Pillar 3 Disclosures

For the year ended 31 December 2016

Bank of Ireland Group

Bank of Ireland

Pillar 3 Disclosures

for the year ended 31 December 2016

Forward-looking statement

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

Examples of forward-looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the following:

- *geopolitical risks which could potentially adversely impact the markets in which the Group operates;*
- *uncertainty following the UK vote to exit the EU as to the nature, timing and impact of a UK exit, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and demand, and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity;*
- *concerns on sovereign debt and financial uncertainties in the EU and the potential effects of those uncertainties on the financial services industry and on the Group;*
- *general and sector specific economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *property market conditions in Ireland and the United Kingdom;*
- *the potential exposure of the Group to credit risk and to various types of market risks, such as interest rate risk and foreign exchange rate risk;*
- *the impact on lending and other activity arising from the emerging macro prudential policies;*
- *the performance and volatility of international capital markets;*
- *the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues, cybercrime risk, equipment failures and other operational risk;*
- *the effects of the Irish Government's stockholding in the Group (through the Ireland Strategic Investment Fund) and possible changes in the level of such stockholding;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with the operation of the Single Supervisory Mechanism and the Single Resolution Mechanism;*
- *the impact of the continuing implementation of significant regulatory and accounting developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II, the Recovery and Resolution Directive and IFRS 9;*
- *the potential impact of certain ECB initiatives including its thematic review of internal models termed Targeted Review of Internal Models (TRIM);*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the exposure of the Group to conduct risk such as staff members conducting business in an inappropriate or negligent manner;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings more generally, that may have implications for the Group;*
- *the development and implementation of the Group's strategy, including the Group's ability to achieve its targets and ambitions on net interest margins and total operating expenses;*
- *the inherent risk within the Group's life assurance business involving claims, as well as market conditions generally;*
- *potential further contributions to the Group sponsored pension schemes if the value of pension fund assets is not sufficient to cover potential obligations;*
- *the Group's ability to meet customers' expectations in mobile, social, analytics and cloud technologies which have enabled a new breed of 'digital first' propositions, business models and competitors;*
- *failure to establish availability of future taxable profits, or a legislative change in quantum of deferred tax assets currently recognised; and*
- *difficulties in recruiting and retaining appropriate numbers and calibre of staff.*

Analyses of asset quality and impairment in addition to liquidity and funding are set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in the Group's Annual Report 31 December 2016 beginning on page 63.

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

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Contents

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www.bankofireland.com

Index of tables

Tables	Page

Key highlights

Key metrics - Transitional

CET 1 ratio

14.2%

Dec 2015: 13.3%

Total capital ratio

18.5%

Dec 2015: 18.0%

Total RWA

€50.8bn

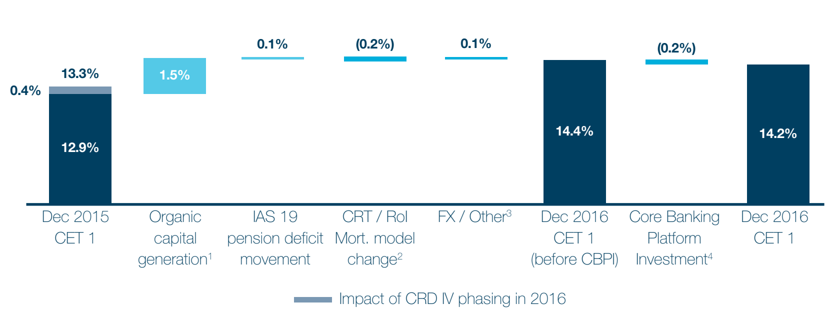
Dec 2015: €53.3bn

Leverage ratio

7.3%

Dec 2015: 6.6%

Transitional CET 1 ratio movement



Key metrics - Fully Loaded

CET 1 ratio

12.3%

Dec 2015: 11.3%

Total capital ratio

16.4%

Dec 2015: 15.7%

Total RWA

€50.7bn

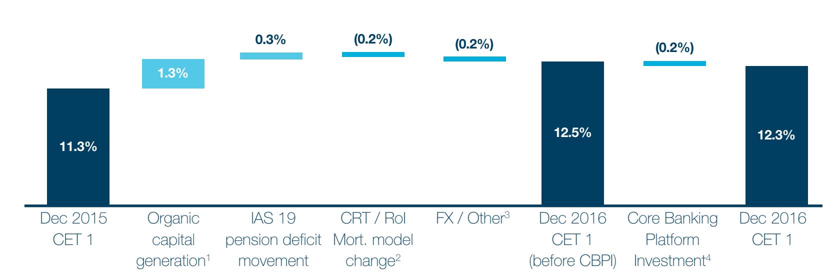
Dec 2015: €53.2bn

Leverage ratio

6.4%

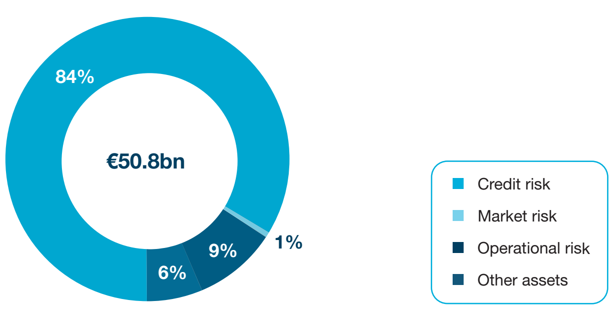
Dec 2015: 5.7%

Fully loaded CET 1 ratio movement

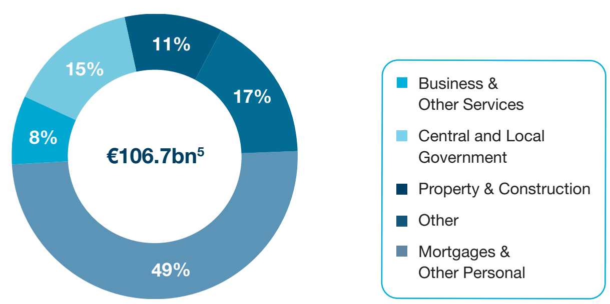


Key metrics - Lending Book Analysis

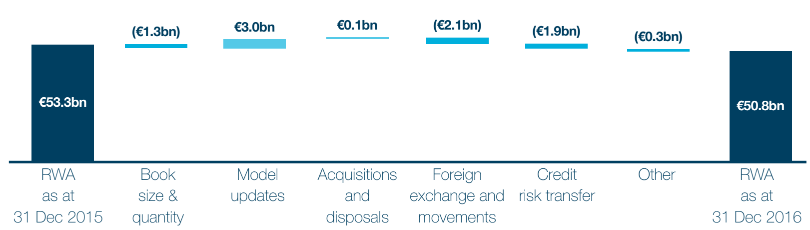
Total risk weighted assets - 2016



Industry Analysis of EAD - 2016



RWA 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.*

[4] *Core banking platform investment relates to a programme commenced by the Group to replace the Group's core banking platform.*

[5] *Other assets not included.*

Pillar 3 overview

Introduction

The purpose of this document is to disclose information in accordance with the scope of application of CRD IV requirements for the Group, particularly covering capital, risk management, credit risk, market risk, operational risk, liquidity risk and leverage ratio.

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

CRD IV in the context of this document describes the package CRR, CRD and regulatory and technical standards.

CRD IV is commonly referred to as containing the following three Pillars:

Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

Pillar 2 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 1 are considered under this Pillar.

Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information 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 3 disclosures have been prepared in accordance with CRD IV as implemented into Irish law and in accordance with the Group's Pillar 3 Disclosure Policy.

The Group is required to comply with the CRD IV disclosure requirements at 31 December 2016. For ease of reference, the requirements are referred to as 'Pillar 3' in this document. Pillar 3 contains both qualitative and quantitative disclosure requirements.

In December 2016, the EBA published final guidelines on revised Pillar 3 disclosure requirements aimed to improve and enhance the consistency and comparability of institutions disclosures. These guidelines apply from 31 December 2017 and the Group has made certain enhancements to this year's disclosures in early compliance with these guidelines.

The Group's Pillar 3 document is a technical paper which should be read in conjunction with the Group's Annual Report 31 December 2016, which contains some Pillar 3 qualitative and quantitative information. Together, both documents comprehensively portray the Group's risk profile.

The Group's qualitative disclosure requirements are largely met in the Operating and Financial Review and Risk Management Report sections of the Group's Annual Report 31 December 2016.

Frequency
CRD IV and EBA guidelines require the Group to disclose information at a minimum on an annual basis. To ensure the effective communication of the Group's business and risk profile, the Group also pays particular attention to the possible need to provide information more frequently than annually.

Verification
Information which is sourced from the Group's Annual Report 31 December 2016 may be subject to audit by the Group's external auditors and is subject to both internal and external review, along with appropriate governance procedures. The Pillar 3 document is subject to a robust governance process including final approval by the Group Audit Committee (GAC).

Media
Copies of the Group's Annual Report 31 December 2016 along with the Group's Pillar 3 Disclosures can be obtained from the Group's website at www.bankofireland.com or from the Group Secretary's Office, Bank of Ireland, 40 Mespil Road, Dublin 4, Ireland.

Areas covered

In accordance with Pillar 3 requirements, the areas covered by the Group's Pillar 3 disclosures include the Group's CRD IV capital requirements and resources, credit risk, market risk, operational risk, liquidity risk, leverage ratio, information on securitisation activity, encumbered / unencumbered assets and the Group's remuneration disclosures.

Some of the areas covered are also dealt with in the Group's Annual Report 31 December 2016. Where applicable, the relevant sections are cross-referenced throughout this document. In other areas more detail is provided in these Pillar 3 disclosures. For instance, the section on capital requirements includes additional information on the amount of capital held against various risks and exposure classes, and the section on capital resources provides details on the composition of the Group's own funds as well as a reconciliation of accounting equity to regulatory capital.

It should be noted that while some quantitative information in this document is based on financial data contained in the Group's Annual Report 31 December 2016, other quantitative data is sourced from the Group regulatory platform and is calculated according to regulatory requirements.

The difference between the accounting data and information sourced from the Group's regulatory reporting platform is most evident for credit risk disclosures where credit exposure under CRD IV (referred to as Exposure at Default (EAD)) is defined as the expected amount of EAD and is estimated under specified CRD IV parameters and, unlike financial statement information, includes potential future drawings of committed credit lines as well as other technical differences. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the Group's Annual Report 31 December 2016.

Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 1.7.

Supervision

The Single Supervisory Mechanism (SSM) is a system of financial supervision composed of the European Central Bank (ECB) and national competent authorities (NCAs). As part of the SSM, the ECB is responsible for the direct supervision of significant credit institutions, while the NCAs are responsible for the direct supervision of less significant credit institutions. The Group is a significant credit institution in accordance with the SSM framework and as such has been directly supervised by the ECB since November 2014.

As at 31 December 2016, the Group held three separate banking licences, the Governor and Company of the Bank of Ireland (the 'Bank') and Bank of Ireland Mortgage Bank, which are regulated under the SSM, along with Bank of Ireland (UK) plc which is authorised by the UK Prudential Regulation Authority (PRA). By operating a branch in the United States, Bank of Ireland and its subsidiaries are subject to certain regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978 and the Bank Holding Company Act of 1956. Each individual licence holder and regulated entity is required to comply with its local regulatory requirements.

The Group has included within the Governor and Company of the Bank of Ireland licence, the capital, assets and liabilities of a range of non-regulated subsidiaries domiciled in both Ireland and overseas. These include subsidiaries that are not (i) credit institutions (ii) investment firms or (iii) other regulated entities that have a capital requirement driven by business activity levels.

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.

Table 1.1 summarises the phase in rates of CET 1 deductions over the transition period.

Table 1.3 outlines the Group's capital ratios at 31 December 2016, on both a transitional and fully loaded basis.

Table 1.1 - Transitional table

	2014	2015	2016	2017	2018
Retirement benefit obligations / defined benefit pensions	20%	40%	60%	80%	100%
Available for sale reserves[1]					
- Unrealised losses (% to be included in CET 1 capital)	*20%*	*40%*	*60%*	*80%*	*100%*
- Unrealised gains (% to be excluded from CET 1 capital)	*100%*	*60%*	*40%*	*20%*	*0%*
Expected loss deduction[2]	20%	40%	60%	80%	100%
10% / 15% Threshold deduction	20%	40%	60%	80%	100%
Deferred tax assets[3]	0%	10%	20%	30%	40%[4]
Other adjustments[5]	20%	40%	60%	80%	100%

[1] *The Group previously opted to maintain its filter on both unrealised gains and 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. All unrealised gains and losses are now phased-in at the above rates.*
[2] *Under CRD IV rules, expected loss was phased in at 60% in 2016. In 2015 the CBI's 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' required 50% of expected loss to be deducted from CET 1 overall. The residual deducted 50/50 from Tier 1 and Tier 2.*
[3] *Deferred tax assets that rely on future profitability but which do not relate to timing differences. Transition period concludes 1 January 2024.*
[4] *Increasing by 10% per annum to 100% each year thereafter.*
[5] *Other adjustments primarily relate to the phase out of certain national filters.*

CRD IV (continued)

The main items which have impacted Common equity tier 1 (CET 1) capital since the inception of the CRD IV transition rules are included below:

- pensions deficit add back;
- unrealised gains and losses on available for sale securities;
- significant investments in non-consolidated financial sector entities;
- expected loss net of provisions; and
- deferred tax assets that rely on future profitability (excluding those arising from temporary differences).

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 (CRD V Package) 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 Loss (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 is expected to apply from date of entry into force).

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

IFRS 9 Regulatory Treatment

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

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

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

The Group will continue to monitor and review regulatory publications and assess the potential effects of IFRS 9 on the Group's capital requirements. Further detail on IFRS 9 implementation is set out in the credit risk section of the Risk Management Report on pages 108 to 110 of the Group's Annual Report 31 December 2016.

Key capital ratios and key RWA movements

The following tables outline the components of the Group's risk weighted assets, capital and capital ratios under CRD IV on a transitional and fully loaded basis.

Table 1.2 - Risk weighted assets (RWA)

	CRD IV transitional 31 December 2016 €bn	**CRD IV fully loaded 31 December 2016 €bn**	CRD IV transitional 31 December 2015 €bn	CRD IV fully loaded 31 December 2015 €bn
Credit risk	42.5	42.5	44.8	44.8
Market risk	0.5	0.5	0.4	0.4
Operational risk	4.6	4.6	4.8	4.8
Other assets[1]	2.9	2.8	3.0	2.9
Credit valuation adjustment	0.3	0.3	0.3	0.3
Total RWA	**50.8**	**50.7**	**53.3**	**53.2**

[1] *Includes RWA relating to non-credit obligation assets / other assets, settlement risk and RWA arising from the 10% / 15% threshold deductions. Settlement risk is immaterial for individual disclosure.*

Table 1.3 - Capital and capital ratios

	CRD IV transitional 31 December 2016		**CRD IV fully loaded 31 December 2016**		CRD IV transitional 31 December 2015		CRD IV fully loaded 31 December 2015	
	€bn	**% of RWA**	**€bn**	**% of RWA**	€bn	% of RWA	€bn	% of RWA
CET 1	7.2	14.2%	6.2	12.3%	7.1	13.3%	6.0	11.3%
Tier 1	8.0	15.7%	7.0	13.7%	7.9	14.8%	6.8	12.7%
Total capital	9.4	18.5%	8.3	16.4%	9.6	18.0%	8.3	15.7%

Key capital ratios and key RWA movements (continued)

Table 1.4 - Movement of risk weighted assets by key driver

	Credit risk €bn	Market risk €bn	Operational risk €bn	Other assets €bn	Credit valuation adjustments €bn	Total €bn
RWA as at 31 December 2015	**44.8**	**0.4**	**4.8**	**3.0**	**0.3**	**53.3**
Book size and quality[1]	(1.4)	0.1	-	-	-	(1.3)
Model updates[2]	3.0	-	-	-	-	3.0
Methodology and policy[3]	-	-	-	-	-	-
Acquisitions and disposals[4]	0.1	-	-	-	-	0.1
Foreign exchange movements[5]	(2.1)	-	-	-	-	(2.1)
Credit risk transfer	(1.9)	-	-	-	-	(1.9)
Other	-	-	(0.2)	(0.1)	-	(0.3)
RWA as at 31 December 2016	**42.5**	**0.5**	**4.6**	**2.9**	**0.3**	**50.8**

[1] *Book size and quality: This represents movements in RWA driven by changes in the composition of the Group's existing portfolios. This includes, but is not limited to: constant currency growth in existing portfolios including new business and repayment of loans, changes in the product mix and, PD Migration and LGD changes driven by economic conditions, changes in lending practices, demographics and maturity.*
[2] *Model updates: This can represent movements in RWA including, but is not limited to: model re-calibrations and re-anchoring, new model approvals or enhancements to improve model performance.*
[3] *Methodology and policy: Updates to the RWA calculation methodology, communicated by the Regulator.*
[4] *Acquisitions and disposals: Changes in book sizes due to acquisitions and disposals of portfolios of loans.*
[5] *Foreign exchange movements: Changes in RWA driven by market movements such as foreign exchange movements in the currency of underlying exposures and the Group's reporting currency.*

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, changes in book size and quality €1.3 billion and other movements €0.2 billion partially offset by 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%)).

CRD IV 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 a 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 Platform (-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.

CRD IV 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 Platform (-c.20 basis points) and FX and other impacts (-c.20 basis points).

Other capital developments
Other capital developments completed in 2016 include the redemption of the 2009 Preference Stock (derecognised from capital in November 2015) and the redemption of the €1 billion 10% CCCN. Further detail is set out in the Capital section.

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% as part of the CRD V Package proposals. 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.

Key capital ratios and key RWA movements (continued)

Individual consolidation
The transitional CET 1 ratio of The Governor and Company of the Bank of Ireland calculated on an individual consolidation basis as referred to in Article 9 of the CRR is 16.2% as at 31 December 2016 (31 December 2015: 14.6%).

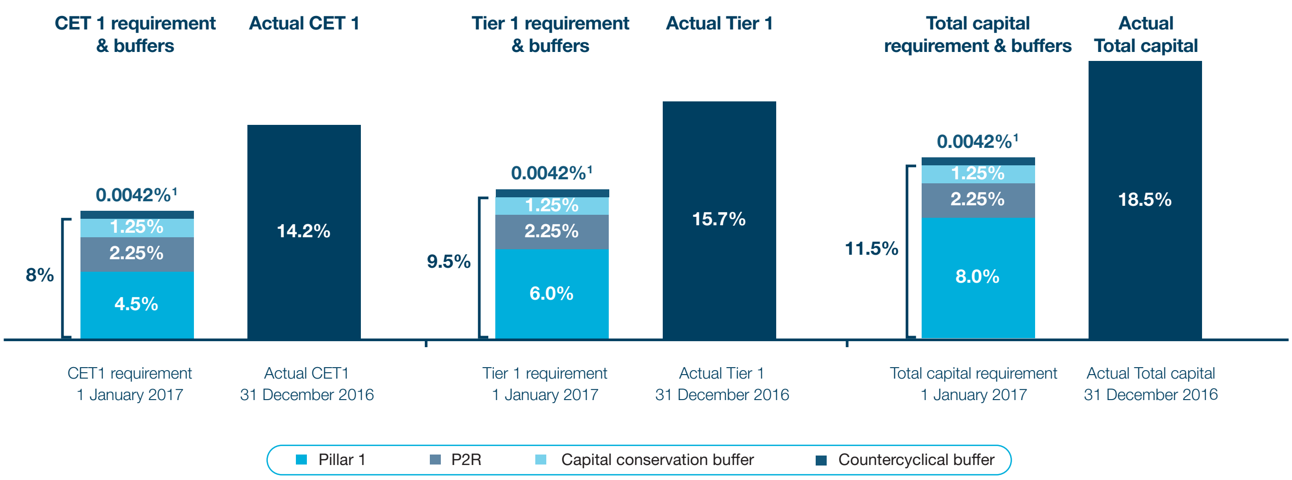
Capital requirements
Following the 2016 Supervisory Review and Evaluation Process (SREP), the Group will be required to maintain a minimum CET 1 ratio of 8.0% on a transitional basis from 1 January 2017. This includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital 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 Group's Tier 1 capital requirement is 9.5% and Total capital requirement is 11.5% for 2017.

The capital requirements and buffers for the Group are outlined below.

Capital requirements and buffers for 2017



[1] *For information on the Countercyclical buffer, see Tables 2.7a and 2.7b.*

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 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, 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.

Preparation and basis of consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the year ended 31 December 2016.

Not all legal entities are within the scope of Pillar 3. A summarised diagrammatical representation (as at 31 December 2016) of the regulatory consolidation group is illustrated below. The disclosures within this document are based on the regulatory consolidated group. Table 1.5 below highlights the main differences between the basis of consolidation for accounting purposes and the CRD IV regulatory treatment.

The Governor and Company of the Bank of Ireland is availing of the discretion provided for in Article 9 of the CRR to report on an 'individual consolidation' basis which allows for the treatment of certain subsidiaries as if they were, in effect, branches of the parent in their own right.

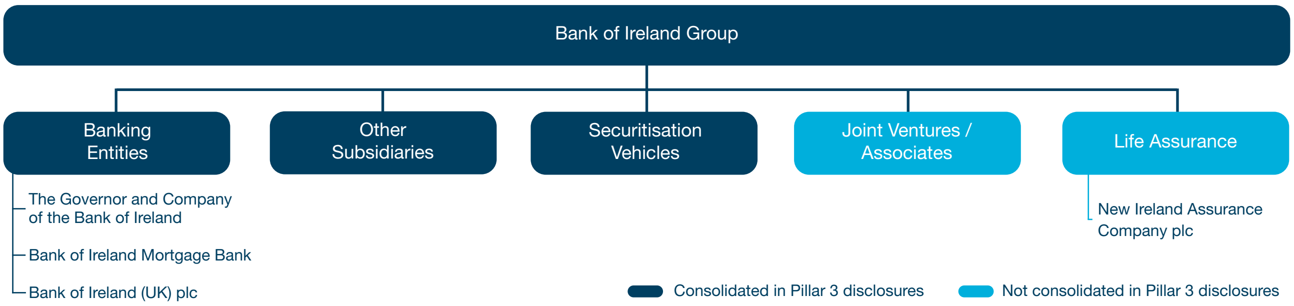


Table 1.5 - Basis of consolidation

Entity type	Statutory accounting treatment	CRD IV regulatory treatment
Life Assurance	Fully consolidated	As an unconsolidated significant investment in a financial sector entity the Group's investment in its life and pensions business is subject to the 10% / 15% threshold which determines the extent to which the investment is deducted from capital or included in RWAs.
Joint Ventures / associates	Equity method of accounting or Fair value through the P&L	The Group's non-qualifying holdings outside the financial sector in joint ventures and associates are included in RWAs.
Securitisation vehicles	Fully consolidated	For traditional securitisations, a deduction is taken from CET 1 capital in respect of originated securitisations which have obtained Pillar 1 derecognition. The quantum of the deduction is set at the KIRB value of the securitised portfolios. Where Pillar 1 derecognition is not achieved RWA continues to be reported in respect of the underlying assets. For the Group's synthetic securitisation, the retained senior position is risk weighted using the Supervisory Formula Method (SFM) and the retained junior position is deducted fully from CET 1. The Group has recognised significant credit risk transfer for this securitisation.

Distinctions between Pillar 3 and IFRS disclosures

The following table provides a reconciliation of the Group's consolidated balance sheet as at 31 December 2016 on an accounting consolidated basis (as presented on page 189 of the Group's Annual Report 31 December 2016) to the Group's consolidated balance sheet under the regulatory scope of consolidation.

Table 1.6 - Consolidated regulatory balance sheet

31 December 2016 Balance Sheet Category	Carrying values as reported in published financial statements €m	Difference in the basis of consolidation for accounting and prudential purposes €m	Carrying values under scope of regulatory consolidation €m
Assets			
Cash and balances at central banks	5,192	-	5,192
Items in the course of collection from other banks	242	-	242
Financial Assets held for trading	18	-	18
Derivative financial instruments	3,709	-	3,709
Other financial assets at fair value through profit or loss	13,249	(13,217)	32
Available for sale financial assets	10,794	-	10,794
Held to maturity financial assets	1,872	-	1,872
NAMA senior bonds	451	-	451
Loans and advances to customers & banks	81,826	(237)	81,589
Assets classified as held for sale	-	-	-
Interest in joint ventures & associates	127	767	894
Intangible assets	635	(9)	626
Investment properties	864	(864)	-
Property, plant and equipment	353	(20)	333
Current tax assets	4	-	4
Deferred tax assets	1,298	-	1,298
Other assets	2,487	(1,878)	609
Retirement benefit assets	8	-	8
Total Assets	**123,129**	**(15,458)**	**107,671**
Equity and Liabilities			
Deposits from banks	3,662	-	3,662
Customer accounts	75,167	1,550	76,717
Items in the course of transmission to other banks	223	-	223
Derivative financial instruments	2,873	-	2,873
Debt securities in issue	10,697	-	10,697
Liabilities to customers under investment contracts	5,647	(5,647)	-
Insurance contract liabilities	10,934	(10,934)	-
Other liabilities	2,465	(314)	2,151
Current tax liabilities	19	(2)	17
Provisions	96	-	96
Deferred tax liabilities	65	(58)	7
Retirement benefit obligations	454	(64)	390
Subordinated liabilities	1,425	-	1,425
Total Liabilities	**113,727**	**(15,469)**	**98,258**
Equity			
Capital stock	2,545	-	2,545
Stock premium account	571	-	571
Retained earnings	5,214	-	5,214
Other reserves	342	-	342
Own stock held for the benefit of life assurance policyholders	(11)	11	-
Other equity instruments	740	-	740
Non-controlling interests	1	-	1
Total equity	**9,402**	**11**	**9,413**
Total equity and liabilities	**123,129**	**(15,458)**	**107,671**

The difference in the basis of consolidation for accounting and prudential purposes of €15.5 billion primarily relates to assets held outside of the Group on behalf of Bank of Ireland Life policyholders which are included in accounting assets in accordance with IFRS but are not reflected in EAD as the regulatory Group is not exposed to risk and the life assurance business is subject to separate supervision by the CBI. This is partly offset by the inclusion in EAD of investment in Bank of Ireland Life and related intergroup exposures.

