Extract from the Annual Report

Year ended 31 December 2016

Bank of Ireland Group

Bank of Ireland

Extract from the 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 Risk Management. Investors should read 'Principal Risks and Uncertainties' in the Group's Annual Report for the year ended 31 December 2016.

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.

For further information please contact:

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

Alan Hartley
Director of Group Investor Relations
Tel: +353 76 623 4850

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

Basis of preparation

The financial information set out in this document has been prepared for the purpose of the announcement of the Group's results for the year ended 31 December 2016. Such information does not constitute the statutory financial statements of The Governor and Company of the Bank of Ireland (the 'Bank') or the Group, but has been extracted from the Annual Report (which includes the audited statutory financial statements) for the year ended 31 December 2016.

The Annual Report for the year ended 31 December 2016, including the Group's statutory financial statements, is available on the Group's website. The Directors approved the Group's statutory financial statements for the year ended 31 December 2016 on 23 February 2017 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

The statutory 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.

A copy of the statutory financial statements in respect of the year ended 31 December 2016 will be annexed to the next annual return of the Bank, which has yet to be filed with the Registrar of Companies of Ireland and is expected to be filed by 30 June 2017. The auditors of the Bank have made a report, without any qualification, on their audit of those statutory financial statements.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Contents

Business review

Financial information

Other Information

View the Annual Report online

The Annual Report and other information relating to Bank of Ireland is available at:

www.bankofireland.com

View this report online

This Extract from the Annual Report and other information relating to Bank of Ireland is available at:

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 190.

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 13 on page 130. 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 72.*
[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.*

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

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 24, together with the sensitivity of the deficit to changes in those assumptions.

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 189 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 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 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 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.

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 77 in Risk Management.

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 114), 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 12 on page 128, 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 €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%**
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 €m**	**31 December 2016 % of gross loans**	31 December 2015 €m	31 December 2015 % 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 62 to 89.

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 19 on page 135.

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 24, 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.

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 26 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 Risk Management on pages 90 to 92.

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.

€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 25 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.

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.

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.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Divisional performance

Divisional performance - on an underlying basis

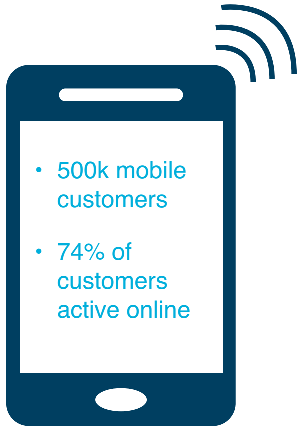
Divisional performance is presented on an underlying basis, which is the measure of profit or loss used to measure the performance of the divisions and the measure of profit or loss disclosed for each division under IFRS (see note 3).

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

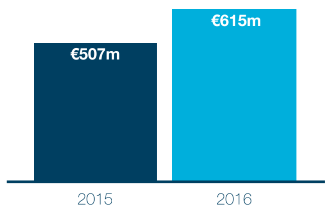
Retail Ireland: Income statement	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m	Change %
Net interest income	1,032	1,062	(3%)
Net other income	407	373	9%
Operating income	**1,439**	**1,435**	**-**
Operating expenses	(819)	(831)	1%
Operating profit before impairment charges on financial 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*

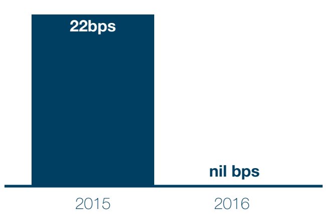
Net other income (after IFRS income classifications) of €406 million for the year ended 31 December 2016 was 12% higher than 2015. Business income is down €12 million with the impact of new EU credit card interchange caps introduced in December 2015 and the initiatives to pre-advise customers of potential 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.

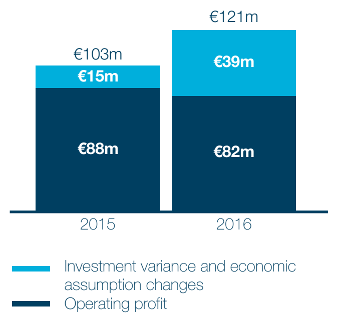
Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 62 to 89 and the supplementary asset quality and forbearance disclosures section on pages 154 to 188.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

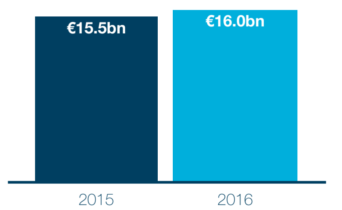
Bank of Ireland Life

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.

