash and balances at central banks is made up as follows:

| **Cash and balances at central banks** | Year ended 31 December 2016 €m | Year ended 31 December 2015 €m |
|---|---|---|
| Republic of Ireland (Central Bank of Ireland) | 3,032 | 1,077 |
| United States (Federal Reserve) | 328 | 437 |
| United Kingdom (Bank of England) | 172 | 339 |
| Other (cash holdings) | 290 | 296 |
| **Total** | **3,822** | **2,149** |

## ab Related party transactions

A number of banking transactions are entered into between the Bank and its subsidiaries in the normal course of business. These include extending secured and unsecured loans, investing in bonds issued by subsidiaries, taking of deposits and undertaking foreign currency transactions; the volumes outstanding at the year end are set out in notes d, e, f, i, j, q and r of the Bank financial statements.

The Bank guarantees amounts owing by Bank of Ireland (UK) plc to the Bank of England and its subsidiary, The Bank of England Asset Purchase Facility Fund Limited.

Further information is shown in note 48 to the Consolidated financial statements.

## ac Liquidity risk and profile

The tables below summarise the maturity profile of the Bank's financial liabilities (excluding those arising on derivative financial instruments) at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows.

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

The balances will not agree directly to the Bank balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

| **As at 31 December 2016**<br>**Contractual maturity** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| Deposits from banks | 140 | 3,347 | 596 | 1,468 | 588 | 6,139 |
| Monetary Authorities secured funding | - | - | 292 | 2,250 | - | 2,542 |
| Customer accounts | 44,531 | 6,344 | 3,159 | 2,302 | 278 | 56,614 |
| Debt securities in issue | - | 360 | 812 | 962 | 271 | 2,405 |
| Subordinated liabilities | - | 20 | 65 | 527 | 1,210 | 1,822 |
| Contingent liabilities | 326 | 15 | 118 | 119 | 113 | 691 |
| Short positions in trading securities | 47 | - | - | - | - | 47 |
| Commitments | 6,888 | - | - | 1,973 | - | 8,861 |
| **Total** | **51,932** | **10,086** | **5,042** | **9,601** | **2,460** | **79,121** |

| As at 31 December 2015<br>Contractual maturity | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Deposits from banks | 141 | 2,520 | 805 | 2,484 | 627 | 6,577 |
| Monetary Authorities secured funding | - | - | 1,499 | - | - | 1,499 |
| Customer accounts[1] | 41,830 | 7,574 | 4,214 | 2,659 | 380 | 56,657 |
| Debt securities in issue | - | 101 | 600 | 2,705 | 519 | 3,925 |
| Subordinated liabilities | - | 21 | 1,165 | 553 | 1,282 | 3,021 |
| Contingent liabilities | 765 | - | - | - | - | 765 |
| Short positions in trading securities | - | - | - | - | - | - |
| Commitments | 6,171 | 82 | - | 2,530 | - | 8,783 |
| Total | 48,907 | 10,298 | 8,283 | 10,931 | 2,808 | 81,227 |

[1] *Comparative figures have been adjusted to reflect a change in assessment in the current year of the maturity dates of certain deposits with access features. Customer accounts repayable: on demand have been restated by €2,914 million from €38,916 million to €41,830 million; up to 3 months have been restated by €3,081 million from €10,655 million to €7,574 million; 3-12 months has been restated by €79 million from €4,293 million to €4,214 million; 1-5 years has been restated by €246 million from €2,413 million to €2,659 million, with no change to the total for customer accounts.*

## ac Liquidity risk and profile (continued)

The tables below summarise the maturity profile of the Bank's derivative liabilities. The Bank manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

| **As at 31 December 2016**<br>**Derivative financial instruments** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| **Derivatives held with hedging intent** | | | | | | |
| Gross settled derivative liabilities - outflows | - | 202 | 218 | 269 | - | 689 |
| Gross settled derivative liabilities - inflows | - | (178) | (161) | (203) | - | (542) |
| Gross settled derivative liabilities - net flows | - | 24 | 57 | 66 | - | 147 |
| Net settled derivative liabilities | - | 121 | 304 | 941 | 446 | 1,812 |
| **Total derivatives held with hedging intent** | **-** | **145** | **361** | **1,007** | **446** | **1,959** |
| Derivative liabilities held with trading intent | 1,026 | - | - | - | - | 1,026 |
| **Total derivative cash flows** | **1,026** | **145** | **361** | **1,007** | **446** | **2,985** |

| As at 31 December 2015<br>Derivative financial instruments | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Derivatives held with hedging intent | | | | | | |
| Gross settled derivative liabilities - outflows | - | 3,011 | 3,866 | 1,941 | 11 | 8,829 |
| Gross settled derivative liabilities - inflows | - | (2,680) | (3,498) | (1,833) | (5) | (8,016) |
| Gross settled derivative liabilities - net flows | - | 331 | 368 | 108 | 6 | 813 |
| Net settled derivative liabilities | - | 157 | 393 | 965 | 435 | 1,950 |
| Total derivatives held with hedging intent | - | 488 | 761 | 1,073 | 441 | 2,763 |
| Derivative liabilities held with trading intent | 899 | - | - | - | - | 899 |
| Total derivative cash flows | 899 | 488 | 761 | 1,073 | 441 | 3,662 |

## ad Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

| | At fair value through profit or loss | | | At fair value through other comprehensive income | | | |
|---|---|---|---|---|---|---|---|
| 31 December 2016 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Total €m |
| **Financial assets** | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 3,822 | 3,822 |
| Items in the course of collection from other banks | - | - | - | - | - | 90 | 90 |
| Trading securities | - | 18 | - | - | - | - | 18 |
| Derivative financial instruments | 121 | 2,405 | - | - | 1,148 | - | 3,674 |
| Other financial assets at fair value through profit or loss | - | - | 32 | - | - | - | 32 |
| Loans and advances to banks | - | - | - | - | - | 15,093 | 15,093 |
| Available for sale financial assets | - | - | - | 9,330 | - | - | 9,330 |
| Held to maturity financial assets | - | - | - | - | - | 1,872 | 1,872 |
| NAMA senior bonds | - | - | - | - | - | 451 | 451 |
| Other debt securities | - | - | - | - | - | 2,195 | 2,195 |
| Loans and advances to customers | - | - | - | - | - | 37,691 | 37,691 |
| **Total financial assets** | **121** | **2,423** | **32** | **9,330** | **1,148** | **61,214** | **74,268** |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | - | 74 | - | - | 6,962 | 7,036 |
| Customer accounts | - | - | 2,594 | - | - | 53,921 | 56,515 |
| Items in the course of transmission to other banks | - | - | - | - | - | 123 | 123 |
| Derivative financial instruments | 329 | 2,629 | - | - | 59 | - | 3,017 |
| Debt securities in issue | - | - | 302 | - | - | 3,391 | 3,693 |
| Subordinated liabilities | - | - | - | - | - | 1,355 | 1,355 |
| Short positions in trading securities | - | 47 | - | - | - | - | 47 |
| **Total financial liabilities** | **329** | **2,676** | **2,970** | **-** | **59** | **65,752** | **71,786** |

## ad Measurement basis of financial assets and financial liabilities (continued)

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

| | At fair value through profit or loss | | | At fair value through Other Comprehensive income | | | |
|---|---|---|---|---|---|---|---|
| 31 December 2015 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Total €m |
| Financial assets | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 2,149 | 2,149 |
| Items in the course of collection from other banks | - | - | - | - | - | 93 | 93 |
| Trading securities | - | 3 | - | - | - | - | 3 |
| Derivative financial instruments | 160 | 2,489 | - | - | 384 | - | 3,033 |
| Loans and advances to banks | - | - | - | - | - | 18,383 | 18,383 |
| Available for sale financial assets | - | - | - | 10,117 | - | - | 10,117 |
| Held to maturity financial assets | - | - | - | - | - | 1,922 | 1,922 |
| NAMA senior bonds | - | - | - | - | - | 1,414 | 1,414 |
| Loans and advances to customers | - | - | - | - | - | 41,036 | 41,036 |
| Total financial assets | 160 | 2,492 | - | 10,117 | 384 | 64,997 | 78,150 |
| Financial liabilities | | | | | | | |
| Deposits from banks | - | - | 267 | - | - | 6,357 | 6,624 |
| Customer accounts | - | - | 2,804 | - | - | 53,696 | 56,500 |
| Items in the course of transmission to other banks | - | - | - | - | - | 138 | 138 |
| Derivative financial instruments | 385 | 2,749 | - | - | 658 | - | 3,792 |
| Debt securities in issue | - | - | 381 | - | - | 4,705 | 5,086 |
| Subordinated liabilities | - | - | - | - | - | 2,363 | 2,363 |
| Short positions in trading securities | - | - | - | - | - | - | - |
| Total financial liabilities | 385 | 2,749 | 3,452 | - | 658 | 67,259 | 74,503 |

## ae Fair values of assets and liabilities

This note should be read in conjunction with note 54 to the Consolidated financial statements.

**Fair value hierarchy**

The following tables show, the Bank's assets and liabilities that are recognised and subsequently measured at fair value and their classification within a three-level fair value hierarchy.

**Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3** inputs are unobservable inputs for the asset or liability.

| 31 December 2016 | Quoted prices in active market Level 1 €m | Valuation techniques observable inputs Level 2 €m | Valuation techniques unobservable inputs Level 3 €m | Total €m |
|---|---|---|---|---|
| **Financial assets held at fair value** | | | | |
| Trading securities | 18 | - | - | 18 |
| Derivative financial instruments | 4 | 3,616 | 54 | 3,674 |
| Other financial assets at FVTPL | - | - | 32 | 32 |
| AFS financial assets | 9,013 | 301 | 16 | 9,330 |
| **Non-financial assets held at fair value** | | | | |
| Property held at fair value | - | - | 140 | 140 |
| | **9,035** | **3,917** | **242** | **13,194** |
| **Financial liabilities held at fair value** | | | | |
| Deposits from banks | - | 74 | - | 74 |
| Customer accounts | - | 2,575 | 19 | 2,594 |
| Derivative financial instruments | 3 | 3,012 | 2 | 3,017 |
| Debt securities in issue | - | - | 302 | 302 |
| Short positions in trading securities | 47 | - | - | 47 |
| | **50** | **5,661** | **323** | **6,034** |
| **Fair value of financial assets at amortised cost** | | | | |
| Loans and advances to banks | - | 15,112 | - | 15,112 |
| Loans and advances to customers | - | - | 35,591 | 35,591 |
| NAMA senior bonds | - | 454 | - | 454 |
| Held to maturity financial assets | 1,918 | - | - | 1,918 |
| Other debt securities | - | - | 2,195 | 2,195 |
| **Fair value of financial liabilities at amortised cost** | | | | |
| Deposits from banks | - | 6,962 | - | 6,962 |
| Customer accounts | - | 53,919 | - | 53,919 |
| Debt securities in issue | - | 3,421 | - | 3,421 |
| Subordinated liabilities | - | 1,357 | 108 | 1,465 |

## ae Fair values of assets and liabilities (continued)

| 31 December 2015 | Quoted prices in active market Level 1 €m | Valuation techniques observable inputs Level 2 €m | Valuation techniques unobservable inputs Level 3 €m | Total €m |
|---|---|---|---|---|
| Financial assets held at fair value | | | | |
| Trading securities | 3 | - | - | 3 |
| Derivative financial instruments | 1 | 2,868 | 164 | 3,033 |
| AFS financial assets | 8,175 | 306 | 1,636 | 10,117 |
| Non-financial assets held at fair value | | | | |
| Property held at fair value | - | - | 141 | 141 |
| | 8,179 | 3,174 | 1,941 | 13,294 |
| Financial liabilities held at fair value | | | | |
| Deposits from banks | - | 267 | - | 267 |
| Customer accounts | - | 2,804 | - | 2,804 |
| Derivative financial instruments | 1 | 3,786 | 5 | 3,792 |
| Debt securities in issue | - | - | 381 | 381 |
| Short positions in trading securities | - | - | - | - |
| | 1 | 6,857 | 386 | 7,244 |
| Fair value of financial assets at amortised cost | | | | |
| Loans and advances to banks | - | 18,426 | - | 18,426 |
| Loans and advances to customers | - | - | 38,180 | 38,180 |
| NAMA senior bonds | - | 1,422 | - | 1,422 |
| Held to maturity financial assets | 1,887 | - | - | 1,887 |
| Fair value of financial liabilities at amortised cost | | | | |
| Deposits from banks | - | 6,357 | - | 6,357 |
| Customer accounts | - | 53,703 | - | 53,703 |
| Debt securities in issue | 3,127 | 1,627 | - | 4,754 |
| 2009 Preference Stock and dividend | - | 1,416 | - | 1,416 |
| Subordinated liabilities | - | 2,411 | 124 | 2,535 |

## ae Fair values of assets and liabilities (continued)

**Movements in level 3 assets**

| **31 December 2016** | **Derivative financial instruments €m** | **Available for sale financial assets €m** | **Property held at fair value €m** | **Other financial assets at FVTPL €m** | **Total €m** |
|---|---|---|---|---|---|
| Opening balance | 164 | 1,636 | 141 | - | 1,941 |
| Exchange adjustment | (19) | (3) | (4) | - | (26) |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | 83 | - | - | 3 | 86 |
| - Reversal of impairment charges | - | - | 1 | - | 1 |
| - Interest income | - | - | - | - | - |
| - Other operating income | - | - | - | - | - |
| - Revaluation | - | - | - | - | - |
| Other comprehensive income | - | 15 | 5 | - | 20 |
| Additions | - | 2,017 | - | 29 | 2,046 |
| Disposals | (9) | (104) | (1) | - | (114) |
| Redemptions | (3) | (1,350) | - | - | (1,353) |
| Reclassifications | - | (2,195)[1] | (2) | - | (2,197) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | (169) | - | - | - | (169) |
| Transfers into level 3 | | | | | |
| - from level 2 to level 3 | 7 | - | - | - | 7 |
| **Closing balance** | **54** | **16** | **140** | **32** | **242** |
| | | | | | |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | |
| - Net trading income / (expense) | 23 | - | - | 3 | 26 |
| - Interest income | - | 4 | - | - | 4 |
| - Other operating income | - | - | - | - | - |
| - Reversal of impairment charges | - | - | - | - | - |

[1] *AFS financial assets reclassified in 2016 to Other debt securities (see note f).*

The transfer from level 3 to level 2 arose as result of the availability of observable inputs at 31 December 2016 which were unavailable at 31 December 2015.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

## ae Fair values of assets and liabilities (continued)

Movements in level 3 assets

| 31 December 2015 | Derivative financial instruments €m | Available for sale financial assets €m | Property held at fair value €m | Total €m |
|---|---|---|---|---|
| Opening balance | 208 | 3,178 | 127 | 3,513 |
| Exchange adjustment | 8 | - | 2 | 10 |
| Total gains or losses in: | | | | |
| Profit or loss | | | | |
| - Net trading income / (expense) | (39) | - | - | (39) |
| - Reversal of impairment charges | - | - | 3 | 3 |
| - Interest income | - | 14 | - | 14 |
| - Other operating income | - | 30 | - | 30 |
| - Revaluation | - | - | 5 | 5 |
| Other comprehensive income | - | 98 | 9 | 107 |
| Additions | - | 15 | - | 15 |
| Disposals | (27) | (30) | (5) | (62) |
| Redemptions | - | (1,400) | - | (1,400) |
| Transfers out of level 3 | | | | |
| - from level 3 to level 2 | (36) | (269) | - | (305) |
| Transfers into level 3 | | | | |
| - from level 2 to level 3 | 50 | - | - | 50 |
| Closing balance | 164 | 1,636 | 141 | 1,941 |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | |
| - Net trading income / (expense) | (57) | - | - | (57) |
| - Interest income | - | 16 | - | 16 |
| - Other operating income | - | - | 5 | 5 |
| - Reversal of impairment charges | - | - | 3 | 3 |

The transfer from level 3 to level 2 arose as result of the availability of observable inputs at 31 December 2015 which were unavailable at 31 December 2014.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

## ae Fair values of assets and liabilities (continued)

| **Movements in level 3 liabilities**<br>**31 December 2016** | **Customers accounts €m** | **Derivative financial instruments €m** | **Debt securities in issue €m** | **Subordinated liabilities €m** | **Total €m** |
|---|---|---|---|---|---|
| Opening balance | - | 5 | 381 | - | 386 |
| Exchange adjustments | - | (1) | - | - | (1) |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | (1) | 3 | 7 | - | 9 |
| Additions | 20 | - | - | - | 20 |
| Redemptions | - | - | (86) | - | (86) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | - | (5) | - | - | (5) |
| **Closing balance** | **19** | **2** | **302** | **-** | **323** |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities held at the end of the reporting year | | | | | |
| - Net trading income / (expense) | 1 | (1) | (16) | - | (16) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

| Movements in level 3 liabilities<br>31 December 2015 | Customers accounts €m | Derivative financial instruments €m | Debt securities in issue €m | Subordinated liabilities €m | Total €m |
|---|---|---|---|---|---|
| Opening balance | 2 | 12 | 481 | 69 | 564 |
| Exchange adjustments | - | - | - | 7 | 7 |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | - | 6 | 5 | 1 | 12 |
| Redemptions and maturities | - | (10) | (105) | (77) | (192) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | (2) | (3) | - | - | (5) |
| **Closing balance** | **-** | **5** | **381** | **-** | **386** |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities held at the end of the reporting year | | | | | |
| - Net trading income / (expense) | - | (2) | (17) | - | (19) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