Distinctions between Pillar 3 and IFRS disclosures (continued)

It should be noted that there are fundamental technical differences in the basis of calculation between financial statement information based on IFRS accounting standards and regulatory information based on CRD IV capital adequacy concepts and rules. This is most evident for credit risk disclosures. Credit EAD under the CRD IV, is defined as the expected amount of EAD and is estimated under specified regulatory rules.

There are two different types of tables included in this document, those compiled based on accounting standards (sourced from the Group's Annual Report 31 December 2016) and those compiled using CRD IV methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2016. The specific methodology used is indicated before each table where applicable.

The below table outlines the principal differences between total accounting assets under the scope of regulatory consolidation and total regulatory EAD.

Table 1.7 - Regulatory balance sheet assets reconciliation to Exposure at Default (EAD)

31 December 2016	€m
Total regulatory consolidated assets	107,671
Derivative netting[1]	(2,097)
Balance sheet netting[2]	(1,752)
Securitisations[3]	(1,252)
Deductions from regulatory capital[4]	(625)
Other[5]	31
Off balance sheet[6]	5,167
Provisions[7]	2,698
Exposure at Default (EAD)	**109,841**

1 *Attributable to the application of regulatory netting rules including the netting of derivative mark-to-market positions (with interbank counterparties against cash collateral placed with those counterparties under Credit Support Annex (CSA) agreements), partly offset by an allowance for potential future credit exposure in EAD which is not reflected in the accounting fair value. Further information on credit risk mitigation is outlined on pages 53 and 54.*
2 *EAD is reduced arising from the impact of other forms of credit risk mitigation and the netting of balance sheet assets and liabilities.*
3 *The loan assets in certain securitisations originated by the Group, where the bonds issued by the vehicles have been sold to third party investors, qualify for derecognition under Pillar 1 rules. These assets are not included in EAD notwithstanding that they continue to be reflected in accounting assets from an IFRS perspective. Further information on these assets is set out in the Securitisation section.*
4 *Accounting assets in relation to intangible, deferred tax, other assets and securitisation deductions are not reflected in EAD and are instead deducted from regulatory capital.*
5 *Primarily relates to EAD on repurchase agreement borrowings and reverse repurchase agreements.*
6 *The inclusion in EAD of potential future drawings of committed credit facilities, contingent liabilities and other off balance sheet items, which are not reflected in accounting assets. Regulatory credit conversion factors are used to convert the contractual amount of a commitment into a credit equivalent amount EAD in relation to off balance sheet instruments.*
7 *Reflects the treatment of specific provisions and IBNR provisions, where EAD on IRB portfolios is shown gross of impairment whereas accounting assets are shown net of all provisions.*

Capital

Table 2.1 outlines regulatory ratios and risk weighted assets under both CRD IV transitional and fully loaded positions.

Table 2.1 - Key capital ratios

	CRD IV transitional 31 December 2016	**CRD IV fully loaded 31 December 2016**	CRD IV transitional 31 December 2015	CRD IV fully loaded 31 December 2015
	€bn	**€bn**	€bn	€bn
Common equity tier 1	14.2%	12.3%	13.3%	11.3%
Tier 1	15.7%	13.7%	14.8%	12.7%
Total capital	18.5%	16.4%	18.0%	15.7%
Leverage ratio	7.3%	6.4%	6.6%	5.7%
Risk weighted assets				
Credit risk	42.5	42.5	44.8	44.8
Market risk	0.5	0.5	0.4	0.4
Operational risk	4.6	4.6	4.8	4.8
Other assets[1]	2.9	2.8	3.0	2.9
Credit valuation adjustment	0.3	0.3	0.3	0.3
Total RWA[2]	**50.8**	**50.7**	**53.3**	**53.2**

[1] *Includes RWA relating to non-credit obligation assets / other assets, settlement risk and RWA arising from the 10% / 15% threshold deductions.*
[2] *Risk weighted assets reflect the application of certain Central Bank of Ireland Balance Sheet Assessment (2013) required adjustments and the updated treatments of expected loss.*

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.

For additional information on the Group's capital management policies please refer to the Capital Management section of the Group's Annual Report 31 December 2016.

The Internal Capital Adequacy Assessment Process (ICAAP) is carried out by the Group on an annual basis in line with Pillar 2 requirements. This process facilitates the Court and senior management in adequately identifying, measuring and monitoring the Group's risk profile. The ICAAP builds on the Pillar 1 process by (i) using internal measures to assess the capital requirements for risks not fully captured under Pillar 1 and (ii) assessing the impact of the Group's risks on capital resources under a base case scenario and a severe but plausible stress scenario. Underpinning the ICAAP process, the Group prepares detailed financial projections. Base case projections are prepared using consensus macroeconomic forecasts together with Group-specific assumptions, and the stress case is prepared based on a severe but plausible stress economic scenario.

The ICAAP is a key process embedded in the Group's planning cycle and ensures that:

- the Court of Directors and the Group's senior management adequately identifies, measures and monitors the Group's risks and holds adequate capital in relation to the Group's risk profile;
- the quality and quantity of financial resources the Group holds in respect of capital resources to meet its internal and CRD IV regulatory capital, leverage and liquidity requirements; and
- the Group holds adequate capital to support its strategic business objectives on a current and projected basis under base and stress scenarios.

The Court approved ICAAP Report and supporting documentation is submitted to the SSM and the CBI on an annual basis, and is subject to regulatory review as part of the Supervisory Review and Evaluation Process (SREP).

The Group uses the Foundation IRB, Retail IRB and Standardised approaches for the calculation of its credit risk capital requirements. The capital requirements for market risk are calculated using the Standardised approach applicable to market risk. The capital requirements for operational risk are calculated using the Standardised approach applicable to operational risk.

There is a requirement to disclose any impediment to the prompt transfer of funds within the Group. In respect of the Group's licensed subsidiaries, the Group is obliged to meet certain license conditions in respect of capital and / or liquidity. These requirements may include meeting or exceeding appropriate capital and liquidity ratios and obtaining appropriate regulatory approvals for the transfer of capital or, in certain circumstances, liquidity. The Group's licensed subsidiaries would be unable to remit funds to the parent when to do so would result in such ratios or other regulatory permissions being breached. Apart from this requirement, there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

At 31 December 2016, own funds were in excess of the required minimum in all of the Group's licensed entities.

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.

Credit risk transfer transaction

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

The retained senior position in the transaction is risk weighted using the Supervisory Formula Method (SFM) in accordance with the Article 262 of the CRR and the retained junior position is deducted fully from CET 1. The Group has recognised significant credit risk transfer in respect of this securitisation pursuant to Article 244 (2) of the CRR.

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 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 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). Details of the Group's exposures to countries with have introduced a CCyB are set out on page 26.

Capital requirements / RWA

Table 2.2 shows the amount of capital the Group is required to set aside to meet the minimum total capital ratio of 8% of RWA set by CRD IV.

Table 2.2 - Capital requirements / RWA

		CRD IV transitional 31 December 2016		CRD IV transitional 31 December 2015	
		Capital requirement €m	**Risk weighted assets €m**	Capital requirement €m	Risk weighted assets €m
Credit risk		**3,399**	**42,488**	**3,584**	**44,803**
IRB		**2,779**	**34,741**	**2,887**	**36,085**
of which;	Central government or central banks	-	-	-	-
	Institutions	103	1,289	69	865
	Corporates	1,465	18,308	1,717	21,464
	of which;				
	- SME	*629*	*7,869*	*785*	*9,817*
	- Specialised lending	*129*	*1,613*	*148*	*1,853*
	Retail	1,184	14,809	1,085	13,560
	- Secured by immovable property collateral	*1,027*	*12,834*	*949*	*11,858*
	- Qualifying revolving retail exposures	*28*	*345*	*24*	*305*
	- Other retail exposures	*129*	*1,630*	*112*	*1,397*
	Equity	-	-	-	-
	Securitisation positions	27	335	16	196
Standardised		**620**	**7,747**	**697**	**8,718**
of which;	Central government or central banks[1]	-	-	-	-
	Regional governments or local authorities	1	16	1	16
	Public sector entities	-	-	-	-
	Multilateral development banks[1]	-	-	-	-
	International organisations[1]	-	-	-	-
	Institutions	-	-	-	-
	Corporates	326	4,080	402	5,019
	Retail	194	2,425	164	2,052
	Secured by mortgages on immovable property	13	157	6	77
	Exposures in default	72	894	113	1,412
	Exposures associated with particularly high risk	14	175	11	142
	Covered bonds[2]	-	-	-	-
	Securitisation positions	-	-	-	-
	Institutions and corporates with a short-term credit assessment	-	-	-	-
	Collective investment undertakings	-	-	-	-
	Equity	-	-	-	-
	Other items	-	-	-	-
Other assets		**231**	**2,885**	**245**	**3,058**
Credit valuation adjustment		**25**	**313**	**20**	**255**
Market risk		**44**	**552**	**34**	**425**
Operational risk		**367**	**4,591**	**382**	**4,773**
Total		**4,066**	**50,829**	**4,265**	**53,314**

The IRB and Standardised categories included in this table are the exposure classes outlined in CRD IV.

[1] The Group has exposures in the Standardised approach for Central government or central banks, Public sector and entities, Multilateral development banks and International organisations, however these are 0% risk weighted.

[2] The Group's holdings of Covered bonds are included in the IRB approach.

Under CRD IV, the Group is required to maintain a transitional floor set at 80% of Basel I requirements. The transitional floor capital requirement was €nil at 31 December 2016 and €nil at 31 December 2015.

Breakdown of the Group's regulatory capital requirement

At 31 December 2016, the Group applied the Foundation IRB and Retail IRB approaches to 77% (31 December 2015: 75%) of its credit exposures. In addition, 82% of credit RWA are based on IRB approaches (31 December 2015: 81%). These RWA metrics exclude 'Other Assets' and Credit Valuation Adjustment (CVA) as set out in Table 2.3 below.

Table 2.3 shows the Group's minimum capital requirements (based on 8% of RWA), RWA and EAD by risk type.

Table 2.3 - Breakdown of the Group's regulatory capital requirement

	CRD IV transitional 31 December 2016			CRD IV transitional 31 December 2015		
	Capital requirement €m	**Risk weighted assets €m**	**Exposure at default[1] €m**	Capital requirement €m	Risk weighted assets €m	Exposure at default[1] €m
Credit risk	3,399	42,488	106,653	3,584	44,803	115,399
- Retail & Foundation[2] IRB approach	*2,779*	*34,741*	*81,702*	*2,887*	*36,085*	*86,938*
- Standardised approach	*620*	*7,747*	*24,951*	*697*	*8,718*	*28,461*
Market risk	44	552	0	34	425	-
Operational risk	367	4,591	0	382	4,773	-
Other assets	231	2,885	3,188	245	3,058	3,563
Credit valuation adjustment[3]	25	313	0	20	255	-
Total	**4,066**	**50,829**	**109,841**	**4,265**	**53,314**	**118,962**

[1] EAD relates to exposures which are subject to risk weights. It excludes exposures subject to deduction from capital and repurchased tranches of own securitisations which are not subject to risk weights.
[2] EAD under the Foundation IRB approach at 31 December 2016 includes defaulted exposures of €2.7 billion (31 December 2015: €4.2 billion) which attract a 0% risk weighting.
[3] The Group adopts the Standardised approach for CVA. The EAD of €1.0 billion in 2016 (€0.8 billion in 2015) on these derivatives is included in the IRB approach above as they also receive a counterparty credit risk charge.

Credit risk RWA (Standardised approach and IRB approaches) at 31 December 2016 of €42.5 billion are €2.3 billion lower than Credit risk RWA of €44.8 billion at 31 December 2015. The decrease of €2.3 billion in RWA is primarily due to the impact of foreign exchange movements, the execution of a credit risk transfer transaction on a portfolio of business banking and corporate loan assets offset by IRB model updates including revisions to the calculation of RWA on the RoI mortgage portfolio.

Market risk RWA and Operational risk RWA are both calculated using the Standardised approach.

Other assets EAD and related RWA includes unconsolidated investments in subsidiaries, deferred tax assets, holdings in joint ventures / associates, property, plant and equipment and sundry / other assets.

Capital resources

Table 2.4 sets out the Group's capital position as at 31 December 2016 and 31 December 2015 and a reconciliation of accounting with regulatory capital.

It should be noted that while some quantitative information in this document is based on financial data contained in the Group's Annual Report 31 December 2016, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to regulatory requirements.

Further explanations relating to items contained in this table are included in Appendix I.

Capital resources (continued)

Table 2.4 - Reconciliation of accounting capital with regulatory capital

	CRD IV transitional 31 December 2016 €m	**CRD IV fully loaded 31 December 2016 €m**	CRD IV transitional 31 December 2015 €m	CRD IV fully loaded 31 December 2015 €m
Capital base				
Total equity	9,402	9,402	9,113	9,113
- less Additional tier 1 capital	(750)	(750)	(750)	(750)
Total equity less instruments not qualifying as CET 1	**8,652**	**8,652**	**8,363**	**8,363**
Regulatory adjustments being phased in / out under CRD IV	**(520)**	**(1,458)**	**(509)**	**(1,579)**
- Deferred tax assets[1]	*(243)*	*(1,215)*	*(134)*	*(1,345)*
- 10% / 15% threshold deduction[2]	*-*	*(43)*	*-*	*(45)*
- Retirement benefit obligations[3]	*156*	*-*	*391*	*-*
- Available for sale reserve[4]	*(140)*	*-*	*(466)*	*-*
- Pension supplementary contributions[3]	*(20)*	*-*	*(36)*	*-*
- Capital contribution on CCCN[3]	*-*	*-*	*(7)*	*-*
- Other adjustments[5]	*(273)*	*(200)*	*(257)*	*(189)*
Other regulatory adjustments	**(915)**	**(975)**	**(765)**	**(783)**
- Expected loss deduction[6]	*(90)*	*(150)*	*(17)*	*(35)*
- Intangible assets and goodwill	*(625)*	*(625)*	*(509)*	*(509)*
- Dividend / coupon expected on other equity instruments	*(2)*	*(2)*	*(30)*	*(30)*
- Cash flow hedge reserve	*(156)*	*(156)*	*(160)*	*(160)*
- Own credit spread adjustment (net of tax)	*12*	*12*	*13*	*13*
- Securitisation deduction	*(54)*	*(54)*	*(62)*	*(62)*
Common equity tier 1	**7,217**	**6,219**	**7,089**	**6,001**
Additional tier 1				
Additional tier 1[7]	805	750	817	750
Regulatory adjustments	**(30)**	**-**	**(9)**	**-**
- Expected loss deduction[6]	*(30)*	*-*	*(9)*	*-*
Total tier 1 capital	**7,992**	**6,969**	**7,897**	**6,751**
Tier 2				
Tier 2 dated debt	1,124	1,124	1,280	1,280
Tier 2 undated debt	116	152	126	170
Regulatory adjustments	**(30)**	**-**	**(9)**	**-**
- Expected loss deduction[6]	*(30)*	*-*	*(9)*	*-*
Standardised incurred but not reported (IBNR) provisions	22	-	34	-
Provisions in excess of expected losses on defaulted assets	150	150	216	216
Other adjustments	10	(80)	32	(80)
Total tier 2 capital	**1,392**	**1,346**	**1,679**	**1,586**
Total capital	**9,384**	**8,315**	**9,576**	**8,337**

Capital resources (continued)

[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.*
[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 had opted to maintain its filter on both unrealised gains or losses on exposures to central governments classified in the 'available for sale' category. The reserve is recognised in capital under fully loaded CRD IV rules. (The sovereign filter was removed from 1 October 2016, with the 60% phase-in rate applying following the 'ECB review of national discretions'.)*
[5] *Includes technical items such as other national filters and non-qualifying CET 1 items (including additional value adjustments).*
[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.*

The following section provides commentary on the key movements in the reconciliation of accounting capital with regulatory capital during the year ended 31 December 2016. Table 2.5 also provides a capital flow statement outlining the movements in the CRD IV regulatory capital tiers during 2016. Appendix I provides qualitative information on, and a brief explanation of, the principle components of the Group's CRD IV capital resources as outlined in Table 2.5.

Total equity increased by €300 million during 2016 from €9.1 billion at 31 December 2015 to €9.4 billion at 31 December 2016, primarily due to the impact of attributable profits and positive movements in the defined benefit pension schemes partially offset by adverse movements in the AFS and the foreign exchange reserve.

Regulatory adjustments on a transitional basis to CET 1 capital totalled €1.4 billion at 31 December 2016 versus €1.3 billion at 31 December 2015. The increase is primarily due to the impact of an additional year of phasing under the transitional arrangements of the CRR including:

- Deferred tax assets - 20% of deferred tax related to future profitability is required to be deducted in 2016. This will increase by 10% per annum until 2024;
- Retirement benefit obligations - the add back of the defined benefit pension schemes deficit is phased out under CRD IV rules at 60% in 2016, giving a reduction in the add back from that as at 31 December 2015. The add back is further reduced due to a decrease in the deficit on the defined benefit pensions scheme as at 31 December 2016;
- Available for sale reserve (AFS) - the decrease in the deduction is due to a decrease in available for sale reserve partially offset by CRD IV phasing rules for AFS assets which require phasing in of 60% of unrealised losses and 60% unrealised gains in 2016 and the removal of the AFS sovereign filter (removed from 1 October 2016, following the 'ECB review of national discretions'); and
- Expected loss - the increase in the expected loss deduction to CET 1 capital relates to non-defaulted exposures.

Additional tier 1 capital on a transitional basis has decreased by €33 million primarily due to the phase out of grandfathered AT1 and the increase in the expected loss deduction.

Tier 2 capital on a transitional basis has reduced by €287 million to €1.4 billion at 31 December 2016, primarily due to the amortisation of dated Tier 2 capital instruments, a reduction in Provisions in excess of expected loses on defaulted assets and the phase in of other transitional adjustments.

Capital resources (continued)

Table 2.5 provides a capital flow statement outlining the movements in the CRD IV regulatory capital tiers during 2016.

Table 2.5 - Capital Flow Statement

31 December 2016	Transitional €m	Fully loaded €m
Common equity tier 1 (CET 1) capital		
Opening balance as at 1 January 2016	**7,089**	**6,001**
Profit for the year (attributable to shareholders of the parent company)	793	793
Dividends on other preference equity interest paid in cash	(8)	(8)
Distribution on other equity instruments - Additional tier 1 coupon	(73)	(73)
Removal of own credit spread (net of tax)	(1)	(1)
Movements in other comprehensive income	(422)	(422)
- Currency translation differences	*(419)*	*(419)*
- Available for sale investments	*(169)*	*(169)*
- Remeasurement of the net defined benefit pension liability, net of tax	*167*	*167*
- Other reserve movements	*(1)*	*(1)*
Intangibles assets and goodwill	(116)	(116)
Securitisation deduction	8	8
10% / 15% threshold reduction	-	2
Other, including regulatory adjustments and transitional arrangements	(53)	35
- Deferred tax assets that rely on future profitability (excluding those arising from temporary differences)	*(109)*	*130*
- Expected Loss Adjustment	*(73)*	*(115)*
- Retirement Benefit Obligations	*(235)*	*-*
- Available for Sale Reserve	*326*	*-*
- Pension supplementary contributions	*16*	*-*
- Capital contribution on CCN	*7*	*-*
- Other	*15*	*20*
Closing balance as at 31 December 2016	**7,217**	**6,219**
Additional tier 1 capital		
Opening balance as at 1 January 2016	**808**	**750**
Other, including regulatory adjustments and transitional arrangements	(33)	-
Closing balance as at 31 December 2016	**775**	**750**
Total tier 1 capital	**7,992**	**6,969**
Tier 2 capital		
Opening balance as at 1 January 2016	**1,679**	**1,586**
Amortisation adjustments	(156)	(156)
Other, including regulatory adjustments and transitional arrangements	(131)	(84)
Closing balance as at 31 December 2016	**1,392**	**1,346**
Total regulatory capital	**9,384**	**8,315**

Table 2.6 below outlines the component parts of regulatory capital with further details of capital instruments, adjustments, deductions and filters in line with the prescribed template provided in Article 5 of commission regulation (EU) No.1423/2013.

The table further details total risk weighted assets, capital ratios and buffers before listing applicable caps on the inclusion of provisions in Tier 2 and capital instruments subject to phase-out. Line referencing for Annex VI of commission regulation (EU) No.1423/2013 is also provided. Rows that are not applicable to the Group and rows with nil balances have been omitted.

Amounts subject to pre-regulation (EU) No.575/2013 treatment or prescribed residual amount of regulation (EU) No.575/2013, are listed separately at the end of the table.

Capital resources (continued)

Table 2.6 - Transitional & fully loaded own funds disclosure
Disclosure according to Article 5 in commission implementing regulation (EU) No.1423/2013.

Annex VI Reference		31 December 2016 Transitional CRD IV €m	31 December 2016 Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
Common equity tier 1 (CET 1) capital: instruments and reserves					
1	Capital Instruments and the related share premium accounts	3,056	3,056	3,617	3,617
	Of which;				
	Ordinary stock	*1,616*	*1,616*	*1,616*	*1,616*
	Deferred stock	*920*	*920*	*920*	*920*
	Treasury stock	*2*	*2*	*2*	*2*
	Share premium	*518*	*518*	*1,079*	*1,079*
2	Retained earnings	5,204	5,204	4,950	4,950
3	Accumulated other comprehensive income (and other reserves)	342	342	(260)	(260)
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	**8,602**	**8,602**	**8,307**	**8,307**
Common equity tier 1 (CET 1) capital regulatory adjustments					
7	Additional value adjustments / other	(140)	(140)	(105)	(115)
8	Intangible assets (net of related tax liability)	(625)	(625)	(509)	(509)
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(243)	(1,215)	(134)	(1,345)
11	Fair value reserves related to gains or losses on cashflow hedges	(156)	(156)	(160)	(160)
12	Negative amounts resulting from the calculation of expected loss amounts	(90)	(150)	(17)	(35)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	12	12	13	13
15	Defined-benefit pension fund assets	(5)	(8)	(7)	(16)
16	Direct and indirect holdings by an institution of own CET 1 instruments	(2)	(2)	(2)	(2)
19	Direct, indirect and synthetic holdings by institutions of the CET 1 Instruments of financial sector entities where the institution has a significant investment in those entities	-	(43)	-	(45)
20a	Exposure amount of the following items which qualify for a RW of 1250%	(54)	(54)	(62)	(62)
20c	*Of which; securitisation positions*	*(54)*	*(54)*	*(62)*	*(62)*
26a	Regulatory adjustments relating to unrealised gains and losses	(140)	-	(466)	-
	Of which;				
	Unrealised gains on non sovereign bonds	*(44)*	-	*(104)*	-
	Unrealised losses on non sovereign bonds	*9*	-	*23*	-
	Unrealised gains on sovereign bonds	*(107)*	-	*(387)*	-
	Unrealised losses on sovereign bonds	*2*	-	*2*	-

Capital resources (continued)

Annex VI Reference		31 December 2016 Transitional CRD IV €m	31 December 2016 Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
26b	Amount to be deducted from or added to Common equity tier 1 capital with regard to additional filters and deductions required pre CRR	58	(2)	231	(30)
	Of which;				
	Defined benefit pension scheme	*156*	-	*391*	-
	Value in force asset	*(82)*	-	*(102)*	-
	Property revaluation reserve	*(8)*	-	*(10)*	-
	Fair value on Bristol and West Sub debt	*14*	-	*25*	-
	Fair value on CoCo bond	-	-	*(7)*	
	Minimum funding standard pension contributions	*(20)*	-	*(36)*	-
	Dividend / coupon expected on other equity instruments	*(2)*	*(2)*	*(30)*	*(30)*
28	**Total regulatory adjustments to Common equity tier 1 (CET 1)**	**(1,385)**	**(2,383)**	**(1,218)**	**(2,306)**
29	**Common equity tier 1 (CET 1) Capital**	**7,217**	**6,219**	**7,089**	**6,001**
Additional tier 1 (AT1) capital: instruments					
30	Capital instruments and the relates share premium accounts	750	750	750	750
31	*Of which;*				
	classified as equity under applicable accounting standards	*750*	*750*	*750*	*750*
33	Amount of qualifying items referred to in Articles 484 (4) and the related share premium accounts subject to phase out of the AT1	55	-	67	-
36	**Additional tier 1 (AT1) capital before regulatory adjustments**	**805**	**750**	**817**	**750**
Additional tier 1 (AT1) capital: regulatory adjustments					
41	Regulatory adjustments applied to Additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in regulation No 575/2013 (i.e. CRR residual amounts)	(30)	-	(9)	-
41a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(30)	-	(9)	-
	Of which;				
	shortfall of provisions to expected losses	*(30)*	-	*(9)*	-
	investment in significant financial institutions	-	-	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	-	-
43	**Total regulatory adjustments to Additional tier 1 (AT1) capital**	**(30)**	**-**	**(9)**	**-**
44	**Additional tier 1 (AT1) capital**	**775**	**750**	**808**	**750**
45	**Tier 1 capital (T1 = CET 1 + AT1)**	**7,992**	**6,969**	**7,897**	**6,751**