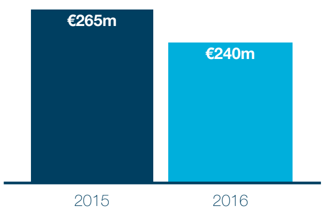
Reflecting our customer led proposition, we continue to invest in the business and in our staff to ensure we maintain and enhance our operational and service offering.

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.

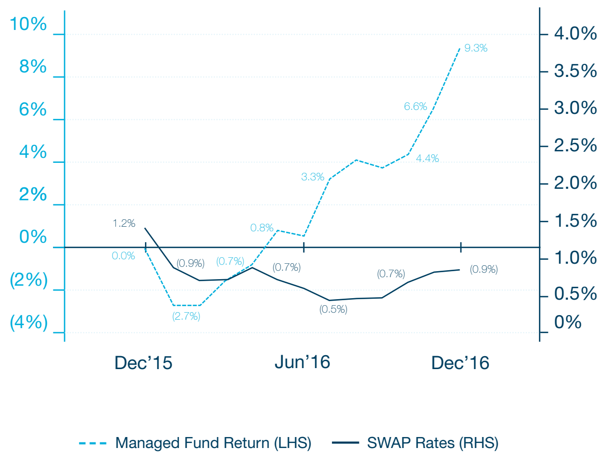
On the book of existing policies, mortality experience was strong and the positive lapse experience continued to be favourable and in line with the prior year.

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)

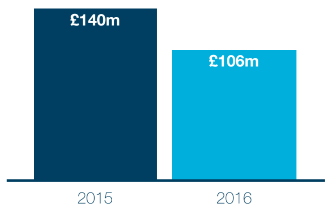
The new, harmonised EU-wide regulatory capital framework for Insurance Companies, known as Solvency II, came into force with effect from 1 January 2016. Under Solvency II, the Group's life assurance entity NIAC, is required to hold a Solvency Capital Requirement (SCR). This is a risk-based capital requirement 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)

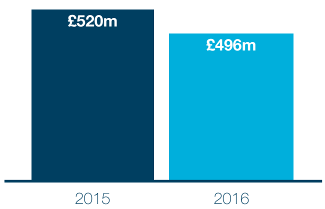
Financial performance
Retail UK reported an **underlying profit before tax** of £106 million for the year ended 31 December 2016 compared to a profit of £140 million in 2015. The decrease of £34 million is primarily driven by a decrease in operating income of £29 million and an increase in operating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

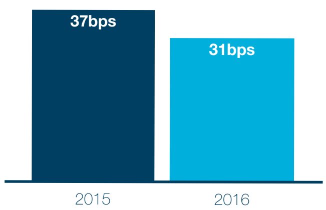
Operating expenses of £336 million for the year ended 31 December 2016 are £24 million higher than 2015 primarily reflecting a targeted investment in the consumer banking business, supporting the UK strategy. The year to 31 December 2016 also saw further specific investment on the development of the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



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.

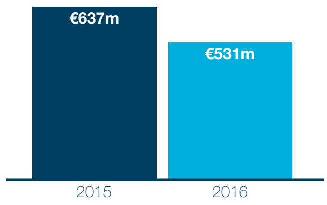
Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 62 to 89 and the supplementary asset quality and forbearance disclosures section on pages 154 to 188.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

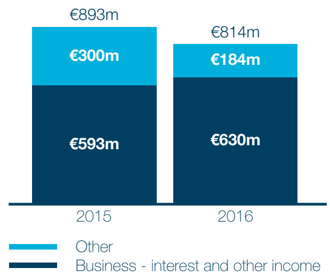
Corporate and Treasury

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	

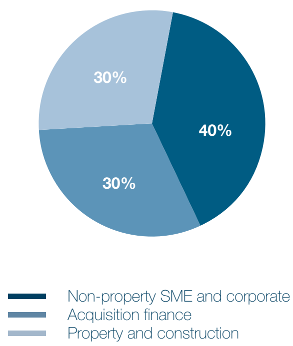
Underlying profit before tax €m



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

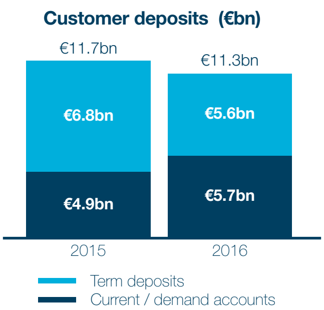
- Supporting customers in evaluating and managing their foreign exchange, interest rate hedging and other treasury needs against the backdrop of uncertain market conditions;
- continued investment in improving customers' experience; including enhancements to the foreign exchange functionality on both 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.