## ae Fair values of assets and liabilities (continued)

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3)**

| Level 3 assets | Valuation technique | Unobservable input | Fair value 31 December 2016 €m | Fair value 31 December 2015 €m | Range 31 December 2016 % | Range 31 December 2015 % |
|---|---|---|---|---|---|---|
| Derivative financial assets | Discounted cash flow | Credit Spread[1] | 54 | 164 | 0% - 4% | 0% - 4% |
| | Option pricing model | Credit Spread[1] | | | 0% - 4% | 0% - 4% |
| Other financial assets at fair value through profit or loss | Equity Value less discount | Discount | 32 | - | 0% - 50% | - |
| AFS financial assets | Market comparable companies | Discount rate[2] | 16 | 1,636 | Third party pricing | Third party pricing |
| | | EBITDA multiple[3] | | | | |
| | | Liquidity factor | | | | |
| Property held at fair value | Market comparable property transactions | Property valuation assumptions | 140 | 141 | Third party pricing | Third party pricing |

| Level 3 liabilities | Valuation technique | Unobservable input | Fair value 31 December 2016 €m | Fair value 31 December 2015 €m | Range 31 December 2016 % | Range 31 December 2015 % |
|---|---|---|---|---|---|---|
| Customer accounts | Discounted cash flow | Credit Spread[1] | 19 | - | 0% - 4% | - |
| | Option pricing model | | | | | |
| Derivative financial liabilities | Discounted cash flow | Credit Spread[1] | 2 | 5 | 0% - 4% | 0% - 4% |
| | Option pricing model | Credit Spread[1] | | | Third party pricing | Third party pricing |
| Debt securities in issue | Discounted cash flow | Credit Spread[1] | 302 | 381 | 0% - 4% | 0% - 4% |

*[1] The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
*[2] The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
*[3] The Bank's multiples represent multiples that market participants would use in valuing these investments.*

*Note: 100 basis points = 1%*

## ae Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Bank's financial assets and liabilities which are carried at amortised cost, are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Carrying amount €m | Fair values €m | Carrying amount €m | Fair values €m |
| **Non-trading financial instruments** | | | | |
| **Assets** | | | | |
| Loans and advances to banks | 15,093 | 15,112 | 18,383 | 18,426 |
| Loans and advances to customers | 37,691 | 35,591 | 41,036 | 38,180 |
| NAMA senior bonds | 451 | 454 | 1,414 | 1,421 |
| Held to maturity financial assets | 1,872 | 1,918 | 1,922 | 1,887 |
| Other debt securities | 2,195 | 2,195 | - | - |
| **Liabilities** | | | | |
| Deposits from banks | 6,962 | 6,962 | 6,357 | 6,357 |
| Customer accounts | 53,921 | 53,919 | 53,696 | 53,703 |
| Debt securities in issue | 3,391 | 3,421 | 4,705 | 4,754 |
| Subordinated liabilities | 1,355 | 1,465 | 2,363 | 2,535 |

## af Transferred financial assets

The Bank has transferred certain financial assets that are not derecognised from the Bank's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Bank is exposed to substantially all risks and rewards including Credit & Market Risk associated with the transferred assets.

| 31 December 2016 Categories | Carrying amount of transferred assets €m | Carrying amount of associated liabilities[1] €m | Fair value of transferred assets €m | Fair value of associated liabilities[1] €m | Net fair value position €m |
|---|---|---|---|---|---|
| **Securitisation** | | | | | |
| Loans and receivables | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 770 | 968 | 725 | 889 | (164) |
| **Sale and Repurchase** | | | | | |
| Available for sale financial assets[3] | 76 | 76 | n/a | n/a | n/a |

*Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:*

1. *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation SPEs, held by the Bank.*
2. *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*
3. *Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

*n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

## af Transferred financial assets (continued)

| 31 December 2015<br>Categories | Carrying amount of transferred assets<br>€m | Carrying amount of associated liabilities[1]<br>€m | Fair value of transferred assets<br>€m | Fair value of associated liabilities[1]<br>€m | Net fair value position<br>€m |
|---|---|---|---|---|---|
| Securitisation | | | | | |
| Loans and receivables | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 1,109 | 1,307 | 1,029 | 1,211 | (182) |
| Irish Residential mortgages (Kildare SPE)[2] | 1,213 | 1,253 | 1,025 | 1,115 | (90) |
| Sale and Repurchase | | | | | |
| Available for sale financial assets[3] | 139 | 131 | n/a | n/a | n/a |

*Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:*

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation SPEs, held by the Bank.*

[2] *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

[3] *Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

*n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

The Bank has not entered into any agreements on the sale of assets that entail the Bank's continuing involvement in derecognised financial assets.

## ag Offsetting financial assets and liabilities

The following tables sets out the effect or potential effect of netting arrangements on the Bank's financial position. This includes the effect or potential effect of rights of set-off associated with the Bank's recognised financial assets and recognised financial liabilities that are currently subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

| **As at 31 December 2016** | | | | **Related amounts not set off in the balance sheet** | | |
|---|---|---|---|---|---|---|
| **Assets** | **Gross amounts of recognised financial assets<br>€m** | **Gross amounts of recognised financial liabilities set off in the balance sheet<br>€m** | **Net amounts of financial assets presented in the balance sheet<br>€m** | **Financial[1] instruments<br>€m** | **Cash[2] collateral received<br>€m** | **Net amount<br>€m** |
| Derivative financial assets | 3,123 | - | 3,123 | (1,937) | (851) | 335 |
| Loans and advances to customers | 344 | (344) | - | - | - | - |
| **Total** | **3,467** | **(344)** | **3,123** | **(1,937)** | **(851)** | **335** |

[1] *Amounts of €1,937 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*

[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note q).*

## ag Offsetting financial assets and liabilities (continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

| **31 December 2016**<br>**Liabilities** | **Gross amounts of recognised financial liabilities €m** | **Gross amounts of recognised financial assets set off in the balance sheet €m** | **Net amounts of financial liabilities presented in the balance sheet €m** | **Related amounts not set off in the balance sheet** | | **Net amount €m** |
|---|---|---|---|---|---|---|
| | | | | **Financial[1] instruments €m** | **Cash[2] collateral pledged €m** | |
| Derivative financial liabilities | 2,763 | - | 2,763 | (1,937) | (698) | 128 |
| Customer deposits | 344 | (344) | - | - | - | - |
| **Total** | **3,107** | **(344)** | **2,763** | **(1,937)** | **(698)** | **128** |

*[1] Amounts of €1,937 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

| As at 31 December 2015<br>Assets | Gross amounts of recognised financial assets €m | Gross amounts of recognised financial liabilities set off in the balance sheet €m | Net amounts of financial assets presented in the balance sheet €m | Related amounts not set off in the balance sheet | | Net amount €m |
|---|---|---|---|---|---|---|
| | | | | Financial[1] instruments €m | Cash[2] collateral received €m | |
| Derivative financial assets | 2,620 | - | 2,620 | (2,067) | (383) | 170 |
| Loans and advances to customers | 417 | (417) | - | - | - | - |
| Total | 3,037 | (417) | 2,620 | (2,067) | (383) | 170 |

*[1] Amounts of €2,067 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note q).*

| 31 December 2015<br>Liabilities | Gross amounts of recognised financial liabilities €m | Gross amounts of recognised financial assets set off in the balance sheet €m | Net amounts of financial liabilities presented in the balance sheet €m | Related amounts not set off in the balance sheet | | Net amount €m |
|---|---|---|---|---|---|---|
| | | | | Financial[1] instruments €m | Cash[2] collateral pledged €m | |
| Derivative financial liabilities | 3,705 | - | 3,705 | (2,067) | (1,492) | 146 |
| Customer deposits | 417 | (417) | - | - | - | - |
| Total | 4,122 | (417) | 3,705 | (2,067) | (1,492) | 146 |

*[1] Amounts of €2,067 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

## ah 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 2016 €m** | 31 December 2015 €m |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and irrevocable letters of credit | 513 | 515 |
| Acceptances and endorsements | 6 | 10 |
| Other contingent liabilities | 172 | 240 |
| | **691** | **765** |
| **Commitments** | | |
| Documentary credits and short-term trade related transactions | 99 | 77 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| - revocable or irrevocable with original maturity of 1 year or less | 6,137 | 6,176 |
| - irrevocable with original maturity of over 1 year | 2,625 | 2,530 |
| | **8,861** | **8,783** |

In common with other banks, the Bank 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 Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Bank 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 Bank 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 Bank is also party to legal, regulatory and other actions arising out of its normal business operations.

At 31 December 2016, the Bank is engaged in an industry-wide mortgage review with respect to compliance with certain contractual and regulatory requirements in Ireland. In accordance with IAS 37.92, the Bank has not provided further information on this issue.

**Documentary credits** commit the Bank 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.

## ai Other

(a) These financial statements are financial statements of the Bank only and are prepared in accordance with Section 290 (1) of the Companies Act 2014.

(b) The Bank is domiciled in Ireland.

(c) The Bank is a corporation established in Ireland in 1783 under Royal Charter with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

(d) As at 31 December 2016, the Bank has provided a guarantee under Section 357 of the Companies Act, 2014 for the following companies:

Bank of Ireland Asset Management (US) Limited, First Rate Enterprises Limited (in Members' Voluntary Liquidation), Bank of Ireland Commercial Finance Limited, Bank of Ireland Finance Limited, Bank of Ireland Insurance & Investments Limited, Bank of Ireland Insurance Management Services Limited, Bank of Ireland Insurance Services Limited, Bank of Ireland International Finance DAC, Bank of Ireland Leasing Limited, Bank of Ireland Life Holdings Limited, Bank of Ireland Nominee 1 Limited, Bank of Ireland Nominee 3 Limited, Bank of Ireland Pensions Trust Unlimited Company, Bank of Ireland Private Banking Limited, Bank of Ireland Treasury and International Banking Limited, Bank of Ireland Trust Services Limited, Bank of Ireland Unit Managers Limited, BIAM Holdings Unlimited Company, BoI Capital Holdings Limited, BoI-IF Services No. 5 Company Unlimited Company, BoI-IF Services No. 10 Company Unlimited Company, Bushfield Leasing Limited, C and I (Division) Holdings Unlimited Company, Centurion Card Services Limited, Central Pensions Administration Limited, December Leasing Limited, Edendork Leasing Limited, Florenville Limited, Hibernian Bank Limited, Hill Wilson Secretarial Limited, IBI Corporate Finance Limited, IBI Property Nominees Limited, Kilkenny Promotion Project Limited, Lansdowne Leasing Unlimited Company, Nerling Limited, Nestland Limited, Professional Audit Services Limited, Rolmur Unlimited Company, Scribe Holdings Limited, Tockhill Unlimited Company, The Investment Bank of Ireland Limited, The National Bank of Ireland Limited, Trustcase Limited, Tustin Limited.

(e) The Governor and Company of the Bank of Ireland (the Bank) entered into a framework agreement on 28 June 2012 with the Central Bank of Ireland (the 'Central Bank') under which the Bank may issue mortgage-backed euro promissory notes to the Central Bank as security for Eurosystem credit operations. This framework agreement was amended by way of an amendment agreement dated 15 May 2014 between the Central Bank of Ireland and the Bank. These obligations under the mortgage-backed euro promissory notes are secured by way of two deeds of floating charge and a floating charge which are in each case over all the Bank's right, title, interest and benefit, present and future in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security (one deed of floating charge relates to property in Northern Ireland and the other deed of floating charge relates to property in England and Wales; the floating charge relates to property in Scotland). Each of the three charges contains a provision whereby during the subsistence of the security constituted thereby, otherwise than with the prior written consent of the Central Bank, the Bank shall:
(i) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged thereunder or any part thereof; or
(ii) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged thereunder or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

The Bank entered into a framework agreement on 22 September 2014 with the Central Bank of Ireland under which the Bank may issue mortgage-backed euro promissory notes to the Central Bank as security for Eurosystem credit operations. These obligations are secured by way of a deed of floating charge over all the Bank's right, title, interest and benefit, present and future in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related securities. The deed of floating charge contains a provision whereby during the subsistence of the security constituted thereby, otherwise than with the prior written consent of the Central Bank, the Bank shall:
(i) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged thereunder or any part thereof; or
(ii) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged thereunder or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

## ai Other (continued)

(f) The Bank entered into a framework agreement in respect of Eurosystem Operations secured over collateral pool assets (the 'Pooling Agreement') with the Central Bank of Ireland, together with a related Deed of Charge (the 'Pooling Deed of Charge') on 15 May 2014. Pursuant to the Pooling Agreement, the Bank may participate in Eurosystem operations (as defined therein) which, inter alia, provides for access to the Eurosystem's main refinancing operations (the 'MRO'). The Pooling Agreement and the Pooling Deed of Charge replaced the master repurchase agreement previously used by the Bank to access the MRO. As more fully described in the Pooling Deed of Charge, the Bank's obligations pursuant to the Pooling Agreement are secured by way of: (i) a first fixed charge over the Bank's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of the Bank at that time in and to, or in connection with, a collateral account (the 'Collateral Account') and eligible assets which stand to the credit of the Collateral Account (together, the 'Collateral Account Assets'); and (ii) a floating charge over the Bank's right, title, interest and benefit, present and future in and to other eligible assets of the Bank.

The Pooling Deed of Charge provides that the Bank may not, save with the prior written consent of the Central Bank or as permitted by the Pooling Agreement, until its obligations under the Pooling Agreement have been discharged in full:

(i) receive, withdraw, redeem or otherwise deal with the Collateral Account Assets;
(ii) assign, transfer or otherwise dispose of all or any of its rights, title interest or benefit in or to the Collateral Account Assets;
(iii) give any instructions in respect of the Collateral Account Assets;
(iv) create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Pooling Deed of Charge;
(v) sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge under the Pooling Deed of Charge or any part thereof or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time; and
(vi) otherwise than in the ordinary course of business (and provided that (i) no event of default or event that, with the giving of notice or the lapse of time or both would constitute an event of default has occurred (ii) the floating charge has not crystallised without being reconverted into, and continuing in effect as, a floating charge), sell, transfer, lend or otherwise dispose of or deal in the assets subject to the floating charge under the Pooling Deed of Charge or any part thereof, or redeem, agree to redeem or accept repayment in whole or in part of any credit claim subject to the floating charge, or enforce or release any related security or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

(g) Bank income statement

In accordance with Section 304 of Companies Act 2014, the Bank is availing of the exemption to not present its individual income statement to the Annual General Court (AGC) and from filing it with the Registrar of Companies. The Bank's profit after tax for the year ended 31 December 2016 determined in accordance with IFRS is €624 million (31 December 2015: €424 million).

Information in relation to the Bank's principal subsidiaries is contained in note 50 to the Consolidated financial statements.

Post balance sheet events are shown in note 58 to the Consolidated financial statements.

# Other Information

## Group exposures to selected countries

*The information in Group exposures to selected countries forms an integral part of the audited financial statements as described in the Basis of preparation on page 196.*

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items at at 31 December 2016. These include exposures to Ireland, the United Kingdom, the United States and those other countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million.

| **31 December 2016**<br>**Assets** | **Ireland**<br>**€m** | **United Kingdom**<br>**€m** | **United States**<br>**€m** | **Spain**<br>**€m** | **France**<br>**€m** | **Belgium**<br>**€m** | **Italy**<br>**€m** | **Other[3]**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 3,032 | 1,542 | 328 | - | - | - | - | 290 | 5,192 |
| Trading securities | - | - | - | - | - | - | - | 18 | 18 |
| Derivative financial instruments[1] (net) | 114 | 476 | 16 | 8 | 44 | - | - | 110 | 768 |
| Other financial assets at fair value through profit or loss[2] | 445 | 45 | 105 | 7 | 529 | 118 | 51 | 353 | 1,653 |
| Loans and advances to banks[2] | 99 | 2,271 | 11 | 1 | 354 | - | 7 | 238 | 2,981 |
| Available for sale financial assets | 2,849 | 1,408 | 24 | 640 | 1,501 | 665 | 264 | 3,443 | 10,794 |
| Held to maturity financial assets | 1,872 | - | - | - | - | - | - | - | 1,872 |
| NAMA senior bonds | 451 | - | - | - | - | - | - | - | 451 |
| **Total** | **8,862** | **5,742** | **484** | **656** | **2,428** | **783** | **322** | **4,452** | **23,729** |

| 31 December 2015<br>Assets | Ireland<br>€m | United Kingdom<br>€m | United States<br>€m | Spain<br>€m | France<br>€m | Belgium<br>€m | Italy<br>€m | Other[4]<br>€m | Total<br>€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 |

[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 2016, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Sweden €0.5 billion, Norway: €0.3 billion, Austria: €0.3 billion, Portugal: €0.1 billion, Turkey: €0.1 billion, Canada: €0.4 billion, Rest of world: €1.0 billion and Supranational institutions: €1.3 billion. Also included in other is the Group's euro cash holding in branches.*
[4] *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, Turkey: €0.2 billion, Canada: €0.2 billion, Rest of world: €0.9 billion and Supranational institutions: €1.2 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 2016 by asset class:

**Derivative financial instruments**

| 31 December 2016 | 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 | 6 | 1,251 | 143 | 4 | 425 | 8 | - | 1,081 | 2,918 |
| Corporate | 119 | 581 | 50 | 8 | 1 | - | - | 32 | 791 |
| **Total** | **125** | **1,832** | **193** | **12** | **426** | **8** | **-** | **1,113** | **3,709** |
| **Net Derivative Assets[1]** | | | | | | | | | |
| Financial institutions | - | 103 | 2 | - | 43 | - | - | 78 | 226 |
| Corporate | 114 | 373 | 14 | 8 | 1 | - | - | 32 | 542 |
| **Total** | **114** | **476** | **16** | **8** | **44** | **-** | **-** | **110** | **768** |

| 31 December 2015 | 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 | 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 |

[1] *Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
[2] *At 31 December 2016, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €55 million, Germany: €21 million, Denmark: €15 million, Australia: €6 million, Austria: €3 million and Netherlands: €7 million.*
[3] *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.*

## Group exposures to selected countries (continued)

### Available for sale financial assets

| **31 December 2016** | **Ireland €m** | **United Kingdom €m** | **United States €m** | **Spain €m** | **France €m** | **Belgium €m** | **Italy €m** | **Other[2] €m** | **Total €m** |
|---|---|---|---|---|---|---|---|---|---|
| Government bonds | 2,248 | 629 | 1 | 293 | 738 | 539 | 261 | 432 | 5,141 |
| Senior bank debt and other senior debt | - | 10 | - | 3 | 182 | - | - | 1,494 | 1,689 |
| Covered bonds | 297 | 696 | - | 308 | 567 | 126 | - | 1,487 | 3,481 |
| Subordinated debt | 304 | - | - | - | 10 | - | - | 23 | 337 |
| Asset backed securities and other | - | 73 | 23 | 36 | 4 | - | 3 | 7 | 146 |
| **Total** | **2,849** | **1,408** | **24** | **640** | **1,501** | **665** | **264** | **3,443** | **10,794** |

| 31 December 2015 | Ireland €m | United Kingdom €m | United States €m | Spain €m | France €m | Belgium €m | Italy €m | Other[3] €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 and other | 11 | 72 | 29 | 42 | 7 | - | 4 | 177 | 342 |
| Total | 3,358 | 1,146 | 73 | 845 | 1,310 | 502 | 322 | 2,572 | 10,128 |

[1] *NAMA subordinated debt of €274 million (31 December 2015: €269 million) is classified as an available for sale debt instrument (note 23).*
[2] *At 31 December 2016, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Norway: €0.2 billion, Sweden: €0.5 billion, Portugal: €0.1 billion, Rest of world: €0.8 billion and Supranational institutions €1.3 billion.*
[3] *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.*

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.