Capital resources (continued)

Annex VI Reference		31 December 2016 Transitional CRD IV €m	31 December 2016 Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
	Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	1,240	1,276	1,406	1,450
50	Credit Risk adjustments	150	150	216	216
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,390**	**1,426**	**1,622**	**1,666**
	Tier 2 (T2) capital: regulatory adjustments				
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	(80)	(80)	(80)	(80)
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU No 575/2013)	(30)	-	(9)	-
	Of which;				
	Shortfalls of provisions to expected losses	*(30)*	-	*(9)*	-
	Investment in significant financial institutions	-	-	-	-
56c	Amount to be deducted from or added to tier 2 capital with regards to additional filters and deductions required pre CRR	112	-	146	-
	Of which;				
	IBNR provisions	*22*	-	*34*	-
	Value in force asset	*82*	-	*102*	-
	Property revaluation reserve	*8*	-	*10*	-
57	**Total regulatory adjustments to tier 2 (T2) capital**	**2**	**(80)**	**57**	**(80)**
58	**Tier 2 (T2) capital**	**1,392**	**1,346**	**1,679**	**1,586**
59	**Total capital (TC = T1+T2)**	**9,384**	**8,315**	**9,576**	**8,337**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)				
	Of which;				
	items not deducted from CET 1 (Regulation (EU) No 575/2013 residual amounts) Deferred tax assets that rely on future profitability net of related tax liability				
	Of which;				
	items not deducted from CET 1 (Regulation (EU) No 575/2013 residual amounts) Direct holdings in CET 1 instruments of financial sector entities where the institution has a significant investment				
60	**Total risk weighted assets**	**50,829**	**50,720**	**53,314**	**53,201**

Capital resources (continued)

Annex VI Reference		31 December 2016 Transitional CRD IV €m	31 December 2016 Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
Capital ratios and buffers					
61	Common equity tier 1	14.2%	12.3%	13.3%	11.3%
62	Tier 1	15.7%	13.7%	14.8%	12.7%
63	Total capital	18.5%	16.4%	18.0%	15.7%
64	Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	5.1%	8.5%	-	-
65	Of which; Capital conservation buffer requirement	0.6%	2.5%	-	-
66	Of which; Countercyclical buffer requirement	0.0%	0.0%	-	-
67	Of which; Systemic risk buffer requirement	-	-	-	-
67a	Of which; Global Systemically Important institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	1.5%	-	-
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.7%	7.8%	-	-
Amounts below the threshold for deduction (before risk weighting)					
73	Direct and indirect holdings by the institution of the CET 1 instruments of financials sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	669	626	650	605
75	Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions on Article 38(3) are met)	124	124	208	208
	Applicable cap on the inclusion of provisions in Tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	133	133	147	147
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	150	150	216	216
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	208	208	217	217
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)					
82	Current cap on AT1 instruments subject to phase out arrangements	55	-	67	-
Amounts subject to pre-regulation (eu) no 575/2013 treatment or prescribed residual amount of regulation (eu) 575/2013					
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(972)		(1,211)	
12	Negative amounts resulting from the calculation of expected loss amounts	(60)		(18)	
15	Defined-benefit pension fund assets	(3)		(9)	

Capital resources (continued)

Countercyclical buffer

CRD IV provides for a countercyclical buffer that could require banks to hold additional CET 1 capital of up to 2.5%. This requirement is expected to be imposed by the designated authority where credit growth is deemed to be excessive and leading to the build-up of system-wide risk. The countercyclical buffer will be phased in from 1 January 2016 to 1 January 2019. A large number of countries including both the Central Bank of Ireland (RoI) and Financial Policy Committee (UK) have currently set the Countercyclical buffer (CCyB) at 0%, this is however subject to quarterly review. The respective designated authorities for Hong Kong, Norway and Sweden have introduced countercyclical buffers in respect of 2016. The geographical distribution of exposures to the countries and the overall additional capital requirement of €2 million at 31 December 2016 are outlined below.

Table 2.7a - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

		General credit exposures		Trading Book exposures		Securitisation exposures[1]		Own funds requirements					
	31 December 2016	Exposure value for SA €m	Exposure value for IRB €m	Sum of long and short position of trading book €m	Value of trading book exposure for internal models €m	Exposure value for SA €m	Exposure value for IRB €m	General credit exposures €m	Trading book exposures €m	Securitisation exposures €m	Total €m	Own funds requirement weights	Counter-cyclical capital buffer rate %
10	Breakdown by country												
	Hong Kong	25	29	-	-	-	-	4	-	-	4	0.0012	0.63%
	Norway	-	30	-	-	-	-	4	-	-	4	0.0012	1.50%
	Sweden	-	46	-	-	-	-	4	-	-	4	0.0011	1.50%
	Other countries with a zero rate or No Buffer	11,271	72,615	-	-	-	2,841	3,461	-	27	3,488	0.9965	0.00%
20	**Total**	**11,296**	**72,720**	**-**	**-**	**-**	**2,841**	**3,473**	**-**	**27**	**3,500**	**1.0000**	

[1] *Repurchased tranches of own Securitisations which are not subject to risk weights are excluded.*

Table 2.7b - Amount of institution-specific countercyclical capital buffer

		31 December 2016
10	Total risk exposure amount (€m)	50,829
20	Institution specific countercyclical buffer rate (%)	0.0042
30	Institution specific countercyclical buffer requirement (€m)	2

Pillar 3 Overview
Capital
Risk Management
Appendices

Capital instruments

The following table provides information on the regulatory values of the Group's Additional tier 1 capital and Tier 2 debt.

The regulatory values in the below table will differ from the accounting values disclosed in the Group's Annual Report 31 December 2016 as the regulatory values exclude hedge accounting adjustments and include the impact of regulatory amortisation where the instrument has less than five years to maturity.

The Capital instruments template disclosure according to Article 3 in Commission implementing regulation (EU) No.1423/2013 is published separately at www.bankofireland.com.

Table 2.8 - Capital instruments

31 December 2016	**Nominal outstanding €m**	**Accounting value €m**	**CRD IV regulatory value transitional €m**	**CRD IV regulatory value fully loaded €m**
Bank of Ireland UK Holdings plc €600 million 7.4% guaranteed Step-up Callable Perpetual Preferred Securities[1]	32	32	19	-
Non-Cumulative Preference Stock (1.9 million units of Stg£1 each and 3 million units of €1.27 each)[2] 60%	4	36	36	-
€750 million 7.375% Additional tier 1 instrument[3]	750	740	750	750
Additional tier 1 capital	**786**	**808**	**805**	**750**
€250 million 10% Fixed Rate Subordinated Notes 2022[4]	250	270	249	249
€1002 million 10% Fixed Rate Subordinated Notes 2020[5]	206	229	127	127
€750 million Subordinated Floating Rate Note 2024[6]	750	764	747	747
Other	3	3	1	1
Tier 2 dated debt	**1,209**	**1,266**	**1,124**	**1,124**
Bank of Ireland Stg£75 million 13 3/8% Perpetual Subordinated Bonds[7]	54	89	54	54
Bristol & West plc Stg£32.6 million 8 1/3% Non-Cumulative Preference Shares[7]	38	38	38	38
Non-Cumulative Preference Stock (1.9 million units of Stg£1 each and 3 million units of €1.27 each)[2] 40%	2	24	24	60
Tier 2 undated debt	**94**	**151**	**116**	**152**
Total capital instruments	**2,089**	**2,225**	**2,045**	**2,026**

CRD IV treatment

[1] *These preferred securities do not qualify as Tier 1 or Tier 2 under CRD IV. They are being be phased out from 2014.*
[2] *The non-cumulative Preference Stock does not qualify as Tier 1 capital under CRD IV but does qualify as Tier 2 capital. These instruments will be phased into Tier 2 from Tier 1 at 40% in 2016 and increases by 10% per annum thereafter. The nominal and accounting values have been allocated in the same manner.*
[3] *The Additional tier 1 equity securities issued in June 2015 qualifies as Additional tier 1 under CRD IV.*
[4] *The subordinated notes due 2022 qualify as Tier 2 under CRD IV. They will be subject to regulatory amortisation from 2017.*
[5] *The subordinated notes due 2020 qualify as Tier 2 under CRD IV. As these notes have less than 5 years to maturity they have been subject to amortisation from 2015.*
[6] *The subordinated notes due 2024 qualify as Tier 2 under CRD. They will be subject to regulatory amortisation from 2019.*
[7] *These instruments qualify as Tier 2 under CRD IV. As they are undated they will not be subject to regulatory amortisation.*

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Risk management

Risk management

The Group has identified the following key risks: credit risk, market risk, operational risk, life insurance risk, business and strategic risk, pension risk, funding & liquidity risk, conduct risk, reputation risk and regulatory risk. An introduction to the Group's assessment of its capital requirements for credit risk, market risk and operational risk is outlined below while detail regarding how these, and other risks are identified, managed, measured and mitigated is provided in the Risk Management Report from page 62 of the Group's Annual Report 31 December 2016. In addition, changes to the Group's risk structure announced in Q4 2016 are detailed within the Risk Management Report.

The Court of Directors (the 'Court') considers the risk management systems in place in the Group as outlined in the Risk Management Report in the Group's Annual Report 31 December 2016, and in particular under Section 2 Risk Management Framework on page 72, to be adequate having regard to the Group's profile and strategy.

The role of the Court in relation to risk management is also set out in 'Role of the Court' in the Corporate Governance Statement of the Annual Report 31 December 2016 on page 143.

The Corporate Governance Statement section on pages 134 to 161 of the Group's Annual Report 31 December 2016 contains information relating to:

- the recruitment policy for the selection of members of the management body;
- the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy; and
- the number of directorships held by members of the management body.

Risk profile

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

The Risk Governance section 2.2 on pages 74 to 77 of the Group's Annual Report 31 December 2016 contains information relating to:

- the existence of a separate risk committee and the number of times the risk committee has met; and
- the description of the information flow on risk to the management body.

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

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

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

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

Key ratios and figures associated with the risk profile of the Group include the following:

Table 3.1 - Key risk figures and ratios

	31 December 2016 €bn	31 December 2015 €bn
Loan book profile (gross of provisions)		
Residential mortgages	48.2	52.9
Consumer	3.8	3.3
SME	10.7	11.7
Corporate	9.3	9.3
Property & construction	10.3	13.4
Capital ratios (transitional)		
Common equity tier 1 ratio	14.2%	13.3%
Tier 1 ratio	15.7%	14.8%
Total capital ratio	18.5%	18.0%
Leverage ratio	7.3%	6.6%
Liquidity ratios		
Liquidity coverage ratio	113%	108%
Net stable funding ratio	122%	120%
Loan to deposit ratio	104%	106%

All of the above figures and ratios are within the relevant limits set by the Court in the Risk Appetite Statement.

For further information on the Group's Risk Management Framework and Management of Key Group Risks, see Section 2 (pages 72 to 79) and Section 3 (pages 80 to 130) of the Risk Management Report in the Group's Annual Report 31 December 2016.

Credit risk

The Group uses the Standardised, the Foundation IRB and Retail IRB approaches for the calculation of its credit risk capital requirements. The Standardised approach involves the application of prescribed regulatory risk weights to credit exposures to calculate the capital requirement. The IRB approaches (Foundation and Retail) allow banks, subject to the approval of their regulator, to use their internal credit risk measurement models combined, where appropriate, with regulatory rules, to calculate their regulatory capital requirements.

At 31 December 2016, the Group applied the Foundation IRB and Retail IRB approaches to 77% (31 December 2015: 75%) of its group exposures by EAD which resulted in 82% of credit risk weighted assets being based on IRB approaches (31 December 2015: 81%). The credit risk information disclosed in this document includes a breakdown of the Group's exposures by CRD IV exposure class, geography, sector, maturity and asset quality. Accounting information on past due and impaired financial assets and provisions is also provided.

The Group's approach to management of balances in arrears and impaired loans is rigorous, with a focus on early intervention and active management of accounts. For further details, see the Management of Challenged Assets section on page 84 of the Group's Annual Report 31 December 2016.

Market risk

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

The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Court. Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. The Group employs a Value at Risk (VaR) approach to measure, and set limits for, proprietary market risk-taking in Bank of Ireland Global Markets (BoIGM). This is supplemented by a range of other measures including stress tests.

The Group uses the Standardised approach for its assessment of Pillar 1 capital requirements for Trading Book market risk, using the prescribed regulatory calculation method.

Operational risk

The Group's operational risk framework is implemented across the Group. Implementation of the operational risk framework is monitored by the CRC, the GRPC, the GAC and the Group Regulatory, Compliance and Operational Risk Committee (GRCORC). Group and business risk exposures are assessed, controls and mitigants are put in place and loss tolerances are set and monitored. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme.

The Group uses the Standardised approach for its assessment of capital requirements for operational risk, using the prescribed regulatory calculation method.

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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.

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 core values and principles governing the provision of credit are contained in the Group Credit Policy which is approved by the Court. Further detail regarding the policy, strategies and processes by which credit risk is managed are included in the Risk Management Report section from page 62 of the Group's Annual Report 31 December 2016.

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. Detail on the schedule and content of credit risk reporting is provided under the heading 'Credit risk reporting / monitoring' on page 84 of the Group's Annual Report 31 December 2016. Disclosures relating to the active monitoring of credit risk are also included in this section. The processes by which credit risk is assessed and measured are set out in the Credit Risk Measurement section on pages 82 and 83 of the Group's Annual Report 31 December 2016.

Capital measurement approaches and capital standards for credit risk are stated within CRD IV / CRR. The CRR details two approaches for the calculation of minimum regulatory capital requirements for credit risk:

- Standardised approach; and
- Internal Ratings Based (IRB) approach.

The Standardised approach involves the application of prescribed regulatory risk weights to credit exposures to calculate the capital requirement.

The IRB approach allow banks, subject to the approval of their regulator, to use their internal credit risk measurement models combined, where appropriate, with regulatory rules, to calculate their regulatory capital requirements.

The Group uses a combination of both the Standardised and IRB approaches for regulatory credit risk capital calculation purposes. The Group has adopted the Foundation IRB approach for certain of its non-retail exposures and the (Advanced) Retail IRB approach for the majority of its retail exposures. Exposures for which capital requirements continue to be determined under the Standardised approach primarily include sovereign, multilateral development bank exposures, the Group's land and development exposures, certain asset finance and leasing portfolios, non-credit obligation assets and other corporate exposures for which regulatory approval to use the IRB approach is not held. The Group is committed to further rollout of the IRB approach. Further information on the Group's use of its internal rating systems under the IRB approach is available from pages 41 and 42.

Counterparty credit risk exposures are included in credit risk numbers in the Group's Pillar 3 disclosures. Further detail on counterparty credit risk is available in pages 56 and 57.

Exposure to credit risk

Table 4.1 is based on EAD and shows the Group's point-in-time and average quarterly exposure to credit risk.

Table 4.1 - Exposure to credit risk

	31 December 2016		31 December 2015	
Exposure class	**Total exposure (EAD) €m**	**Average exposure over the year (EAD) €m**	Total exposure (EAD) €m	Average exposure over the year (EAD) €m
IRB approach				
Central governments or central banks	-	-	-	-
Institutions	6,141	5,403	3,923	4,206
Corporates	21,316	24,290	26,887	27,454
of which;				
- SME	*11,374*	*13,370*	*15,303*	*16,144*
- Specialised lending	*1,599*	1,840	*1,909*	*1,968*
Retail	51,404	52,234	55,889	55,945
- Secured by immovable property collateral	*47,614*	*48,574*	*52,314*	*52,313*
- Qualifying revolving retail exposures	*1,377*	*1,390*	*1,409*	*1,442*
- Other retail exposures	*2,413*	*2,270*	*2,166*	*2,190*
Securitisation positions	2,841	859	239	269
Total IRB	**81,702**	**82,786**	**86,938**	**87,874**
Standardised approach				
Central governments or central banks	14,136	14,515	17,287	16,768
Regional governments or local authorities	82	81	80	91
Public sector entities	183	133	-	-
Multilateral development banks	721	753	715	748
International organisations	623	545	477	458
Institutions	-	-	-	-
Corporates	4,502	4,814	5,476	5,392
Retail	3,401	3,283	2,924	2,773
Secured by mortgages on immovable property	438	349	221	226
Exposures in default	748	908	1,186	1,489
Exposures associated with particular high risk	117	108	95	87
Covered bonds	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	34
Collective investment undertakings	-	-	-	-
Equity	-	-	-	-
Other items	-	-	-	6
Securitisation positions	-	-	-	-
Total Standardised	**24,951**	**25,489**	**28,461**	**28,072**
Total	**106,653**	**108,275**	**115,399**	**115,946**

Geographic analysis of exposures

Under CRD IV, geographical analysis of credit exposures is required based on exposures in the member states in which the institution has been authorised and member states or third countries in which institutions carry out activities through a branch or subsidiary.

The Group's primary markets are Ireland and the UK. The geographical locations shown in Tables 4.2a and 4.2b are based on the business unit where the exposure is booked, rather than where the borrower is located.

The Group also has branches in the US, Germany and France. The value of exposures booked on the balance sheet of these branches is not material (less than 5% of Group credit exposures on a combined basis) and is included in RoI.

Table 4.2 Geographical analysis of exposures

Table 4.2a - Geographical analysis of exposures - IRB approach

	RoI			UK			Total		
31 December 2016 **IRB approach**	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**
Central governments and central banks	-	-	-	-	-	-	-	-	-
Institutions	5,911	0.1%	28.2%	230	0.3%	37.5%	6,141	0.1%	28.6%
Corporates	14,138	2.6%	41.9%	4,481	4.1%	40.6%	18,619	3.0%	41.6%
of which;									
- SME	*6,336*	*3.9%*	*38.5%*	*2,884*	*5.5%*	*38.4%*	*9,220*	*4.4%*	*38.5%*
- Specialised lending	*1,335*	*1.9%*	*44.9%*	*218*	*1.0%*	*45.0%*	*1,553*	*1.8%*	*44.9%*
Retail	26,212	3.0%	20.9%	22,780	2.5%	10.9%	48,992	2.8%	16.3%
- Secured by immovable property collateral	*22,714*	*3.0%*	*15.5%*	*22,780*	*2.5%*	*10.9%*	*45,494*	*2.7%*	*13.2%*
- Qualifying revolving retail exposures	*1,356*	*2.2%*	*51.9%*	-	-	-	*1,356*	*2.2%*	*51.9%*
- Other retail exposures	*2,142*	*3.8%*	*58.0%*	-	-	-	*2,142*	*3.8%*	*58.0%*
Securitisation positions[1]	2,841	-	-	-	-	-	2,841	-	-
Non-defaulted total	**49,102**	**2.5%**	**28.2%**	**27,491**	**2.7%**	**16.0%**	**76,593**	**2.6%**	**23.7%**
Defaulted total	**4,111**	**100.0%**	**37.6%**	**998**	**100.0%**	**30.3%**	**5,109**	**100.0%**	**36.2%**
Total	**53,213**	**10.5%**	**29.0%**	**28,489**	**6.1%**	**16.5%**	**81,702**	**8.9%**	**24.5%**

	RoI			UK			Total		
31 December 2015 IRB approach	EAD €m	Exposure weighted PD %	Exposure weighted LGD %	EAD €m	Exposure weighted PD %	Exposure weighted LGD %	EAD €m	Exposure weighted PD %	Exposure weighted LGD %
Central governments and central banks	-	-	-	-	-	-	-	-	-
Institutions	3,911	0.2%	27.0%	12	0.1%	45.0%	3,923	0.2%	27.1%
Corporates	17,185	2.3%	41.6%	5,472	3.9%	39.8%	22,657	2.7%	41.2%
of which;									
- SME	*7,974*	*3.1%*	*39.6%*	*3,843*	*4.8%*	*38.1%*	*11,817*	*3.6%*	*39.1%*
- Specialised lending	*1,602*	*1.8%*	*44.6%*	*234*	*0.9%*	*45.0%*	*1,836*	*1.7%*	*44.7%*
Retail	25,993	2.4%	20.5%	26,629	2.5%	10.4%	52,622	2.5%	15.5%
- Secured by immovable property collateral	*22,789*	*2.3%*	*16.0%*	*26,629*	*2.5%*	*10.4%*	*49,418*	*2.4%*	*13.0%*
- Qualifying revolving retail exposures	*1,374*	*2.3%*	*43.4%*	-	-	-	*1,374*	*2.3%*	*43.4%*
- Other retail exposures	*1,830*	*3.7%*	*57.5%*	-	-	-	*1,830*	*3.7%*	*57.5%*
Securitisation positions[1]	239	-	-	-	-	-	239	-	-
Non-defaulted total	47,328	2.2%	28.9%	32,113	2.7%	16.2%	79,441	2.4%	23.9%
Defaulted total	5,696	100.0%	37.5%	1,801	100.0%	33.5%	7,497	100.0%	31.4%
Total	53,024	12.7%	29.6%	33,914	7.8%	16.4%	86,938	10.8%	24.4%

[1] *Details on the calculation inputs can be found in the Securitisation section.*

Geographic analysis of exposures (continued)

Table 4.2b - Geographic analysis of exposures - Standardised approach

	31 December 2016			31 December 2015		
Standardised approach	**RoI (EAD) €m**	**UK (EAD) €m**	**Total (EAD) €m**	RoI (EAD) €m	UK (EAD) €m	Total (EAD) €m
Central governments or central banks	12,046	2,090	14,136	12,086	5,201	17,287
Regional governments or local authorities	82	-	82	80	-	80
Public sector entities	165	18	183	-	-	-
Multilateral development banks	305	416	721	191	524	715
International organisations	623	-	623	477	-	477
Institutions	-	-	-	-	-	-
Corporates	3,502	1,000	4,502	4,017	1,459	5,476
Retail	1,054	2,347	3,401	747	2,177	2,924
Secured by mortgages on immovable property	438	-	438	221	-	221
Exposures in default	591	157	748	861	325	1,186
Exposures associated with particularly high risk	117	-	117	95	-	95
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Total	**18,923**	**6,028**	**24,951**	**18,775**	**9,686**	**28,461**

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Industry analysis of exposures

Table 4.3 is based on EAD. The industry classification below is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in the Group's Annual Report 31 December 2016 have been used, however, the values will differ as these tables are based on EAD.

Table 4.3 - Industry analysis of exposure
31 December 2016

Exposure class	Agriculture (EAD) €m	Business and other services (EAD) €m	Central and local government (EAD) €m	Construction and property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufacturing (EAD) €m	Transport (EAD) €m	Other personal (EAD) €m	Personal residential mortgages (EAD) €m	Total (EAD) €m
IRB approach												
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	6,141	-	-	-	-	6,141
Corporates	559	5,293	-	8,448	1,398	625	578	3,209	1,069	137	-	21,316
Retail	755	530	-	201	230	2	13	77	39	1,943	47,614	51,404
Securitisation positions	263	1,200	-	-	539	98	43	349	218	131	-	2,841
Total IRB	**1,577**	**7,023**	**-**	**8,649**	**2,167**	**725**	**6,775**	**3,635**	**1,326**	**2,211**	**47,614**	**81,702**
Standardised approach												
Central governments or central banks	-	-	14,136	-	-	-	-	-	-	-	-	14,136
Regional government or local authorities	-	-	82	-	-	-	-	-	-	-	-	82
Public sector entities	-	-	183	-	-	-	-	-	-	-	-	183
Multilateral development banks	-	-	-	-	-	-	721	-	-	-	-	721
International organisations	-	-	-	-	-	-	623	-	-	-	-	623
Institutions	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	474	988	-	1,076	714	13	353	144	330	342	68	4,502
Retail	157	185	-	100	120	7	13	58	74	2,684	3	3,401
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	438	438
Exposures in default	43	56	-	438	28	-	4	7	36	129	7	748
Exposures associated with particularly high risk	-	76	-	-	-	-	41	-	-	-	-	117
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a ST credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-
Total Standardised	**674**	**1,305**	**14,401**	**1,614**	**862**	**20**	**1,755**	**209**	**440**	**3,155**	**516**	**24,951**
Total	**2,251**	**8,328**	**14,401**	**10,263**	**3,029**	**745**	**8,530**	**3,844**	**1,766**	**5,366**	**48,130**	**106,653**

Industry analysis of exposures (continued)

Table 4.3 - Industry analysis of exposure
31 December 2015

Exposure class	Agriculture (EAD) €m	Business and other services (EAD) €m	Central and local government (EAD) €m	Construction and property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufacturing (EAD) €m	Transport (EAD) €m	Other personal (EAD) €m	Personal residential mortgages (EAD) €m	Total (EAD) €m
IRB approach												
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	3,923	-	-	-	-	3,923
Corporates	936	6,533	-	10,328	2,072	564	1,215	3,505	1,474	260	-	26,887
Retail	683	483	-	181	213	1	13	70	37	1,819	52,389	55,889
Securitisation positions	-	121	-	-	-	-	-	-	-	118	-	239
Total IRB	1,619	7,137	-	10,509	2,285	565	5,151	3,575	1,511	2,197	52,389	86,938
Standardised approach												
Central governments or central banks	-	-	17,287	-	-	-	-	-	-	-	-	17,287
Regional government or local authorities	-	-	80	-	-	-	-	-	-	-	-	80
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	715	-	-	-	-	715
International organisations	-	-	-	-	-	-	477	-	-	-	-	477
Corporates	538	1,210	-	1,137	764	12	667	160	433	464	91	5,476
Retail	180	286	-	75	108	6	16	49	64	2,138	2	2,924
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	221	221
Exposures in default	43	85	-	807	36	-	8	12	3	186	6	1,186
Exposures associated with particularly high risk	-	49	-	-	-	-	46	-	-	-	-	95
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a ST credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-
Total Standardised	761	1,630	17,367	2,019	908	18	1,929	221	500	2,788	320	28,461
Total	2,380	8,767	17,367	12,528	3,193	583	7,080	3,796	2,011	4,985	52,709	115,399

Maturity analysis of exposures

The maturity analysis below discloses the Group's credit exposure by residual contractual maturity date. Table 4.4 is based on EAD.