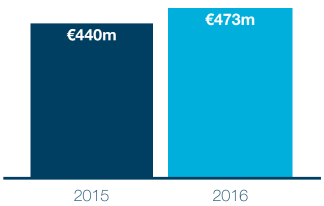
The **liquid asset** bond portfolio of €10.8 billion at 31 December 2016 was €0.1 billion higher than 31 December 2015. Main changes in the year include increased holdings of covered and other senior bonds of €1.3 billion partially offset by lower holdings of sovereign bonds (€0.2 billion) and repayments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

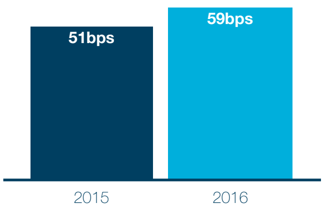
Corporate and Treasury (continued)

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 (bps)



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.

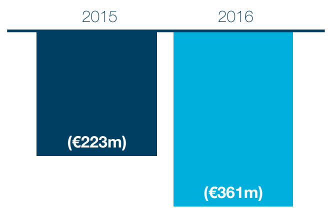
There was also an impairment charge on available for sale (AFS) financial assets of €2 million for the year ended 31 December 2016.

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 62 to 89 and the supplementary asset quality and forbearance disclosures section on pages 154 to 188.

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	

Underlying loss before tax €m



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.

Income statement - Operating segments

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 & 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 & 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

Credit risk

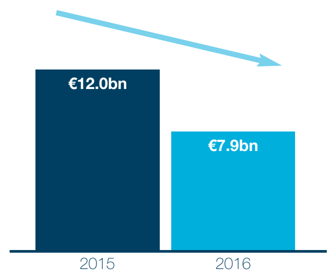
Key points:

- 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.

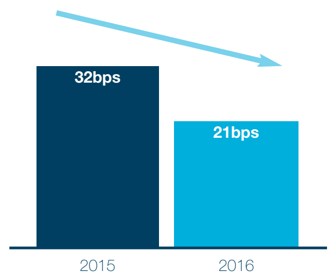
Definition of Credit Risk

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



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
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 27.

Credit risk (continued)

Credit risk management

The Group's approach to the management of credit risk is focused on a detailed credit analysis at origination followed by early intervention and active management of accounts where creditworthiness has deteriorated. The Credit & Market Risk function has responsibility for the independent oversight of credit 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

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 84 and 85.

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 85. 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 18.

Credit risk (continued)

Credit risk mitigation

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

Controls and limits

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

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

Risk transfer and financing strategies

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

Collateral

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures.

The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or Probability of Default (PD). The Group 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 Retail Ireland Residential mortgage portfolio is set out in the table 3c on page 160.

Counterparty credit risk arising from derivatives

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

Credit risk (continued)

Credit risk reporting / monitoring

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

Credit risk at a Group, divisional and significant operating unit / product type level is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book (credit grade and PD profiles and risk weighted assets) and loan impairment provisions including individual large impaired exposures.

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on exceptions to credit policy is presented to and reviewed by the GRPC, CRC and the Court on a quarterly basis. The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

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

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

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

Management of challenged assets

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

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

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

Group forbearance strategies

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

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.

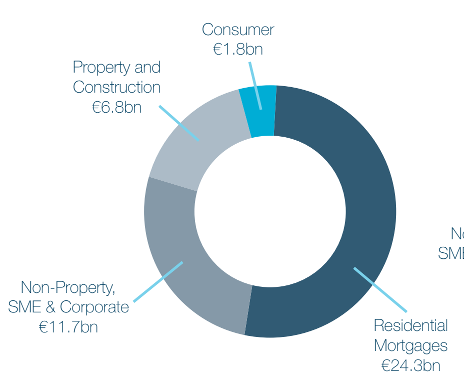
In the event of non-compliance, a request for further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken - this could for example arise 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.

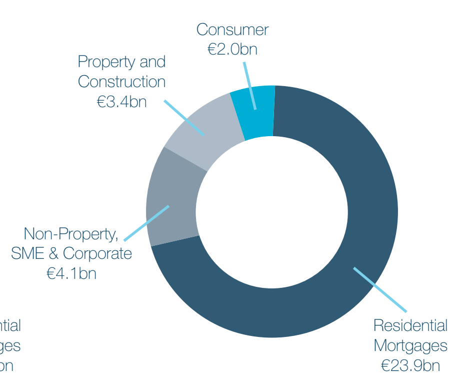
Credit risk (continued)

Book profile - Loans and advances to customers

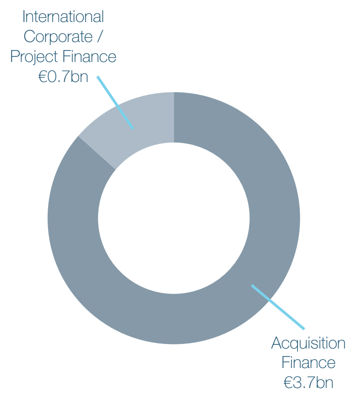
Gross Customer Loans Ireland[1]



Gross Customer Loans UK[1]



Gross Customer Loans Rest of the world[1]



[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 73 to 82.