# Supplementary asset quality and forbearance disclosures

## Retail Ireland mortgages


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*The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 196. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.*

## Retail Ireland mortgages

The following disclosures 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 2016, lending criteria for the Retail Ireland mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) 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 2016 €m** | 31 December 2015 €m |
|---|---|---|
| Owner occupied mortgages | 19,839 | 19,951 |
| Buy to let mortgages | 4,490 | 5,040 |
| **Total Retail Ireland mortgages** | **24,329** | **24,991** |

| **Retail Ireland mortgages - Volumes (before impairment provisions) by interest rate type** | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **€m** | **%** | €m | % |
| Tracker | 11,781 | 48% | 12,949 | 52% |
| Variable rates | 7,202 | 30% | 8,129 | 32% |
| Fixed rates | 5,346 | 22% | 3,913 | 16% |
| **Total Retail Ireland mortgages** | **24,329** | **100%** | **24,991** | **100%** |

## Book composition (continued)

### Loan volumes (continued)

Retail Ireland mortgages were €24.3 billion at 31 December 2016 compared to €25.0 billion at 31 December 2015, a decrease of €0.7 billion or 2.6%, which includes a €1.2 billion decrease in the tracker portfolio and a €0.5 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 €0.2 billion in the year.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'[1] repayment basis at 31 December 2016 was 93% (31 December 2015: 91%) with the balance of 7% on an 'interest only'[2] repayment basis (31 December 2015: 9%). Of the Owner occupied mortgages of €19.8 billion, 96% were on a 'full principal and interest' repayment basis (31 December 2015: 95%), while 77% of the Buy to let mortgages of €4.5 billion were on a 'full principal and interest' repayment basis (31 December 2015: 76%). 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 2016<br>Origination[1] of Retail Ireland mortgage loan book (before impairment provisions) | Total Retail Ireland mortgage loan book | | Non-performing loans | |
|---|---|---|---|---|
| | **Balance €m** | **Number of accounts[2]** | **Balance €m** | **Number of accounts[2]** |
| 2000 and before | 314 | 11,928 | 32 | 722 |
| 2001 | 262 | 4,914 | 20 | 270 |
| 2002 | 483 | 7,534 | 49 | 432 |
| 2003 | 886 | 10,869 | 95 | 732 |
| 2004 | 1,550 | 15,039 | 175 | 1,092 |
| 2005 | 2,577 | 19,879 | 324 | 1,571 |
| 2006 | 3,940 | 25,221 | 586 | 2,380 |
| 2007 | 3,435 | 21,037 | 524 | 2,024 |
| 2008 | 2,382 | 15,305 | 273 | 1,145 |
| 2009 | 1,264 | 9,438 | 79 | 471 |
| 2010 | 920 | 6,509 | 20 | 123 |
| 2011 | 796 | 5,730 | 10 | 65 |
| 2012 | 706 | 5,152 | 2 | 16 |
| 2013 | 669 | 4,590 | 3 | 19 |
| 2014 | 1,062 | 6,484 | 2 | 10 |
| 2015 | 1,509 | 11,575 | 4 | 77 |
| 2016 | 1,574 | 9,722 | 7 | 41 |
| **Total** | **24,329** | **190,926** | **2,205** | **11,190** |

[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 2015<br>Origination[1] of Retail Ireland mortgage loan book (before impairment provisions) | Total Retail Ireland mortgage loan book | | Non-performing loans | |
|---|---|---|---|---|
| | 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.*

The tables above illustrate that at 31 December 2016, €6.0 billion or 25% of the Retail Ireland mortgage loan book originated before 2006, €9.8 billion or 40% between 2006 and 2008 and €8.5 billion or 35% in the years since 2008. The lending originated in 2016 includes the acquisition of €0.2 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 90 in the credit risk section of the Risk Management Report.

At 31 December 2016, total non-performing loans were €2.2 billion (31 December 2015: €3.0 billion) or 9% of the Retail Ireland mortgage loan book, of which €1.4 billion originated between 2006 and 2008. There has been a significant decrease in total non-performing loans in the year ended 31 December 2016 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 2016, impairment provisions were €0.9 billion equating to 41% of non-performing balances on the Retail Ireland mortgage book.

## Book composition (continued)

### Risk profile

**TABLE: 3a**

| **31 December 2016**<br>**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 | 18,648 | 94% | 3,647 | 82% | 22,295 | 92% |
| 1-90 days past due but not impaired | 256 | 1% | 101 | 2% | 357 | 1% |
| Past due greater than 90 days but not impaired | 158 | 1% | 61 | 1% | 219 | 1% |
| Impaired | 777 | 4% | 681 | 15% | 1,458 | 6% |
| **Total** | **19,839** | **100%** | **4,490** | **100%** | **24,329** | **100%** |
| **Non-performing loans** | | | | | | |
| Probationary mortgages | 273 | 23% | 255 | 26% | 528 | 24% |
| *- Self-cure* | *70* | *6%* | *40* | *4%* | *110* | *5%* |
| *- Forborne* | *203* | *17%* | *215* | *22%* | *418* | *19%* |
| Defaulted loans | 935 | 77% | 742 | 74% | 1,677 | 76% |
| *- Past due greater than 90 days but not impaired* | *158* | *13%* | *61* | *6%* | *219* | *10%* |
| *- Impaired* | *777* | *64%* | *681* | *68%* | *1,458* | *66%* |
| **Total** | **1,208** | **100%** | **997** | **100%** | **2,205** | **100%** |

| 31 December 2015<br>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% |

The tables above illustrate that €22.3 billion or 92% of the total Retail Ireland mortgage loan book at 31 December 2016 was classified as ‘neither past due nor impaired’ compared to €22.2 billion or 89% at 31 December 2015.

The ‘1-90 days past due but not impaired’ category amounted to €0.4 billion or 1% of the total Retail Ireland mortgage loan book at 31 December 2016 compared to €0.5 billion or 2% at 31 December 2015.

The ‘past due greater than 90 days but not impaired’ category amounted to €0.2 billion or 1% of the total Retail Ireland mortgage loan book at 31 December 2016 compared to €0.4 billion or 1% at 31 December 2015.

The ‘impaired’ category amounted to €1.5 billion or 6% of the total Retail Ireland mortgage loan book at 31 December 2016 compared to €2.0 billion or 8% at 31 December 2015.

## Book composition (continued)

### Risk profile (continued)

Total non-performing mortgages reduced significantly by €0.8 billion or 28% to €2.2 billion at 31 December 2016. Within this, probationary mortgages reduced by €0.2 billion or 27% to 0.5 billion at 31 December 2016 (31 December 2015: €0.7 billion) and defaulted loans reduced by €0.6 billion or 28% to €1.7 billion at 31 December 2016 (31 December 2015: €2.3 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 2016, decreasing to €1.2 billion at 31 December 2016 from €1.6 billion at 31 December 2015. 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 billion at 31 December 2016 from €1.4 billion at 31 December 2015. 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 2016 and the percentage of the Buy to let portfolio on a 'full principal and interest' repayment basis increased from 76% at 31 December 2015 to 77% at 31 December 2016.

### Arrears profile

**TABLE: 3b** *(unaudited)*

| **Mortgage arrears - Greater than 90 days past due (number of accounts)** | **31 December 2016 %** | 30 June 2016 % | 31 December 2015 % |
|---|---|---|---|
| Retail Ireland Owner occupied mortgages | 2.8% | 3.3% | 3.8% |
| Industry[1] Owner occupied (number of accounts) | n/a | 9.0% | 9.5% |
| Retail Ireland Buy to let mortgages | 6.8% | 8.0% | 9.5% |
| Industry[1] Buy to let (number of accounts) | n/a | 18.7% | 19.1% |

| **Mortgage arrears - Greater than 90 days past due (value)** | **31 December 2016 %** | 30 June 2016 % | 31 December 2015 % |
|---|---|---|---|
| Retail Ireland Owner occupied mortgages | 4.0% | 4.6% | 5.4% |
| Industry[1] Owner occupied (value) | n/a | 13.2% | 13.8% |
| Retail Ireland Buy to let mortgages | 13.7% | 15.5% | 17.4% |
| Industry[1] Buy to let (value) | n/a | 26.1% | 26.4% |

The latest information published by the Central Bank of Ireland (CBI) is for the quarter ended 30 September 2016. 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 (34% of industry average) and Buy to let (41% of industry average) mortgages. At 30 September 2016, 3.07% and 7.65% 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 8.9%[1] and 18.65%[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)** *(unaudited)*

| Mortgage arrears - 720 days past due (number of accounts) | 31 December 2016 % | 30 June 2016 % | 31 December 2015 % |
|---|---|---|---|
| Retail Ireland Owner occupied mortgages | 1.6% | 1.8% | 2.0% |
| Industry[1] Owner occupied (Number of accounts) | n/a | 5.5% | 5.7% |
| Retail Ireland Buy to let mortgages | 3.7% | 4.4% | 5.0% |
| Industry[1] Buy to let (Number of accounts) | n/a | 12.9% | 12.7% |

| Mortgage arrears - 720 days past due (value) | 31 December 2016 % | 30 June 2016 % | 31 December 2015 % |
|---|---|---|---|
| Retail Ireland Owner occupied mortgages | 2.5% | 2.9% | 3.1% |
| Industry[1] Owner occupied (value) | n/a | 9.0% | 9.1% |
| Retail Ireland Buy to let mortgages | 7.5% | 8.3% | 8.9% |
| Industry[1] Buy to let (value) | n/a | 19.6% | 19.0% |

The latest information published by the Central Bank of Ireland is for the quarter ended 30 September 2016. 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 (31% of industry average) and Buy to let (32% of industry average) mortgages. At 30 September 2016, 1.7% and 4.16% 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 5.51%[1] and 12.93%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland.*

### Loan to value profiles - total loans

**TABLE: 3c**

| 31 December 2016<br>Loan to value (LTV) ratio of total Retail Ireland mortgages | Owner occupied | | Buy to let | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Less than 50% | 4,987 | 25% | 789 | 17% | 5,776 | 24% |
| 51% to 70% | 5,520 | 28% | 755 | 17% | 6,275 | 26% |
| 71% to 80% | 2,897 | 15% | 445 | 10% | 3,342 | 14% |
| 81% to 90% | 2,195 | 11% | 755 | 17% | 2,950 | 12% |
| 91% to 100% | 1,449 | 7% | 542 | 12% | 1,991 | 8% |
| **Subtotal** | **17,048** | **86%** | **3,286** | **73%** | **20,334** | **84%** |
| 101% to 120% | 2,106 | 11% | 698 | 16% | 2,804 | 11% |
| 121% to 150% | 599 | 3% | 306 | 7% | 905 | 4% |
| Greater than 150% | 86 | - | 200 | 4% | 286 | 1% |
| **Subtotal** | **2,791** | **14%** | **1,204** | **27%** | **3,995** | **16%** |
| **Total** | **19,839** | **100%** | **4,490** | **100%** | **24,329** | **100%** |
| **Weighted average LTV[1]:** | | | | | | |
| Stock of Retail Ireland mortgages at year end | | 69% | | 84% | | 72% |
| New Retail Ireland mortgages during the year | | 68% | | 52% | | 67% |

[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)

31 December 2015

| Loan to value (LTV) ratio of total[1] Retail Ireland mortgages | Owner occupied €m | Owner occupied % | Buy to let €m | Buy to let % | Total €m | Total % |
|---|---|---|---|---|---|---|
| Less than 50% | 4,132 | 21% | 660 | 13% | 4,792 | 19% |
| 51% to 70% | 4,594 | 23% | 657 | 13% | 5,251 | 21% |
| 71% to 80% | 2,458 | 12% | 396 | 8% | 2,854 | 12% |
| 81% to 90% | 2,378 | 12% | 728 | 14% | 3,106 | 13% |
| 91% to 100% | 1,560 | 8% | 557 | 11% | 2,117 | 8% |
| Subtotal | 15,122 | 76% | 2,998 | 59% | 18,120 | 73% |
| 101% to 120% | 2,677 | 13% | 1,109 | 22% | 3,786 | 15% |
| 121% to 150% | 1,902 | 10% | 650 | 13% | 2,552 | 10% |
| Greater than 150% | 250 | 1% | 283 | 6% | 533 | 2% |
| Subtotal | 4,829 | 24% | 2,042 | 41% | 6,871 | 27% |
| Total | 19,951 | 100% | 5,040 | 100% | 24,991 | 100% |
| Weighted average LTV[2]: | | | | | | |
| Stock of Retail Ireland mortgages at year end | | 77% | | 93% | | 80% |
| New Retail Ireland mortgages during the year | | 67% | | 64% | | 67% |

[1] *Restated to reflect revised CSO Residential Property Price Index methodology.*
[2] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

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 2016 and was, on average, 72% at 31 December 2016, 69% for Owner occupied mortgages and 84% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written during 2016 was 67%, being 68% for Owner occupied mortgages and 52% 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 69% for Owner occupied, 51% for Buy to let and 68% 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 (RPPI) published by the Central Statistics Office (CSO). In September 2016, the CSO launched a new RPPI for Ireland which covers all market transactions in the residential property market and measures price change with greater accuracy. The new RPPI represents a significant methodological improvement over the original RPPI as it includes cash purchases of property, higher quality data sources and more detailed locational characteristics of dwellings. For comparability 31 December 2015 information has been revised. The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the RPPI for December 2016, as published by the CSO.

The RPPI for December 2016 reported that average national residential property prices were 32.1% below peak (31 December 2015[1]: 37.2% below peak), with Dublin residential prices and outside of Dublin residential prices 32.8% and 36.3% below peak respectively (31 December 2015[1]: 36.4% and 43.1% below peak respectively). In the 12 months to December 2016, residential property prices at a national level, increased by 8.1%.

At 31 December 2016, €20.3 billion or 84% of Retail Ireland mortgages were classified as being in positive equity, 86% for Owner occupied mortgages and 73% for Buy to let mortgages.

At 31 December 2016, the total calculated negative equity in the Retail Ireland mortgage loan book was €0.6 billion (31 December 2015: €0.8 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.4 billion negative equity related to loans that were ‘neither past due nor impaired’ at 31 December 2016.

[1] *Restated to reflect revised CSO Residential Property Price Index methodology.*

## Book composition (continued)

### Loan to value profiles - non-performing loans

**TABLE: 3d**

**31 December 2016**

| **Loan to value (LTV) ratio of total Retail Ireland mortgages - non-performing loans** | **Owner occupied** | | **Buy to let** | | **Total** | |
|---|---|---|---|---|---|---|
| | **€m** | **%** | **€m** | **%** | **€m** | **%** |
| Less than 50% | 133 | 11% | 44 | 4% | 177 | 8% |
| 51% to 70% | 171 | 14% | 75 | 8% | 246 | 12% |
| 71% to 80% | 116 | 10% | 65 | 7% | 181 | 8% |
| 81% to 90% | 128 | 11% | 158 | 15% | 286 | 13% |
| 91% to 100% | 125 | 10% | 100 | 10% | 225 | 10% |
| **Subtotal** | **673** | **56%** | **442** | **44%** | **1,115** | **51%** |
| 101% to 120% | 268 | 22% | 254 | 25% | 522 | 24% |
| 121% to 150% | 208 | 17% | 176 | 18% | 384 | 17% |
| Greater than 150% | 59 | 5% | 125 | 13% | 184 | 8% |
| **Subtotal** | **535** | **44%** | **555** | **56%** | **1,090** | **49%** |
| **Total** | **1,208** | **100%** | **997** | **100%** | **2,205** | **100%** |

31 December 2015

| Loan to value (LTV) ratio of total Retail Ireland mortgages - non-performing loans[1] | Owner occupied | | Buy to let | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Less than 50% | 156 | 9% | 47 | 3% | 203 | 7% |
| 51% to 70% | 176 | 11% | 87 | 6% | 263 | 9% |
| 71% to 80% | 123 | 7% | 67 | 5% | 190 | 6% |
| 81% to 90% | 141 | 9% | 193 | 14% | 334 | 11% |
| 91% to 100% | 157 | 9% | 119 | 9% | 276 | 9% |
| Subtotal | 753 | 45% | 513 | 37% | 1,266 | 42% |
| 101% to 120% | 329 | 20% | 373 | 27% | 702 | 23% |
| 121% to 150% | 384 | 24% | 332 | 24% | 716 | 23% |
| Greater than 150% | 189 | 11% | 176 | 12% | 365 | 12% |
| Subtotal | 902 | 55% | 881 | 63% | 1,783 | 58% |
| Total | 1,655 | 100% | 1,394 | 100% | 3,049 | 100% |

[1] *Restated to reflect revised CSO Residential Property Price Index methodology.*

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 €1.1 billion or 51% were classified as being in positive equity (31 December 2015: €1.3 billion or 42%) while €1.1 billion or 49% were classified as being in negative equity at 31 December 2016 (31 December 2015: €1.8 billion or 58%).

For the non-performing category, 56% of the Owner occupied Retail Ireland mortgages (31 December 2015: 45%) and 44% of the Buy to let Retail Ireland mortgages (31 December 2015: 37%) were classified as being in positive equity at 31 December 2016.