Table 4.4 - Maturity analysis of exposure

31 December 2016 **Exposure class**	**<1 year (EAD) €m**	**1-5 years (EAD) €m**	**>5 years (EAD) €m**	**Total (EAD) €m**
IRB approach				
Central governments or central banks	-	-	-	-
Institutions	2,535	2,211	1,395	6,141
Corporates	4,206	10,482	6,628	21,316
Retail	5,411	11,736	34,257	51,404
Securitisation positions	287	1,144	1,410	2,841
Total IRB	**12,439**	**25,573**	**43,690**	**81,702**
Standardised approach				
Central governments or central banks	7,638	1,872	4,626	14,136
Regional government or local authorities	26	15	41	82
Public sector entities	-	183	-	183
Multilateral development banks	32	597	92	721
International organisations	30	379	214	623
Corporates	833	2,444	1,225	4,502
Retail	946	2,424	31	3,401
Secured by mortgages on immovable property	2	26	410	438
Exposures in default	464	122	162	748
Exposures associated with particularly high risk	27	-	90	117
Institutions and corporates with a short-term credit assessment	-	-	-	-
Collective investment undertakings	-	-	-	-
Other items	-	-	-	-
Total Standardised	**9,998**	**8,062**	**6,891**	**24,951**
Total	**22,437**	**33,635**	**50,581**	**106,653**

31 December 2015 Exposure class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
IRB approach				
Central governments or central banks	-	-	-	-
Institutions	1,370	1,382	1,171	3,923
Corporates	5,897	11,133	9,857	26,887
Retail	5,661	12,584	37,644	55,889
Securitisation positions	-	32	207	239
Total IRB	12,928	25,131	48,879	86,938
Standardised approach				
Central governments or central banks	9,745	3,132	4,410	17,287
Regional government or local authorities	12	15	53	80
Public sector entities	-	-	-	-
Multilateral development banks	1	714	-	715
International organisations	-	477	-	477
Corporates	781	3,029	1,666	5,476
Retail	781	2,128	15	2,924
Secured by mortgages on immovable property	-	-	221	221
Exposures in default	799	165	222	1,186
Exposures associated with particularly high risk	10	17	68	95
Institutions and corporates with a short-term credit assessment	-	-	-	-
Collective investment undertakings	-	-	-	-
Other items	-	-	-	-
Total Standardised	12,129	9,677	6,655	28,461
Total	25,057	34,808	55,534	115,399

IRB approach

This section covers the Group's use of its internal rating systems under the IRB approaches.

Regulatory approval of approach

The Group has regulatory approval to use its internal credit models in the calculation of its capital requirements for 77% (31 December 2015: 75%) of its exposures. 82% (31 December 2015: 81%) of credit RWA are calculated using internal credit models. This approval covers the use of the Foundation IRB approach for non-retail exposures and the (Advanced) Retail IRB approach for retail exposures. Exposures for which capital requirements continue to be determined under the Standardised approach primarily include sovereign, multilateral development bank exposure, the Group's land and development exposures, certain asset finance and leasing portfolios, non-credit obligation assets and other corporate exposures for which regulatory approval to use the IRB approach is not held. The Group is committed to further rollout of the IRB approach.

The structure of internal rating systems

The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate Probability of Default (PD) estimates into 11 grades in addition to the category of default.

For both non-retail and retail internal rating systems, default is defined based on unlikeliness to pay indicators that vary between borrower types. In all cases, exposures 90 days or more past due are considered to be in default.

PD calculation

The Group produces estimates of PD on either or both of the following bases:

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

Non-retail internal rating systems

The Group has adopted the Foundation IRB approach for certain of its non-retail exposures. Under this approach, the Group calculates its own estimates for PD and uses supervisory estimates of Loss Given Default (LGD), typically ranging between 35% and 45% depending on collateral levels, and credit conversion factors (CCF).

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.

For non-retail exposures, the Group calculates its own estimates of PD on a TtC basis and on a cyclical basis. The TtC estimates, which do not vary with the economic cycle, are used to calculate risk weighted exposure amounts and to determine minimum regulatory capital requirements. The cyclical PD estimates which capture a change in borrower risk over the economic cycle, are used for internal credit management purposes. Both measures are estimated from the same borrower risk factors.

Retail internal rating systems

The Group has adopted the (Advanced) Retail IRB approach for the majority of its retail exposures. Under this approach, the Group calculates its own estimates for PD, LGD and CCF. 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.

For retail exposures, the Group calculates PD on a single, cyclical basis (although for most rating systems, limited cyclicality is observed). These estimates are used for both the calculation of risk weighted exposure amounts and for internal credit management purposes. To calculate LGD and CCF, the Group assesses the nature of the transaction and underlying collateral. Both LGD and CCF 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.

IRB approach (continued)

Association of PD grades with external ratings
Table 4.5 illustrates the relationship between PD grade, PD band and S&P type ratings. PD is used in the IRB RWA calculation.

These PD grades differ from internal obligor grades which are used in arriving at IFRS 7 classifications, however there is a defined relationship between both sets of grades.

Table 4.5 - Relationship of PD grades with external ratings

PD grade	PD	S&P type ratings
1 - 4	0% ≤ PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5 - 7	0.26% ≤ PD < 1.45%	BBB, BBB-, BB+, BB
8 - 9	1.45% ≤ PD < 3.60%	BB-, B+
10 - 11	3.60% ≤ PD < 100%	B, Below B
Default	100%	N/A

Control mechanisms for rating systems
The control mechanisms for rating systems are set out in the Group's Credit IRB Model Policy and Standards. A committee appointed by the GRPC, 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.

When issues are raised on risk rating models, plans are developed to remediate or replace such models within an agreed timeframe.

The internal ratings process by exposure class
Details on how the internal ratings process is applied to each individual IRB exposure class are given below. Departures from Group standards outlined above are not permitted.

Corporates
Corporate entities, including certain SME and specialised lending exposures are rated using a number of models. This suite of models typically incorporates scorecard-based calibrated PD outputs (both TtC and cyclical PD estimates). The Group does not rate purchased corporate receivables under the IRB approach. Information on the Corporates Foundation IRB exposure class is provided in Table 4.6.

Institutions
Institutions are rated by a single dedicated model. This is an internally-built scorecard and the output from this model is a single PD estimate that is fully TtC. Information on the Institutions Foundation IRB exposure class is provided in Table 4.6.

Retail
Retail exposures including Mortgages, Qualifying Revolving Retail Exposures and certain Retail SME and Consumer loans are rated on a number of models based on application and behavioural data which is calibrated to a PD. This PD estimate typically varies with the economic cycle. The Group also generates LGD and CCF estimates for its retail exposures. These estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn or long-term average, whichever is the most conservative. These estimates do not vary with the economic cycle. Information on the Retail IRB exposure classes is provided in Table 4.7.

Securitisations
Capital requirements for securitisation positions (retained and purchased) are determined under the IRB approach. These are dealt within the Securitisation section.

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Analysis of credit quality - Foundation IRB

Table 4.6 is based on EAD and shows the breakdown of the Foundation IRB exposure classes by PD grade. Counterparty credit risk exposures and related risk weighted assets are included in the numbers below.

Table 4.6a - Analysis of credit quality Foundation IRB - exposure class

PD Grade

CRD IV 31 December 2016	On-balance sheet gross exposure[1] €m	Off-balance sheet exposures pre-CCF €m	Average CCF %	Total exposure (EAD) €m	Exposure weighted average PD %	Exposure weighted average LGD %	Risk weighted assets (RWA) €m	RWA density %	Expected loss €m
Institutions									
1 to 4	4,682	784	96%	5,431	0%	29%	971	18%	1
5 to 7	677	87	20%	695	0%	27%	299	43%	1
8 to 9	11	3	35%	12	2%	45%	13	106%	-
10 to 11	2	2	44%	3	8%	45%	6	207%	-
Default	-	-	-	-	-	-	-	-	-
Total Institutions	**5,372**	**876**	**88%**	**6,141**	**0%**	**29%**	**1,289**	**21%**	**2**
Corporates									
1 to 4	1,822	2,155	41%	2,698	0%	43%	1,019	38%	2
5 to 7	6,494	1,830	42%	7,263	1%	42%	6,275	86%	26
8 to 9	4,171	665	39%	4,432	2%	42%	5,318	120%	44
10 to 11	4,177	173	29%	4,226	9%	40%	5,696	135%	166
Default	2,660	89	46%	2,697	100%	43%	-	0%	1,157
Total Corporates	**19,324**	**4,912**	**41%**	**21,316**	**12%**	**42%**	**18,308**	**86%**	**1,395**
Corporates: of which SME									
1 to 4	789	268	37%	888	0%	38%	265	30%	1
5 to 7	2,864	297	27%	2,944	1%	37%	1,758	60%	9
8 to 9	1,846	236	22%	1,899	2%	39%	1,619	85%	17
10 to 11	3,468	113	19%	3,489	10%	39%	4,227	121%	137
Default	2,123	79	45%	2,154	100%	42%	-	0%	908
Total Corporates: of which SME	**11,090**	**993**	**29%**	**11,374**	**23%**	**39%**	**7,869**	**69%**	**1,072**
Corporates: of which Specialised Lending									
1 to 4	94	59	88%	145	0%	45%	62	42%	-
5 to 7	778	125	59%	852	1%	45%	766	90%	3
8 to 9	355	46	62%	384	2%	45%	478	125%	4
10 to 11	164	9	86%	172	7%	45%	307	179%	5
Default	46	-	0%	46	100%	45%	-	0%	21
Total Corporates: of which Specialised Lending	**1,437**	**239**	**68%**	**1,599**	**5%**	**45%**	**1,613**	**101%**	**33**

The EAD under the Foundation IRB approach at 31 December 2016 includes defaulted exposures of €2.7 billion (31 December 2015: €4.2 billion) which attracts a 0% risk weighting. The RWA density percentage and expected loss for the performing grades (grades 1-11) in Foundation IRB and Retail IRB and the defaulted expected loss across the Retail IRB exposure class includes the impact of the Group's application of certain Central Bank of Ireland required adjustments, as part of the 2013 Balance Sheet Assessment adjustments to the outputs of the Group's risk weighted assets calculations.

[1] *The on-balance sheet gross exposure includes derivative balances as set out in Table 5.1.*

Analysis of credit quality - Foundation IRB (continued)

Table 4.6b - Analysis of credit quality Foundation IRB - exposure class

PD grade

CRD IV 31 December 2015	On-balance sheet gross exposure €m	Off-balance sheet exposures pre-CCF €m	Average CCF %	Total exposure (EAD) €m	Exposure weighted average PD %	Exposure weighted average LGD %	Risk weighted assets (RWA) €m	RWA density %	Expected loss €m
Institutions									
1 to 4	3,265	38	50%	3,275	0%	29%	632	19%	-
5 to 7	571	58	26%	595	1%	19%	201	34%	1
8 to 9	48	2	23%	48	2%	16%	21	43%	-
10 to 11	3	10	27%	5	7%	45%	11	206%	-
Default	-	-	-	-	-	-	-	-	-
Total Institutions	3,887	108	35%	3,923	0%	27%	865	22%	1
Corporates									
1 to 4	2,171	1,877	37%	2,867	0%	43%	1,154	40%	2
5 to 7	8,407	2,262	42%	9,352	1%	41%	7,550	81%	31
8 to 9	5,593	764	41%	5,907	2%	42%	6,823	116%	59
10 to 11	4,464	188	35%	4,531	7%	40%	5,937	131%	156
Default	4,158	152	48%	4,230	100%	43%	-	0%	1,816
Total Corporates	24,793	5,243	40%	26,887	12%	42%	21,464	80%	2,064
Corporates: of which SME									
1 to 4	597	110	18%	617	0%	42%	195	32%	-
5 to 7	4,202	504	35%	4,380	1%	39%	2,560	58%	12
8 to 9	2,956	216	26%	3,013	2%	39%	2,534	84%	28
10 to 11	3,776	118	26%	3,807	9%	39%	4,528	119%	132
Default	3,428	128	46%	3,486	100%	42%	-	0%	1,464
Total Corporates: of which SME	14,959	1,076	32%	15,303	26%	40%	9,817	64%	1,636
Corporates: of which Specialised Lending									
1 to 4	78	76	85%	143	0%	45%	60	42%	-
5 to 7	1,003	198	57%	1,116	1%	45%	981	88%	4
8 to 9	320	58	65%	358	2%	44%	434	121%	3
10 to 11	206	20	58%	219	6%	45%	378	173%	6
Default	71	4	50%	73	100%	45%	-	0%	33
Total Corporates: of which Specialised Lending	1,678	356	64%	1,909	5%	45%	1,853	97%	46

The exposure weighted average LGD for the Corporates exposure class is less than the supervisory LGD of 45% due to the impact of collateral held. Refer to Table 4.16 for additional information. The exposure weighted average LGD for the Institutions exposure class is less than the supervisory LGD of 45% due to the inclusion of covered bonds in the exposure class which attract a regulatory prescribed LGD of 11.25% given the secured nature of these transactions partially offset by the higher 75% LGD on subordinated bonds.

Analysis of credit quality - Retail IRB

Table 4.7 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD grade.

Table 4.7a - Analysis of credit quality Retail IRB - exposure class

PD grade

CRD IV 31 December 2016	On-balance sheet gross exposure €m	Off-balance sheet exposures pre-CCF €m	Average CCF %	Total exposure (EAD) €m	Exposure weighted average PD %	Exposure weighted average LGD %	Risk weighted assets (RWA) €m	RWA density %	Expected loss €m
RoI mortgages[1]									
1 to 4	6,008	540	49%	6,270	0%	14%	370	6%	2
5 to 7	10,124	632	50%	10,439	1%	15%	1,454	14%	9
8 to 9	773	3	73%	776	2%	15%	286	37%	3
10 to 11	5,228	1	86%	5,229	12%	19%	5,100	98%	137
Default	1,672	-	0%	1,672	100%	26%	1,007	60%	665
Total	**23,805**	**1,176**	**49%**	**24,386**	**10%**	**16%**	**8,217**	**34%**	**816**
UK mortgages									
1 to 4	8,698	57	0%	8,824	0%	9%	385	4%	2
5 to 7	9,553	281	50%	9,844	1%	11%	1,498	15%	10
8 to 9	2,420	165	71%	2,563	2%	14%	1,134	44%	11
10 to 11	1,420	152	73%	1,549	28%	12%	1,186	77%	85
Default	443	2	0%	448	100%	17%	414	92%	77
Total	**22,534**	**657**	**56%**	**23,228**	**4%**	**11%**	**4,617**	**20%**	**185**
Total mortgages	**46,339**	**1,833**	**52%**	**47,614**	**7%**	**14%**	**12,834**	**27%**	**1,001**
Qualifying revolving exposures									
1 to 4	76	513	29%	223	0%	44%	11	5%	-
5 to 7	288	1,336	40%	823	1%	55%	125	15%	3
8 to 9	107	143	42%	166	2%	52%	65	39%	2
10 to 11	110	116	30%	144	15%	46%	133	92%	10
Default	19	4	57%	21	100%	80%	11	53%	17
Total	**600**	**2,112**	**37%**	**1,377**	**4%**	**52%**	**345**	**25%**	**32**
Other retail exposures									
1 to 4	23	344	45%	178	0%	54%	32	18%	-
5 to 7	267	213	51%	375	1%	58%	191	51%	2
8 to 9	853	56	59%	887	2%	57%	661	75%	14
10 to 11	686	28	59%	702	8%	60%	617	88%	36
Default	269	4	56%	271	100%	62%	129	48%	168
Total	**2,098**	**645**	**49%**	**2,413**	**15%**	**58%**	**1,630**	**68%**	**220**
Retail Total	**49,037**	**4,590**	**45%**	**51,404**	**7%**	**17%**	**14,809**	**29%**	**1,253**

The RWA density percentage and expected loss for the performing grades (grades 1 to 11) in Foundation IRB and Retail IRB and the defaulted expected loss across the Retail IRB exposure class includes the impact of the Group's application of certain Central Bank of Ireland required adjustments, as part of the 2013 Balance Sheet Assessment adjustments to the outputs of the Group's risk weighted assets calculations.

[1] The Group revised the calculation of RWA under the IRB approach on its RoI mortgage non-defaulted portfolio resulting in a migration of cases to higher PD bands and an increase in the total RoI mortgage portfolio RWA density to 34% (31 December 2015: 27%).

Analysis of credit quality - Retail IRB (continued)

Table 4.7 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD grade.

Table 4.7b - Analysis of credit quality Retail IRB - exposure class

CRD IV 31 December 2015	On-balance sheet gross exposure €m	Off-balance sheet exposures pre-CCF €m	Average CCF %	Total exposure (EAD) €m	Exposure weighted average PD %	Exposure weighted average LGD %	Risk weighted assets (RWA) €m	RWA density %	Expected loss €m
RoI mortgages									
1 to 4	6,450	539	32%	6,625	0%	15%	412	6%	2
5 to 7	12,063	655	34%	12,282	1%	16%	1,886	15%	12
8 to 9	1,631	7	55%	1,635	2%	18%	723	44%	7
10 to 11	2,246	1	61%	2,247	19%	20%	2,322	103%	95
Default	2,320	-	-	2,319	100%	26%	1,398	60%	922
Total	24,710	1,202	33%	25,108	11%	17%	6,741	27%	1,038
UK mortgages									
1 to 4	12,408	99	0%	12,603	0%	9%	519	4%	2
5 to 7	8,903	592	66%	9,436	1%	11%	1,568	17%	11
8 to 9	2,474	251	74%	2,686	2%	12%	1,115	42%	11
10 to 11	1,801	128	65%	1,905	27%	12%	1,382	73%	97
Default	569	3	0%	576	100%	16%	533	92%	94
Total	26,155	1,073	62%	27,206	5%	10%	5,117	19%	215
Total mortgages	50,865	2,275	47%	52,314	8%	14%	11,858	23%	1,253
Qualifying revolving exposures									
1 to 4	74	515	29%	223	0%	33%	8	4%	-
5 to 7	282	1,344	41%	823	1%	48%	107	13%	2
8 to 9	113	153	42%	177	2%	44%	58	33%	2
10 to 11	117	113	31%	151	15%	36%	107	71%	8
Default	32	6	58%	35	100%	48%	25	70%	17
Total	618	2,131	38%	1,409	5%	43%	305	22%	29
Other retail exposures									
1 to 4	21	321	45%	165	0%	54%	30	18%	-
5 to 7	244	206	51%	349	1%	57%	174	50%	2
8 to 9	713	58	59%	747	2%	57%	546	73%	11
10 to 11	552	29	60%	569	8%	60%	510	90%	31
Default	333	5	57%	336	100%	63%	137	41%	224
Total	1,863	619	49%	2,166	19%	58%	1,397	65%	268
Retail Total	53,346	5,025	43%	55,889	8%	16%	13,560	24%	1,550

Analysis of credit quality - Standardised approach

The Standardised approach applies where exposures do not qualify for use of an IRB approach and / or where an exemption from IRB has been granted. It is less sophisticated than the IRB approach for regulatory capital calculations. Under this approach, credit risk is measured by applying risk weights outlined in CRD IV based on the exposure class to which the exposure is allocated. The following tables outline the Standardised exposure classes by CRD IV prescribed risk weight.

The total weighted average risk weight on Standardised exposures, excluding 0% risk weighted exposures at 31 December 2016 is 83% (31 December 2015: 87%).

**Table 4.8 - Analysis of credit quality
Standardised approach - exposure class
EAD €m**

	Risk weight									
31 December 2016	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total EAD**	**Total RWA**
Central governments or central banks	14,136	-	-	-	-	-	-	-	14,136	-
Regional government or local authorities	-	82	-	-	-	-	-	-	82	16
Public sector entities	183	-	-	-	-	-	-	-	183	-
Multilateral development banks	721	-	-	-	-	-	-	-	721	-
International organisations	623	-	-	-	-	-	-	-	623	-
Institutions	-	-	-	-	-	-	-	-	-	-
Corporate[1]	-	10	-	22	-	4,470	-	-	4,502	4,080
Retail[1]	-	-	-	-	3,401	-	-	-	3,401	2,425
Secured by mortgages on immovable property	-	-	428	-	10	-	-	-	438	157
Exposures in default	-	-	-	-	-	456	292	-	748	894
Exposures associated with particularly high risk	-	-	-	-	-	-	117	-	117	175
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-
Total EAD	**15,663**	**92**	**428**	**22**	**3,411**	**4,926**	**409**	**-**	**24,951**	
Total RWA	**-**	**18**	**150**	**11**	**2,431**	**4,524**	**613**	**-**		**7,747**

[1] *Certain Corporate and Retail SME Standardised exposures also qualify for the application of reduced risk weights.*

Analysis of credit quality - Standardised approach (continued)

Table 4.8 - Analysis of credit quality
Standardised approach - exposure class
EAD €m

31 December 2015	Risk weight 0%	20%	35%	50%	75%	100%	150%	250%	Total EAD	Total RWA
Central governments or central banks	17,287	-	-	-	-	-	-	-	17,287	-
Regional government or local authorities	-	80	-	-	-	-	-	-	80	16
Public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	715	-	-	-	-	-	-	-	715	-
International organisations	477	-	-	-	-	-	-	-	477	-
Institutions	-	-	-	-	-	-	-	-	-	-
Corporate[1]	-	7	-	6	-	5,463	-	-	5,476	5,019
Retail[1]	-	-	-	-	2,924	-	-	-	2,924	2,052
Secured by mortgages on immovable property	-	-	221	-	-	-	-	-	221	77
Exposures in default	-	-	-	-	-	735	451	-	1,186	1,412
Exposures associated with particularly high risk	-	-	-	-	-	-	95	-	95	142
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-
Total EAD	18,479	87	221	6	2,924	6,198	546	-	28,461	
Total RWA	-	17	77	3	2,052	5,750	819	-		8,718

Loan loss experience in the year ended 31 December 2016

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2016 is included in the Risk Management Report of the Group's Annual Report 31 December 2016 (under the Credit Risk section from page 80).

Past due and impaired exposures

Past due exposures are loans where repayment of principal and / or interest are overdue by at least one day but which are not impaired. Impaired loans are loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are more than 90 days in arrears.

For additional information on past due and impaired exposures, please refer to pages 80 to 110 of the Group's Annual Report 31 December 2016.

Past due and impaired exposures by industry

Table 4.9 is based on financial statement information and discloses 'past due but not impaired' and 'impaired' balances by industry class.

Table 4.9 - Past due and impaired exposures by industry class

	31 December 2016			31 December 2015		
	Past due exposures €m	**Impaired exposures €m**	**Total €m**	Past due exposures €m	Impaired exposures €m	Total €m
Personal	1,504	1,738	3,242	2,067	2,337	4,404
- Residential mortgages	*1,445*	*1,634*	*3,079*	*1,994*	*2,201*	*4,195*
- Other	*59*	*104*	*163*	*73*	*136*	*209*
Property & construction	213	2,828	3,041	374	4,917	5,291
Business & other services	56	972	1,028	47	1,456	1,503
Manufacturing	18	215	233	9	327	336
Distribution	10	389	399	18	541	559
Transport	10	190	200	1	178	179
Financial	1	22	23	1	24	25
Agriculture	31	170	201	29	202	231
Energy	-	1	1	-	1	1
Total	**1,843**	**6,525**	**8,368**	**2,546**	**9,983**	**12,529**

Past due and impaired exposures by geography

Table 4.10 is based on financial statement information and discloses 'past due but not impaired' and 'impaired' balances by geographic location, which are based on the location of the business unit where the exposure is booked.

Table 4.10 - Past due and impaired exposure by geography

	31 December 2016				31 December 2015			
	Past due exposures				Past due exposures			
	<90 days past due €m	**>90 days past due €m**	**Impaired exposures €m**	**Total €m**	<90 days past due €m	>90 days past due €m	Impaired exposures €m	Total €m
RoI	573	219	5,416	6,208	678	361	7,531	8,570
UK	885	166	1,109	2,160	1,307	200	2,452	3,959
Total	**1,458**	**385**	**6,525**	**8,368**	**1,985**	**561**	**9,983**	**12,529**

Specific credit risk adjustments (provisions)

The loan loss provisioning methodology used by the Group is set out on page 106 of the Group's Annual Report 31 December 2016.

This includes:
- a description of the type of provisions; and
- a description of the approaches and methods adopted for determining provisions.

CRD IV introduced the definition of 'specific' and 'general' credit risk adjustments and, in line with the relevant technical standard, the Group has included 'specific provisions' and 'IBNR' as specific credit risk adjustments. The Group has no 'general' credit risk adjustments.

Specific credit risk adjustments by industry and geography

Table 4.11 shows the specific credit risk adjustments and provision charge by industry classification. It is based on financial statement information.