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 **Geographical / industry analysis[1]**	**RoI** **€m**	**UK** **€m**	**RoW** **€m**	**Total** **€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.*

Credit risk (continued)

Book profile - Loans and advances to customers (continued)

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

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

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.

Credit risk (continued)

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

For an analysis of the Group's impairment charge on forborne loans and advances to customers see page 187 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 77.

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.

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 18 on page 134.

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

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

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.

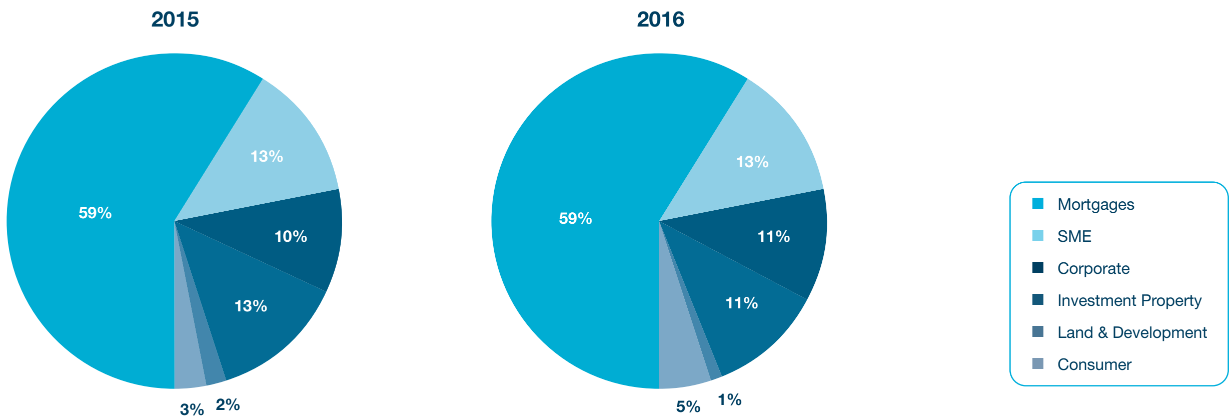
Credit risk (continued)

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%**



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 182 and 183 in the supplementary asset quality and forbearance disclosures.

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

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 **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 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%

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 182 and 183 in the supplementary asset quality and forbearance disclosures.

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 **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 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

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 184 and 185 in the supplementary asset quality and forbearance disclosures.

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 **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 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).

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 **Total loans and advances to customers** **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 Total loans and advances to customers including held for sale 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%

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.

Credit risk (continued)

Asset Quality - Loans & advances to customers (continued)

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 18 on page 134.

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.

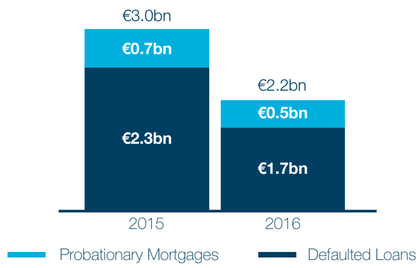
Of the €3.4 billion UK Property and construction exposure (€3.2 billion Investment and €0.2 billion Land and development) at 31 December 2016, €0.7 billion is non-performing (€0.5 billion Investment property and €0.2 billion Land and development). At 31 December 2016 UK Investment property non-performing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

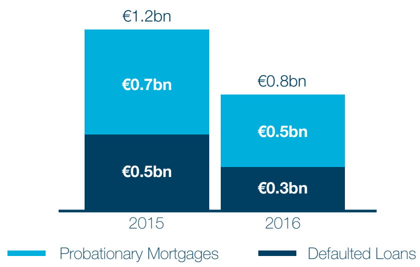
[1] *The geographical breakdown is primarily based on the location of the customer.*

Non-performing loans by portfolio

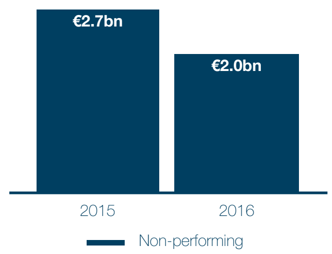
RoI Mortgages



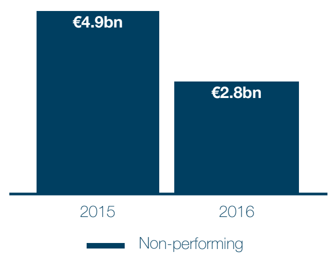
UK Mortgages



Non property SME and corporate



Property and Construction



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

The movements in defaulted loans in the period are consistent with the movements in non-performing loans as set out on page 77. 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 188 in the supplementary asset quality and forbearance disclosures.