## Asset quality

### Composition and impairment

**TABLE: 4a**

| **31 December 2016** **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 | 19,839 | 1,208 | 6.1% | 415 | 34% |
| Buy to let mortgages | 4,490 | 997 | 22.2% | 496 | 50% |
| **Total** | **24,329** | **2,205** | **9.1%** | **911** | **41%** |
| *of which;* | | | | | |
| **Forborne Retail Ireland mortgages** | | | | | |
| Owner occupied mortgages | 2,270 | 510 | 22.5% | 183 | 36% |
| Buy to let mortgages | 1,334 | 385 | 28.9% | 171 | 44% |
| **Total** | **3,604** | **895** | **24.8%** | **354** | **40%** |

*[1] The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

| 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.*

Non-performing Retail Ireland mortgages at 31 December 2016 were €2.2 billion or 9.1% of advances compared to €3.0 billion or 12.2% of advances at 31 December 2015.

Total non-performing mortgages reduced significantly by €0.8 billion or 28% to €2.2 billion at 31 December 2016 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 2016, decreasing to €1.2 billion at 31 December 2016 from €1.6 billion at 31 December 2015. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

# Asset quality (continued)

## Composition and impairment (continued)

This progress is further evident in the reduction of non-performing Buy to let mortgages, decreasing to €1 billion at 31 December 2016 from €1.4 billion at 31 December 2015. 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 tables below summarise the composition, defaulted loans and total impairment provisions of the Retail Ireland mortgage portfolio.

**TABLE: 4b**

| **31 December 2016 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 | 19,839 | 935 | 4.7% | 415 | 44% |
| Buy to let mortgages | 4,490 | 742 | 16.5% | 496 | 67% |
| **Total** | **24,329** | **1,677** | **6.9%** | **911** | **54%** |
| *of which;* | | | | | |
| **Forborne Retail Ireland mortgages** | | | | | |
| Owner occupied mortgages | 2,270 | 306 | 13.5% | 183 | 60% |
| Buy to let mortgages | 1,334 | 171 | 12.8% | 171 | 100%[2] |
| **Total** | **3,604** | **477** | **13.2%** | **354** | **74%** |

| 31 December 2015 Retail Ireland mortgages | Loan volumes €m | Defaulted loans[1] €m | Defaulted as % of advances % | Impairment provisions €m | Impairment provisions 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% |

[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.*

[2] *Includes impairment provisions on defaulted loans and loans previously in default which are either completing or have successfully completed probation.*

# Asset quality (continued)

## Properties in possession

At 31 December 2016, the Group had possession of properties held as security as follows:

**TABLE: 5a**

| Properties in possession Retail Ireland mortgages | 31 December 2016 Number of properties in possession at balance sheet date | 31 December 2016 Balance[1] outstanding before impairment provisions €m | 31 December 2015 Number of properties in possession at balance sheet date | 31 December 2015 Balance[1] outstanding before impairment provisions €m |
|---|---|---|---|---|
| Owner occupied | 84 | 25 | 120 | 32 |
| Buy to let | 27 | 8 | 47 | 14 |
| **Total residential properties in possession** | **111** | **33** | **167** | **46** |

[1] *Gross balance outstanding before value of additional collateral held.*

## Disposals of properties in possession

**TABLE: 5b**

| Disposals of properties in possession Retail Ireland mortgages | 31 December 2016 Number of disposals during the year | 31 December 2016 Balance[1] outstanding after impairment provisions €m | 31 December 2015 Number of disposals during the year | 31 December 2015 Balance[1] outstanding after impairment provisions €m |
|---|---|---|---|---|
| Owner occupied | 136 | 19 | 137 | 20 |
| Buy to let | 52 | 6 | 49 | 5 |
| **Total disposals of properties in possession** | **188** | **25** | **186** | **25** |

[1] *Gross balance outstanding before value of additional collateral held.*

During the year ended 31 December 2016, the Group disposed of 188 properties (year ended 31 December 2015: 186 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 2016, the proceeds from disposals of Owner occupied properties were €19 million (year ended 31 December 2015: €20 million).

For the year ended 31 December 2016, the proceeds from disposals of Buy to let properties before value of additional collateral applied were €6 million (year ended 31 December 2015: €5 million).

In addition, a further 496 Buy to let properties were disposed of by fixed charge receivers during the year ended 31 December 2016 (year ended 31 December 2015: 531).

## 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 2016.

**TABLE: 6a**

| 31 December 2016 | 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 | 54 | 454 | 26 | 167 | 80 | 621 |
| Reduced payment (greater than full interest) | 254 | 2,335 | 142 | 1,177 | 396 | 3,512 |
| Term extension | 381 | 4,539 | 35 | 319 | 416 | 4,858 |
| Capitalisation of arrears | 498 | 3,584 | 123 | 718 | 621 | 4,302 |
| Hybrids | 552 | 4,395 | 175 | 1,154 | 727 | 5,549 |
| Other | 21 | 145 | 9 | 59 | 30 | 204 |
| **Total** | **1,760** | **15,452** | **510** | **3,594** | **2,270** | **19,046** |
| **Buy to let** | | | | | | |
| Full Interest | 90 | 352 | 40 | 104 | 130 | 456 |
| Reduced payment (greater than full interest) | 177 | 1,117 | 59 | 290 | 236 | 1,407 |
| Term extension | 168 | 1,249 | 14 | 79 | 182 | 1,328 |
| Capitalisation of arrears | 106 | 631 | 46 | 190 | 152 | 821 |
| Hybrids | 408 | 1,562 | 220 | 701 | 628 | 2,263 |
| Other | - | - | 6 | 17 | 6 | 17 |
| **Total** | **949** | **4,911** | **385** | **1,381** | **1,334** | **6,292** |
| **Total** | | | | | | |
| Full Interest | 144 | 806 | 66 | 271 | 210 | 1,077 |
| Reduced payment (greater than full interest) | 431 | 3,452 | 201 | 1,467 | 632 | 4,919 |
| Term extension | 549 | 5,788 | 49 | 398 | 598 | 6,186 |
| Capitalisation of arrears | 604 | 4,215 | 169 | 908 | 773 | 5,123 |
| Hybrids | 960 | 5,957 | 395 | 1,855 | 1,355 | 7,812 |
| Other | 21 | 145 | 15 | 76 | 36 | 221 |
| **Total** | **2,709** | **20,363** | **895** | **4,975** | **3,604** | **25,338** |

[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 2016, 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 90 in the credit risk section of the Risk Management Report.*
[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 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 90 in the credit risk section of the Risk Management Report.*
*[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 23,833 at 31 December 2015 to 25,338 accounts at 31 December 2016. The balances on accounts in forbearance have increased from €3.5 billion at 31 December 2015 to €3.6 billion at 31 December 2016. This overall increase reflects the Group's progress in implementing restructure and resolution strategies.

For Owner occupied mortgages, 19,046 accounts or €2.3 billion are in forbearance at 31 December 2016 (31 December 2015: 17,938 accounts or €2.2 billion). For Buy to let mortgages, 6,292 accounts or €1.3 billion are in forbearance at 31 December 2016 (31 December 2015: 5,895 accounts or €1.3 billion).

At 31 December 2016, there were a further 260 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 2015: 588 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 2016, there were 907 properties where a fixed charge receiver had been appointed or approved, compared to 1,275 properties at 31 December 2015.

Hybrids are the largest forbearance category by number of accounts with 7,812 accounts at 31 December 2016 (31 December 2015: 6,948 accounts), followed by term extension forbearance treatments with 6,186 accounts at 31 December 2016 (31 December 2015: 6,378 accounts).

Hybrids increased to 7,812 accounts or €1.4 billion at 31 December 2016 from 6,948 accounts or €1.2 billion at 31 December 2015. A total of 714 accounts or €0.2 billion new hybrid measures were put in place during the year, 891 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 503 accounts or €0.1 billion changed to another forbearance measure. A reduction of 238 accounts relates to redeemed accounts; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

Term extensions decreased to 6,186 accounts or €0.6 billion at 31 December 2016 from 6,378 accounts or €0.6 billion at 31 December 2015. A total of 334 accounts or €40 million new term extensions were put in place during the year. A further 196 accounts or €26 million changed their forbearance type to term extension, while 344 accounts or €46 million changed to another forbearance measure. A reduction of 378 accounts relates to redeemed accounts, a reduction of €0.1 billion was due to those redeemed accounts and principal repayments during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 4,919 accounts or €0.6 billion at 31 December 2016, compared to 4,897 accounts or €0.7 billion at 31 December 2015. A total of 863 accounts or €0.1 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 176 accounts or €47 million changed their forbearance measure to reduced payment (greater than full interest with step up to full capital and interest), while 443 accounts or €0.1 billion changed to another forbearance measure. A total of 457 accounts or €0.1 billion exited during the year. A reduction of 117 accounts relates to redeemed accounts; a reduction of €50 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2016, 1,077 accounts or €0.2 billion were subject to full interest forbearance compared to 1,249 accounts or €0.3 billion at 31 December 2015. A total of 507 accounts or €0.1 billion of new full interest forbearance measures were extended during the year, 35 accounts or €3 million changed to full interest, while 199 accounts or €41 million changed from full interest to another forbearance measure. A total of 410 accounts or €0.1 billion exited forbearance during the year. A reduction of 105 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 5,123 accounts or €0.8 billion at 31 December 2016 from 4,147 accounts or €0.6 billion at 31 December 2015. A total of 940 accounts or €0.1 billion had capitalisation of arrears applied during the year. A further 421 accounts or €0.1 billion changed to capitalisation of arrears from another forbearance measure, while 219 accounts or €49 million changed to another forbearance measure. A reduction of 166 accounts relates to redeemed accounts; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

‘Other’ forbearance measures increased to 221 accounts or €36 million at 31 December 2016 from 214 accounts or €32 million at 31 December 2015.

# 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 2016.

**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 2016** | **2,207** | **17,938** | **1,253** | **5,895** | **3,460** | **23,833** |
| New forbearance extended | 355 | 2,625 | 210 | 872 | 565 | 3,497 |
| Exited forbearance | | | | | | |
| - Improved to or remained performing | (82) | (534) | (11) | (69) | (93) | (603) |
| - Improved / stabilised and remained non-performing | (31) | (192) | (20) | (63) | (51) | (255) |
| - Redemptions, principal repayments and other | (164) | (691) | (94) | (327) | (258) | (1,018) |
| - Disimproved to or within non-performing | (15) | (100) | (4) | (16) | (19) | (116) |
| Transfers within forbearance between performing and non-performing loans | - | - | - | - | - | - |
| **Closing balance at 31 December 2016** | **2,270** | **19,046** | **1,334** | **6,292** | **3,604** | **25,338** |
| **Performing loans** | | | | | | |
| **Opening balance at 1 January 2016** | **1,536** | **13,332** | **748** | **3,947** | **2,284** | **17,279** |
| New forbearance extended | 205 | 1,579 | 101 | 460 | 306 | 2,039 |
| Exited forbearance | | | | | | |
| - Remained performing | (77) | (520) | (10) | (64) | (87) | (584) |
| - Redemptions, principal repayments and other | (119) | (544) | (60) | (200) | (179) | (744) |
| - Disimproved to non-performing | (5) | (36) | (1) | (5) | (6) | (41) |
| Transfers within forbearance between performing and non-performing loans | 220 | 1,641 | 171 | 773 | 391 | 2,414 |
| **Closing balance at 31 December 2016** | **1,760** | **15,452** | **949** | **4,911** | **2,709** | **20,363** |
| **Non-performing loans** | | | | | | |
| **Opening balance at 1 January 2016** | **671** | **4,606** | **505** | **1,948** | **1,176** | **6,554** |
| New forbearance extended | 150 | 1,046 | 109 | 412 | 259 | 1,458 |
| Exited forbearance | | | | | | |
| - Improved to performing | (5) | (14) | (1) | (5) | (6) | (19) |
| - Improved / stabilised and remained non-performing | (31) | (192) | (20) | (63) | (51) | (255) |
| - Redemptions, principal repayments and other | (45) | (147) | (34) | (127) | (79) | (274) |
| - Disimproved and remained non-performing | (10) | (64) | (3) | (11) | (13) | (75) |
| Transfers within forbearance between performing and non-performing loans | (220) | (1,641) | (171) | (773) | (391) | (2,414) |
| **Closing balance at 31 December 2016** | **510** | **3,594** | **385** | **1,381** | **895** | **4,975** |

[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 2016 and 31 December 2016 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 2016 and remained in forbearance stock at 31 December 2016);
  - 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 25,338 accounts or €3.6 billion of account balances were in forbearance at 31 December 2016, compared to 23,833 accounts or €3.5 billion at 31 December 2015. Of these, 3,497 accounts or €0.6 billion new forbearance measures were put in place during the year ended 31 December 2016, of which 2,039 accounts or €0.3 billion were classified as 'performing loans' while 1,458 accounts or €0.3 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 603 accounts or €0.1 billion improved to or remained performing, 255 accounts or €0.1 billion remained non-performing with improved or stabilised arrears and 116 accounts or €19 million disimproved arrears to or within non-performing classification. A reduction in the forbearance stock of 1,018 accounts relates to redeemed accounts during the year; a reduction of €0.3 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 19,046 accounts or €2.3 billion of account balances were in forbearance at 31 December 2016 compared to 17,938 accounts or €2.2 billion at 31 December 2015. Of these, 2,625 accounts or €0.4 billion new forbearance were measures put in place during the year of which 1,579 accounts or €0.2 billion were classified as 'performing loans', while 1,046 accounts or €0.2 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 534 accounts or €0.1 billion improved to or remained performing, 192 accounts or €31 million remained non-performing with improved or stabilised arrears and 100 accounts or €15 million disimproved arrears to or within non-performing classification. A reduction of 691 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 Buy to let mortgages, 6,292 accounts or €1.3 billion of account balances were in forbearance at 31 December 2016 compared to 5,895 accounts or €1.3 billion at 31 December 2015. Of these, 872 accounts or €0.2 billion were new forbearance measures put in place during the year of which 460 accounts or €0.1 billion were classified as 'performing loans' while 412 accounts or €0.1 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 69 accounts or €11 million improved to or remained performing, 63 accounts or €20 million remained non-performing with improved or stabilised arrears and 16 accounts or €4 million disimproved arrears to or within non-performing classification. A reduction of 327 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 2016**

| **Loan to value (LTV) ratio of forborne Retail Ireland mortgages** | **Owner occupied** | | **Buy to let** | | **Total** | |
|---|---|---|---|---|---|---|
| | **€m** | **%** | **€m** | **%** | **€m** | **%** |
| Less than 50% | 424 | 19% | 105 | 8% | 529 | 15% |
| 51% to 70% | 427 | 19% | 140 | 11% | 567 | 16% |
| 71% to 80% | 251 | 11% | 117 | 9% | 368 | 10% |
| 81% to 90% | 260 | 11% | 274 | 20% | 534 | 14% |
| 91% to 100% | 252 | 11% | 205 | 15% | 457 | 13% |
| **Subtotal** | **1,614** | **71%** | **841** | **63%** | **2,455** | **68%** |
| 101% to 120% | 418 | 19% | 330 | 25% | 748 | 21% |
| 121% to 150% | 214 | 9% | 109 | 8% | 323 | 9% |
| Greater than 150% | 24 | 1% | 54 | 4% | 78 | 2% |
| **Subtotal** | **656** | **29%** | **493** | **37%** | **1,149** | **32%** |
| **Total** | **2,270** | **100%** | **1,334** | **100%** | **3,604** | **100%** |

31 December 2015

| Loan to value (LTV) ratio of forborne Retail Ireland mortgages[1] | Owner occupied | | Buy to let | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Less than 50% | 326 | 15% | 83 | 7% | 409 | 12% |
| 51% to 70% | 334 | 15% | 110 | 9% | 444 | 13% |
| 71% to 80% | 201 | 9% | 89 | 7% | 290 | 8% |
| 81% to 90% | 225 | 10% | 218 | 17% | 443 | 13% |
| 91% to 100% | 221 | 10% | 145 | 11% | 366 | 10% |
| Subtotal | 1,307 | 59% | 645 | 51% | 1,952 | 56% |
| 101% to 120% | 434 | 20% | 351 | 28% | 785 | 23% |
| 121% to 150% | 388 | 18% | 197 | 16% | 585 | 17% |
| Greater than 150% | 78 | 3% | 60 | 5% | 138 | 4% |
| Subtotal | 900 | 41% | 608 | 49% | 1,508 | 44% |
| Total | 2,207 | 100% | 1,253 | 100% | 3,460 | 100% |

[1] *Restated to reflect revised CSO Residential Property Price Index methodology.*

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 2016. 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 €2.5 billion or 68% were classified as being in positive equity (31 December 2015: €2.0 billion or 56%) while €1.1 billion or 32% were classified as being in negative equity at 31 December 2016 (31 December 2015: €1.5 billion or 44%). 71% of forborne Owner occupied mortgages (31 December 2015: 59%) and 63% of forborne Buy to let mortgages (31 December 2015: 51%) were classified as being in positive equity at 31 December 2016.