Table 4.11 - Specific credit risk adjustments by industry

	31 December 2016		31 December 2015	
Industry class	**Total specific credit risk adjustments €m**	**Charges for specific credit risk adjustments €m**	Total specific credit risk adjustments €m	Charges for specific credit risk adjustments €m
Personal	1,086	(150)	1,440	(99)
- Residential mortgages	*988*	*(142)*	*1,297*	*(96)*
- Other	*98*	*(8)*	*143*	*(3)*
Property & construction	1,717	213	3,001	246
Business & other services	515	4	885	79
Manufacturing	124	16	180	23
Distribution	238	41	292	35
Transport	116	40	-	-
Financial	10	-	-	-
Agriculture	76	12	84	11
Energy	3	-	4	1
Total	**3,885**	**176**	**5,886**	**296**

Specific credit risk adjustments (provisions) (continued)

Table 4.12 shows the Group's specific credit risk adjustments on loans and advances to customers split between specific provisions and IBNR provisions on a geographic basis. The geographic locations shown are based on the location of the business unit where the exposure is booked. It is based on financial statement information.

Table 4.12 - Specific credit risk adjustments by geography

Geographic breakdown	31 December 2016 Specific provisions €m	31 December 2016 IBNR provisions €m	31 December 2016 Total €m	31 December 2015 Specific provisions €m	31 December 2015 IBNR provisions €m	31 December 2015 Total €m
RoI	2,875	377	3,252	4,090	453	4,543
UK	516	117	633	1,185	158	1,343
Total	**3,391**	**494**	**3,885**	**5,275**	**611**	**5,886**

Specific credit risk adjustments by provision type

Table 4.13 shows the Group's provisions against loans and advances to customers split by specific provisions and IBNR provisions.

Table 4.13 - Specific credit risk adjustments by provision type

Specific credit risk adjustments	31 December 2016 Total specific credit risk adjustments €m	31 December 2016 Specific credit risk adjustments charges €m	31 December 2015 Total specific credit risk adjustments €m	31 December 2015 Specific credit risk adjustments charges €m
Total specific provisions	3,391	270	5,275	405
Total IBNR provisions	494	(94)	611	(109)
Total Group specific credit risk adjustments	**3,885**	**176**	**5,886**	**296**

Specific credit risk adjustments by regulatory approach

Table 4.14 shows the Group's provisions against loans and advances to customers split by specific provisions and IBNR provisions and between regulatory approach, Standardised or IRB. It is based on financial statement information.

Table 4.14 - Specific credit risk adjustments by regulatory approach

Specific credit risk adjustments	31 December 2016 IRB provisions €m	31 December 2016 Standardised provisions €m	31 December 2016 Total €m	31 December 2015 IRB provisions €m	31 December 2015 Standardised provisions €m	31 December 2015 Total €m
Total specific provisions	2,204	1,187	3,391	3,211	2,064	5,275
Total IBNR provisions	439	55	494	554	57	611
Total Group specific credit risk adjustments	**2,643**	**1,242**	**3,885**	**3,765**	**2,121**	**5,886**

Specific credit risk adjustments (provisions) (continued)

Specific credit risk adjustment charges during the year
Table 4.15 below shows the movement in the provision on loans and advances to customers during the year ended 31 December 2016. It is based on financial statement information.

Table 4.15 - Specific credit risk adjustment charges during the year

Provisions	31 December 2016 €m	31 December 2015 €m
Opening balance	5,886	7,423
Amount charged during the year	176	296
Provisions utilised, reversed and other movements	(2,177)	(1,833)
of which;		
- Recoveries	*28*	*17*
Closing balance	**3,885**	**5,886**

Credit risk mitigation

The credit risk section on pages 80 to 110 of the Group's Annual Report 31 December 2016 contains information relating to:

- the policies and processes for collateral valuation and management; and
- a description of the main types of collateral taken by the Group.

Collateral used to mitigate risk, both for mortgage and other lending is diversified. The main types of guarantors are corporates, individuals, financial institutions and sovereigns. Their creditworthiness is assessed on a case-by-case basis.

Credit risk mitigation for regulatory capital requirements calculation
For Retail IRB exposures, the effect of credit risk mitigation, principally due to the collateral taken to secure loans, is taken into account in the development of the Group's LGD models, which in turn are used in the calculation of the Group's regulatory capital requirements.

For non-retail Foundation IRB exposures, supervisory LGDs are used for minimum regulatory capital requirements calculation purposes as is required under the CRR. These LGDs are either applied directly to obligors, or are reduced through the recognition of the risk-mitigating impact of qualifying collateral held.

Under the IRB approach, depending on the type of credit risk mitigation applied, PD or LGD may be impacted. Under the Standardised approach, credit risk mitigation impacts the risk weight which is then subsequently applied to the exposure amount to derive the capital requirement.

Tables 4.16 and 4.17 show the volume of exposures against which collateral and guarantees, which have been used in the calculation of the Group's capital requirements, are held. The focus of these tables is limited to certain specific types of collateral and guarantees which meet CRR definitions. These tables are not reflective of the total volume of exposures against which collateral and guarantees are actually held across the Group, nor do they reflect the full range of credit risk mitigation taken.

The information in tables 4.16 and 4.17 is based on EAD (after the application of netting and supervisory volatility adjustments) against which credit risk mitigation benefit is recognised. The tables also exclude exposures where the Group nets derivative mark-to-market positions with certain interbank counterparties against cash collateral placed and received with those counterparties under CSA agreements. For cash collateral held against derivative exposures refer to Table 5.1.

Credit risk mitigation (continued)

Table 4.16 - Credit risk mitigation
IRB approach - exposure class

31 December 2016	Covered by eligible financial collateral (EAD) €m	Covered by real estate and other eligible collateral: Commercial (EAD) €m	Covered by real estate and other eligible collateral: Residential (EAD)	Covered by real estate and other eligible collateral: Other (EAD)	Covered by guarantees / credit derivatives (EAD) €m	Total (EAD) €m
Corporates	16	6,635	399	22	-	7,072
Retail	-	-	47,614	-	-	47,614
Total	**16**	**6,635**	**48,013**	**22**	**-**	**54,686**

Table 4.16 - Credit risk mitigation
IRB approach - exposure class

31 December 2015	Covered by eligible financial collateral (EAD) €m	Covered by real estate and other eligible collateral: Commercial (EAD) €m	Covered by real estate and other eligible collateral: Residential (EAD)	Covered by real estate and other eligible collateral: Other (EAD)	Covered by guarantees / credit derivatives (EAD) €m	Total (EAD) €m
Corporates	28	7,505	696	87	-	8,316
Retail	-	-	52,314	-	-	52,314
Total	28	7,505	53,010	87	-	60,630

Credit risk mitigation realised through the netting of on-balance sheet assets and liabilities is not reflected in the above table. Certain customer loans and overdrafts are netted against deposits as permitted by the CRR in the presence of certain criteria including a legal right of offset.

Table 4.17 - Credit risk mitigation

Standardised approach - exposure class	**31 December 2016** Total exposure covered by guarantees (EAD) €m	31 December 2015 Total exposure covered by guarantees (EAD) €m
Central governments or central banks	451	1,414
Total	**451**	**1,414**

Central governments or central banks in Table 4.17 comprise of NAMA senior bonds obtained by the Group in return for the transfer of assets to NAMA. NAMA senior bonds are guaranteed by the Irish Government.

Comparison of expected versus actual loss

Table 4.18 is based on a comparison of regulatory expected loss of the performing IRB loan portfolios as at 31 December 2015 with actual loss (specific provision charge incurred) on the IRB loan portfolios in the year ended 31 December 2016.

The parameters underlying the calculation of expected loss (PD, LGD and EAD) primarily represent through the cycle estimations, i.e. they reflect and estimate the average outcomes for an entire economic cycle. To meaningfully validate expected loss, these estimates would need to be compared to all realised losses which may have materialised after all the assets have gone through their life cycle. However, such information cannot be provided and disclosed since life cycles could last for a significant number of years. Using actual accounting loss information does not provide a suitable alternative, because - unlike expected loss estimates - accounting loss information is measured at point-in-time.

The following table should therefore be read bearing in mind these significant limitations.

Table 4.18 - Expected versus actual loss

IRB exposure class	**Expected loss calculated on 31 December 2015 €m**	**Specific provision charge for the year ended 31 December 2016 €m**	Expected loss calculated on 31 December 2014 €m	Specific provision charge for the year ended 31 December 2015 €m
Institutions	1	-	5	-
Corporates	248	191	242	268
Retail				
Secured by immovable property collateral	237	(89)	217	(26)
Qualifying revolving retail exposures	12	-	14	-
Other retail exposures	44	(2)	46	(6)
Total	**542**	**100**	**524**	**236**

Counterparty credit risk

Information on how counterparty credit risk is managed is provided on page 82 of the Group's Annual Report 31 December 2016.

Limits, policies and collateral

Limits
Counterparty credit limits are based primarily on the counterparty credit rating but also take into account historic limit usage and requirements from the business. The capital calculation uses PDs assigned to counterparties based on their ratings and the PDs are then used to calculate RWA and EL.

Policies
Policies are in place for securing collateral and establishing credit reserves. Legal agreements giving effect to collateral arrangements (ISDA, GMRA and CSA) are negotiated and put in place with interbank and other wholesale financial counterparties. Based on these agreements, collateral calls are agreed with the counterparty. In the vast majority of cases, collateral is cash and the agreed amount is either transferred by the counterparty to the Group or paid by the Group to the counterparty. At 31 December 2016, approximately 95% of the Group's derivative interbank counterparty credit risk was collateralised.

European Markets Infrastructure Regulation (EMIR)
EMIR includes the obligation to centrally clear certain classes of over-the-counter (OTC) derivative contracts through Central Counterparty Clearing Houses (CCPs). The Group began clearing OTC interest rate swaps and Index referenced CDS (Credit Default Swaps) in 2016 to meet this obligation.

To date when CSAs are signed, a threshold amount is agreed, below which collateral will not be exchanged. This effectively limits the Group's counterparty exposure to the amount of the threshold (plus a buffer to allow for movements in market rates between collateral calls). These thresholds will be removed in 2017 under new EMIR regulations.

Wrong-way risk
The Group recognises the potential for 'wrong-way' exposure in derivatives rewriting risk. This occurs where the potential market-driven exposure on the contract is likely to be positively correlated with the counterparty because both are linked to a common factor such as a commodity price or an exchange rate. The Group allows for the potential impact of wrong-way exposure qualitatively in assessing individual credits.

Collateral
As at 31 December 2016, the maximum impact of a two-notch downgrade of the Group by either S&P or Moody's on the Group's CSAs covering its interbank derivative positions, is that legally the Group could not be asked to post additional collateral in respect of its existing trades, as in virtually all relevant cases, the threshold is already zero (the situation is unchanged from 2015). However, it is possible that the Group could be asked to post additional amounts in order to obtain credit limits to enter into new trades should its credit profile deteriorate.

Exposure value measure
The Group determines exposure values for counterparty credit risk using the mark-to-market method. This primarily covers derivative exposures. The Group determines exposure values for repurchase transactions using the Financial Collateral Comprehensive Method (FCCM) and as such, no disclosures for repurchase agreements are made in this section.

In determining the EAD for derivative credit exposure, the Group recognises the credit risk mitigating impact of cash collateral received under CSAs. EAD for particular netting sets is reduced by the amount of cash collateral held in accordance with the relevant specific regulatory rules. Separately, where the Group posts collateral under a CSA, the net negative mark-to-market on the related netting set is used to reduce the EAD on the collateral exposure, once again in accordance with the relevant specific regulatory rules.

In addition, a Credit Valuation Adjustment ('Incurred CVA') is applied to the Group's non-collateralised derivatives based primarily on the creditworthiness of the client and the fair value of the underlying transaction. At 31 December 2016, Incurred CVA of €40 million (31 December 2015: €105 million) reduces EAD on the relevant exposures consistent with the requirements of the CRR.

Under CRD IV, a Credit Valuation Adjustment (CVA) risk weighted asset is also calculated under the standardised method for certain financial counterparties. CVA risk on OTC derivative exposures for 2016 is to RWA €0.3 billion (2015 RWA €0.3 billion).

Counterparty credit risk (continued)

Counterparty credit exposure

The tables below reflect the Group's counterparty credit exposures, including the impact of netting and collateral. Current credit exposures consist of the replacement cost of contracts together with potential future credit exposure.

Table 5.1 - Contract values

	Balance as at 31 December 2016 €m	Balance as at 31 December 2015 €m
Gross positive fair value of contracts	3,709	3,064
Potential future credit exposure	1,294	1,451
Total current credit exposure	**5,003**	4,515
Netting benefits	(2,556)	(2,764)
Netted current credit exposures	**2,447**	1,751
Collateral held	(835)	(363)
Net derivative credit exposure	**1,612**	**1,388**

Table 5.2 - Current credit exposure by product

	Balance as at 31 December 2016 €m	Balance as at 31 December 2015 €m
Interest rate	522	499
FX	59	51
Equity	-	4
Netted agreements credit exposure[1]	1,024	816
Credit derivatives[2]	7	11
Commodity contracts	-	7
Total	**1,612**	**1,388**

Capital requirements for counterparty credit risk reflect exposures to both Institutions and Corporates. The total capital requirement for counterparty credit risk based on 8% of total RWA at 31 December 2016 is €88 million (31 December 2015: €75 million).

[1] *Relates to derivative exposures where cross product netting has been applied on transactions of different product categories within the same netting set.*
[2] *The notional amount covered by credit derivatives is €0.1 billion. Further information on credit derivative transactions is not provided on the basis of materiality.*

Securitisation

Securitisation roles and strategy

The Group has acted as originator under a number of securitisation structures, both traditional and synthetic. The purpose of these securitisations is to diversify the sources of funding for the Group and to increase the proportion of funding that is long-term, as well as to transfer credit risk. Information on the exposures securitised under these transactions, and which qualify for Pillar 1 derecognition, are provided in the tables in this section.

The Group has also purchased positions in securitisation transactions. These positions have been purchased in transactions where the individual notes were originally highly rated and benefited from strong credit enhancement provided by lower ranking notes. The purchased positions cover a broad range of asset classes including Commercial Mortgage-Backed Securities (CMBS), Residential Mortgage-Backed Securities (RMBS), consumer loans and loans to Corporates / SMEs.

In addition, the Group has transacted a number of internal securitisations for funding purposes. These do not qualify for derecognition under Pillar 1 and the exposures securitised under them are included in the credit risk tables in this document. These securitisations are outside the scope of this section.

The Group has not acted as a sponsor in any securitisation transactions.

Calculation of risk weighted exposure amounts

Certain securitisations originated by the Group, where the bonds issued by the securitisation vehicle have been sold to third party investors, qualify for derecognition under Pillar 1. The Group has retained positions in these securitisations and the KIRB value of these 'first loss' positions are deducted from CET 1.

For the Group's synthetic securitisation, the retained senior position is risk weighted using the Supervisory Formula Method (SFM) in accordance with Article 262 of the CRR and the retained junior position is deducted fully from CET 1. The Group has recognised significant credit risk transfer for this securitisation pursuant to Article 244 (2) of the CRR.

The risk weighted exposure amounts for the Group's purchased positions are calculated using the IRB approach. The Group's purchased positions are all held in the Banking Book.
A supervisory deduction is taken from CET 1 for purchased positions which otherwise would have attracted a 1250% risk weight under the approach.

Risk management for securitisation activities

There is no distinction in management of credit risk between securitised and non-securitised exposures. The Group's securitised exposures and the retained securitisation positions are managed and reviewed in accordance with the Group's internal requirements for management of credit risk. See pages 80 to 110 of the Group's Annual Report 31 December 2016.

Information on liquidity risk inherent in securitised assets has not been provided on the basis of materiality. A table showing wholesale funding securitisations is included in the liquidity risk section in the Group's Annual Report 31 December 2016 page 115.

Accounting policies for securitisation activities

Where the Group acts as originator in a securitisation, all financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or have been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. The asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where any of the above conditions apply to a fully proportionate share of all or specifically identified cashflows, the relevant accounting treatment is applied to that proportion of the asset.

While originated mortgage backed securitisations (where the bonds issued by the securitisation vehicles have been sold to third party investors) have been derecognised for Pillar 1 purposes, they have not been derecognised for accounting purposes. The exposures securitised under these securitisations are therefore treated as credit risk exposures under IFRS 7.

The Group's purchased positions are classified as either available for sale or loans and receivables from an accounting perspective.

Use of External Credit Assessment Institutions (ECAIs)

For the purpose of the RWA calculation, ECAIs are used for the Group's purchased securitisation positions. The following ECAIs are used: Fitch Ratings, Moody's Investors Service and Standard & Poor's. These are used for all exposure types, though the securitisations may not have been rated by all three agencies.

Securitisation (continued)

Total outstanding amount of exposures securitised

Table 6.1 below shows the total outstanding amount of exposures securitised by the Group in its role as originator and have qualified for Pillar 1 derecognition.

Table 6.1 - Outstanding amount of exposures securitised

31 December 2016 Exposure type	**Traditional €m**	**Synthetic €m**	**Total €m**
Residential mortgages	1,252	-	1,252
Corporate loans	-	2,870	2,870
Total	**1,252**	**2,870**	**4,122**

31 December 2015 Exposure type	Traditional €m	Synthetic €m	Total €m
Residential mortgages	1,704	-	1,704
Corporate loans	26	-	26
Total	1,730	-	1,730

Summary of securitisation activity

The Group originated one securitisation which qualifies for derecognition under Pillar 1 during the year ended 31 December 2016. This credit risk transfer transaction or synthetic securitisation, references a portfolio of c.€3 billion of SME / Corporate loan assets in the 'Corporate' exposure type.

Specific provisions, past due and impaired securitised exposures

Table 6.2 - Specific provisions, past due and impaired securitised exposures

	Traditional			**Synthetic**			**Total**		
31 December 2016 Exposure type	**Past due exposures €m**	**Impaired exposures €m**	**Specific provisions €m**	**Past due exposures €m**	**Impaired exposures €m**	**Specific provisions €m**	**Past due exposures**	**Impaired exposures**	**Specific provisions**
Residential mortgages	58	16	2	-	-	-	58	16	2
Corporate loans	-	-	-	-	-	-	-	-	-
Total	**58**	**16**	**2**	**-**	**-**	**-**	**58**	**16**	**2**

	Traditional			Synthetic			Total		
30 December 2015 Exposure type	Past due exposures €m	Impaired exposures €m	Specific provisions €m	Past due exposures €m	Impaired exposures €m	Specific provisions €m	Past due exposures	Impaired exposures	Specific provisions
Residential mortgages	83	20	2	-	-	-	83	20	2
Corporate loans	-	8	6	-	-	-	-	8	6
Total	83	28	8	-	-	-	83	28	8

Securitisation (continued)

Securitisation positions retained and purchased

Retained positions refer to positions retained by the Group with respect to the securitisations originated by the Group. Purchased positions are positions purchased by the Group in external securitisations. Repurchased tranches of own securitisations which are not subject to risk weights are excluded from the tables below. For supervisory reporting purposes, the traditional positions are included as on-balance sheet exposures and synthetic securitisations are included as off-balance sheet.

Securitisation positions retained and purchased by exposure type

Table 6.3 - Retained and purchased securitisation positions by exposure type

	Traditional			**Synthetic**			**Total**		
31 December 2016 Exposure type	**Retained EAD €m**	**Purchased EAD €m**	**Total EAD €m**	**Retained EAD €m**	**Purchased EAD €m**	**Total EAD €m**	**Retained EAD €m**	**Purchased EAD €m**	**Total EAD €m**
Residential mortgages	30	69	99	-	-	-	30	69	99
Commercial mortgages	-	27	27	-	-	-	-	27	27
Loans to Corporates or SMEs	-	60	60	2,684	-	2,684	2,684	60	2,744
Consumer loans	-	25	25	-	-	-	-	25	25
Total	**30**	**181**	**211**	**2,684**	**-**	**2,684**	**2,714**	**181**	**2,895**

	Traditional			Synthetic			Total		
31 December 2015 Exposure type	Retained EAD €m	Purchased EAD €m	Total EAD €m	Retained EAD €m	Purchased EAD €m	Total EAD €m	Retained EAD €m	Purchased EAD €m	Total EAD €m
Residential mortgages	37	83	120	-	-	-	37	83	120
Commercial mortgages	-	52	52	-	-	-	-	52	52
Loans to Corporates or SMEs	14	80	94	-	-	-	14	80	94
Consumer loans	-	35	35	-	-	-	-	35	35
Total	51	250	301	-	-	-	51	250	301

Securitisation positions retained and purchased by risk weight

Table 6.4 - Retained and purchased securitisation positions by risk weight

	Traditional						Synthetic						Total					
	Retained		Purchased		Total		Retained		Purchased		Total		Retained		Purchased		Total	
31 December 2016 Risk weight	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**	**(EAD) €m**	**(RWA) €m**
<=10%	-	-	50	4	50	4	2,670	187	-	-	2,670	187	2,670	187	50	4	2,720	191
>10% <=18%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
>18% <=35%	-	-	53	18	53	18	-	-	-	-	-	-	-	-	53	18	53	18
>35% <=75%	-	-	37	21	37	21	-	-	-	-	-	-	-	-	37	21	37	21
>75% <=100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
>100% <=250%	-	-	18	47	18	47	-	-	-	-	-	-	-	-	18	47	18	47
>250% <=425%	-	-	13	58	13	58	-	-	-	-	-	-	-	-	13	58	13	58
>425% <=650%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
>650% <=1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total subject to risk weights	**-**	**-**	**171**	**148**	**171**	**148**	**2,670**	**187**	**-**	**-**	**2,670**	**187**	**2,670**	**187**	**171**	**148**	**2,841**	**335**
Deducted from capital	30	-	10	-	40	-	14	-	-	-	14	-	44	-	10	-	54	-
Total	**30**	**-**	**181**	**148**	**211**	**148**	**2,684**	**187**	**-**	**-**	**2,684**	**187**	**2,714**	**187**	**181**	**148**	**2,895**	**335**

Table 6.4 - Retained and purchased securitisation positions by risk weight (continued)

31 December 2015	Traditional						Synthetic						Total					
	Retained		Purchased		Total		Retained		Purchased		Total		Retained		Purchased		Total	
Risk weight	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m
<=10%	-	-	64	6	64	6	-	-	-	-	-	-	-	-	64	6	64	6
>10% <=18%	-	-	2	-	2	-	-	-	-	-	-	-	-	-	2	-	2	-
>18% <=35%	-	-	85	30	85	30	-	-	-	-	-	-	-	-	85	30	85	30
>35% <=75%	-	-	46	26	46	26	-	-	-	-	-	-	-	-	46	26	46	26
>75% <=100%	-	-	18	18	18	18	-	-	-	-	-	-	-	-	18	18	18	18
>100% <=250%	-	-	5	13	5	13	-	-	-	-	-	-	-	-	5	13	5	13
>250% <=425%	-	-	19	103	19	103	-	-	-	-	-	-	-	-	19	103	19	103
>425% <=650%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
>650% <=1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total subject to risk weights	-	-	239	196	239	196	-	-	-	-	-	-	-	-	239	196	239	196
Deducted from capital	51	-	11	-	62	-					-	-	51	-	11	-	62	-
Total	51	-	250	196	301	196	-	-	-	-	-	-	51	-	250	196	301	196

Market risk

Overview

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

The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market risk, both of which are approved by the Court.

The Group uses the Standardised approach for its assessment of Pillar 1 capital requirements for Trading Book market risk, using the prescribed regulatory calculation method. Risk weighted assets for market risk (predominantly interest rate risk on the Trading Book and foreign exchange risk) on 31 December 2016 are €552 million (31 December 2015: €425 million).

Further detailed information in relation to market risk, including Interest Rate Risk in the Banking Book (IRRBB), is set out on pages 118 to 122 of the Group's Annual Report 31 December 2016.

7.1 - Market risk under Standardised approach

	31 December 2016		31 December 2015	
Outright products	**RWA €m**	**Capital requirements €m**	RWA €m	Capital requirements €m
Interest rate risk	260	21	281	22
- Interest rate risk general	*239*	*19*	*234*	*18*
- Interest rate risk specific	*21*	*2*	*47*	*4*
Foreign exchange risk	292	23	144	12
Commodities risk	-	-	-	-
Total	**552**	**44**	425	34

Discretionary risk

Discretionary risk consists of risk that is proactively assumed in the Trading Book and discretionary Interest Rate Risk in the Banking Book (IRRBB). As a consequence of the Bank's hedging strategies, discretionary IRRBB (which incorporates the major part of mismatch and yield curve risk as defined for regulatory purposes) is immaterial and therefore no further information is disclosed.

Bank of Ireland Global Markets (BoIGM) is the sole Group business permitted to take discretionary market risk on behalf of the Group. The major part of BoIGM's discretionary risk is interest rate risk in euro, sterling and US dollar markets.

The Group employs a VaR approach to measure, and set limits on, discretionary market risk in BoIGM. This applies to both the Trading Book and discretionary IRRBB. The Group measures VaR for a one-day horizon at the 99% level of statistical confidence. VaR reporting is conducted daily.

For the nature of the risks assumed by the Group, VaR remains a reliable basis of risk measurement. Nonetheless, VaR limits are supplemented by a range of controls that include position limits and loss tolerances. In addition, scenario based stress tests and long-run historic simulations, taking in past periods of market stress, are used to assess and manage discretionary market risk.

Customer risk

Interest rate risk arising on customer lending and term deposit-taking is centralised by way of internal hedging transactions with BoIGM. This exposure is, in turn, substantially eliminated by BoIGM through external hedges.

Structural risks

Notwithstanding the overriding objective of ensuring low levels of market risk, certain structural elements of IRRBB remain, notably structural basis risk and the earnings risk that arises from the presence of non-interest bearing liabilities on the balance sheet.

Structural basis risk arises where market-related assets, liabilities and swaps re-price at different frequencies (monthly, quarterly, semi-annually) and where lending re-prices with changes in central bank rates but is funded at a blend of retail deposit and market-related rates. In addition, certain economic risks are inherent in the Group's balance sheet and the requirement to fund a material part of the Group's sterling balance sheet from euro creates a structural exposure. These risks are managed centrally as structural treasury risk.