Credit risk (continued)

Asset Quality - Segmental analysis

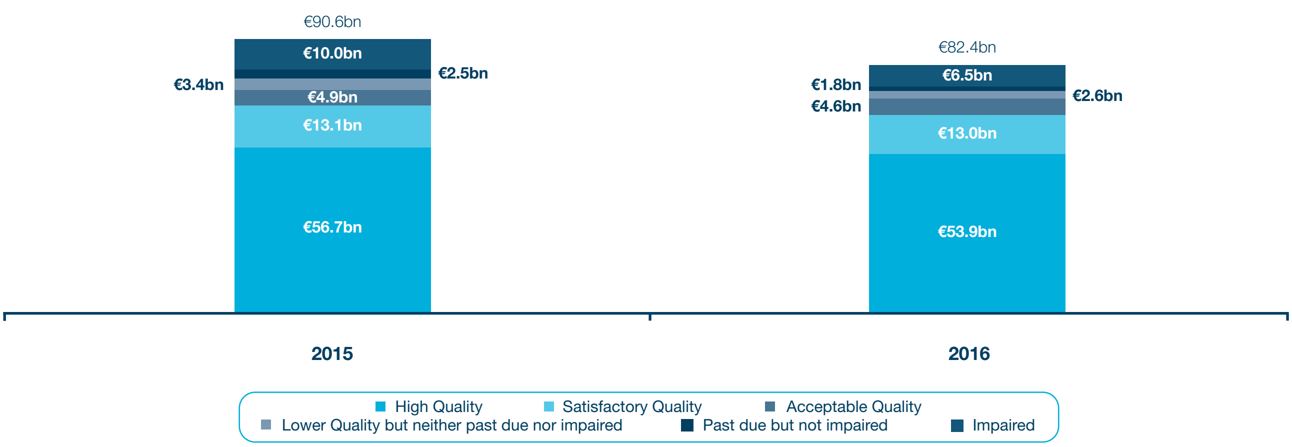
31 December 2016

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



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**

Business Review

Financial Information

Other Information

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.

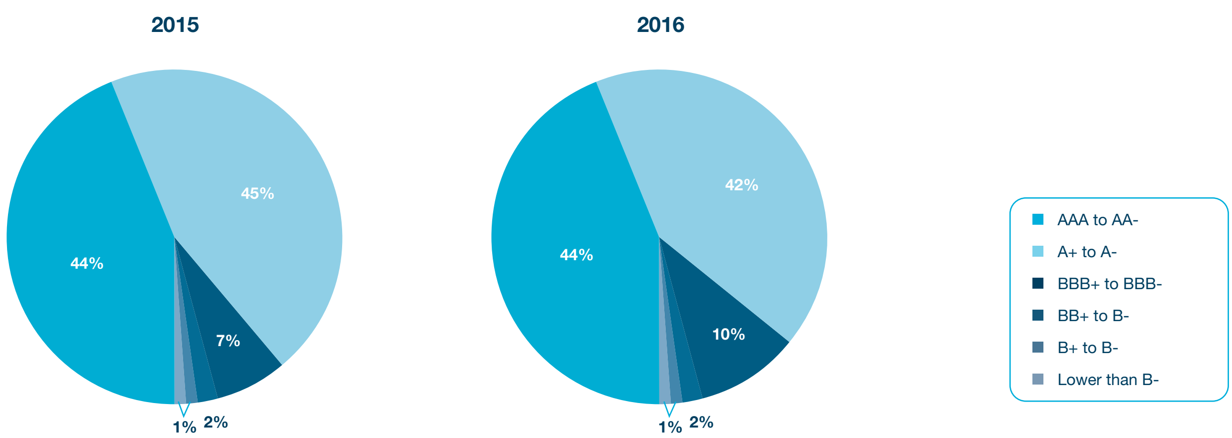
Credit risk (continued)

Asset Quality - Other financial instruments

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

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

Asset quality:	**31 December 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%**



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.

Credit risk (continued)

Credit risk methodologies

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

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

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

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

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%;

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 71.