## Asset quality (continued)

### Loan to value profiles - non-performing forborne loans

**TABLE: 7b**

**31 December 2016**

| **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% | 63 | 12% | 20 | 5% | 83 | 9% |
| 51% to 70% | 76 | 15% | 29 | 7% | 105 | 12% |
| 71% to 80% | 54 | 11% | 27 | 7% | 81 | 9% |
| 81% to 90% | 57 | 11% | 83 | 22% | 140 | 16% |
| 91% to 100% | 55 | 11% | 43 | 11% | 98 | 11% |
| **Subtotal** | **305** | **60%** | **202** | **52%** | **507** | **57%** |
| 101% to 120% | 119 | 23% | 113 | 30% | 232 | 26% |
| 121% to 150% | 74 | 15% | 47 | 12% | 121 | 13% |
| Greater than 150% | 12 | 2% | 23 | 6% | 35 | 4% |
| **Subtotal** | **205** | **40%** | **183** | **48%** | **388** | **43%** |
| **Total** | **510** | **100%** | **385** | **100%** | **895** | **100%** |

31 December 2015

| Loan to value (LTV) ratio of forborne Retail Ireland mortgages - non-performing loans[1] | Owner occupied | | Buy to let | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Less than 50% | 66 | 10% | 21 | 4% | 87 | 7% |
| 51% to 70% | 83 | 12% | 31 | 6% | 114 | 10% |
| 71% to 80% | 50 | 7% | 28 | 5% | 78 | 7% |
| 81% to 90% | 64 | 10% | 91 | 18% | 155 | 13% |
| 91% to 100% | 64 | 10% | 49 | 10% | 113 | 10% |
| Subtotal | 327 | 49% | 220 | 43% | 547 | 47% |
| 101% to 120% | 148 | 22% | 150 | 30% | 298 | 25% |
| 121% to 150% | 147 | 22% | 102 | 20% | 249 | 21% |
| Greater than 150% | 49 | 7% | 33 | 7% | 82 | 7% |
| Subtotal | 344 | 51% | 285 | 57% | 629 | 53% |
| Total | 671 | 100% | 505 | 100% | 1,176 | 100% |

[1] *Restated to reflect revised CSO Residential Property Price Index methodology.*

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, €0.5 billion or 57% were classified as being in positive equity (31 December 2015: €0.5 billion or 47%), while €0.4 billion or 43% were classified as being in negative equity at 31 December 2016 (31 December 2015: €0.6 billion or 53%). 60% of the Owner occupied Retail Ireland mortgages (31 December 2015: 49%) and 52% of the Buy to let Retail Ireland mortgages (31 December 2015: 43%) were classified as being in positive equity at 31 December 2016.

## 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 2016, 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 2016 £m** | 31 December 2015 £m |
|---|---|---|
| Standard mortgages | 10,757 | 10,355 |
| Buy to let mortgages | 7,433 | 7,562 |
| Self certified mortgages | 2,254 | 2,570 |
| **Total Retail UK mortgages** | **20,444** | **20,487** |

Retail UK mortgages were £20.4 billion at 31 December 2016 compared to £20.5 billion at 31 December 2015. The decrease of £43 million or 0.2% reflects a marginal drop in new business generation offset by redemptions in the book.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through distribution arrangements with other selected strategic partners and the Group's branch network in Northern Ireland.

Of the £10.8 billion Standard mortgages, 75% are on a 'principal and interest'[1] repayment basis (31 December 2015: 70%). Of the Self certified mortgages of £2.3 billion, 20% are on a 'principal and interest' repayment basis (31 December 2015: 21%). Of the Buy to let mortgages of £7.4 billion, 10% are on a 'principal and interest' repayment basis (31 December 2015: 9%). Overall 54% of the Retail UK mortgage portfolio at 31 December 2016 are on an 'interest only'[2] repayment basis (31 December 2015: 58%).

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 2016 £m | 31 December 2016 % | 31 December 2015 £m | 31 December 2015 % |
|---|---|---|---|---|
| Tracker | 7,856 | 38% | 8,690 | 42% |
| Variable rates | 4,027 | 20% | 4,944 | 24% |
| Fixed rates | 8,561 | 42% | 6,853 | 34% |
| **Total Retail UK mortgages** | **20,444** | **100%** | **20,487** | **100%** |

Tracker mortgages were £7.9 billion or 38% of the Retail UK mortgages compared to £8.7 billion or 42% at 31 December 2015, a decrease of £0.8 billion.

Variable rate mortgages were £4 billion or 20% of the Retail UK mortgages compared to £4.9 billion or 24% at 31 December 2015, a decrease of £0.9 billion.

Fixed rate mortgages were £8.6 billion or 42% of the Retail UK mortgages compared to £6.9 billion or 34% at 31 December 2015, an increase of £1.7 billion.

Tracker rate mortgages now account for 11% of Standard mortgages (31 December 2015: 13%), 86% of Buy to let mortgages (31 December 2015: 92%) and 15% of Self certified mortgages (31 December 2015: 15%).

### Origination profile

**TABLE: 2**

| 31 December 2016<br>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 | 229 | 6,569 | 23 | 530 |
| 2001 | 133 | 2,155 | 6 | 68 |
| 2002 | 176 | 2,613 | 8 | 86 |
| 2003 | 396 | 4,874 | 26 | 230 |
| 2004 | 460 | 5,342 | 34 | 263 |
| 2005 | 1,258 | 12,024 | 81 | 615 |
| 2006 | 1,848 | 17,075 | 117 | 865 |
| 2007 | 2,997 | 26,343 | 169 | 1,252 |
| 2008 | 3,961 | 33,707 | 223 | 1,597 |
| 2009 | 469 | 4,473 | 12 | 118 |
| 2010 | 359 | 3,134 | 3 | 26 |
| 2011 | 261 | 2,193 | 2 | 17 |
| 2012 | 406 | 2,778 | 1 | 11 |
| 2013 | 568 | 3,478 | 2 | 7 |
| 2014 | 1,152 | 7,174 | 3 | 17 |
| 2015 | 3,024 | 17,221 | 2 | 9 |
| 2016 | 2,747 | 16,293 | - | 2 |
| **Total** | **20,444** | **167,446** | **712** | **5,713** |

[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 2015<br>Origination profile of Retail UK mortgage loan book (before impairment provisions) | Total Retail UK mortgage loan book | | Non-performing loans | |
|---|---|---|---|---|
| | Balance £m | Number of accounts[1] | Balance £m | 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.*

The tables above illustrate that at 31 December 2016, £2.7 billion or 13% of the Retail UK mortgage loan book originated before 2006, £8.8 billion or 43% between 2006 and 2008 and £9 billion or 44% in the years since.

Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 90 in the credit risk section of the Risk Management Report.

Non-performing Retail UK mortgages were £0.7 billion (31 December 2015: £0.8 billion) or 3% of the Retail UK mortgage loan book at 31 December 2016, of which £0.5 billion or 2.5% were originated between 2006 and 2008 (31 December 2015: £0.6 billion or 2.9%).

There has been a significant decrease in total non-performing loans in the year ended 31 December 2016 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 2016** 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 | 10,446 | 97% | 7,199 | 97% | 1,904 | 84% | 19,549 | 96% |
| 1-90 days past due but not impaired | 204 | 2% | 159 | 2% | 239 | 11% | 602 | 3% |
| Past due greater than 90 days but not impaired | 52 | - | 33 | - | 57 | 3% | 142 | - |
| Impaired | 55 | 1% | 42 | 1% | 54 | 2% | 151 | 1% |
| **Total** | **10,757** | **100%** | **7,433** | **100%** | **2,254** | **100%** | **20,444** | **100%** |
| **Non-performing loans** | | | | | | | | |
| Probationary mortgages | 123 | 53% | 134 | 64% | 162 | 59% | 419 | 59% |
| *- Self-cure* | *101* | *43%* | *125* | *60%* | *137* | *50%* | *363* | *51%* |
| *- Forborne* | *22* | *10%* | *9* | *4%* | *25* | *9%* | *56* | *8%* |
| Defaulted loans | 107 | 47% | 75 | 36% | 111 | 41% | 293 | 41% |
| *- Past due greater than 90 days but not impaired* | *52* | *23%* | *33* | *16%* | *57* | *21%* | *142* | *20%* |
| *- Impaired* | *55* | *24%* | *42* | *20%* | *54* | *20%* | *151* | *21%* |
| **Total** | **230** | **100%** | **209** | **100%** | **273** | **100%** | **712** | **100%** |

| 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% |

The above tables illustrate that £19.5 billion or 96% of the total Retail UK mortgage loan book at 31 December 2016 was classified as ‘neither past due nor impaired’ compared to £19.5 billion or 95% at 31 December 2015.

The ‘1-90 days past due but not impaired’ category amounted to £0.6 billion or 3% of the total Retail UK mortgage loan book at 31 December 2016 compared to £0.7 billion or 3% at 31 December 2015.

The past due greater than 90 days but not impaired category amounted to £0.1 billion of the total Retail UK mortgage loan book at 31 December 2016 compared to £0.1 billion or 1% at 31 December 2015.

The past due greater than 90 days but not impaired Standard mortgages increased to £52 million at 31 December 2016 from £46 million at 31 December 2015.

## Book composition (continued)

### Risk profile (continued)

The past due greater than 90 days but not impaired Buy to let mortgages reduced from £41 million at 31 December 2015 to £33 million at 31 December 2016 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 £57 million at 31 December 2016 compared to £60 million at 31 December 2015.

The impaired category amounted to £0.2 billion or 1% of the total Retail UK mortgage loan book at 31 December 2016 compared to £0.2 billion or 1% at 31 December 2015.

Impaired Standard mortgages reduced to £55 million at 31 December 2016 from £61 million at 31 December 2015.

Impaired Buy to let mortgages reduced from £54 million at 31 December 2015 to £42 million at 31 December 2016 reflecting the effectiveness of collection activity supported by economic conditions.

Impaired Self certified mortgages reduced to £54 million at 31 December 2016 compared to £61 million at 31 December 2015.

Total non-performing mortgages reduced significantly by £127 million or 15% to £0.7 billion at 31 December 2016 (31 December 2015: £0.8 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 £30 million to £293 million at 31 December 2016 from £323 million at 31 December 2015.

The above table 3a illustrates, that at 31 December 2016, 96% of the total Retail UK mortgage book was classified as performing, compared to 95% at 31 December 2015.

There was a reduction in Standard mortgages non-performing loans in the year ended 31 December 2016, decreasing to £230 million from £266 million at 31 December 2015.

Non-performing Self certified mortgages reduced from £318 million at 31 December 2015 to £273 million at 31 December 2016.

Non-performing Buy to let mortgages reduced from £255 million at 31 December 2015 to £209 million at 31 December 2016.

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** *(unaudited)*

| Mortgage arrears - Greater than 90 days past due (number of accounts) | **31 December 2016 %** | 30 June 2016 % | 31 December 2015 % |
|---|---|---|---|
| Standard mortgages | 0.95% | 0.89% | 0.93% |
| Buy to let mortgages | 0.78% | 0.81% | 0.94% |
| Self certified mortgages | 3.38% | 3.29% | 3.30% |

| Mortgage arrears - Greater than 90 days past due (value) | **31 December 2016 %** | 30 June 2016 % | 31 December 2015 % |
|---|---|---|---|
| Standard mortgages | 0.81% | 0.75% | 0.73% |
| Buy to let mortgages | 0.80% | 0.85% | 1.15% |
| Self certified mortgages | 4.32% | 4.28% | 4.32% |

Data published by the Council of Mortgage Lenders (CML) for September 2016 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 aligned to the UK industry average of 1% across all segments (Retail UK equivalent: 1%).

### Loan to value profiles - total loans

**TABLE: 3c**

| **31 December 2016** | **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% | 2,484 | 23% | 2,226 | 30% | 643 | 29% | 5,353 | 26% |
| 51% to 70% | 3,837 | 36% | 3,042 | 40% | 858 | 38% | 7,737 | 38% |
| 71% to 80% | 2,105 | 20% | 1,192 | 16% | 349 | 15% | 3,646 | 18% |
| 81% to 90% | 1,527 | 14% | 732 | 10% | 251 | 11% | 2,510 | 12% |
| 91% to 100% | 573 | 5% | 187 | 3% | 122 | 6% | 882 | 4% |
| **Subtotal** | **10,526** | **98%** | **7,379** | **99%** | **2,223** | **99%** | **20,128** | **98%** |
| 101% to 120% | 134 | 1% | 18 | - | 13 | 1% | 165 | 1% |
| 121% to 150% | 29 | - | 5 | - | 8 | - | 42 | - |
| Greater than 150% | 68 | 1% | 31 | 1% | 10 | - | 109 | 1% |
| **Subtotal** | **231** | **2%** | **54** | **1%** | **31** | **1%** | **316** | **2%** |
| **Total** | **10,757** | **100%** | **7,433** | **100%** | **2,254** | **100%** | **20,444** | **100%** |
| **Weighted average LTV[1]:** | | | | | | | | |
| Stock of Retail UK mortgages at year end[1] | | 64% | | 59% | | 61% | | 62% |
| New Retail UK mortgages during year[1] | | 73% | | 62% | | n/a | | 71% |

[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 2015<br>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% | 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.*

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 62% at 31 December 2016, 64% for Standard mortgages, 61% for Self certified mortgages and 59% for Buy to let mortgages. The weighted average LTV for new Residential mortgages written during the year ended 31 December 2016 was 71%, 73% 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 2016, £20.1 billion or 98% of the Retail UK mortgage book was in positive equity (year ended 31 December 2015: £20.1 billion or 98%), comprising £10.5 billion or 98% of Standard mortgages (year ended 31 December 2015: £10.0 billion or 97%), £7.4 billion or 99% of Buy to let mortgages (year ended 31 December 2015: £7.5 billion or 99%) and £2.2 billion or 99% of Self certified mortgages (year ended 31 December 2015: £2.5 billion or 99%). 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 2016, the total calculated negative equity in the Retail UK mortgage book was £26 million, which comprised £21 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 2016**

| 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% | 66 | 29% | 45 | 21% | 53 | 19% | 164 | 23% |
| 51% to 70% | 70 | 30% | 66 | 32% | 93 | 34% | 229 | 32% |
| 71% to 80% | 32 | 14% | 37 | 18% | 54 | 20% | 123 | 17% |
| 81% to 90% | 24 | 10% | 40 | 19% | 41 | 15% | 105 | 15% |
| 91% to 100% | 20 | 9% | 18 | 9% | 23 | 8% | 61 | 9% |
| **Subtotal** | **212** | **92%** | **206** | **99%** | **264** | **96%** | **682** | **96%** |
| 101% to 120% | 15 | 7% | 2 | 1% | 5 | 2% | 22 | 3% |
| 121% to 150% | 2 | 1% | 1 | - | 2 | 1% | 5 | 1% |
| Greater than 150% | 1 | - | - | - | 2 | 1% | 3 | - |
| **Subtotal** | **18** | **8%** | **3** | **1%** | **9** | **4%** | **30** | **4%** |
| **Total** | **230** | **100%** | **209** | **100%** | **273** | **100%** | **712** | **100%** |

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% |

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 £212 million or 92% are in positive equity (31 December 2015: £242 million or 91%) while £18 million or 8% are in negative equity at 31 December 2016 (31 December 2015: £24 million or 9%).

Of the non-performing Retail UK self-certified mortgages £264 million or 96% are in positive equity (31 December 2015: £308 million or 97%) while £9 million or 4% are in negative equity at 31 December 2016 (31 December 2015: £10 million or 3%).

Of the non-performing Retail UK Buy to let mortgages £206 million or 99% are in positive equity (31 December 2015: £250 million or 98%) while £3 million or 1% in negative equity at 31 December 2016 (31 December 2015: £5 million or 2%).

# Asset quality

## Composition and impairment

The risk profile of the Group's loans and advances to customers at both 31 December 2016 and 31 December 2015 is outlined in the following tables.

**TABLE: 4a**

| **31 December 2016**<br>**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 | 10,757 | 230 | 2.1% | 26 | 11% |
| Buy to let mortgages | 7,433 | 209 | 2.8% | 22 | 11% |
| Self certified mortgages | 2,254 | 273 | 12.1% | 18 | 7% |
| **Total** | **20,444** | **712** | **3.5%** | **66** | **9%** |
| *of which;* | | | | | |
| **Forborne Retail UK mortgages** | | | | | |
| Standard mortgages | 76 | 29 | 38.2% | 1 | 3% |
| Buy to let mortgages | 45 | 10 | 22.2% | - | - |
| Self certified mortgages | 60 | 31 | 51.7% | 1 | 3% |
| **Total** | **181** | **70** | **38.7%** | **2** | **3%** |

| 31 December 2015<br>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% |

[1] *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*

Retail UK mortgages were £20.4 billion at 31 December 2016 compared to £20.5 billion at 31 December 2015. Non-performing Retail UK mortgages were £712 million at 31 December 2016 compared to £839 million at 31 December 2015, attributable to decreases in Standard mortgages of £36 million, Self certified mortgages of £45 million and Buy to let mortgages of £46 million compared to 31 December 2015. The overall impairment provision coverage ratio on the non-performing Retail UK mortgages book was 9% (31 December 2015: 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 2016**<br>**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 | 10,757 | 107 | 1.0% | 26 | 24% |
| Buy to let mortgages | 7,433 | 75 | 1.0% | 22 | 29% |
| Self certified mortgages | 2,254 | 111 | 4.9% | 18 | 16% |
| **Total** | **20,444** | **293** | **1.4%** | **66** | **23%** |
| *of which;* | | | | | |
| **Forborne Retail UK mortgages** | | | | | |
| Standard mortgages | 76 | 7 | 9.2% | 1 | 14% |
| Buy to let mortgages | 45 | 1 | 2.2% | - | - |
| Self certified mortgages | 60 | 6 | 10.0% | 1 | 17% |
| **Total** | **181** | **14** | **7.7%** | **2** | **14%** |

| 31 December 2015<br>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% |

*[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 2016, the Group had possession of properties held as security as follows:

| TABLE: 5a | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| **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 | 28 | 4 | 25 | 4 |
| Buy to let mortgages | 23 | 2 | 37 | 4 |
| Self certified mortgages | 14 | 4 | 25 | 6 |
| **Total residential properties in possession** | **65** | **10** | **87** | **14** |

### Disposals of properties in possession

| TABLE: 5b | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| **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 | 79 | 8 | 106 | 10 |
| Buy to let mortgages | 83 | 6 | 135 | 11 |
| Self certified mortgages | 53 | 8 | 69 | 10 |
| **Total disposals of properties in possession** | **215** | **22** | **310** | **31** |

During the year ended 31 December 2016, the Group disposed of 215 properties (for the year ended 31 December 2015: 310 properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the year ended 31 December 2016, the proceeds from disposals of Standard mortgages was £9 million (year ended 31 December 2015: £12 million).

For the year ended 31 December 2016, the proceeds from disposals of Buy to let mortgages was £7 million (year ended 31 December 2015: £12 million).

For the year ended 31 December 2016, the proceeds from disposals of Self certified mortgages was £10 million (year ended 31 December 2015: £11 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 2016, the total number of loans entering forbearance was 109 with balances of £12 million with a total of 227 loans £25 million of balances exiting forbearance. Of the loans exiting forbearance 5 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 2016.