The presence of non-interest bearing liabilities on the balance sheet - principally equity and non-interest bearing non-maturity customer deposits - exposes Group earnings to changes in interest rates. This structural interest rate risk is mitigated over the cycle by investing these liabilities in a portfolio of fixed rate assets only a proportion of which are re-invested in any given year. The Group applies the same investment convention to all non-interest bearing liabilities.

Operational risk

Overview

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

The Group is exposed to operational risks in the normal pursuit of its business objectives and encompasses a very broad range of sources of potential financial loss which the Group actively seeks to manage, mitigate and transfer. Such sources include inadequate or failed internal processes such as payments processing and financial reporting, information technology or equipment failures, the malfunction of external systems and controls, including those of the Group's suppliers or counterparties, or from people-related or external events, such as cybercrime and fraud, or from natural disasters and social or political events. In the case of legal and contractually related operational risks, the Group is exposed to the risk of loss due to litigation arising from errors, omissions and acts by the Group and its officers in the conduct of its business.

Operational risk management objective

The primary goals of operational risk management within the Group are to ensure the sustainability and integrity of the Group's operations and the protection of its reputation by controlling, mitigating or transferring the impact of operational risk.

The Group has established a formal approach to the management of operational risk in an 'Operational Risk Framework'.

Operational risk management framework

The framework defines the Group's approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Group's business objectives. The framework outlines, inter alia, the following:

- formulating and disseminating a Group Operational Risk policy specifying the risk management obligations of management within the Group;
- maintaining organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- embedding formal operational risk management processes and standards throughout the Group;
- setting aside capital and maintaining a suite of insurance policies; and
- setting out the boundary conditions in which operational risks are to be managed, by way of Court approved Risk Appetite Statement.

In what follows, some of the key elements of the Group's operational risk framework are briefly described.

Operational risk policy and governance

In 2016, in accordance with its risk appetite, the Group continued to maintain its on-going oversight and control of its exposures to operational risk. A critical component of the operational risk management framework is a CRC approved Operational Risk Policy which sets out the Group's objectives and the obligations of management in respect of operational risk.

Governance and oversight of operational risk matters forms part of the Group's Risk Framework which aims to ensure that risk management activities are adequate and commensurate with the Court approved risk appetite. The GRCORC is appointed by the GRPC and is responsible for the oversight and monitoring of operational risk within the Group and its material subsidiaries.

Business units hold primary responsibility for the management of operational risk and compliance with internal control requirements.

Group Operational Risk is accountable for the development and maintenance of an Operational Risk Management Framework to ensure a robust, consistent and systematic approach is applied to managing operational risk exposures across the Group.

Operational risk appetite

The Court has set out its appetite for operational risk in terms of both qualitative factors and quantitative measures reflecting the nature of non-financial risks. As such, the monitoring of operational risk indicators is supplemented with qualitative review and discussion at senior management executive committees to ensure appropriate actions are taken to enhance controls.

Operational risk management framework (continued)

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

Operational risk capital
The Group holds operational risk capital to cover the potential financial impact of operational risk events, and uses the Standardised Approach (TSA) to determine its Pillar 1 capital requirement. Risk weighted assets for operational risk on 31 December 2016 are €4.6 billion (31 December 2015: €4.8 billion). The Pillar 2 capital assessment process incorporates a scenario analysis programme.

Scenario analysis assists the Group in determining the possible frequency and severity of operational risk losses for certain extreme yet plausible events associated with different types of operational risk. The process also takes into account the potential for correlations between scenarios. The outputs of the scenario analysis programme forms part of the operational risk element of the Group's ICAAP.

Insurance
The Group mitigates the risk of potential financial losses from selected operational risk events through the Group insurance programme, which is reviewed annually to ensure that the risk coverage remains appropriate to the Group's risk management objectives.

Operational risk reporting
Regular reporting of operational risk is a key component of the Group's Operational Risk Framework.

The Court receives a monthly update on the operational risk profile via the Court Risk Report which provides a timely assessment of the material operational risks against risk appetite.

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

In addition, specified operational risk information is collated for the purposes of reporting to regulatory supervisors in the jurisdictions in which the Group operates.

Liquidity risk

Overview

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.

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

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

- Liquidity Coverage Ratio - the liquidity coverage ratio (LCR) requires banks to have sufficient high-quality liquid assets to withstand a 30-day stressed funding scenario. The requirement is being introduced on a phased basis. A minimum 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 and a binding ratio is being proposed under the CRD V package; and
- Additional Pillar 2 liquidity requirements may also apply.

The Group will continue to target a buffer above minimum applicable regulatory liquidity requirements.

Further information is available in the Group’s Annual Report 31 December 2016, Section 3.2 - Liquidity Risk, pages 111 to 117.

Table 8.1 - Liquidity ratios

	31 December 2016	31 December 2015
Liquidity coverage ratio	113%	108%
Net stable funding ratio	122%	120%

Encumbered and unencumbered assets held by the Group

Tables 8.2, 8.3 and 8.4 are designed to show the amounts of encumbered and unencumbered assets held by the Group. Assets are differentiated between those that are available for potential funding needs. All tables below are based on the official EBA reporting templates pertaining to Asset Encumbrance under CRD IV. Please note that all figures are median values based on quarter end point-in-time (PiT) figures covering the year ended 31 December 2016.

Table 8.2 - Encumbered and unencumbered assets held by the Group

As at 31 December 2016	**Carrying amount of encumbered assets €m**	**Fair value of encumbered assets €m**	**Carrying amount of unencumbered assets €m**	**Fair value of unencumbered assets €m**
Assets	**19,293**	**-**	**91,328**	**-**
- Loans on demand	*-*	*-*	*5,871*	*-*
- Equity instruments	*-*	*-*	*68*	*68*
- Debt securities	*346*	*346*	*12,837*	*12,922*
- Loans and advances other than loans on demand	*18,942*	*-*	*65,067*	*-*
- Other assets	*5*	*-*	*7,485*	*-*

Encumbered and unencumbered assets held by the Group (continued)

As at 31 December 2015	Carrying amount of encumbered assets €m	Fair value of encumbered assets €m	Carrying amount of unencumbered assets €m	Fair value of unencumbered assets €m
Assets	24,126		93,810	
- Loans on demand	*257*	-	*5,097*	-
- Equity instruments	-	-	*46*	*46*
- Debt securities	*943*	*943*	*13,511*	*13,462*
- Loans and advances other than loans on demand	*22,920*	-	*67,729*	-
- Other assets	*6*	-	*7,427*	-

Table 8.3 - Collateral received

As at 31 December 2016	**Fair value of encumbered collateral received or own debt securities issued €m**	**Fair value of collateral received or own debt securities issued available for encumbrance €m**
Collateral received	**1,153**	**205**
- Equity instruments	-	-
- Debt securities	*70*	*205*
- Other collateral received	*1,083*	-
- Own debt securities issued other than own covered bonds or ABSs	-	-

As at 31 December 2015	Fair value of encumbered collateral received or own debt securities issued €m	Fair value of collateral received or own debt securities issued available for encumbrance €m
Collateral received	663	205
- Equity instruments	-	-
- Debt securities	*78*	*205*
- Other collateral received	*585*	-
- Own debt securities issued other than own covered bonds or ABSs	-	-

Encumbered and unencumbered assets held by the Group (continued)

Table 8.4 - Encumbered assets / collateral received and associated liabilities

As at 31 December 2016	**Matching liabilities, contingent liabilities or securities lent €m**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered €m**
Carrying amount of selected financial liabilities	10,540	18,030
Other sources of encumbrance	2,041	2,640
Total sources of encumbrance	**12,581**	**20,670**

As at 31 December 2015	Matching liabilities, contingent liabilities or securities lent €m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered €m
Carrying amount of selected financial liabilities	12,754	21,832
Other sources of encumbrance	2,173	3,223
Total sources of encumbrance	14,927	25,055

As part of managing its funding requirements, the Group from time to time encumbers assets as collateral to support wholesale funding initiatives. This would include covered bonds, asset backed securities, securities repurchase agreements and other structures that are secured over customer loans. In 2016, €20.5 billion of the Group's assets and collateral received were encumbered, primarily through these structures.

Covered bonds, a key element of the Group's long-term funding strategy are issued through its subsidiary Bank of Ireland Mortgage Bank (BoIMB). BoIMB is registered as a designated mortgage credit institution to issue Irish Asset Covered Securities in accordance with relevant legislative requirements. BoIMB is required to maintain minimum contractual overcollateralisation of 5% and minimum legislative overcollateralisation of 3% (both on a prudent market value basis). This is monitored by the Covered Asset Monitor on behalf of the Central Bank of Ireland.

The Group recognises the restrictions on the transfer of liquidity between jurisdictions and separately monitors asset encumbrance by jurisdiction.

The Group has €7.5 billion of unencumbered 'Other assets'. These are primarily made up of assets which would not be deemed available for encumbrance in the normal course of business and include intangible assets, tax assets, fixed assets and derivative assets.

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Leverage ratio

CRD IV requires the disclosure of the Group's leverage ratio, which measures the level of Tier 1 capital against both on and off balance sheet exposures. As at 31 December 2016, the leverage ratio was 7.3% on a transitional basis (31 December 2015: 6.6%) and 6.4% on a fully loaded basis (31 December 2015: 5.7%).

The purpose of monitoring and managing this metric is to enable Regulators to constrain the build-up of excessive leverage, which was considered to be one of the drivers of the banking crisis.

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% as part of the CRD V Package proposals. 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.

The tables below illustrates leverage ratio calculated in accordance with Articles 429, 499(2) and (3) of the CRR and a breakdown of the Group's leverage ratio exposure as at 31 December 2016 on both a transitional and fully loaded basis.

References to naming conventions provided by the EBA have been included where appropriate.

Leverage ratio - disclosure template

Table 9.1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31 December 2016		31 December 2015	
Annex IV Reference		**Transitional CRD IV €m**	**Fully loaded CRD IV €m**	Transitional CRD IV €m	Fully loaded CRD IV €m
1	**Total assets as per published financial statements**	**123,129**	**123,129**	**130,960**	**130,960**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(16,461)	(16,461)	(15,598)	(15,598)
4	Adjustments for derivative financial instruments	(2,818)	(2,818)	(3,036)	(3,036)
5	Adjustments for securities financing transactions 'SFTs'	257	257	176	176
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4,516	4,516	3,891	3,891
7	Other adjustments	1,214	166	2,454	1,180
8	**Total leverage ratio exposure**	**109,837**	**108,789**	**118,847**	**117,573**

Table 9.2 - LRCom: Leverage ratio common disclosure

		31 December 2016		31 December 2015	
		Transitional CRD IV €m	Fully loaded CRD IV €m	Transitional CRD IV €m	Fully loaded CRD IV €m
On-balance sheet exposures (excluding derivatives and SFTs)					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	105,221	105,221	115,491	115,491
2	(Asset amounts deducted in determining Tier 1 capital)	(1,048)	(2,096)	(739)	(2,013)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**104,173**	**103,125**	**114,752**	**113,478**
Derivative exposures					
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	858	858	709	709
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	754	754	679	679
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(731)	(731)	(1,360)	(1,360)
9	Adjusted effective notional amount of written credit derivatives	10	10	-	-
11	**Total derivative exposures**	**891**	**891**	**28**	**28**
Securities financing transaction exposures					
14	Counterparty credit risk exposure for SFT assets	257	257	176	176
16	**Total securities financing transaction exposures**	**257**	**257**	**176**	**176**
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	16,091	16,091	16,049	16,049
18	(Adjustments for conversion to credit equivalent amounts)	(11,575)	(11,575)	(12,158)	(12,158)
19	**Other off-balance sheet exposures**	**4,516**	**4,516**	**3,891**	**3,891**
Capital and total exposures					
20	**Tier 1 capital**	**7,992**	**6,969**	**7,897**	**6,751**
21	**Total leverage ratio exposures**	**109,837**	**108,789**	**118,847**	**117,573**
Leverage ratio					
22	**Leverage ratio**	**7.3%**	**6.4%**	**6.6%**	**5.7%**

Table 9.3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		31 December 2016		31 December 2015	
		Transitional CRD IV €m	Fully loaded CRD IV €m	Transitional CRD IV €m	Fully loaded CRD IV €m
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**104,173**	**103,125**	**114,752**	**113,478**
EU-2	Trading book exposures	18	18	3	3
EU-3	Banking book exposures, of which:	104,155	103,107	114,749	113,475
EU-4	Covered bonds	3,513	3,513	2,328	2,328
EU-5	Exposures treated as sovereigns	15,398	15,398	17,136	17,136
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-	1,271	1,271
EU-7	Institutions	1,685	1,685	1,231	1,231
EU-8	Secured by mortgages of immovable properties	44,373	44,373	46,255	46,255
EU-9	Retail exposures	5,881	5,881	5,026	5,026
EU-10	Corporate	21,928	21,928	26,996	26,996
EU-11	Exposures in default	3,570	3,570	8,548	8,548
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	7,807	6,759	5,958	4,684

LRQua: Disclosure on qualitative items

The leverage ratio is designed to serve as an important backstop to the risk-based capital measures by constraining the build-up of leverage in the banking system and providing an extra layer of protection against model risk and measurement error.

Leverage is the extent to which a firm funds its assets with borrowings rather than equity. More debt relative to each Euro of equity results in a higher level of leverage. The leverage ratio measures the extent to which a firm has financed its assets with equity. It does not take into account what those assets are, or what their risk characteristics are. Leverage ratios effectively place a cap on borrowings as a multiple of a bank's equity.

The definition of the leverage ratio is Tier 1 capital divided by total assets (which include derivatives, SFT's, undrawn balances).

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% as part of the CRD V Package proposals. 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.

The Group's capital and exposures are monitored on a monthly basis which covers both a historical and a forward looking viewpoint. When proposed transactions or movements in capital or assets are being considered the impact on the leverage ratio is taken into account.

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%.

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Appendices

Appendix I: CRD IV capital resources

Appendix I provides qualitative information on, and a brief explanation of, the principle components of the Group's CRD IV capital resources as outlined in Table 2.4.

Total equity

Total equity represents accounting equity and comprises capital stock (including related share premium), retained earnings, foreign exchange reserve, available for sale reserve, cash flow hedging reserve, capital contribution reserve and other reserves. A consolidated statement of changes in these reserves is outlined on pages 190 and 191 of the Group's Annual Report 31 December 2016.

Deferred tax assets

Key provisions under CRD IV include the introduction of new deductions from CET 1 capital relating to deferred tax assets (DTA) that rely on future profitability according to Article 36 of the CRR, which are being introduced on a phased basis in line with CRD IV transitional rules.

Retirement benefit obligations

A prudential filter was previously applied in relation to the Group's defined benefit pension schemes resulting in a reversal of the IAS 19 accounting deficit and an add-back to total equity. The prudential filter required that any surpluses arising under IFRS in a defined benefit pension scheme was reversed for capital adequacy purposes. Similarly any deficits, reflecting actuarial losses were reversed from accounting equity. This is no longer the case under CRD IV and is to be phased out in line with CRD IV transitional rules.

Pension supplementary contributions

Under a prudential filter previously applied, credit institutions were required to deduct from capital certain pension supplementary contributions. As a result, the accounting deficit, which is reversed from capital as outlined above, is replaced with a deduction reflecting the amount required over a specified period (three years for Irish schemes, five years for UK schemes) towards the elimination of a pension deficit under CRD IV funding standard rules. This prudential filter is being phased out under CRD IV transitional rules.

Cashflow hedge reserve

The cashflow hedge reserve is included in accounting equity and is removed from regulatory capital through the application of a prudential filter. The cash flow reserve was positive at 31 December 2016, hence the application of the filter results in a deduction from total equity.

Available for sale reserve

The available for sale reserve was removed from regulatory capital under Basel II / CRD. CRD IV transitional rules in 2016 require phasing in 60% of unrealised losses and 60% of unrealised gains. Between 2017-2018, unrealised losses and gains will be phased in at the following rates 80%, 100%. Under national discretion, the AFS filters remain for sovereign exposures on a transitional basis only. Form 1 October 2016 this filter was removed following the ECB review of national discretions. The available for sale reserve is recognisable in capital under fully loaded CRD IV rules.

Expected loss deduction / Expected loss excess

Expected loss deduction / excess is the difference between accounting provisions recognised on the Group's IRB portfolios under IFRS on an incurred loss basis and the regulatory expected loss (EAD x PD x LGD) calculated for these portfolios. If regulatory expected loss exceeds accounting provisions the resulting shortfall is deducted from CET 1, this deduction is phased into CET 1 on a transitional basis. If accounting provisions exceed regulatory expected loss the excess can be included in Tier 2 capital subject to a maximum threshold (0.6% of IRB Credit RWA). Default and non-default exposures are treated separately which can result in both an expected loss deduction from CET 1 and / or an addition to Tier 2 of excess provisions.

Standardised incurred but not reported (IBNR) provisions

Impairment provisions 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 are described as incurred but not reported provisions. Under CRD IV the inclusion of standardised IBNR in Tier 2 is to be phased out in line with CRD IV transitional rules.

Intangible assets and goodwill

Intangible assets and goodwill are deducted in accordance with CRD IV requirements. The deduction is made at the level of CET 1 capital. The deduction excludes intangible assets in the Group's Life and pension business.

Own credit spread adjustment (net of tax)

Under CRD IV rules, credit institutions shall not include in own funds, gains or losses recognised on their liabilities accounted for at fair value that are attributable to changes in the credit institutions' own credit standing. Cumulative post tax gains and losses recognised in revenue reserves are reversed for regulatory capital purposes.

Securitisation deduction

The Group has retained tranches in certain traditional securitisation transactions. The KIRB value of these portfolios is taken as a supervisory deduction. Separately, a deduction is taken for purchased securitisation positions which otherwise would have attracted a 1250% risk weight under the Ratings Based approach and also for the first loss tranche in the synthetic securitisation.

Holdings in financial sector entities & 10% / 15% threshold deduction

Where the investments in financial sector entities exceed relevant thresholds, a deduction from CET 1 is required. The amount below the threshold is included in risk weighted assets at 250%.

Dividend / coupon expected on preference stock & other equity instruments

Dividends / coupons expected on preference stock and other equity instruments relate primarily to the Additional tier 1.

Grandfathering of capital instruments

CRD IV provides for a grandfathering regime which allows member states to recognise, on a transitional basis, certain capital instruments which do not qualify for inclusion in Additional tier 1 or Tier 2 capital under CRD IV, on a reducing basis until 31 December 2021. Additional tier 1 capital which does not qualify as Tier 1 capital under CRD IV but does qualify as Tier 2 capital will be phased into Tier 2 from Additional tier 1 on a gradual basis.

Additional tier 1 (AT1) capital

Additional tier 1 capital instruments are subordinated securities with some equity-like features but cannot be included as CET 1 capital, but can be included in AT1 capital provided they meet the criteria set out in Article 52 of the CRR. Such securities do not generally carry voting rights and rank higher than ordinary shares for coupon payments in the event of a winding-up. These include securities that may be called and redeemed by the issuer, subject to the prior approval of the SSM. Refer to Table 2.6 for further information.

Tier 2 capital

Tier 2 capital comprises certain qualifying subordinated liabilities, the criteria for which is set out in Article 62 of the CRR.

Tier 2 dated debt

Dated subordinated loan capital is repayable at par on maturity and has an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer, subject to the prior approval of the SSM. For regulatory purposes, it is a requirement that Tier 2 dated loan capital be amortised on a straight-line basis in their final five years of maturity thus reducing the amount of capital that is recognised for regulatory purposes. Refer to Table 2.6 for further information.

Tier 2 undated debt

Undated subordinated loan capital does not have a stated maturity date but where appropriate may be called and redeemed by the issuer, subject to the prior approval of the SSM. Refer to Table 2.6 for further information.

Appendix II: Equity holdings not in the Trading Book

The CRD IV permits non-disclosure where the information to be provided is not regarded as material. Information is deemed to be material under the CRD IV if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making an economic decision.

The Group's total exposure to non-Trading Book available for sale (AFS) equities had a balance sheet value at 31 December 2016 of €37 million (31 December 2015: €127 million). The Group considers its exposure to non-Trading Book AFS equities not to be material within the context of the CRD IV's definition of materiality and the Group will not be disclosing further quantitative information required to be disclosed with respect to non-Trading Book equity holdings.

As Bank of Ireland Life is not a credit institution for the purposes of CRD IV, its equity holdings (which are held on behalf of policy holders) fall outside the scope of the Group's Pillar 3 disclosures.

Nature and objectives of the Group's Non-Trading Book equity holdings

The Group's non-Trading Book equity holdings primarily constitute direct equity fund investments and equity co-investments, and investments in venture capital funds. The investments are undertaken to achieve strategic objectives and support venture capital transactions.

Investment in new funds or increases in commitments to existing funds are subject to the approval of the Private Equity Governance Committee (which is a Group Risk Policy Committee (GRPC) appointed committee).

Accounting treatment and valuation

Direct private equity fund investments and equity co-investments are accounted for in the same manner - i.e. both are treated as AFS assets on the Group's balance sheet. Given the absence of an active market or a reliable measure of fair value, they are held at cost.

An impairment charge is recognised when the Group believes the expected future cashflows from the asset will no longer support the carrying amount on the balance sheet. Impairment on equity instruments cannot be reversed and as such, this permanent diminution in value cannot be reversed in the income statement unless an actual recovery has occurred.

The Group's venture capital investments are accounted for as Investments in Associates and are measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

CRD IV treatment

The Group's non-Trading Book equities are treated under the Standardised approach for credit risk exposures.

Appendix III: Remuneration

Remuneration restrictions (the ‘remuneration restrictions’)

The Group is currently operating under a number of Remuneration Restrictions which cover all Directors, senior management, employees and certain service providers across the Group. In addition, any variable incentive payments over a certain level which may be made to employees based in Ireland currently would be subject to an additional tax charge. The Remuneration Restrictions were contained within the Covered Institutions Financial Support Scheme 2008 and the ‘Minister’s Letter’ (July 2011), under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister’s Letter was a further condition of the Transaction and Underwriting Agreement entered into with the Irish Government (July 2011) during the 2011 recapitalisation of the Group.

The Group considers itself to be in compliance with these Remuneration Restrictions.

Remuneration at Bank of Ireland

This section of the Group’s Pillar 3 document should be read in conjunction with the Group’s Annual Report 31 December 2016, and in particular the Remuneration Report pages 169 to 176, which provides information on directorships held by members of management body. Copies of the Group’s Annual Report 31 December 2016 can be obtained from our website www.bankofireland.com.

This section summarises remuneration for Code Role Holders in respect of 2016 and provides brief information on the decision-making policies for remuneration and, subject to the Remuneration Restrictions, the links between pay and performance in line with the EBA Remuneration Guidelines and other relevant guidelines.

Whereas the Group seeks to ensure it operates remuneration policies which are compliant with regulatory guidelines, the Group is currently operating under significant governmental and legal constraints in relation to remuneration. The Group’s Remuneration Policy, therefore, can only be implemented to the extent possible given these constraints.

As a result of the Remuneration Restrictions the Group is currently unable to provide a fixed / variable remuneration mix, which results in risks in terms of attraction, retention and alignment with the needs of the business and some inflexibilities with the cost base. If the Group fails to recruit and retain skilled and qualified people, its businesses may be negatively impacted.

Decision-making process for remuneration policy

The Group Remuneration Committee (GRC) holds delegated responsibility from the Court of Directors for the oversight of Group-wide Remuneration Policy with specific reference to the Governor, Directors and senior management across the Group, and those employees whose activities have a material impact on the Group’s risk profile. During 2016, the Group Remuneration Committee met five times. Terms of reference for the GRC, and details on its composition are available at: www.bankofireland.com/about-bank-of-ireland/corporate-governance/court-committees.

Code Role Holders

Under EBA Remuneration Guidelines, the Group is required to maintain a list of individuals identified as material risk takers, ‘Code Role Holders’. This listing is maintained using the Code Role Holder identification process, in line with the January 2014 EBA Guidelines and criteria. As per our internal Code Role Holder process, this listing is reviewed on a regular basis, at a minimum bi-annually. These criteria were tested against all Bank of Ireland employees to determine who was holding a Code Role. As at 31 December 2016 there were 170 Code Role Holders (December 2015: 166).

Attraction, motivation and retention

The Group's success depends in part on the availability of high calibre people and the continued services of members of its management team, both at its head office and at each of its business units.

If the Group fails to attract and appropriately train, motivate and retain high calibre people, its businesses may be negatively impacted. Restrictions, including the Remuneration Restrictions, imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Group's control in relation to the retention and recruitment of employees may adversely impact on the Group's ability to attract and retain such staff.

The Remuneration Restrictions place the Group at an increasing competitive disadvantage in seeking to retain and attract staff, particularly those with certain skill sets and in international locations.

Link between pay and performance

Individual performance measures and targets are agreed for each employee using a balanced scorecard approach through the Group performance management process. The four key result areas, each with a minimum weighting of 10%, are as follows:

- Customer;
- Leadership, People and Personal Development;
- Financial / Revenue / Cost / Efficiency; and
- Risk (covers all areas of Risk including Credit, Regulatory, Operational and Conduct Risk).

Further information on performance management in the Group (including our balanced scorecard) is available in the Group Remuneration Report.

Group Remuneration Strategy

Subject to the Remuneration Restrictions, the Group's Remuneration Strategy aims to support the Group's objectives of long-term sustainability and success, sound and responsible risk management and good corporate governance. The application of this strategy is consistent with the Group's Risk Appetite Statement and regulations that govern remuneration in the jurisdictions where the Group operates.