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).

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, 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 71.

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.*

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, 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.

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.

Credit risk (continued)

Credit risk methodologies (continued)

IFRS 9 'Financial Instruments'
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 84 to 89), 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*

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.

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.

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

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

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

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.

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

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

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.*

Funding and liquidity risk (continued)

31 December 2016 **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 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.*

Funding and liquidity risk (continued)

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

Customer deposits
The Group's customer deposit strategy is 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%**

Funding and liquidity risk (continued)

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

Wholesale funding of €14.4 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
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.

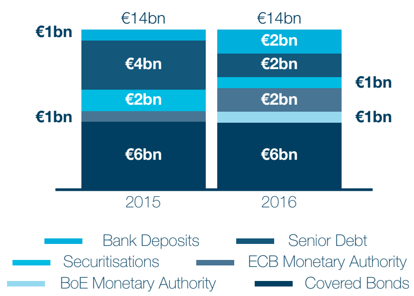
In addition, the Governor and Company of the Bank of Ireland (the 'Bank') also provides banking services in the UK through its UK branch comprised of corporate and business banking activities and the management of residential mortgage contacts which have not been transferred to BOI (UK) plc.

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

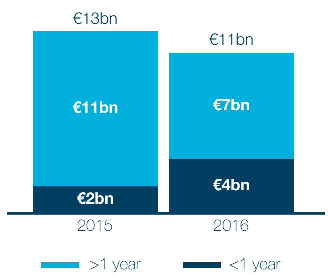
As at 31 December 2016, the Group's mismatch in sterling of £7.1 billion has reduced by £0.5 billion since 31 December 2015, primarily driven by amortisation of UK mortgage assets.

Eligible Liabilities Guarantee Scheme
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.

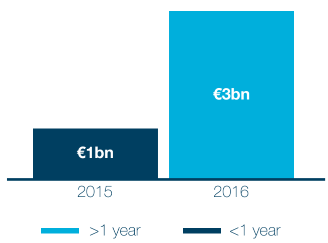
Wholesale Funding Sources



Wholesale Market Funding - *Maturity Profile*



Monetary Authority Funding - *Maturity Profile*



Funding and liquidity risk (continued)

Liquidity metrics	**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]	**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.*

Funding and liquidity risk (continued)

Funding and liquidity position

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	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	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

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.

Capital management

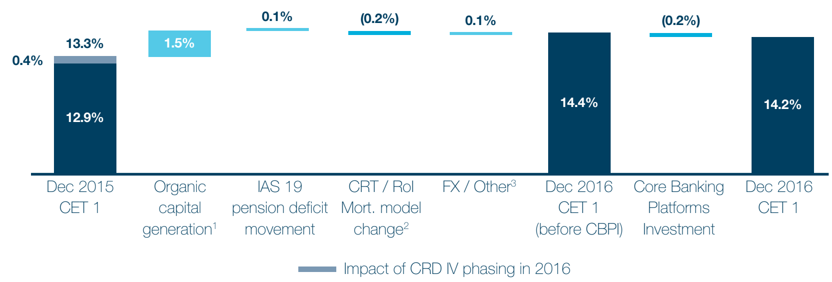
Key points:

- 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

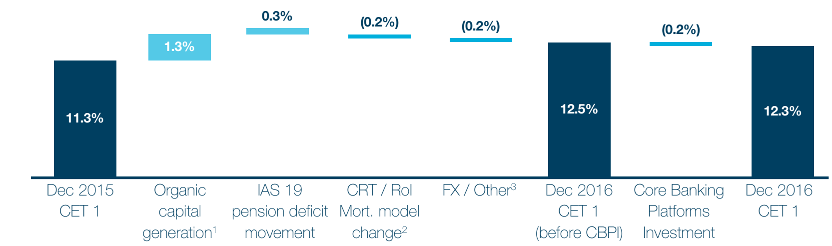
Transitional CET 1
The transitional CET 1 ratio at 31 December 2016 of 14.2% compares to the ratio at 31 December 2015 of 13.3%.

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
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

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

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

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 Risk Management on pages 90 to 92.

Capital management (continued)

Capital requirements / buffers
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:
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.

€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 25 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.

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**

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.