**TABLE: 6a**

| 31 December 2016 | 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 | 28 | 249 | 24 | 240 | 52 | 489 |
| Term extension | 16 | 203 | 3 | 46 | 19 | 249 |
| Capitalisation of arrears | 3 | 18 | 1 | 5 | 4 | 23 |
| Other | - | 4 | 1 | 9 | 1 | 13 |
| **Total** | **47** | **474** | **29** | **300** | **76** | **774** |
| **Buy to let** | | | | | | |
| Full interest | 11 | 129 | 7 | 65 | 18 | 194 |
| Term extension | 11 | 105 | 1 | 13 | 12 | 118 |
| Capitalisation of arrears | 13 | 88 | 2 | 21 | 15 | 109 |
| Other | - | 3 | - | - | - | 3 |
| **Total** | **35** | **325** | **10** | **99** | **45** | **424** |
| **Self certified** | | | | | | |
| Full interest | 16 | 114 | 24 | 181 | 40 | 295 |
| Term extension | 5 | 34 | 1 | 7 | 6 | 41 |
| Capitalisation of arrears | 8 | 33 | 4 | 19 | 12 | 52 |
| Other | - | - | 2 | 10 | 2 | 10 |
| **Total** | **29** | **181** | **31** | **217** | **60** | **398** |
| **Total** | | | | | | |
| Full interest | 55 | 492 | 55 | 486 | 110 | 978 |
| Term extension | 32 | 342 | 5 | 66 | 37 | 408 |
| Capitalisation of arrears | 24 | 139 | 7 | 45 | 31 | 184 |
| Other | - | 7 | 3 | 19 | 3 | 26 |
| **Total** | **111** | **980** | **70** | **616** | **181** | **1,596** |

*[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 2016, 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 90 in the credit risk section of the Risk Management Report.*
*[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 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 90 in the credit risk section of the Risk Management Report.*
*[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 1,714 accounts at 31 December 2015 to 1,596 accounts at 31 December 2016. The balances of accounts in forbearance have decreased from £194 million at 31 December 2015 to £181 million at 31 December 2016. For Standard mortgages 774 accounts or £76 million are in forbearance at 31 December 2016 (31 December 2015: 861 accounts or £84 million). For Buy to let mortgages, 424 accounts or £45 million are in forbearance at 31 December 2016 (31 December 2015: 424 accounts or £46 million). For Self certified mortgages, 398 accounts or £60 million are in forbearance at 31 December 2016 (31 December 2015: 429 accounts or £64 million).

At 31 December 2016, £110 million or 978 Retail UK Residential mortgage accounts in forbearance were subject to full interest payments, compared to £123 million or 1,078 accounts at 31 December 2015.

At 31 December 2016, £37 million or 408 Retail UK Residential mortgage accounts in forbearance were subject to term extension, compared to £34 million or 399 accounts at 31 December 2015. These loans may have been granted a temporary term extension pending sale of the property or maturity of a repayment vehicle.

At 31 December 2016, £31 million or 184 Retail UK Residential mortgage accounts in forbearance were subject to capitalisation of arrears, compared to £33 million or 195 accounts at 31 December 2015.

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 2016, there were 71 properties where a Fixed Charge Receiver had been appointed or approved, compared to 120 properties at 31 December 2015.

## 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 2016.

**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 2016** | **84** | **861** | **46** | **424** | **64** | **429** | **194** | **1,714** |
| New forbearance extended | 6 | 55 | 4 | 42 | 2 | 12 | 12 | 109 |
| Exited forbearance | | | | | | | | |
| - Improved to or remained in performing | (2) | (18) | - | (4) | - | (2) | (2) | (24) |
| - Improved / stabilised and remained in non-performing | - | (4) | - | (1) | - | (1) | - | (6) |
| - Redemptions, principal repayments and other | - | (3) | - | - | - | (2) | - | (5) |
| - Disimproved to or within non-performing | (12) | (117) | (5) | (37) | (6) | (38) | (23) | (192) |
| Transfers within forbearance between performing and non-performing loans | - | - | - | - | - | - | - | - |
| **Closing balance at 31 December 2016** | **76** | **774** | **45** | **424** | **60** | **398** | **181** | **1,596** |
| **Performing loans** | | | | | | | | |
| **Opening balance at 1 January 2016** | **52** | **541** | **34** | **310** | **32** | **199** | **118** | **1,050** |
| New forbearance extended | 5 | 45 | 4 | 37 | 1 | 5 | 10 | 87 |
| Exited forbearance | | | | | | | | |
| - Remained in performing | (2) | (17) | - | (4) | - | (2) | (2) | (23) |
| - Redemptions, principal repayments and other | - | - | - | - | - | - | - | - |
| - Disimproved to non-performing | (7) | (80) | (3) | (27) | (4) | (21) | (14) | (128) |
| Transfers within forbearance between performing and non-performing loans | (1) | (15) | - | 9 | - | - | (1) | (6) |
| **Closing balance at 31 December 2016** | **47** | **474** | **35** | **325** | **29** | **181** | **111** | **980** |
| **Non-performing loans** | | | | | | | | |
| **Opening balance at 1 January 2016** | **32** | **320** | **12** | **114** | **32** | **230** | **76** | **664** |
| New forbearance extended | 1 | 10 | - | 5 | 1 | 7 | 2 | 22 |
| Exited forbearance | | | | | | | | |
| - Improved to performing | - | (1) | - | - | - | - | - | (1) |
| - Improved / stabilised and remained in non-performing | - | (4) | - | (1) | - | (1) | - | (6) |
| - Redemptions, principal repayments and other | - | (3) | - | - | - | (2) | - | (5) |
| - Disimproved and remained in non-performing | (5) | (37) | (2) | (10) | (2) | (17) | (9) | (64) |
| Transfers within forbearance between performing and non-performing loans | 1 | 15 | - | (9) | - | - | 1 | 6 |
| **Closing balance at 31 December 2016** | **29** | **300** | **10** | **99** | **31** | **217** | **70** | **616** |

[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 2016 and 31 December 2016 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 2016 and remained in forbearance stock at 31 December 2016);
  - 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 1,596 accounts or £181 million of account balances were in forbearance at 31 December 2016, compared to 1,714 or £194 million at 31 December 2015. Of these, 109 accounts or £12 million new forbearance measures were put in place during the year, of which 87 accounts or £10 million were classified as 'performing loans' while 22 accounts were classified as 'non-performing loans'. Of those that exited forbearance during the year, 24 accounts or £2 million exited to 'performing' status, 6 accounts remained in non-performing with an improved or stabilised status. A reduction in the forbearance stock of 5 accounts relates to redeemed accounts during the year and 192 accounts related to movement of forbearance between performing and non-performing.

For Standard mortgages, 774 accounts or £76 million of account balances were in forbearance at 31 December 2016, compared to 861 accounts or £84 million at 31 December 2015.

For Buy to let mortgages, 424 accounts or £45 million of account balances were in forbearance at 31 December 2016, compared to 424 accounts or £46 million at 31 December 2015.

For Self certified mortgages, 398 accounts or £60 million of account balances were in forbearance at 31 December 2016, compared to 429 accounts or £64 million at 31 December 2015.

## Asset quality (continued)

### Loan to value profiles - forborne loans

**TABLE: 7a**

**31 December 2016**

| Loan to value (LTV) ratio of forborne Retail UK mortgages | Standard | | Buy to let | | Self certified | | Total | |
|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % |
| Less than 50% | 23 | 30% | 16 | 36% | 14 | 23% | 53 | 30% |
| 51% to 70% | 24 | 32% | 15 | 33% | 18 | 30% | 57 | 32% |
| 71% to 80% | 8 | 11% | 5 | 11% | 15 | 25% | 28 | 15% |
| 81% to 90% | 9 | 11% | 7 | 16% | 8 | 13% | 24 | 13% |
| 91% to 100% | 8 | 11% | 2 | 4% | 3 | 5% | 13 | 7% |
| **Subtotal** | **72** | **95%** | **45** | **100%** | **58** | **96%** | **175** | **97%** |
| 101% to 120% | 3 | 4% | - | - | 1 | 2% | 4 | 2% |
| 121% to 150% | - | - | - | - | - | - | - | - |
| Greater than 150% | 1 | 1% | - | - | 1 | 2% | 2 | 1% |
| **Subtotal** | **4** | **5%** | **-** | **-** | **2** | **4%** | **6** | **3%** |
| **Total** | **76** | **100%** | **45** | **100%** | **60** | **100%** | **181** | **100%** |

31 December 2015

| Loan to value (LTV) ratio of forborne Retail UK mortgages | Standard | | Buy to let | | Self certified | | Total | |
|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % |
| 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% |

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 £175 million or 97% are in positive equity (31 December 2015: £186 million or 96%) while £6 million or 3% are in negative equity at 31 December 2016 (31 December 2015: £8 million or 4%). 95% of forborne Standard mortgages (31 December 2015: 93%), 100% of forborne Buy to let mortgages (31 December 2015: 100%) and 96% of Self certified mortgages (31 December 2015: 96%) are in positive equity at 31 December 2016.

## Asset quality (continued)

### Loan to value profiles - non-performing forborne loans

**TABLE: 7b**

**31 December 2016**

| **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 | 37% | 5 | 50% | 6 | 19% | 22 | 32% |
| 51% to 70% | 8 | 28% | 3 | 30% | 10 | 33% | 21 | 30% |
| 71% to 80% | 2 | 7% | 1 | 10% | 9 | 29% | 12 | 17% |
| 81% to 90% | 4 | 14% | 1 | 10% | 4 | 13% | 9 | 13% |
| 91% to 100% | 2 | 7% | - | - | 1 | 3% | 3 | 4% |
| **Subtotal** | **27** | **93%** | **10** | **100%** | **30** | **97%** | **67** | **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** | **29** | **100%** | **10** | **100%** | **31** | **100%** | **70** | **100%** |

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% |

The tables above illustrate that the volume of forborne loans which are non-performing has reduced from £76 million as at 31 December 2015 to £70 million as at 31 December 2016 and the volume of non-performing forborne loans which are in negative equity has remained the same at £3 million compared to 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 2016, the stock of forborne other loans and advances to customers (excluding Residential mortgages), analysed by forbearance type is as follows:

**TABLE: 1** *(unaudited)*

| Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions) | 2016 Performing loans[1] balance €m | 2016 Non-performing loans[2] balance €m | 2016 Total loans balance €m | 2015 Performing loans[1] balance €m | 2015 Non-performing loans[2] balance €m | 2015 Total loans balance €m |
|---|---|---|---|---|---|---|
| **Republic of Ireland SME** | | | | | | |
| Term extension | 543 | 49 | 592 | 584 | 67 | 651 |
| Adjustment or non-enforcement of covenants | 87 | - | 87 | 90 | - | 90 |
| Facilities in breach of terms placed on demand | 1 | 10 | 11 | 4 | 16 | 20 |
| Reduced payment (full interest) | 41 | 4 | 45 | 76 | 8 | 84 |
| Reduced payment (greater than full interest) | 110 | 6 | 116 | 172 | 21 | 193 |
| Capitalisation of arrears | 8 | 2 | 10 | 16 | 5 | 21 |
| Other | 5 | 2 | 7 | 11 | 4 | 15 |
| **Total** | **795** | **73** | **868** | **953** | **121** | **1,074** |
| **UK SME** | | | | | | |
| Term extension | 86 | 3 | 89 | 95 | 4 | 99 |
| Adjustment or non-enforcement of covenants | 45 | - | 45 | 46 | - | 46 |
| Facilities in breach of terms placed on demand | - | - | - | - | - | - |
| Reduced payment (full interest) | 6 | - | 6 | 4 | - | 4 |
| Reduced payment (greater than full interest) | 3 | - | 3 | 5 | - | 5 |
| Capitalisation of arrears | - | - | - | - | - | - |
| Other | 133 | - | 133 | 140 | - | 140 |
| **Total** | **273** | **3** | **276** | **290** | **4** | **294** |
| **Corporate** | | | | | | |
| Term extension | 144 | - | 144 | 227 | - | 227 |
| Adjustment or non-enforcement of covenants | 369 | - | 369 | 372 | - | 372 |
| Facilities in breach of terms placed on demand | - | - | - | - | - | - |
| Reduced payment (full interest) | - | - | - | - | - | - |
| Reduced payment (greater than full interest) | 57 | - | 57 | 68 | - | 68 |
| Capitalisation of arrears | - | - | - | - | - | - |
| Other | 1 | - | 1 | 61 | - | 61 |
| **Total** | **571** | **-** | **571** | **728** | **-** | **728** |
| **Investment property** | | | | | | |
| Term extension | 1,990 | 109 | 2,099 | 2,464 | 55 | 2,519 |
| Adjustment or non-enforcement of covenants | 280 | - | 280 | 392 | 3 | 395 |
| Facilities in breach of terms placed on demand | 41 | 7 | 48 | 49 | 8 | 57 |
| Reduced payment (full interest) | 44 | 4 | 48 | 69 | 6 | 75 |
| Reduced payment (greater than full interest) | 93 | 6 | 99 | 142 | 11 | 153 |
| Capitalisation of arrears | 19 | 2 | 21 | 30 | 2 | 32 |
| Other | 188 | - | 188 | 224 | 3 | 227 |
| **Total** | **2,655** | **128** | **2,783** | **3,370** | **88** | **3,458** |

[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) | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Performing loans[1] balance €m** | **Non-performing loans[2] balance €m** | **Total loans balance €m** | Performing loans[1] balance €m | Non-performing loans[2] balance €m | Total loans balance €m |
| **Land and development** | | | | | | |
| Term extension | 63 | 3 | 66 | 101 | 13 | 114 |
| Adjustment or non-enforcement of covenants | - | - | - | - | - | - |
| Facilities in breach of terms placed on demand | - | 1 | 1 | 5 | 2 | 7 |
| Reduced payment (full interest) | 1 | 4 | 5 | 12 | 1 | 13 |
| Reduced payment (greater than full interest) | 1 | - | 1 | 1 | - | 1 |
| Capitalisation of arrears | - | - | - | - | - | - |
| Other | 1 | - | 1 | 4 | - | 4 |
| **Total** | **66** | **8** | **74** | **123** | **16** | **139** |
| **Consumer** | | | | | | |
| Term extension | 32 | - | 32 | 74 | - | 74 |
| 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 | 3 | - | 3 | 2 | - | 2 |
| Other | - | - | - | - | - | - |
| **Total** | **35** | **-** | **35** | **76** | **-** | **76** |
| **Total** | | | | | | |
| Term extension | 2,858 | 164 | 3,022 | 3,545 | 139 | 3,684 |
| Adjustment or non-enforcement of covenants | 781 | - | 781 | 900 | 3 | 903 |
| Facilities in breach of terms placed on demand | 42 | 18 | 60 | 58 | 26 | 84 |
| Reduced payment (full interest) | 92 | 12 | 104 | 161 | 15 | 176 |
| Reduced payment (greater than full interest) | 264 | 12 | 276 | 388 | 32 | 420 |
| Capitalisation of arrears | 30 | 4 | 34 | 48 | 7 | 55 |
| Other | 328 | 2 | 330 | 440 | 7 | 447 |
| **Total** | **4,395** | **212** | **4,607** | **5,540** | **229** | **5,769** |

[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 2016 were €34.2 billion before impairment provisions (31 December 2015: €37.7 billion), of which €4.6 billion or 13% was classified and reported as forborne (31 December 2015: €5.8 billion or 15%). Property and construction exposures represent 62% of all forborne loans (excluding Residential mortgages) at 31 December 2016, 37% relate to Non-property SME and corporate lending, with Consumer Lending representing just 1% of forborne loans at 31 December 2016. The percentage split of such forborne loans by portfolio has remained broadly consistent with the position at 31 December 2015.

The total volume of forborne loans reduced by €1.2 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 2016 were €20 billion before impairment provisions, of which €1.7 billion or 9% was classified and reported as forborne (31 December 2015: €2.1 billion or 10%). 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 2016 were €8.8 billion, of which €0.9 billion or 10% was classified and reported as forborne (31 December 2015: €1.1 billion or 12%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 68% of forborne loans at 31 December 2016 (31 December 2015: 61%) with reduced payment (greater than full interest) accounting for 13% (31 December 2015: 18%) and a further 10% accounted for by loan covenant amendments / waivers (31 December 2015: reduced payment (full interest) of 8%).

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 2016 were €1.9 billion, of which €0.3 billion or 14% was classified and reported as forborne (31 December 2015: €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 2016 (31 December 2015: 49%).