Subject to the Remuneration Restrictions, the Group Remuneration Strategy seeks to ensure that:

- the Group's efforts are aligned with, and contribute to, the long-term strategy, sustainability, value creation and success of the Group;
- the Group has the necessary remuneration philosophy, strategy and framework to attract, retain and motivate high calibre employees;
- the Group offers a competitive remuneration package across all markets, in a cost effective manner;
- remuneration frameworks, policies and practices are simple, transparent, easy to understand and implement;
- sound and effective risk management is reflected in performance management and remuneration frameworks and their alignment to performance targets and governance structures;
- remuneration frameworks, policies and practices are applied in consideration of and in alignment with the Group's Risk Appetite Statement and overall risk governance framework;
- risk adjusted financial performance is an important measure when evaluating performance;
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and is based on a balanced scorecard approach
- all remuneration policies are subject to appropriate governance;
- the Group is compliant with all applicable regulatory remuneration requirements as they relate to the Group; and
- remuneration frameworks, policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial, customer and public interests.

Subject to the Remuneration Restrictions, the Group will continue to seek to ensure that its remuneration strategy enables it to be competitive and comprehensively adhere to regulatory principles and guidelines set out by relevant regulatory authorities including the EBA. These design features support all remuneration frameworks, policies and processes across the Group, being applied proportionately depending on the nature, scale and complexity of the particular business area.

Remuneration expenditure

The following tables show the remuneration awards made by the Group to Code Role Holders in 2016.

The award data is pro-rated for those employees who were newly classified as Code Role Holders during 2016 and for those who were removed from the Code Role list during 2016.

Table 1a - Aggregate 2016 remuneration expenditure by business area*

Business area	No. of code role holders as at 31 December 2016	No. of employees who held a code role in 2016[1,2]	2016 Remuneration expenditure €m
Corporate and Treasury	42	44	18.03
Group credit & market risk	17	17	4.41
Group governance risk	18	24	4.58
Group manufacturing	7	7	2.04
Group support functions (CEO, Group Finance, Group HR)	22	24	7.71
Retail Ireland	25	30	9.25
Retail UK	17	19	6.25
Governor and NEDs	22[3]	25[3]	2.34
Total	**170**	**190**	**54.61**

* *Includes:*
- *Fixed pay (fees, salaries, employer pension contributions, car cash allowances and other fixed payments and non-monetary benefits) as defined by the EBA Remuneration Guidelines; and*
- *Variable payments (all other payments not defined as fixed pay under the EBA Remuneration Guidelines). Please note that no variable payments, excluding severance payments and contractual pension credit awards, were made in 2016.*

1 *Data shown for all employees who held a Code Role at any stage in 2016 for the period they held the Code Role.*
2 *Individuals, who are employed by an external company, are not classified as Code Role Holders; however the individual responsible for their engagement to the Group, and therefore responsible for the risk they pose, has been identified as a Code Role Holder.*
3 *The Governor and NEDs figures include NEDs from Bank of Ireland Group (BoIG), Bank of Ireland (UK) plc (BoIUK), New Ireland Assurance Company (NIAC) and Bank of Ireland Mortgage Bank.*

No individual earned total remuneration of €1 million or more in 2016.

Table 1b - Aggregate 2015 remuneration expenditure by business area*

Business area	No. of coded roles as at 31 December 2015	No. of employees who held a coded role in 2015[1,2]	2015 Remuneration expenditure €m
Corporate and Treasury	40	41	17.30
Group credit & market risk	17	19	4.47
Group governance risk	19	22	4.27
Group manufacturing	4	5	1.60
Group support functions (CEO, Group Finance, Group HR)	20	21	6.17
Retail Ireland	25	28	7.62
Retail UK	18	18	6.79
Governor and NEDs	23[3]	26[3]	2.29
Total	166	180	50.51

* *Includes fees, salaries, employer pension contributions (as specified in the 2014 EBA benchmarking exercise guidelines) and variable payments (no variable payments were made in 2015) made in 2015 and other cash benefits payable e.g. car allowance.*

1 *Data shown for all employees who held a Code Role at any stage in 2015.*
2 *Individuals, who are employed by an external company, are not classified as Code Role Holders; however the individual responsible for their engagement to the Group, and therefore responsible for the risk they pose, has been identified as a Code Role Holder.*
3 *The Governor and NEDs figures include NEDs from Bank of Ireland Group (BoIG), Bank of Ireland (UK) plc (BoIUK), New Ireland Assurance Company (NIAC) and Bank of Ireland Mortgage Bank.*

No individual earned total remuneration of €1 million or more in 2015.

Table 2 - Analysis of 2016 remuneration between fixed and variable amounts (actually paid in 2016)

Table 2a - Senior managers remuneration table

(Group Executive Committee and Senior Management Teams for BoIUK & NIAC) **(Note: There were 27 Senior Managers in Code Roles in 2016)**	**31 December 2016** **Non-deferred** **€m**	 **Deferred** **€m**
Total value of remuneration awarded in 2016		
Remuneration which is classified as fixed in nature[1]		
Cash based	11.24	-
Shares and share-linked instruments	-	-
Other	0.51	-
Remuneration which is classified as variable in nature[2]		
Cash based	0.67	-
of which;		
- Performance related	-	-
- Non-performance related - severance	*0.67*	-
Shares and share-linked instruments	-	-
Other	-	-

Table 2b - All other risk roles remuneration table

(Governor, Non-executive Directors & all other Code Staff) **(Note: There were 163 Coded Roles (excluding Senior Managers) in 2016)**	**31 December 2016** **Non-deferred** **€m**	 **Deferred** **€m**
Total value of remuneration awarded in 2016		
Remuneration which is classified as fixed in nature[1]		
Cash based	40.33	-
Shares and share-linked instruments	-	-
Other	0.71	-
Remuneration which is classified as variable in nature[2]		
Cash based	1.09	-
of which;		
- Performance related	-	-
- Non-performance related - severance	*1.09*	-
Shares and share-linked instruments	-	-
Other	0.06	-

[1] Remuneration which is classified as fixed in nature: meets the conditions set out in Section 7 of the EBA-GL-2015-22 Guidelines on Sound Remuneration Policies. The Group's application of these guidelines is as follows:
Cash based 2016 includes: fees, salaries, employer pension contribution amounts, car allowances and other fixed payments.
Other 2016 includes: BIK charged, health insurance, certain travel and accommodation costs.

[2] Remuneration which is classified as variable in nature: means all remuneration which is not fixed as set out in Section 7 of the EBA-GL-2015-22 Guidelines on Sound Remuneration Policies. The Group's application of these guidelines is as follows:
Cash based 2016: Severance pay.
Other 2016: Contractual pension credits.

The fixed to variable remuneration ratio for 2016 was 0.97:0.03.

2016 New sign-on and severance payments

- No payments were made to any code role holders hired during 2016 relating to the commencement of their employment.
- During the course of the year, six individuals designated as a code role holder received severance payments.
  - The total value of payments made to this population, including pay in lieu of notice and annual leave payment, was €1.76 million.
  - The highest individual payment made to a departing employee was €0.67 million.
- The above payments are included in the previous tables.

Appendix IV: Significant subsidiaries

Bank of Ireland (UK) plc

Bank of Ireland (UK) plc publishes a separate Pillar 3 document available at www.bankofirelanduk.com.

Table 1 shows the amount of capital Bank of Ireland (UK) plc is required to set aside to meet the minimum total capital ratio of 8% of RWA set by the CRR.

	31 December 2016			31 December 2015		
Table 1 - Breakdown of Bank of Ireland (UK) plc's regulatory capital requirement	**Capital requirement £m**	**RWA £m**	**Exposure £m**	Capital requirement £m	RWA £m	Exposure £m
Central governments or central banks	1	19	2,975	1	17	4,916
Public sector entities	-	-	16	-	-	-
Multilateral development banks	-	-	356	-	-	384
Institutions	6	69	304	7	86	361
Corporates	117	1,461	1,638	134	1,674	1,849
Retail	114	1,424	1,999	89	1,110	1,582
Secured by mortgages on residential property	449	5,623	15,850	438	5,478	15,413
Exposures in default	33	410	362	47	588	500
Covered bonds	3	37	187	-	-	-
Equity	-	2	2	-	2	2
Other items	17	210	345	16	196	350
Credit and counterparty risk	**740**	**9,255**	**24,034**	**732**	**9,151**	**25,357**
Operational risk	**62**	**779**	**-**	**60**	**746**	**-**
Total	**802**	**10,034**	**24,034**	**792**	**9,897**	**25,357**

Bank of Ireland (UK) plc applies the Standardised approach for the calculation of its credit and counterparty risk and operational risk capital requirements.

The Standardised categories included in the table above are the exposure classes, as per Article 112 of CRR where the Bank has exposures.

Bank of Ireland (UK) plc (continued)

Table 2 sets out Bank of Ireland (UK) plc's regulatory capital position and key capital and leverage ratios on a transitional and fully loaded basis.

Table 2 - Regulatory capital position and key capital and leverage ratios

	31 December 2016		31 December 2015	
	Transitional £m	**Fully loaded £m**	Transitional £m	Fully loaded £m
Ordinary share capital	851	851	851	851
Capital contributions	566	566	566	566
Retained earnings and other reserves	267	267	322	322
Total equity	**1,684**	**1,684**	**1,739**	**1,739**
Regulatory adjustments	**(132)**	**(132)**	**(127)**	**(127)**
- Deferred tax assets relying on future profitability	*(74)*	*(74)*	*(84)*	*(84)*
- Intangible assets	*(25)*	*(25)*	*(30)*	*(30)*
- Cashflow hedge reserve	*(32)*	*(32)*	*(11)*	*(11)*
- Retirement benefit asset	-	-	*(2)*	*(2)*
- Prudent valuation adjustment	*(1)*	*(1)*	-	-
Common equity tier 1 capital	**1,552**	**1,552**	**1,612**	**1,612**
Additional tier 1	**300**	**300**	**300**	**300**
- Subordinated perpetual contingent conversion Additional tier 1 securities	*300*	*300*	*300*	*300*
Total tier 1 capital	**1,852**	**1,852**	**1,912**	**1,912**
Tier 2				
Dated loan capital	335	335	335	335
Total tier 2 capital	**335**	**335**	**335**	**335**
Total capital	**2,187**	**2,187**	**2,247**	**2,247**
Total risk weighted assets	**10,034**	**10,034**	**9,897**	**9,897**
Capital ratios				
Common equity tier 1 capital ratio	15.5%	15.5%	16.3%	16.3%
Tier 1 capital ratio	18.4%	18.4%	19.3%	19.3%
Total capital ratio	21.8%	21.8%	22.7%	22.7%
Leverage ratio[1]	6.9%	6.9%	6.5%	6.5%

Capital ratios have been presented including the benefit of the retained profit in the period.

[1] Reconsideration of the Delegated Regulation (EU) 2015/62 identified an overstatement of £641 million in the off balance sheet exposures included in the 2015 leverage ratio exposures. This has been restated in the 2015 comparatives and has resulted in the 2015 leverage ratio changing from 6.4% to 6.5%.

Bank of Ireland Mortgage Bank

The principal activities of Bank of Ireland Mortgage Bank (BoIMB) are the provision of Irish residential mortgages and the issuance of securities in accordance with the Asset Covered Securities Acts, 2001 to 2007 (the 'ACS Acts').

BoIMB is a wholly owned subsidiary of the Governor & Company of the Bank of Ireland ('Bank of Ireland').

Risk management

The Board of Directors for BoIMB approves policies and limits with respect to credit risk, market risk, liquidity risk, regulatory risk, conduct risk, operational risk, business / strategic risk, capital adequacy risk, pension risk and reputation risk. BoIMB has entered into a range of service level agreements with Bank of Ireland to support its overall risk management and control processes.

The Head of Credit has responsibility for credit policy implementation and the Head of Finance has responsibility for financial risk policy implementation. Bank of Ireland Group Treasury has responsibility for day-to-day monitoring of market and liquidity risks. The Group Regulatory Compliance and Operational Risk Unit has responsibility for operational risk policy and controls.

BoIMB's risk management and control policies comply with Bank of Ireland Group risk management policies, which include reviews on a regular basis. In addition, Bank of Ireland control functions (e.g. Credit, Group Internal Audit) independently review compliance with Bank of Ireland policies as part of their on-going work in BoIMB.

BoIMB employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. BoIMB implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property

BoIMB's 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. This index provides the relevant index to be applied to original market values in the period after January 2005. Equity / negative equity values are determined using the Residential property price index published by the CSO for the year ended 31 December 2016. The weighted average indexed LTV for the total loan book was 70% at 31 December 2016 (31 December 2015: 79%).

Security for each account in BoIMB's portfolio consists of a first legal charge over residential real estate with supporting life and fire cover as appropriate. A dedicated team is responsible for the receipt and maintenance of security.

BoIMB's requirements around completion, valuation and management requirements for collateral / security are set out in appropriate policies and procedures.

BoIMB's credit risk processes are designed to ensure that mortgage charges are enforceable at the time the credit agreement is concluded and that mortgage charges are filed on a timely basis.

Capital

At the 31 December 2016, BoIMB's total capital ratio, including 2016 profits, was 21.8% on a transitional basis (31 December 2015: 21.6%). There were no changes to share capital or subordinated loans during the year to 31 December 2016.

Remuneration

BoIMB is covered under the Group's Remuneration policy and associated governance. Please see pages 169 to 176 of the Group's Annual Report 31 December 2016.

Remuneration disclosures relating to BoIMB's material risk takers (Code Role Holders) are incorporated within the Group's remuneration disclosures.

Capital requirements / RWA

Table 1 shows the amount of capital BoIMB is required to set aside to meet the minimum total capital ratio of 8% of RWA set by CRD IV.

Table 1 - Capital requirements / RWA

CRD IV transitional	**31 December 2016** Capital requirement €m	**31 December 2016** Risk weighted assets €m	31 December 2015 Capital requirement €m	31 December 2015 Risk weighted assets €m
Credit risk	475	5,940	381	4,767
IRB	475	5,940	381	4,767
Retail[1]				
- Secured by immovable property collateral	*475*	*5,940*	*381*	*4,767*
Standardised	-	-	-	-
Market risk	-	-	-	-
Operational risk	26	327	23	292
Other assets	11	133	10	117
Credit valuation adjustment	-	-	-	-
Total capital requirement (excluding Basel 1 floor)	**512**	**6,400**	**414**	**5,176**
Basel 1 floor requirement (80%)[2]	44	-	143	-
Total capital requirement (including Basel 1 floor)	**556**	**6,400**	**557**	**5,176**

[1] The Group revised the calculation of RWA under the IRB approach on its RoI mortgage non-defaulted portfolio.
[2] Under CRD IV, BoIMB is required to maintain a transitional floor set at 80% of Basel I requirements. The transitional floor capital requirement was €44 million (RWA €0.5 billion) at 31 December 2016 (€143 million (RWA €1.8 billion) at 31 December 2015).

Breakdown of BoIMB's regulatory capital requirement

Table 2 shows BoIMB's minimum capital requirements (based on 8% of RWA), RWA and EAD by risk type.

Table 2 - Breakdown of BoIMB's regulatory capital requirement

CRD IV transitional	**31 December 2016** Capital requirement €m	**31 December 2016** Risk weighted assets €m	**31 December 2016** Exposure at default €m	31 December 2015 Capital requirement €m	31 December 2015 Risk weighted assets €m	31 December 2015 Exposure at default €m
Retail & Foundation IRB approach[1]	475	5,940	19,629	381	4,767	19,823
Standardised approach	-	-	2,572	-	-	2,706
Settlement risk	-	-	-	-	-	-
Market risk	-	-	-	-	-	-
Operational risk	26	327	-	23	292	-
Other assets	11	133	150	10	117	171
Credit valuation adjustment	-	-	-	-	-	-
Total capital requirement (excluding Basel 1 floor)	**512**	**6,400**	**22,351**	**414**	**5,176**	**22,700**
Basel 1 floor requirement (80%)[2]	44	-	-	143	-	-
Total capital requirement (including Basel 1 floor)	**556**	**6,400**	**22,351**	**557**	**5,176**	**22,700**

[1] The Group revised the calculation of RWA under the IRB approach on its RoI mortgage non-defaulted portfolio.
[2] Under CRD IV, BoIMB is required to maintain a transitional floor set at 80% of Basel I requirements. The transitional floor capital requirement was €44 million (RWA €0.5 billion) at 31 December 2016 (€143 million (RWA €1.8 billion) at 31 December 2015).

Capital resources

Table 3 sets out BoIMB's capital position as at 31 December 2016, and a reconciliation of accounting with regulatory capital.

Table 3 - Reconciliation of accounting capital with regulatory capital

	31 December 2016		31 December 2015	
	CRD IV transitional €m	**CRD IV fully loaded €m**	CRD IV transitional €m	CRD IV fully loaded €m
Capital base				
Total equity	1,257	1,257	1,005	1,005
Regulatory adjustments being phased in / out under CRD IV	**(5)**	**(22)**	**(6)**	**(60)**
- Deferred tax assets[1]	*(5)*	*(22)*	*(6)*	*(60)*
Other regulatory adjustments	**(35)**	**(35)**	**(48)**	**(48)**
- Cash flow hedge reserve	*(35)*	*(35)*	*(48)*	*(48)*
Common equity tier 1	**1,217**	**1,200**	**951**	**897**
Additional tier 1	**-**	**-**	**-**	**-**
Total tier 1 capital	**1,217**	**1,200**	**951**	**897**
Tier 2				
Tier 2 dated debt	140	140	140	140
Expected loss excess amounts[2]	35	35	29	29
Total tier 2 capital	**175**	**175**	**169**	**169**
Total capital	**1,392**	**1,375**	**1,120**	**1,066**
Total risk weighted assets	**6,400**	**6,400**	**5,176**	**5,176**
Capital ratios				
Total capital ratio	21.8%	21.5%	21.6%	20.6%

[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.
[2] BoIMB has an excess of provisions over expected losses and these are included in Tier 2 capital subject to a limit of 0.6% of risk weighted assets calculated under the IRB approach.

Table 4 below outlines the component parts of regulatory capital with further details of capital instruments, adjustments, deductions and filters in line with the prescribed template provided in Article 5 of commission regulation (EU) No.1423/2013.

The table further details total risk weighted assets, capital ratios and buffers before listing applicable caps on the inclusion of provisions in Tier 2 and capital instruments subject to phase-out. Line referencing for Annex VI of commission regulation (EU) No.1423/2013 is also provided. Rows that are not applicable to BoIMB have been omitted.

Capital resources (continued)

Table 4 - Transitional & fully loaded own funds disclosure
Disclosure according to Article 5 in commission implementing regulation (EU) No.1423/2013.

Annex VI Reference		31 December 2016 Transitional CRD IV €m	31 December 2016 Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
Common equity tier 1 (CET 1) capital: Instruments and reserves					
1	Capital Instruments and the related share premium accounts	1,399	1,399	1,399	1,399
	Of which;				
	Ordinary stock	*738*	*738*	*738*	*738*
	Share premium	*661*	*661*	*661*	*661*
2	Retained earnings	(177)	(177)	(442)	(442)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	35	35	48	48
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	**1,257**	**1,257**	**1,005**	**1,005**
Common equity tier 1 (CET 1) capital regulatory adjustments					
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(5)	(22)	(6)	(60)
11	Fair value reserves related to gains or losses on cashflow hedges	(35)	(35)	(48)	(48)
28	**Total regulatory adjustments to Common equity tier 1 (CET 1)**	**(40)**	**(57)**	**(54)**	**(108)**
29	**Common equity tier 1 (CET 1) Capital**	**1,217**	**1,200**	**951**	**897**
Additional tier 1 (AT1) Capital: regulatory adjustments					
43	**Total regulatory adjustments to Additional tier 1 (AT1) capital**	**-**	**-**	**-**	**-**
44	**Additional tier 1 (AT1) Capital**	**-**	**-**	**-**	**-**
45	**Tier 1 capital (T1 = CET 1 +AT1)**	**1,217**	**1,200**	**951**	**897**
Tier 2 (T2) Capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	140	140	140	140
50	Credit Risk adjustments	35	35	29	29
51	**Tier 2 (T2) capital before regulatory adjustments**	**175**	**175**	**169**	**169**

Capital resources (continued)

Annex VI Reference		31 December 2016 Transitional CRD IV €m	31 December 2016 Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
Tier 2 (T2) capital: regulatory adjustments					
57	**Total regulatory adjustments to tier 2 (T2) capital**	-	-	-	-
58	**Tier 2 (T2) capital**	**175**	**175**	**169**	**169**
59	**Total capital (TC = T1+T2)**	**1,392**	**1,375**	**1,120**	**1,066**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-	-	-
	Of which;				
	items not deducted from CET 1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability indirect holdings of own CET 1, etc.)	-	-	-	-
	Of which;				
	items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in capital of other financial sector entities, etc.)	-	-	-	-
	items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts).				
60	**Total risk weighted assets**	**6,400**	**6,400**	**5,176**	**5,176**
Capital ratios and buffers					
61	Common equity tier 1 (as a percentage of total risk exposure amount)	19.0%	18.7%	18.4%	17.3%
62	Tier 1 (as a percentage of total risk exposure amount)	19.0%	18.7%	18.4%	17.3%
63	Total capital (as a percentage of total risk exposure amount)	21.8%	21.5%	21.6%	20.6%
64	Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	5.1%	7.0%	-	-

Capital resources (continued)

Annex VI Reference		**31 December 2016** Transitional CRD IV €m	**31 December 2016** Fully loaded CRD IV €m	31 December 2015 Transitional CRD IV €m	31 December 2015 Fully loaded CRD IV €m
65	Of which; capital conservation buffer requirement	0.6%	2.5%	-	-
66	Of which; countercyclical buffer requirement	0.0%	0.0%	-	-
67	Of which; systemic risk buffer requirement	-	-	-	-
67a	Of which; Global Systemically Important institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	-	-	-
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.5%	14.2%	-	-
Applicable cap on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	2	2	1	1
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	69	69	111	111
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	36	36	29	29
Amounts subject to pre-regulation (eu) no 575/2013 treatment or prescribed residual amount of regulation (eu) 575/2013					
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(17)		(54)	

Capital instruments

Table 5 provides information on the regulatory values of BoIMB's Tier 2 subordinated loans.

Table 5 - Capital instruments

31 December 2016	Nominal outstanding €m	Accounting value €m	CRD IV regulatory value at fully loaded €m	CRD IV regulatory value at transitional €m
Subordinated loans from Parent	140	140	140	140
Tier 2 debt	**140**	**140**	**140**	**140**
Total capital instruments	**140**	**140**	**140**	**140**

Exposure to credit risk

Table 6 is based on EAD and shows BoIMB's point-in-time and average exposure to credit risk.

Table 6 - Exposure to credit risk

	31 December 2016		31 December 2015	
Exposure class	**Total exposure (EAD) €m**	**Average exposures over the year (EAD) €m**	Total exposure (EAD) €m	Average exposures over the year (EAD) €m
IRB approach				
Retail				
- Secured by immovable property collateral	19,629	19,623	19,823	19,965
Total IRB	**19,629**	**19,623**	**19,823**	**19,965**
Standardised approach				
Institutions	2,572	2,680	2,706	2,792
Total Standardised	**2,572**	**2,680**	**2,706**	**2,792**
Total	**22,201**	**22,303**	**22,529**	**22,757**

Geographic analysis of exposures

Under CRD IV, geographical analysis of credit exposures is required based on exposures in the member states in which the institution has been authorised and member states or third countries in which institutions carry out activities through a brand or subsidiary.

BoIMB's primary market is Ireland. The geographical locations shown in Tables 7a and 7b are based on the business unit where the exposure is booked, rather than where the borrower is located.

Table 7 Geographical analysis of exposures

Table 7a - Geographic analysis of exposures – IRB approach

	RoI			**Total**		
Exposure class 31 December 2016	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**
IRB approach						
- Secured by immovable property collateral	*18,422*	*2.6%*	*15.1%*	*18,422*	*2.6%*	*15.1%*
Non-defaulted total	**18,422**	**2.6%**	**15.1%**	**18,422**	**2.6%**	**15.1%**
Defaulted total	**1,207**	**100%**	**26.0%**	**1,207**	**100%**	**26.0%**
Total	**19,629**	**8.6%**	**15.7%**	**19,629**	**8.6%**	**15.7%**

	RoI			Total		
Exposure class 31 December 2015	EAD €m	Exposure weighted PD %	Exposure weighted LGD %	EAD €m	Exposure weighted PD %	Exposure weighted LGD %
IRB approach						
- Secured by immovable property collateral	*18,142*	*2.0%*	*15.5%*	*18,142*	*2.0%*	*15.5%*
Non-defaulted total	18,142	2.0%	15.5%	18,142	2.0%	15.5%
Defaulted total	1,681	100.0%	26.3%	1,681	100.0%	26.3%
Total	19,823	10.3%	16.4%	19,823	10.3%	16.4%

Table 7b - Geographic analysis of exposures – Standardised approach

	31 December 2016		31 December 2015	
Exposure class	**RoI (EAD) €m**	**Total (EAD) €m**	RoI (EAD) €m	Total (EAD) €m
Standardised approach				
Institutions	2,572	2,572	2,706	2,706
Total	**2,572**	**2,572**	**2,706**	**2,706**

Industry analysis of exposures

Table 8 is based on EAD. The industry classification below is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in BoIMB's Annual Report 31 December 2016 have been used, however, the values will differ as these tables are based on EAD.