Financial information

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		1,226	1,350
Fee and commission income	6	559	561
Fee and commission expense	6	(222)	(242)
Net trading income	7	113	58
Life assurance investment income, gains and losses		446	334
Other operating income	8	287	299
Total operating income		**4,672**	**4,804**
Insurance contract liabilities and claims paid		(1,564)	(1,511)
Total operating income, net of insurance claims		**3,108**	**3,293**
Other operating expenses	9	(1,897)	(1,819)
Cost of restructuring programme	10	(35)	(43)
Operating profit before impairment charges on financial assets		**1,176**	**1,431**
Impairment charges on financial assets	11	(178)	(296)
Operating profit		**998**	**1,135**
Share of results of associates and joint ventures (after tax)		41	46
(Loss) / profit on disposal / liquidation of business activities		(7)	51
Profit before tax		**1,032**	**1,232**
Taxation charge	12	(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	13	2.2c	2.3c
Diluted earnings per unit of €0.05 ordinary stock	13	2.2c	2.3c

Consolidated statement of comprehensive income for the year ended 31 December 2016

	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	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 12.

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		3,709	3,064
Other financial assets at fair value through profit or loss		13,249	12,280
Loans and advances to banks		3,349	4,578
Available for sale financial assets	14	10,794	10,128
Held to maturity financial assets	15	1,872	1,922
NAMA senior bonds	16	451	1,414
Loans and advances to customers	17	78,477	84,689
Assets classified as held for sale		-	20
Interest in associates		56	56
Interest in joint ventures		71	83
Intangible assets		635	526
Investment properties		864	841
Property, plant and equipment		353	334
Current tax assets		4	13
Deferred tax assets	19	1,298	1,453
Other assets		2,487	2,640
Retirement benefit assets	24	8	19
Total assets		**123,129**	**130,960**
Equity and liabilities			
Deposits from banks	20	3,662	952
Customer accounts	21	75,167	80,164
Items in the course of transmission to other banks		223	239
Derivative financial instruments		2,873	3,619
Debt securities in issue	22	10,697	13,243
Liabilities to customers under investment contracts		5,647	5,729
Insurance contract liabilities		10,934	10,403
Other liabilities		2,465	4,103
Current tax liabilities		19	35
Provisions	23	96	97
Deferred tax liabilities	19	65	68
Retirement benefit obligations	24	454	755
Subordinated liabilities	25	1,425	2,440
Total liabilities		**113,727**	**121,847**
Equity			
Capital stock		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	26	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**

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		(13)	-
Balance at the end of the year		**2,545**	**2,558**
Stock premium account			
Balance at the beginning of the year		1,135	1,135
Redemption of 2009 Preference Stock		(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	26	*(73)*	*-*
Redemption of 2009 Preference Stock		(727)	-
Transfer from capital contribution		116	-
Transfer to capital reserve		(3)	(22)
Remeasurement of the net defined benefit pension liability	12	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	8	(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		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		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		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	26	-	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		(41)	(46)
Loss / (profit) on disposal / liquidation of business activities		7	(51)
Depreciation and amortisation	9	132	130
Impairment charges on financial assets	11	178	296
Reversal of impairment on property	9	(5)	(6)
Revaluation of investment property		(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	24	114	158
Impact of amendments to defined benefit pension schemes	9	-	(4)
Loss on liability management exercises	8	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'	7	(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		**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	14	(4,082)	(2,648)
Disposal / redemption of available for sale financial assets	14	3,194	4,309
Additions to property, plant and equipment		(61)	(23)
Disposal of property, plant and equipment		1	2
Additions to intangible assets		(219)	(202)
Additions to investment property		(65)	(80)
Disposal of investment property		13	34
Disposal of assets held for sale		17	158
Dividends received from joint ventures		40	48
Proceeds received from joint ventures		-	124
Additions to joint ventures		-	(15)
Net change in interest in associates		(2)	8
Net (cost) / proceeds from disposal of business activity		(3)	57
Cash flows from investing activities		**(1,167)**	**1,772**
(b) Financing activities			
Redemption of 2009 Preference Stock		(1,300)	-
Repayment of subordinated liabilities	25	(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	26	-	740
Distributions paid on other equity instruments - Additional tier 1 coupon	26	(83)	-
Cash flows from financing activities		**(3,329)**	**361**

Index to selected note information

1 Basis of preparation, going concern and other information

Basis of preparation

The financial information set out in this document has been prepared for the purpose of the announcement of the Group's results for the year ended 31 December 2016. Such information does not constitute the statutory financial statements of The Governor and Company of the Bank of Ireland (the 'Bank') or the Group, but has been extracted from the Annual Report (which includes the audited statutory financial statements) for the year ended 31 December 2016.

The Annual Report for the year ended 31 December 2016, including the Group's statutory financial statements, is available on the Group's website. The Directors approved the Group's statutory financial statements for the year ended 31 December 2016 on 23 February 2017 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

The statutory 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.