## Asset quality (continued)

### Forbearance measures (continued)

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2016 were €9.3 billion, of which €0.6 billion or 6% was classified and reported as forborne (31 December 2015: €0.7 billion or 8%). Loan covenant amendments / waivers account for 65% of forborne loans with term extensions accounting for a further 25% at 31 December 2016 (31 December 2015: 51% and 31% 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 2016 were €9.3 billion before impairment provisions, of which €2.8 billion or 30% was classified and reported as forborne (31 December 2015: €3.5 billion or 30%). Non-performing forborne loans were €0.1 billion (or 5% of total forborne loans) as at 31 December 2016 (31 December 2015: €0.1 billion or 3%). Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 75% of total forborne loans at 31 December 2016 (31 December 2015: 73%), with covenant amendments / waivers accounting for 10% (31 December 2015: 11%), and reduced payment (greater than full interest) accounting for 4% (31 December 2015: 4%). 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 2016 (31 December 2015: €0.1 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 2016 were €3.8 billion before impairment provisions, of which €35 million or 1% was classified and reported as forborne (31 December 2015: €0.1 billion or 2%). The €35 million of forborne balances at 31 December 2016 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 2016<br>Reconciliation of forborne loan stock by performing / non-performing status[1]<br>- 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 2016** | **1,074** | **294** | **728** | **3,458** | **139** | **76** | **5,769** |
| New forbearance extended | 132 | 48 | 141 | 176 | 7 | 7 | 511 |
| Exited forbearance | | | | | | | |
| - Improved to or remained in performing | (41) | (2) | (39) | (155) | (4) | - | (241) |
| - Remained in / disimproved to non-performing without specific provision | (12) | - | - | (8) | - | - | (20) |
| - Redemptions, principal repayments and other | (195) | (61) | (204) | (636) | (31) | (31) | (1,158) |
| - Disimproved to non-performing with specific provision | (51) | (3) | (55) | (98) | (30) | (17) | (254) |
| Transfers within forbearance between performing and non-performing loans | - | - | - | - | - | - | - |
| Transfers between sub product class | (39) | - | - | 46 | (7) | - | - |
| **Closing balance at 31 December 2016** | **868** | **276** | **571** | **2,783** | **74** | **35** | **4,607** |
| **Performing loans** | | | | | | | |
| **Opening balance at 1 January 2016** | **953** | **290** | **728** | **3,370** | **123** | **76** | **5,540** |
| New forbearance extended | 131 | 47 | 141 | 101 | 6 | 7 | 433 |
| Exited forbearance | | | | | | | |
| - Remained in performing | (39) | (2) | (39) | (154) | (4) | - | (238) |
| - Disimproved to non-performing without specific provision | (4) | - | - | (4) | - | - | (8) |
| - Redemptions, principal repayments and other | (177) | (60) | (204) | (611) | (26) | (31) | (1,109) |
| - Disimproved to non-performing with specific provision | (36) | (2) | (55) | (81) | (28) | (17) | (219) |
| Transfers within forbearance between performing and non-performing loans | 7 | - | - | (3) | (9) | - | (5) |
| Transfers between sub product class | (40) | - | - | 37 | 4 | - | 1 |
| **Closing balance at 31 December 2016** | **795** | **273** | **571** | **2,655** | **66** | **35** | **4,395** |
| **Non-performing loans** | | | | | | | |
| **Opening balance at 1 January 2016** | **121** | **4** | **-** | **88** | **16** | **-** | **229** |
| New forbearance extended | 1 | 1 | - | 75 | 1 | - | 78 |
| Exited forbearance | | | | | | | |
| - Improved to performing | (2) | - | - | (1) | - | - | (3) |
| - Remained in non-performing without specific provision | (8) | - | - | (4) | - | - | (12) |
| - Redemptions, principal repayments and other | (18) | (1) | - | (25) | (5) | - | (49) |
| - Disimproved to non-performing with specific provision | (15) | (1) | - | (17) | (2) | - | (35) |
| Transfers within forbearance between performing and non-performing loans | (7) | - | - | 3 | 9 | - | 5 |
| Transfers between sub product class | 1 | - | - | 9 | (11) | - | (1) |
| **Closing balance at 31 December 2016** | **73** | **3** | **-** | **128** | **8** | **-** | **212** |

[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)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2016 and 31 December 2016 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 2016 and remained in forbearance stock at 31 December 2016). Other includes the impact of foreign currency translation during the year;
  - Disimproved to or within non-performing with specific provision; 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.

At 31 December 2016, €4.6 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 €1.2 billion from the level classified and reported as forborne at 31 December 2015.

The reduction in forborne loans during the year reflected the fact that €1.7 billion of forborne loans exited forbearance during the year while €0.5 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 34% were from the Investment property portfolio, €0.14 billion or 28% were from the Group's Corporate portfolio and €0.13 billion or 26% were from the Republic of Ireland SME loan portfolio.

Of the loans that exited forbearance during the year, €0.2 billion improved to or remained in performing status. €238 million, or 99% of these loans, had been categorised as performing at 31 December 2016, and, €3 million categorised as non-performing at 31 December 2016 improved to performing. €20 million in forborne loans remained in or dis-improved to non-performing without a specific provision. €12 million or 60% of these loans were in the Republic of Ireland SME portfolio, with €8 million or 40% in the Investment property portfolio.

€1.2 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 73% of these movements were in the Investment property and Corporate portfolios.

€0.25 billion in forborne loans dis-improved to non-performing with a specific provision, of these €35 million or 14% had been classified as non-performing at 31 December 2016. The Investment property portfolio accounted for 39% of the total, with 22% from the Corporate and 20% from the Republic of Ireland SME 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 2016, €0.2 billion or 5% of total forborne loans were classified as non-performing (31 December 2015: €0.2 billion or 4%).

## Group forbearance disclosures

### Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers at 31 December 2016 of €82.4 billion is available on page 92 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 2016<br>Risk profile of loans and advances to customers (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 | 41,803 | 5,739 | 2,793 | 3,402 | 53,737 | 72% |
| Satisfactory quality | - | 9,064 | 1,459 | 200 | 10,723 | 15% |
| Acceptable quality | 219 | 1,317 | 329 | 13 | 1,878 | 3% |
| Lower quality but neither past due or impaired | - | 182 | 167 | - | 349 | - |
| **Neither past due nor impaired** | **42,022** | **16,302** | **4,748** | **3,615** | **66,687** | **90%** |
| Past due but not impaired | 1,132 | 100 | 44 | 57 | 1,333 | 2% |
| Impaired | 1,237 | 1,883 | 2,695 | 104 | 5,919 | 8% |
| **Total non-forborne loans and advances to customers** | **44,391** | **18,285** | **7,487** | **3,776** | **73,939** | **100%** |
| **Forborne loans and advances to customers** | | | | | | |
| High quality | - | 82 | 54 | - | 136 | 2% |
| Satisfactory quality | 1,612 | 230 | 404 | 24 | 2,270 | 27% |
| Acceptable quality | 1,086 | 503 | 1,083 | 9 | 2,681 | 32% |
| Lower quality but neither past due or impaired | 408 | 798 | 1,014 | - | 2,220 | 26% |
| **Neither past due nor impaired** | **3,106** | **1,613** | **2,555** | **33** | **7,307** | **87%** |
| Past due but not impaired | 313 | 26 | 169 | 2 | 510 | 6% |
| Impaired | 397 | 76 | 133 | - | 606 | 7% |
| **Total forborne loans and advances to customers** | **3,816** | **1,715** | **2,857** | **35** | **8,423** | **100%** |

## Risk profile of forborne loans and advances to customers (continued)

| 31 December 2015<br>Risk profile of loans and advances to customers (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% |

Forborne loans and advances to customers classified as ‘neither past due nor impaired’ amounted to €7.3 billion at 31 December 2016 compared to €8.1 billion at 31 December 2015.

Forborne loans and advances to customers classified as ‘past due but not impaired’ have reduced to €0.5 billion at 31 December 2016 compared to €0.7 billion at 31 December 2015.

Forborne ‘impaired’ loans have reduced to €0.6 billion at 31 December 2016 compared to €0.7 billion at 31 December 2015.

## Past due and / or impaired

The Group's total risk profile of loans and advances to customers - past due and / or impaired at 31 December 2016 of €8.4 billion is available on page 93 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 2016<br>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 | 336 | 72 | 13 | 34 | 455 |
| Past due 31 - 60 days | 390 | 11 | 16 | 17 | 434 |
| Past due 61 - 90 days | 118 | 17 | 15 | 6 | 156 |
| Past due greater than 90 days but not impaired | 288 | - | - | - | 288 |
| **Past due but not impaired** | **1,132** | **100** | **44** | **57** | **1,333** |
| Impaired | 1,237 | 1,883 | 2,695 | 104 | 5,919 |
| **Total non-forborne loans and advances to customers - past due and / or impaired** | **2,369** | **1,983** | **2,739** | **161** | **7,252** |
| **Forborne loans and advances to customers** | | | | | |
| Past due up to 30 days | 117 | 18 | 16 | 1 | 152 |
| Past due 31 - 60 days | 65 | 4 | 79 | 1 | 149 |
| Past due 61 - 90 days | 34 | 4 | 74 | - | 112 |
| Past due greater than 90 days but not impaired | 97 | - | - | - | 97 |
| **Past due but not impaired** | **313** | **26** | **169** | **2** | **510** |
| Impaired | 397 | 76 | 133 | - | 606 |
| **Total forborne loans and advances to customers - past due and / or impaired[1]** | **710** | **102** | **302** | **2** | **1,116** |

*[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 €12.5 billion at 31 December 2015 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

| 31 December 2015<br>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 | 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.*

Forborne loans and advances to customers classified as 'past due and / or impaired' amounted to €1.1 billion or 13% of the Group's forborne loan book at 31 December 2016 compared to €1.4 billion or 16% at 31 December 2015.

Forborne Residential mortgages classified as 'past due and / or impaired' decreased by €0.2 billion from €0.9 billion at 31 December 2015 to €0.7 billion at 31 December 2016.

Forborne Property and construction loans classified as 'past due and / or impaired' decreased by €0.1 billion from €0.4 billion at 31 December 2015 to €0.3 billion at 31 December 2016.

Forborne Non-property SME and corporate loans classified as 'past due and / or impaired' remained unchanged €0.1 billion.

Forborne Consumer loans that are 'past due and / or impaired' are not significant in a Group context at €2 million at 31 December 2016 (31 December 2015: €7 million).

## Non-performing loans

**TABLE: 3**

| **31 December 2016**<br>**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** |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Probationary mortgages | 534 | | | | |
| - *Self-cure* | *534* | | | | |
| - *Forborne* | *-* | | | | |
| Defaulted loans | 1,525 | 1,883 | 2,695 | 104 | 6,207 |
| - *Past due greater than 90 days but not impaired* | *288* | *-* | *-* | *-* | *288* |
| - *Impaired* | *1,237* | *1,883* | *2,695* | *104* | *5,919* |
| **Total non-forborne loans and advances to customers - non-performing** | **2,059** | **1,883** | **2,695** | **104** | **6,741** |
| **Forborne loans and advances to customers** | | | | | |
| Probationary mortgages | 483 | | | | |
| - *Self-cure* | *-* | | | | |
| - *Forborne* | *483* | | | | |
| Defaulted loans | 494 | 76 | 133 | - | 703 |
| - *Past due greater than 90 days but not impaired* | *97* | *-* | *-* | *-* | *97* |
| - *Impaired* | *397* | *76* | *133* | *-* | *606* |
| **Total forborne loans and advances to customers - non-performing** | **977** | **76** | **133** | **-** | **1,186** |

| 31 December 2015<br>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 |

## 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 2016 was €176 million (see page 88 in the Credit risk disclosures). Of this, the impairment reversal (net) on forborne loans amounted to €132 million as set out in the table below:

**TABLE: 4**

| **31 December 2016**<br>**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 | (52) | (56) | (108) |
| *- Retail Ireland* | *(52)* | *(56)* | *(108)* |
| *- Retail UK* | - | - | - |
| Non-property SME and corporate | - | (13) | (13) |
| *- Republic of Ireland SME* | - | *(6)* | *(6)* |
| *- UK SME* | - | *(4)* | *(4)* |
| *- Corporate* | - | *(3)* | *(3)* |
| Property and construction | - | (10) | (10) |
| *- Investment* | - | *(3)* | *(3)* |
| *- Land and development* | - | *(7)* | *(7)* |
| Consumer | - | (1) | (1) |
| **Total Impairment charge / (reversal) on forborne loans** | **(52)** | **(80)** | **(132)** |

| 31 December 2015<br>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) |

**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 €23 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 2016 were €3,885 million (31 December 2015: €5,886 million) (see page 95 in the asset quality disclosures). Of this, the impairment provisions on forborne loans amounted to €417 million (31 December 2015: €545 million) as set out in the tables below:

**TABLE: 5**

| **31 December 2016**<br>**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 | 147 | 209 | 356 |
| *- Retail Ireland* | *147* | *207* | *354* |
| *- Retail UK* | - | *2* | *2* |
| Non-property SME and corporate | - | 31 | 31 |
| *- Republic of Ireland* | - | *17* | *17* |
| *- UK SME* | - | *6* | *6* |
| *- Corporate* | - | *8* | *8* |
| Property and construction | - | 28 | 28 |
| *- Investment* | - | *26* | *26* |
| *- Land and development* | - | *2* | *2* |
| Consumer | - | 1 | 1 |
| **Total impairment provision on forborne loans** | **147** | **269** | **416** |

| 31 December 2015<br>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 |

**Impairment provision on forborne loans**

Specific and Incurred but not reported (IBNR) provisions held against forborne Retail Ireland mortgage loans decreased during 2016. 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 2016, 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 2016 and the year ended 31 December 2015. 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 21.

| | **Year ended 31 December 2016** | | | Year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **Average Balance €m** | **Interest[1,2] €m** | **Rate %** | Average Balance €m | Interest[1,2] €m | Rate % |
| **Assets** | | | | | | |
| Loans and advances to banks | 8,470 | 14[3] | 0.17% | 9,166 | 33 | 0.36% |
| Loans and advances to customers | 80,693 | 2,678 | 3.32% | 85,120 | 3,006 | 3.53% |
| Available for sale financial assets and NAMA senior bonds | 11,182 | 125 | 1.12% | 12,973 | 209 | 1.61% |
| Held to maturity financial assets | 1,896 | 31 | 1.64% | 1,292 | 21 | 1.63% |
| **Total interest earning assets** | **102,241** | **2,848** | **2.79%** | **108,551** | **3,269** | **3.01%** |
| Non interest earning assets | 22,400 | - | - | 22,729 | - | - |
| **Total assets** | **124,641** | **2,848** | **2.28%** | **131,280** | **3,269** | **2.49%** |
| **Liabilities and stockholders' equity** | | | | | | |
| Deposits from banks | 2,604 | 1[4] | 0.04% | 2,519 | 10 | 0.40% |
| Customer accounts[5] | 51,917 | 343 | 0.66% | 55,989[6] | 460 | 0.82% |
| Debt securities in issue | 10,912 | 80 | 0.73% | 13,706 | 164 | 1.20% |
| Subordinated liabilities | 1,957 | 139 | 7.10% | 2,405 | 179 | 7.44% |
| *- Convertible Contingent Capital Note (CCCN) 2016* | *577* | *67* | *11.61%* | *967* | *103[7]* | *10.65%* |
| *- Other subordinated liabilities* | *1,380* | *72* | *5.22%* | *1,438* | *76[7]* | *5.29%* |
| **Total interest bearing liabilities** | **67,390** | **563** | **0.83%** | **74,619** | **813** | **1.09%** |
| Current accounts | 24,559 | 2 | 0.01% | 21,478[6] | 2 | 0.01% |
| **Total interest bearing liabilities and current accounts** | **91,949** | **565** | **0.61%** | **96,097** | **815** | **0.85%** |
| Non interest bearing liabilities[8] | 23,999 | - | - | 25,897[6] | - | - |
| Stockholders' equity | 8,693 | - | - | 9,286 | - | - |
| *- 2009 Preference Stock* | - | - | - | *1,165* | - | - |
| *- Other stockholders equity* | *8,693* | - | - | *8,121* | - | - |
| **Total liabilities and stockholders' equity** | **124,641** | **565** | **0.45%** | **131,280** | **815** | **0.62%** |
| **Euro and sterling reference rates (average)** | | | | | | |
| ECB base rate | | | 0.01% | | | 0.05% |
| 3 month Euribor rate | | | (0.26%) | | | (0.02%) |
| Bank of England base rate | | | 0.40% | | | 0.50% |
| 3 month LIBOR rate | | | 0.50% | | | 0.57% |

*1 Represents interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.*
*2 Excludes the cost of the ELG Scheme of €20 million (31 December 2015: €10 million) which is included within interest expense.*
*3 Interest expense of €8 million arising from assets subject to negative interest rates has been reclassified to interest income, whereas in the Consolidated income statement it is presented as interest expense.*
*4 Interest income of €5 million arising from liabilities subject to negative interest rates has been reclassified to interest expense, whereas in the Consolidated income statement it is presented as interest income.*
*5 Excludes deposits carried at fair value through profit and loss.*
*6 Comparative figures have been adjusted to reclassify €1.4 billion from customer accounts to current accounts and to reclassify €1.6 billion from current accounts to non-interest bearing liabilities.*
*7 Comparative figures have been adjusted to more appropriately reflect the interest on derivatives which are in a hedging relationship with the relevant liability. An expense of €23 million has been reclassified from the CCCN to other subordinated liabilities with no effect on total interest for subordinated liabilities.*
*8 Includes liabilities carried at fair value through profit and loss.*

Loans and advances to banks includes cash and balances at central banks.