Table 8 - Industry analysis of exposure

	31 December 2016			31 December 2015		
Exposure class	**Financial (EAD) €m**	**Personal residential mortgages (EAD) €m**	**Total (EAD) €m**	Financial (EAD) €m	Personal residential mortgages (EAD) €m	Total (EAD) €m
IRB approach						
Retail	-	19,629	19,629	-	19,823	19,823
Total IRB	**-**	**19,629**	**19,629**	**-**	**19,823**	**19,823**
Standardised approach						
Institutions	2,572	-	2,572	2,706	-	2,706
Total Standardised	**2,572**	-	**2,572**	**2,706**	**-**	**2,706**
Total	**2,572**	**19,629**	**22,201**	**2,706**	**19,823**	**22,529**

Maturity analysis of exposures

The maturity analysis below discloses BoIMB's credit exposure by residual contractual maturity date.

Table 9 is based on EAD.

Table 9 - Maturity analysis of exposure

	31 December 2016				31 December 2015			
Exposure class	**<1 year (EAD) €m**	**1-5 years (EAD) €m**	**>5 years (EAD) €m**	**Total (EAD) €m**	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
IRB approach								
Retail	1,040	3,879	14,710	19,629	1,003	3,820	15,000	19,823
Total IRB	**1,040**	**3,879**	**14,710**	**19,629**	**1,003**	**3,820**	**15,000**	**19,823**
Standardised approach								
Institutions	1,572	219	781	2,572	1,650	222	834	2,706
Total Standardised	**1,572**	**219**	**781**	**2,572**	**1,650**	**222**	**834**	**2,706**
Total	**2,612**	**4,098**	**15,491**	**22,201**	**2,653**	**4,042**	**15,834**	**22,529**

Analysis of credit quality - Retail IRB

Table 10 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD grade.

Table 10 - Analysis of credit quality
Retail IRB - exposure class

CRD IV 31 December 2016	On-balance sheet gross exposure €m	Off-balance sheet exposures pre-CCF €m	Average CCF %	Total exposure (EAD) €m	Exposure weighted average PD %	Exposure weighted average LGD %	Risk weighted assets (RWA) €m	RWA density %	Expected loss €m
RoI mortgages[1]									
1 to 4	5,639	540	49%	5,901	0%	14%	343	6%	2
5 to 7	7,862	631	50%	8,177	1%	14%	1,124	14%	7
8 to 9	626	3	72%	629	2%	15%	226	36%	2
10 to 11	3,715	1	86%	3,715	11%	19%	3,537	95%	92
Default	1,207	-	0%	1,207	100%	26%	710	59%	497
Total	**19,049**	**1,175**	**49%**	**19,629**	**9%**	**16%**	**5,940**	**30%**	**600**
Total Retail	**19,049**	**1,175**	**49%**	**19,629**	**9%**	**16%**	**5,940**	**30%**	**600**

The exposure weighted average risk weight percentage and expected loss for the performing grades (grades 1 to 11) and the defaulted expected loss across the Retail IRB exposure class includes the impact of the Group's application of certain Central Bank of Ireland required adjustments as part of the 2013 Balance Sheet Assessment adjustments to the outputs of the Group's risk weighted assets calculations.

[1] The Group revised the calculation of RWA under the IRB approach on its RoI mortgage non-defaulted portfolio resulting in a migration of cases to higher PD bands and an increase in the total RoI mortgage portfolio RWA density to 30% (31 December 2015: 24%).

Table 10 - Analysis of credit quality
Retail IRB - exposure class

CRD IV 31 December 2015	On-balance sheet gross exposure €m	Off-balance sheet exposures pre-CCF €m	Average CCF %	Total exposure (EAD) €m	Exposure weighted average PD %	Exposure weighted average LGD %	Risk weighted assets (RWA) €m	RWA density %	Expected loss €m
RoI mortgages									
1 to 4	6,041	538	32%	6,215	0%	15%	380	6%	2
5 to 7	9,030	654	33%	9,249	1%	15%	1,386	15%	9
8 to 9	1,171	7	52%	1,175	2%	17%	503	43%	5
10 to 11	1,503	1	61%	1,503	18%	20%	1,512	101%	62
Default	1,681	-	-	1,681	100%	26%	986	59%	694
Total	19,426	1,200	33%	19,823	10%	16%	4,767	24%	772
Total Retail	19,426	1,200	33%	19,823	10%	16%	4,767	24%	772

Analysis of credit quality - Standardised approach

Table 11 - Analysis of credit quality
Standardised approach - exposure class

EAD €m	Risk weight									
31 December 2016	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total EAD**	**Total RWA**
Central governments and central banks	-	-	-	-	-	-	-	-	-	-
Institutions[1]	2,572	-	-	-	-	-	-	-	2,572	-
Total EAD	**2,572**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,572**	**-**

Analysis of credit quality
Standardised approach - exposure class

EAD €m	Risk Weight									
31 December 2015	0%	20%	35%	50%	75%	100%	150%	250%	Total EAD	Total RWA
Central governments and central banks	-	-	-	-	-	-	-	-	-	-
Institutions[1]	2,706	-	-	-	-	-	-	-	2,706	-
Total EAD	2,706	-	-	-	-	-	-	-	2,706	-

[1] *The BoIMB exposures within the institutions exposure class are intragroup positions and avail of 0% risk weighting under CRR Article 113 (6).*

Loan loss experience in the year ended 31 December 2016

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2016 is included in the Risk Management Report of the Group's Annual Report 31 December 2016 (under the Credit risk section on pages 80 to 110).

Past due and impaired exposures

Past due exposures are loans where repayment of principal and / or interest are overdue by at least one day but which are not impaired. Impaired loans are loans with a specific impairment provision attaching to them.

For additional information on past due and impaired exposures please refer to pages 80 to 110 of the Group's Annual Report 31 December 2016.

Past due and impaired exposures (continued)

Past due and impaired exposures by industry

Table 12 is based on financial statement information and discloses 'past due but not impaired' and 'impaired' balances by industry class.

Table 12 - Past due and impaired

	31 December 2016			31 December 2015		
Exposures by industry class	**Past due exposures €m**	**Impaired exposures €m**	**Total €m**	Past due exposures €m	Impaired exposures €m	Total €m
Personal						
- Residential mortgages	*413*	*1,047*	*1,460*	*636*	*1,426*	*2,062*
Total	**413**	**1,047**	**1,460**	**636**	**1,426**	**2,062**

Past due and impaired exposures by geography

Table 13 is based on financial statement information and discloses 'past due but not impaired' and 'impaired' balances by geographic location, which are based on the location of the business unit where the exposure is booked.

Table 13 - Past due and impaired

	31 December 2016			31 December 2015		
Exposures by geography	**Past due exposures €m**	**Impaired exposures €m**	**Total €m**	Past due exposures €m	Impaired exposures €m	Total €m
RoI	*413*	*1,047*	*1,460*	636	1,426	2,062
Total	**413**	**1,047**	**1,460**	**636**	**1,426**	**2,062**

Specific credit risk adjustments (provisions)

The loan loss provisioning methodology used by the Group is set out on pages 106 and 107 of the Group's Annual Report 31 December 2016.

This includes:

- a description of the type of provisions; and
- a description of the approaches and methods adopted for determining provisions.

CRD IV introduced the definition of 'specific' and 'general' credit risk adjustments and, in line with the relevant technical standard, the Group has included 'specific provisions' and 'IBNR' as specific credit risk adjustments. The Group has no 'general' credit risk adjustments.

Specific credit risk adjustments (provisions) (continued)

Specific credit risk adjustments by industry and geography

Table 14 shows the specific credit risk adjustments and provision charge by industry classification. It is based on financial statement information.

Table 14 - Specific credit risk adjustments by industry

	31 December 2016		31 December 2015	
Industry class	**Total specific credit risk adjustments €m**	**Charges for specific credit risk adjustments €m**	Total specific credit risk adjustments €m	Charges for specific credit risk adjustments €m
Personal				
- Residential mortgages	*669*	*(98)*	*883*	*(35)*
Total	**669**	**(98)**	**883**	**(35)**

Table 15 shows BoIMB specific credit risk adjustments on loans and advances to customers split between specific provisions and IBNR provisions on a geographic basis. The geographic locations shown are based on the location of the business unit where the exposure is booked. It is based on financial statement information.

Table 15 - Specific credit risk adjustments by geography

	31 December 2016			31 December 2015		
Specific credit risk adjustments Geographic breakdown	**Specific provisions €m**	**IBNR provisions €m**	**Total €m**	Specific provisions €m	IBNR provisions €m	Total €m
RoI	492	177	669	680	203	883
Total	**492**	**177**	**669**	**680**	**203**	**883**

Specific credit risk adjustments by provision type

Table 16 shows BoIMB's provisions against loans and advances to customers split by specific provisions and IBNR provisions.

Table 16 - Specific credit risk adjustments by provision type

	31 December 2016		31 December 2015	
Specific credit risk adjustments	**Total specific credit risk adjustments €m**	**Specific credit risk adjustment charges €m**	Total specific credit risk adjustments €m	Specific credit risk adjustment charges €m
Total specific provisions	492	(72)	680	-
Total IBNR provisions	177	(26)	203	(35)
Total specific credit risk adjustments	**669**	**(98)**	**883**	**(35)**

Specific credit risk adjustments (provisions) (continued)

Specific credit risk adjustments by regulatory approach

Table 17 shows BoIMB's provisions against loans and advances to customers, split by specific provisions and IBNR provisions and between regulatory approach; Standardised or IRB. It is based on financial statement information.

Table 17 - Specific credit risk adjustments by regulatory approach

	31 December 2016			31 December 2015		
Specific credit risk adjustments	**IRB provisions €m**	**Standardised provisions €m**	**Total €m**	IRB provisions €m	Standardised provisions €m	Total €m
Total specific provisions	492	-	492	680	-	680
Total IBNR provisions	177	-	177	203	-	203
Total specific credit risk adjustments	**669**	**-**	**669**	**883**	**-**	**883**

Specific credit risk adjustment charges during the year

Table 18 below shows the movement in the provision on loans and advances to customers during the year ended 31 December 2016. It is based on financial statement information.

Table 18 - Specific credit risk adjustment charges during the year

Provisions	**31 December 2016 €m**	31 December 2015 €m
Opening balance	883	1,076
Amount charged during the year	(98)	(35)
Provisions utilised, reversed and other movements	(116)	(158)
of which;		
- Recoveries	*(12)*	*(18)*
Closing balance	**669**	**883**

Credit risk mitigation

The credit risk section on pages 80 to 110 of the Group's Annual Report 31 December 2016 contains information relating to:

- the policies and processes for collateral valuation and management; and
- a description of the main types of collateral taken by the Group.

Collateral used to mitigate risk, both for mortgage and other lending is diversified. The main types of guarantors are corporates, individuals, financial institutions and sovereigns. Their creditworthiness is assessed on a case-by-case basis.

Comparison of expected versus actual loss

Table 19 is based on a comparison of regulatory expected loss of the performing IRB loan portfolios as at 31 December 2015 with actual loss (specific provision charge incurred) on these portfolios in the year ended 31 December 2016.

The parameters underlying the calculation of expected loss (PD, LGD and EAD) primarily represent through the cycle estimations, i.e. they reflect and estimate the average outcomes for an entire economic cycle. To meaningfully validate expected loss, these estimates would need to be compared to all realised losses which may have materialised after all the assets have gone through their life cycle. However, such information cannot be provided and disclosed since life cycles could last for a significant number of years. Using actual accounting loss information does not provide a suitable alternative, because - unlike expected loss estimates - accounting loss information is measured at point-in-time.

The following table should therefore be read bearing in mind these significant limitations.

Table 19 - Expected versus actual loss

IRB exposure class	**Expected loss calculated on 31 December 2015 €m**	**Specific provision charge for the year ended 31 December 2016 €m**	Expected loss calculated on 31 December 2014 €m	Specific provision charge for the year ended 31 December 2015 €m
Retail				
Secured by immovable property collateral	78	(72)	89	-
Qualifying revolving retail exposures	-	-	-	-
SME & Other	-	-	-	-
Total	**78**	**(72)**	**89**	**-**

Leverage ratio

CRD IV requires the disclosure of the BoIMB's leverage ratio, which measures the level of Tier 1 capital against both on and off balance sheet exposures. As at 31 December 2016, the leverage ratio was 5.7% on a transitional basis (31 December 2015: 4.4%) and 5.6% on a fully loaded basis (31 December 2015: 4.1%).

The purpose of monitoring and managing this metric is to enable Regulators to constrain the build-up of excessive leverage, which was considered to be one of the drivers of the banking crisis.

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% as part of the CRD V Package proposals. 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.

The tables below illustrate leverage ratio calculated in accordance with Articles 429, 499(2) and (3) of the CRR and a breakdown of the BoIMB's leverage ratio exposure as at 31 December 2016 on both a transitional and fully loaded basis.

Pillar 3 Overview | Capital | Risk Management | Appendices

Leverage ratio (continued)

Table 20 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31 December 2016		31 December 2015	
		Transitional CRD IV €m	Fully loaded CRD IV €m	Transitional CRD IV €m	Fully loaded CRD IV €m
1	**Total assets as per published financial statements**	**20,774**	**20,774**	**21,043**	**21,043**
4	Adjustments for derivative financial instruments	340	340	384	384
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	258	258	262	262
7	Other adjustments	(5)	(22)	(6)	(60)
8	**Total leverage ratio exposure**	**21,367**	**21,350**	**21,683**	**21,629**

Table 21 - LRCom: Leverage ratio common disclosure

		31 December 2016		31 December 2015	
		Transitional CRD IV €m	Fully loaded CRD IV €m	Transitional CRD IV €m	Fully loaded CRD IV €m
On-balance sheet exposures (excluding derivatives and SFTs)					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	20,671	20,671	20,918	20,918
2	(Asset amounts deducted in determining Tier 1 capital)	(5)	(22)	(6)	(60)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**20,666**	**20,649**	**20,912**	**20,858**
Derivative exposures					
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	103	103	125	125
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	340	340	384	384
11	**Total derivative exposures**	**443**	**443**	**509**	**509**
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	1,175	1,175	1,200	1,200
18	(Adjustments for conversion to credit equivalent amounts)	(917)	(917)	(938)	(938)
19	**Other off-balance sheet exposures**	**258**	**258**	**262**	**262**
Capital and total exposures					
20	**Tier 1 capital**	**1,217**	**1,200**	**951**	**897**
21	**Total leverage ratio exposures**	**21,367**	**21,350**	**21,683**	**21,629**
22	**Leverage ratio**	**5.7%**	**5.6%**	**4.4%**	**4.1%**

Leverage ratio (continued)

Table 22 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		31 December 2016		31 December 2015	
		Transitional CRD IV €m	**Fully loaded CRD IV €m**	Transitional CRD IV €m	Fully loaded CRD IV €m
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**20,666**	**20,649**	**20,912**	**20,858**
EU-2	Trading book exposures	-	-	-	-
EU-3	Banking book exposures, of which:	20,666	20,649	20,912	20,858
EU-5	Exposures treated as sovereigns	-	-	54	-
EU-7	Institutions	2,129	2,129	2,196	2,196
EU-8	Secured by mortgages of immovable properties	17,681	17,681	17,559	17,559
EU-11	Exposures in default	710	710	986	986
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	146	129	117	117

LRQua: Disclosure on qualitative items

The leverage ratio is designed to serve as an important backstop to the risk-based capital measures by constraining the build-up of leverage in the banking system and providing an extra layer of protection against model risk and measurement error.

Leverage is the extent to which a firm funds its assets with borrowings rather than equity. More debt relative to each Euro of equity results in higher level of leverage. The leverage ratio measures the extent to which a firm has financed its assets with equity. It does not take into account what those assets are, or what their risk characteristics are. Leverage ratios effectively place a cap on borrowings as a multiple of a bank's equity.

The definition of the leverage ratio is Tier 1 capital divided by total assets (which include derivatives, SFT's, undrawn balances).

The Basil committee is monitoring the proposed 3% minimum requirement for the leverage ratio and have proposed the 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 1 treatment on 1 January 2018.

The European Commission have proposed the introduction of a binding leverage requirement of 3% as part of the CRD V Package proposals. 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.

BoIMB's capital and exposures are monitored on a monthly basis which covers both a historical and a forward looking viewpoint. When proposed transactions or movements in capital or assets are being considered the impact on the leverage ratio is taken into account.

The leverage ratio at 31 December 2016 is 5.7% on a CRD IV transitional basis (31 December 2015: 4.4%), 5.6% on a pro forma fully loaded basis (31 December 2015: 4.1%). BoIMB expects to remain above the Basel committee indicated minimum level leverage ratio of 3%.

Glossary

Advanced IRB	Advanced Internal Ratings Based approach. The approach which allows banks to calculate their capital requirement for credit risk for their retail and non-retail portfolios using their own internally generated estimates of PD, LGD and CCF. These variables are then fed into a standard formula to calculate the capital requirement for the asset. Referred to as Retail IRB in this document.
Banking Book	The Banking Book consists of all banking assets, liabilities and derivatives other than those held with trading intent and booked on this basis in the Trading Book.
Basel II	The Capital Adequacy Framework issued in June 2004 by the Basel Committee, and implemented into EU law by Directive 2006/48/EC and Directive 2006/49/EC.
Basel III	Basel III is a global regulatory standard on bank capital adequacy and liquidity risk. It was agreed upon by the members of the Basel Committee on Banking Supervision. Basel III is implemented in Europe through the CRD IV legislation (see below).
Capital Requirements Directive (CRD)	Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006, relating to the taking up and pursuit of the business of credit institutions together with Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions.
CET 1	Common equity tier 1.
CRD IV	The CRD IV package transposes, via a Regulation and a Directive, the new global standards on bank capital (commonly known as the Basel III agreement) into the EU legal framework. The Capital Requirements Directive and the Capital Requirements Regulation were published in the Official Journal of the EU on 27 June 2013 and the legislation is being implemented on a phased basis from 1 January 2014 with full implementation by 2019.
Central Bank / CBI	The Central Bank of Ireland.
Collateral	Property or assets made available by a borrower as security against a loan. Under a collateralisation arrangement, a party who has an obligation to another party posts collateral (typically consisting of cash or securities) to secure the obligation. In the event that the counterparty defaults on the obligation, the secured party may seize the collateral.
Counterparty Credit Risk	Counterparty credit risk (CCR) means the risk that the counterparty to derivatives and security finance transactions could default before the final settlement of the transaction's cashflows.
Credit Conversion Factor (CCF)	An estimate of the proportion of undrawn commitments expected to be drawn down at the point of default. The CCF is expressed as a percentage and is used in the calculation of Exposure at Default (EAD).
Credit Risk Standardised Approach	A method for calculating risk capital requirements using ECAI ratings (where available) and supervisory risk weights.
Credit Risk Mitigation	A technique to reduce the credit risk associated with an exposure by the application of credit risk mitigants such as collateral, guarantees and credit protection.
CSA	Credit Support Annex. This is an annex to an ISDA agreement which allows the exchange of collateral (usually cash) based on mark-to-market movements on derivative contracts between counterparties.
CVA	Credit Valuation Adjustments.
Derecognition	The removal of a previously recognised financial asset or financial liability from an entity's balance sheet.
EBA	The European Banking Authority, formerly CEBS (the Committee of European Banking Supervisors).
Expected Loss	A regulatory calculation of the amount expected to be lost on an exposure using a twelve month time horizon and downturn loss estimates. Expected loss is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

External Credit Assessment Institution (ECAI)	An eligible External Credit Assessment Institution (ECAI) is an entity, other than an Export Credit Agency, that issues external credit assessments, and that has been determined by the competent authorities to meet the eligibility requirements set out in the Capital Requirements Directive. The credit assessment provided by the ECAI is used to provide a basis for capital requirement calculations in the Standardised approach for securitisation positions as well as an input into the IRB Institutions model. Further information on the use of ECAIs under the Standardised approach for other asset classes has not been disclosed due to immateriality.
Exposure at Default (EAD)	The estimated value of the bank's exposure at the moment of the borrower's default determined under regulatory rules.
Exposure Weighted Average LGD	Calculating the exposure weighted average LGD involves multiplying the exposure values by the relevant LGD, summing the answers and dividing by the total exposure values.
Foundation IRB	The approach where institutions use their own estimates of PD to calculate risk weights for each exposure. Supervisory estimates of LGDs and EADs are used.
GMRA	Global Master Repurchase Agreements, are standard industry agreements that permit the netting and the collateralisation of repo type transactions.
IBNR	Incurred but not reported provisions.
IFRS	International Financial Reporting Standards.
Internal Ratings Based Approach (IRB)	Approach to credit risk under which a bank may use internal estimates to generate risk components for use in the calculation of their credit risk regulatory capital requirements. There are two approaches: Foundation and Advanced (including Retail).
Immateriality	The CRD IV permits non-disclosure where the information to be provided is not regarded as material. Information is deemed to be material under the CRD IV if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making an economic decision. Any required items left out of this document due to immateriality are referenced in the relevant section of this document.
IRB Exposure Classes	• *Institutions:* Exposures to Financial Institutions authorised and supervised by the competent authorities and subject to prudential requirements. Includes exposure to Covered Bonds. • *Corporates:* CRD IV does not provide a definition of the corporate exposure class; it simply provides that any exposure not falling into any of the other exposure classes will be allocated to the corporate exposure class. • *Secured by immovable property collateral:* Residential mortgages. • *Qualifying revolving*: The exposures (to individuals) are revolving and unsecured. Primarily comprises of credit cards. • *Securitisation positions:* Exposures belonging to a pool - as defined below under securitisation.
ISDA	ISDA is the International Swaps and Derivatives Association. ISDA Agreements are standard industry agreements issued by ISDA which permit the netting of derivative transactions.
KIRB	8% of the risk weighted exposure amounts that would be calculated under Part 3 - Chapter 3 of CRD IV in respect of the securitised exposures, had they not been securitised, plus the amount of expected loss associated with those exposures as calculated under those articles.

Leverage Ratio	The leverage ratio is a monitoring tool which allows competent authorities to assess the risk of excessive leverage in their respective institutions.
Loss Given Default (LGD)	The likely financial loss associated with default, net of collections / recovery costs and realised security.
Mark-to-Market (MTM)	The act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.
Market Risk Standardised Approach	The Standardised approach to the determination of Pillar 1 capital for market risk in the Trading Book involves estimating a minimum required capital charge based on the difference in the re-pricing periods for assets, liabilities and derivatives (treated as equivalent on-balance sheet assets and liabilities). In addition, depending on the nature of the positions, it also provides for a specific risk charge. The total minimum capital charge is converted to a risk weighted asset equivalent for the Trading Book which is summed with other risk weighted assets in determining overall regulatory capital ratios.
MDB	Multilateral Development Bank.
NAMA	The National Asset Management Agency and, where the context permits, other members of NAMA's group including subsidiaries and associated companies.
Off Balance Sheet	Off balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.
Operational Risk Standardised Approach	The Pillar 1 approach which allows banks to calculate their capital requirement in respect of operational risk by multiplying the gross income from each business line by the relevant factor specified in respect of that business line (as set out in CRD IV).
Originator	An entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or an entity which purchases a third party's exposures onto its balance sheet and then securitises them.
Probability of Default (PD)	The likelihood that a debt instrument will default within a stated timeframe (For CRD IV this is a twelve month time horizon). For example, the probability of default of a certain loan is 2%; this means that there are 2 chances out of 100 that the borrower will default in the next 12 months.
Risk Exposure Amount	Risk Exposure Amount refers to an amount in respect of which capital requirements arise under CRR and is used interchangeably in this document with RWA.
Risk Weighted Assets (RWA)	Used in the calculation of risk-based capital ratios. Total assets are calculated by applying predetermined calculations (set by the regulators) to the nominal outstanding amount of each on-balance sheet asset and the notional principal amount of each off-balance sheet item and incorporating risk weighted factors. The term risk weighted assets for the purposes of this document also can be described as risk weighted exposures.
RWA Density (%)	Total RWAs divided by Total EAD post CRM.
Securitisation	Converting an asset such as a loan into a marketable commodity by turning it into securities. Assets are pooled and sold, often in unitised form, enabling the lender to reliquify the asset. Any asset that generates an income stream can be securitised - i.e. mortgages, car loans, credit-card receivables.
Settlement Risk	The risk to which a bank is exposed on certain transactions unsettled after their due date.
SME	Small Medium Enterprise is defined as an enterprise which employs fewer than 250 people and whose annual turnover is less than €50 million, or annual balance sheet total less than €43 million.

Standardised Exposure Classes	• *Retail:*	Exposures must be to an individual person or person or to a small or medium sized entity. It must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced and, the total amount owed, shall not, to the knowledge of the credit institution, exceed €1 million.
	• *Public Sector Entities:*	Exposures to Public Sector Entities and non-commercial undertakings.
	• *Corporates:*	In general, a corporate exposure is defined as a debt obligation of a corporate, partnership or proprietorship.
	• *Exposures in default:*	Where the exposure is past due more than 90 days or unlikely to pay.
	• *Exposures associated with particularly high risks:*	Exposures associated with particularly high risks such as investments in venture capital firms and private equity investments.
	• *Institutions and Corporates with a short-term credit assessment:*	Exposures for which a short-term credit assessment by a nominated ECAI is available.
	• *Other items:*	Exposures not falling into the other exposure classes outlined.

Trading Book A Trading Book consists of positions in financial instruments and commodities held either with intent to trade, or in order to hedge other elements of the Trading Book. To be eligible for Trading Book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability, or are able to be hedged completely.

Through-the-Cycle PD (TtC PD) A version of the Probability of Default measure engineered to estimate the average one-year probability of default over an economic cycle. For example, if the TtC PD of a certain loan is 2% this means that there is, on average over an economic cycle, a 2 in 100 chance that the borrower will default in any given year.

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