A copy of the statutory financial statements in respect of the year ended 31 December 2016 will be annexed to the next annual return of the Bank, which has yet to be filed with the Registrar of Companies of Ireland and is expected to be filed by 30 June 2017. The auditors of the Bank have made a report, without any qualification, on their audit of those statutory financial statements.

The Group's accounting polices are set out on pages 195 to 217 of the Annual Report for the year ended 31 December 2016.

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.

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

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 9).

Foreign exchange rates

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

2 Critical accounting estimates and judgements

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

(a) Impairment charges on financial assets

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of impairment losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience. The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the credit risk methodologies section on pages 84 to 89 of Risk Management.

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).

2 Critical accounting estimates and judgements (continued)

As set out on page 87, 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).

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.

2 Critical accounting estimates and judgements (continued)

(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 19.

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.

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 24.

2 Critical accounting estimates and judgements (continued)

(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.

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.

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.

3 Operating segments (continued)

Basis of preparation of segmental information

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

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

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

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement.

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 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 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 106).

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.

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 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.

7 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.

7 Net trading income (continued)

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).

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)

8 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 14)	174	207
Other insurance income	121	39
Dividend income	14	11
Movement in Value of in Force asset	(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 €4 million (year ended 31 December 2015: gain €30 million).

Business Review
Financial Information
Other Information

9 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	98	92
Core Banking Platforms Investment charge	41	-
Depreciation of property, plant and equipment	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 24)	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 10)	38	47
Retirement benefit gain (note 24)	-	(4)
Total staff costs recognised in the income statement	**925**	**941**

9 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 24.

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**

10 Cost of restructuring programme

	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m
Staff costs (note 9)	38	47
Property and other	(3)	(4)
Total	**35**	**43**

11 Impairment charges on financial assets

	Year ended 31 December 2016 €m	Year ended 31 December 2015 €m
Loans and advances to customers (note 18)	176	296
Available for sale financial assets (note 14)	2	-
Impairment charges on financial assets	**178**	**296**

Business Review

Financial Information

Other Information

12 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 19)	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%).

12 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**

13 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. 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.

14 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 8).

14 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 8).

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.

15 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**

16 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.

17 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 18)	(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.

18 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.

19 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 12)	(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 26)	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.*

19 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.

20 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.

	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 22)	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.

21 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 95 in Risk Management.

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer.

Term deposits and other products include €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).

22 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 20)	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 8).

23 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.

24 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.

24 Retirement benefit obligations (continued)

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.

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.

24 Retirement benefit obligations (continued)

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.

24 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

24 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.*

24 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

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.*

24 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

	€m
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.*

24 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).

24 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)

24 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.

24 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. 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. The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit deficit recorded on the balance sheet. In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. During 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. 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. 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. 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.

25 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
Bristol & West plc		
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	38	44
Bank of Ireland UK Holdings plc		
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	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	229	234
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
€250 million 10% Fixed Rate Subordinated Notes 2022	270	266
€750 million 4.25% Fixed Rate Subordinated Notes 2024	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.

26 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;

26 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.

27 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).

28 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.

Other Information
Supplementary asset quality and forbearance disclosures

Retail Ireland mortgages

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 Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book Balance €m	Total Retail Ireland mortgage loan book Number of accounts[2]	Non-performing loans Balance €m	Non-performing loans 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 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 72 in the credit risk section of Risk Management.

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 **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 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

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)

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

Loan to value (LTV) ratio of total Retail Ireland mortgages	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	4,987	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	31 December 2016		31 December 2015	
Properties in possession Retail Ireland mortgages	**Number of properties in possession at balance sheet date**	**Balance[1] outstanding before impairment provisions €m**	Number of properties in possession at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied	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	31 December 2016		31 December 2015	
Disposals of properties in possession Retail Ireland mortgages	**Number of disposals during the year**	**Balance[1] outstanding after impairment provisions €m**	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied	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 72 in the credit risk section of Risk Management.*
[4] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

31 December 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 72 in the credit risk section of Risk Management.
[4] The number of accounts does not equate to either the number of customers or the number of properties.

The total number of accounts in forbearance has increased from 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 €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
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 €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
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 €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
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 €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
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.

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

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 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
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 Reconciliation of forborne loan stock by performing / non-performing status[1] - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	**Non-property SME and corporate**			**Property and construction**			
	Republic of Ireland SME €m	**UK SME €m**	**Corporate €m**	**Investment property €m**	**Land and development €m**	**Consumer €m**	**All loans €m**
All loans							
Opening balance at 1 January 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 74 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 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 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 75 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 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 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 **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 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 70 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 **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 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 77 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 **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 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.

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 189 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 189 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 72 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.