# Consolidated income statement

## for the year ended 31 December 2016

| (EURO, US$ & STG£) | €m | US$m[1] | Stg£m[1] |
|---|---|---|---|
| Interest income | 2,861 | 3,167 | 2,345 |
| Interest expense | (598) | (662) | (490) |
| **Net interest income** | **2,263** | **2,505** | **1,855** |
| Net insurance premium income | 1,226 | 1,357 | 1,005 |
| Fee and commission income | 559 | 619 | 458 |
| Fee and commission expense | (222) | (246) | (182) |
| Net trading income | 113 | 125 | 93 |
| Life assurance investment income, gains and losses | 446 | 494 | 365 |
| Other operating income | 287 | 318 | 235 |
| **Total operating income** | **4,672** | **5,172** | **3,829** |
| Insurance contract liabilities and claims paid | (1,564) | (1,731) | (1,282) |
| **Total operating income, net of insurance claims** | **3,108** | **3,441** | **2,547** |
| Other operating expenses | (1,897) | (2,100) | (1,555) |
| Cost of restructuring programme | (35) | (39) | (29) |
| **Operating profit before impairment charges on financial assets** | **1,176** | **1,302** | **963** |
| Impairment charges on financial assets | (178) | (197) | (146) |
| **Operating profit** | **998** | **1,105** | **817** |
| Share of results of associates and joint ventures (after tax) | 41 | 45 | 34 |
| Loss on disposal / liquidation of business activities | (7) | (8) | (6) |
| **Profit before tax** | **1,032** | **1,142** | **845** |
| Taxation charge | (239) | (264) | (195) |
| **Profit for the year attributable to stockholders** | **793** | **878** | **650** |

[1] *Converted at average exchange rates as set out on page 196.*

# Consolidated balance sheet

## as at 31 December 2016

| (EURO, US$ & STG£) | €m | US$m[1] | Stg£m[1] |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 5,192 | 5,473 | 4,445 |
| Items in the course of collection from other banks | 242 | 255 | 207 |
| Trading securities | 18 | 19 | 15 |
| Derivative financial instruments | 3,709 | 3,910 | 3,176 |
| Other financial assets at fair value through profit or loss | 13,249 | 13,966 | 11,344 |
| Loans and advances to banks | 3,349 | 3,530 | 2,867 |
| Available for sale financial assets | 10,794 | 11,378 | 9,242 |
| Held to maturity financial assets | 1,872 | 1,973 | 1,603 |
| NAMA senior bonds | 451 | 475 | 386 |
| Loans and advances to customers | 78,477 | 82,723 | 67,192 |
| Interest in associates | 56 | 59 | 48 |
| Interest in joint ventures | 71 | 75 | 61 |
| Intangible assets | 635 | 669 | 544 |
| Investment properties | 864 | 911 | 740 |
| Property, plant and equipment | 353 | 372 | 302 |
| Current tax assets | 4 | 4 | 3 |
| Deferred tax assets | 1,298 | 1,368 | 1,112 |
| Other assets | 2,487 | 2,622 | 2,129 |
| Retirement benefit assets | 8 | 8 | 7 |
| **Total assets** | **123,129** | **129,790** | **105,423** |
| | | | |
| **Equity and liabilities** | | | |
| Deposits from banks | 3,662 | 3,860 | 3,135 |
| Customer accounts | 75,167 | 79,234 | 64,357 |
| Items in the course of transmission to other banks | 223 | 235 | 191 |
| Derivative financial instruments | 2,873 | 3,028 | 2,460 |
| Debt securities in issue | 10,697 | 11,276 | 9,159 |
| Liabilities to customers under investment contracts | 5,647 | 5,953 | 4,835 |
| Insurance contract liabilities | 10,934 | 11,526 | 9,362 |
| Other liabilities | 2,465 | 2,598 | 2,110 |
| Current tax liabilities | 19 | 20 | 16 |
| Provisions | 96 | 101 | 82 |
| Deferred tax liabilities | 65 | 68 | 57 |
| Retirement benefit obligations | 454 | 479 | 389 |
| Subordinated liabilities | 1,425 | 1,502 | 1,220 |
| **Total liabilities** | **113,727** | **119,880** | **97,373** |
| | | | |
| **Equity** | | | |
| Capital stock | 2,545 | 2,683 | 2,179 |
| Stock premium account | 571 | 602 | 489 |
| Retained earnings | 5,214 | 5,496 | 4,464 |
| Other reserves | 342 | 360 | 292 |
| Own stock held for the benefit of life assurance policyholders | (11) | (12) | (9) |
| **Stockholders' equity** | **8,661** | **9,129** | **7,415** |
| Other equity instruments | 740 | 780 | 634 |
| **Total equity excluding non-controlling interests** | **9,401** | **9,909** | **8,049** |
| Non-controlling interests | 1 | 1 | 1 |
| **Total equity** | **9,402** | **9,910** | **8,050** |
| **Total equity and liabilities** | **123,129** | **129,790** | **105,423** |

[1] *Converted at closing exchange rates as set out on page 196.*

# Stockholder information

## Holders of ordinary stock

| Stockholder profile | 31 December 2016 % by value | 31 December 2015 % by value |
|---|---|---|
| Ireland | 16% | 16% |
| UK | 22% | 24% |
| North America | 32% | 35% |
| Europe / other | 14% | 11% |
| Retail | 16% | 14% |
| | **100%** | **100%** |

**Analysis of stockholdings:**

| Stockholding range - units of stock As at 31 December 2016 | Number of stockholders | % of total holders | Stock held units | % of total stock |
|---|---|---|---|---|
| Up to 500 | 20,992 | 19.93% | 4,148,847 | 0.01% |
| 501 to 1,000 | 10,647 | 10.11% | 8,208,657 | 0.03% |
| 1,001 to 5,000 | 31,128 | 29.56% | 80,832,342 | 0.25% |
| 5,001 to 10,000 | 12,753 | 12.11% | 94,302,572 | 0.29% |
| 10,001 to 50,000 | 20,620 | 19.58% | 472,095,807 | 1.46% |
| 50,001 to 100,000 | 4,519 | 4.29% | 327,824,968 | 1.01% |
| 100,001 to 500,000 | 3,484 | 3.31% | 712,735,494 | 2.21% |
| Over 500,000[1] | 1,170 | 1.11% | 30,636,383,349 | 94.74% |
| **Total** | **105,313** | **100%** | **32,336,532,036** | **100%** |

| Stockholding range - units of stock As at 31 December 2015 | Number of stockholders | % of total holders | Stock held units | % of total stock |
|---|---|---|---|---|
| Up to 500 | 21,029 | 19.97% | 4,169,744 | 0.01% |
| 501 to 1,000 | 10,698 | 10.15% | 8,250,755 | 0.03% |
| 1,001 to 5,000 | 31,503 | 29.90% | 81,879,837 | 0.25% |
| 5,001 to 10,000 | 12,919 | 12.26% | 95,510,029 | 0.30% |
| 10,001 to 50,000 | 20,658 | 19.61% | 472,251,334 | 1.46% |
| 50,001 to 100,000 | 4,293 | 4.07% | 312,414,013 | 0.97% |
| 100,001 to 500,000 | 3,182 | 3.02% | 645,119,034 | 1.99% |
| Over 500,000[1] | 1,074 | 1.02% | 30,726,104,965 | 94.99% |
| Total | 105,356 | 100% | 32,345,699,711 | 100% |

[1] *Excludes stockholdings held by New Ireland Assurance Company plc*

**Listings**

The Governor and Company of the Bank of Ireland is a corporation established in Ireland in 1783 under Royal Charter. Its ordinary stock, of nominal value €0.05 per unit, has a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

**Registrar**

The Bank's Registrar is:
Computershare Investor Services (Ireland) Limited,
P.O. Box 954,
Sandyford Industrial Estate,
Dublin 18.

Telephone: + 353 1 247 5414
Facsimile: + 353 1 447 5571
or
Contact via website: www.computershare.com/ie/contact

Stockholders may view their stockholding on Computershare's website at: www.investorcentre.com/ie by registering their details with Computershare. Once registered, stockholders will be sent a Computershare activation code and will then be able to view and amend their account details using the above link.

**Amalgamating your stockholdings**

If you receive more than one copy of stockholder mailing with similar details on your accounts, it may be because the Bank has more than one record of stockholdings in your name. To ensure that you do not receive duplicate mailings in future and to reduce the cost and waste associated with this, please have all your stockholdings amalgamated into one account by contacting the Bank's Registrar (joint accounts cannot be merged with sole accounts or vice versa).

**Stockholder enquiries**

All enquiries concerning stockholdings should be addressed to the Bank's Registrar.

**Communication**

It is the policy of the Bank to communicate with Stockholders by electronic means or through the www.bankofireland.com website in the interest of protecting the environment. Those stockholders who do not wish to receive documents or information by electronic means may request to receive the relevant information in paper form.

**Bank of Ireland website**

Further information about the Bank of Ireland Group can be obtained from the internet at www.bankofireland.com

# Other disclosures

## TARGET 2

1. On 15 February 2008 a first floating charge was placed in favour of the Central Bank of Ireland (CBI) over all Bank of Ireland's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of Bank of Ireland's account held as a TARGET 2 participant with the CBI (the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, Bank of Ireland shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 15 February 2008 a first floating charge was placed in favour of the CBI over all Bank of Ireland's right, title, interest and benefit, present and future, in and to certain segregated securities (the Charged Property) listed in an Eligible Securities Schedule kept by Bank of Ireland for purposes of participating in TARGET 2 where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, Bank of Ireland shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

# Glossary

## Further information related to certain measures referred to in the Key Highlights and Performance Summary

**Average cost of funds** represents the interest expense recognised on interest bearing liabilities net of interest on derivatives which are in a hedge relationship with the relevant liability. See page 21 and page 415 for further information.

**Business income** is net other income after IFRS income classifications before other gains and other valuation items. See page 23 for further details.

**Constant currency:** To enable a better understanding of performance, certain variances are calculated on a constant currency basis by adjusting for the impact of movements in exchange rates during the period as follows:
- For balance sheet items, by reference to the closing rate at the end of the current and prior period ends; and
- For items relating to the income statement, by reference to the current and prior period average rates.

**Cost income ratio** is calculated on an underlying basis (excluding non-core items) as operating expenses excluding levies and regulatory charges divided by operating income (net of insurance claims).

**Growth in core loan book** is gross new lending volumes less redemptions & repayments, excluding those related to (1) the RoI tracker mortgage book, (2) defaulted loans and (3) GB business banking / GB corporate banking books which were previously mandated by the EU for run-down. See page 29 for further details.

**Gross new lending volumes** represent loans and advances to customers drawn down during the period and portfolio acquisitions.

**Gross yield** represents the interest income recognised on interest bearing assets net of interest on derivatives which are in a hedge relationship with the relevant asset. See page 21 and page 415 for further information.

**Impairment charge on loans and advances to customers (bps)** is the net impairment charge on loans and advances to customers divided by average gross loans and advances to customers (including held for sale).

**Liquid assets** are comprised of cash and balances at central banks, loans and advances to banks (excluding balances in Bank of Ireland Life), held to maturity financial assets, NAMA senior bonds and certain available for sale financial assets. See page 30 for further details.

**Liquid asset spread** is calculated as gross yield on interest bearing liquid assets less the average cost of funds. See page 21 for further detail.

**Loan asset spread** is calculated as gross yield on loans and advances to customers less the average cost of funds. See page 21 for further detail.

**Loan to deposit ratio** is calculated as being net loans and advances to customers divided by customer deposits.

**Net interest margin** is stated before ELG fees and after adjusting for IFRS income classifications. See page 21 for further details.

**Non-performing loans** are defined as defaulted loans together with probationary residential mortgages. See page 90 for further information.

**Organic capital generation** consists of attributable profit, AFS reserve movements, the reduction in the DTA deduction (DTAs that rely on future profitability), movements in the Expected Loss deduction and RWA book size and quality movements.

**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.

**Tangible Net Asset Value (TNAV)** per share is calculated as stockholder equity excluding amounts not attributable to ordinary stockholders and intangible assets divided by the number of ordinary shares in issue and adjusted for own stock held for the benefit of life assurance policyholders.

**Underlying** excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 26 for further information.

**Wholesale funding** is comprised of deposits by banks (including collateral received) and debt securities in issue.

Business Review
Governance
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Other Information

# Abbreviations

| | |
|---|---|
| **ACS** | Asset Covered Securities |
| **AFS** | Available for sale |
| **AGC** | Annual General Court |
| **AIB** | Allied Irish Banks plc |
| **ALCO** | Group Asset and Liability Committee |
| **AML** | Anti Money Laundering |
| **APE** | Annual Premium Equivalent |
| **AT1** | Additional tier 1 |
| **ATM** | Automated Teller Machine |
| **BANK** | The Governor and Company of the Bank of Ireland |
| **BCBS** | Basel Committee on Banking Supervision |
| **BIAM** | Bank of Ireland Asset Management |
| **BIFR** | Bank and Investment Firm Resolution |
| **BIGPF** | Bank of Ireland Group Pension Fund |
| **BoE** | Bank of England |
| **BoI** | Bank of Ireland |
| **BoIGM** | Bank of Ireland Global Markets |
| **BoIMB** | Bank of Ireland Mortgage Bank |
| **bps** | Basis points |
| **BRRD** | Bank Recovery and Resolution Directive |
| **BSA** | Balance Sheet Assessment |
| **BSPF** | Bank of Ireland Staff Pensions Fund |
| **BTL** | Buy to let |
| **CAG** | Challenged Assets Group |
| **CBI** | Central Bank of Ireland |
| **CCMRO** | Chief Credit & Market Risk Officer |
| **CCCN** | Convertible Contingent Capital Note |
| **CCyB** | Countercyclical buffer |
| **CDO** | Collateralised debt obligation |
| **CDS** | Credit Default Swap |
| **CEO** | Chief Executive Officer |
| **CET 1** | Common equity tier 1 |
| **CFT** | Combating the Financing of Terrorism |
| **CGU** | Cash generating units |
| **CML** | Council Mortgage Lenders |
| **CPI** | Consumer Price Index |
| **CRC** | Court Risk Committee |
| **CRD** | Capital Requirements Directive (European Union) |
| **CRMF** | Conduct Risk Management Framework |
| **CRR** | Capital Requirements Regulation |
| **CRT** | Credit risk transfer |
| **CSAs** | Credit Support Annexes |
| **CSR** | Corporate social responsibility |
| **CSO** | Central Statistics Office |
| **CVA** | Credit Valuation Adjustment |
| **DAC** | Designated Activity Company |
| **DB** | Defined Benefit |
| **DBRS** | Dominion Bond Rating Service |
| **DCF** | Discounted Cash Flow |
| **DGS** | Deposit Guarantee Scheme |
| **DIRT** | Deposit Interest Retention Tax |
| **DTA** | Deferred tax asset |
| **DVA** | Debit Valuation Adjustment |
| **EAD** | Exposure at Default |
| **EBA** | European Banking Authority |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **EC** | European Commission |
| **ECB** | European Central Bank |
| **ECL** | Expected credit losses |
| **EDIS** | European Deposit Insurance Scheme |
| **ELG** | Eligible Liabilities Guarantee Scheme |
| **EPS** | Earnings per share |
| **ESB** | Electricity Supply Board |
| **ESOS** | Executive Stock Option Scheme |
| **EU** | European Union |
| **Euribor** | Euro Inter Bank Offered Rate |
| **EV** | Embedded Value |
| **EWMA** | Exponentially weighted moving average |
| **FPC** | Financial Policy Committee |
| **FRES** | First Rate Exchange Services Limited |
| **FRTB** | Fundamental Review of the Trading Book |
| **FSCS** | Financial Services Compensation Scheme |
| **FVA** | Funding Valuation Adjustment |
| **FVTPL** | Fair Value Through Profit or Loss |
| **FX** | Foreign exchange |
| **GAC** | Group Audit Committee |
| **GB** | Great Britain |
| **GCC** | Group Credit Committee |
| **GCR** | Group Credit Review |
| **GEC** | Group Executive Committee |
| **GIA** | Group Internal Audit |
| **GIC** | Group Investment Committee |
| **GRC** | Group Remuneration Committee |
| **GRCORC** | Group Regulatory Compliance and Operational Risk Committee |
| **GRPC** | Group Risk Policy Committee |
| **IAS** | International Accounting Standards |
| **IASB** | International Accounting Standards Board |
| **IBNR** | Incurred but not Reported |
| **IBRC** | Irish Banking Resolution Corporation |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **ICU** | Independent Control Unit |
| **IFRS** | International Financial Reporting Standards |
| **ILAAP** | Internal Liquidity Adequacy Assessment Process |
| **ILTR** | Index Long Term Repo |
| **IMF** | International Monetary Fund |
| **IPO** | Initial Public Offering |
| **IRB** | Internal Rating Based |
| **IRRBB** | Interest Rate Risk in the Banking Book |
| **ISDA** | International Swaps and Derivative Association |
| **ISIF** | Irish Strategic Investment Fund |
| **IT** | Information Technology |
| **JV** | Joint Venture |
| **JO** | Joint operation |
| **KMP** | Key management personnel |
| **LCR** | Liquidity Coverage Ratio |
| **LDI** | Liability Driven Investment |
| **LGD** | Loss Given Default |
| **Libor** | London Inter Bank Offered Rate |
| **LLC** | Limited Liability Company |
| **LLP** | Limited Liability Partnership |
| **LTI** | Loan to income |
| **LTV** | Loan to Value |

| | |
|---|---|
| **MARS** | Mortgage Arrears Resolution Strategy |
| **MDA** | Maximum Distributable Amount |
| **MFS** | Minimum Funding Standard |
| **MI** | Management Information |
| **MREL** | Minimum Requirement for own Funds and Eligible Liabilities |
| **MRO** | Main Refinancing Operations |
| **NAMA** | National Asset Management Agency |
| **NAMAIL** | National Asset Management Agency Investment Limited |
| **NIAC** | New Ireland Assurance Company plc |
| **NIE** | Northern Ireland Electricity |
| **NIM** | Net interest margin |
| **NPLs** | Non-performing loans |
| **NPRFC** | National Pensions Reserve Fund Commission |
| **NSFR** | Net Stable Funding Ratio |
| **NTMA** | National Treasury Management Agency |
| **NYSE** | New York Stock Exchange |
| **N&G** | Group Nomination and Governance Committee |
| **OCI** | Other Comprehensive Income |
| **ORSA** | Own Risk and Solvency Assessment |
| **O-SII** | Other Systemically Important Institutions |
| **OTC** | Over The Counter |
| **P2G** | Pillar II Guidance |
| **P2R** | Pillar II Requirement |
| **PCF** | Pre-approval Controlled Functions |
| **PD** | Probability of Default |
| **PO** | UK Post Office |
| **PRA** | Prudential Regulation Authority |
| **PRC** | Portfolio Review Committee |
| **PSD2** | Directive on Payment Services |
| **PwC** | PricewaterhouseCoopers |
| **RAS** | Risk Appetite Statement |
| **RAROC** | Risk Adjusted Return on Capital |
| **RMC** | Risk Measurement Committee |
| **RoI** | Republic of Ireland |
| **RoW** | Rest of World |
| **RPI** | Retail Price Index |
| **RPPI** | Residential Property Price Index |
| **RWAs** | Risk weighted assets |
| **SA-CCR** | Standard Approach for Counterparty Credit Risk |
| **SEPA** | Single European Payments Area |
| **SFCR** | Solvency and Financial Condition Report |
| **SID** | Senior Independent Director |
| **SMBPN** | Special Mortgage Backed Promissory Note |
| **SME** | Small Medium Enterprise |
| **SPE** | Special Purpose Entity |
| **SREP** | Supervisory Review & Evaluation Process |
| **SRB** | Single Resolution Board |
| **SRF** | Single Resolution Fund |
| **SRM** | Single Resolution Mechanism |
| **SSM** | Single Supervisory Mechanism |
| **TFS** | Bank of England Term Funding Scheme |
| **TLAC** | Total Loss Absorbing Capital |
| **TLTRO** | Targeted Longer Term Refinancing Operation |
| **TRIM** | Targeted review of internal models |
| **TtC** | Through-the-Cycle |
| **UK** | United Kingdom |
| **US** | United States |
| **VaR** | Value at Risk |
| **VAT** | Value Added Tax |

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