Preliminary Statement

For the year ended
31 December 2014

Bank of Ireland Group

For small steps, for big steps, for life

Bank of Ireland

Preliminary Statement

for the year ended 31 December 2014

Forward-Looking statement

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

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

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

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

- *geopolitical risks, such as those associated with crises in the Middle East and increasing political tensions in respect of the Ukraine, which could potentially adversely impact the markets in which the Group operates;*
- *concerns on sovereign debt and financial uncertainties in the EU and in member countries such as Greece and the potential effects of those uncertainties 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;*
- *the effects of extensive asset quality review and stress tests conducted by the European Central Bank and any capital or other assessments undertaken by regulators;*
- *property market conditions in Ireland and the United Kingdom;*
- *the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;*
- *deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, have resulted in significant increases, and could result in further significant increases, in the Group's impaired loans and impairment provisions;*
- *the impact on lending and other activity arising from the emerging macro prudential policies;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the Ireland Strategic Investment Fund) and possible changes in the level of such stockholding;*
- *the impact of downgrades in the Group's or the Irish Government's credit ratings or outlook;*
- *the stability of the eurozone;*
- *changes in the Irish and United Kingdom banking systems;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with the operation of the Single Supervisory Mechanism and the establishment of the Single Resolution Mechanism;*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings or any Irish banking inquiry more generally, that may have implications for the Group;*
- *the development and implementation of the Group's strategy, including the Group's ability to achieve net interest margin increases and cost reductions;*
- *the responsibility of the Group for contributing to compensation schemes in respect of banks and other authorised financial services firms in Ireland and the United Kingdom that may be unable to meet their obligations to customers;*
- *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 impact of the continuing implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive; and*
- *the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues and equipment failures and other operational risks.*

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

For further information please contact:

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

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

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

Contents

Business review

Financial Information

Other Information

View this report online
This Preliminary Statement and other information relating to Bank of Ireland is available at:
www.bankofireland.com

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Key highlights

Business highlights

Customers

Increased new lending by > 50% to €10 billion.

Largest lender to the Irish economy during 2014; doubled UK mortgage lending.

Reduced defaulted loans to €14.3 billion; a reduction of €4 billion from peak.

Profitability

Underlying profit of €921 million; c.€1.5 billion improvement over 2013.

Improved average Net Interest Margin (NIM) to 2.11%; Q4 NIM was 2.22%.

Increased Tangible Net Asset Value (TNAV) per share by 13%.

Capital

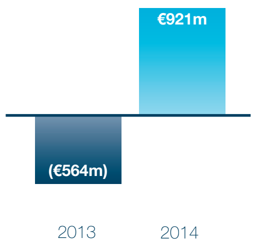
Increased CET 1 ratio by 250bps to 14.8%.

Passed ECB Comprehensive Assessment with substantial capital buffers.

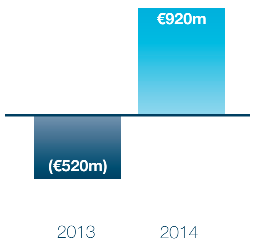
Fully loaded CET 1 ratio of 9.3% at December 2014.

Financial highlights

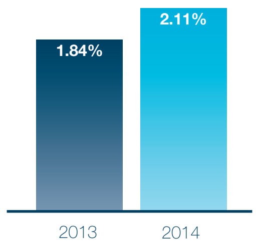
Underlying profit / (loss) before tax[1] €m



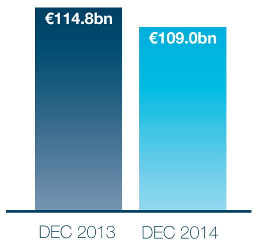
Profit / (loss) before tax[1] €m



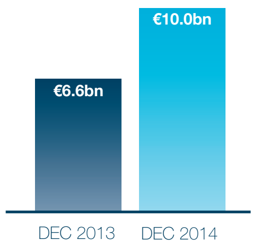
Net interest margin (before ELG fees) %



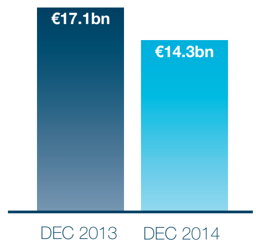
Average interest earning assets €bn



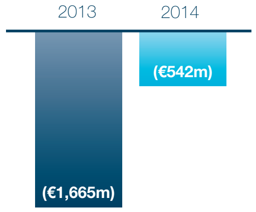
Gross new lending volumes €bn



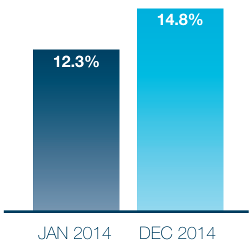
Default loan volumes €bn



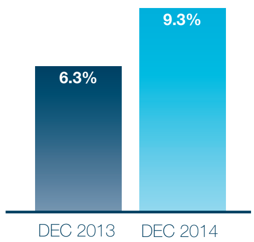
Impairment charges on loans and advances to customers €m



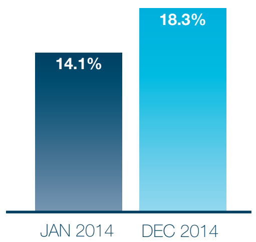
Common equity tier 1[2] (Basel III transitional) %



Common equity tier 1[3] (Basel III fully loaded) %



Total capital[2] (Basel III transitional) %



[1] *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[2] *The Common equity tier 1 ratio - Basel III transitional and total capital ratio are presented with a comparative as at 1 January 2014, incorporating Basel III transitional treatments which became effective from 1 January 2014. These capital ratios include the 2009 Preference Stock.*

[3] *The Common equity tier 1 ratio - Basel III fully loaded ratio excludes the 2009 Preference Stock.*

Group Chief Executive's review

Richie Boucher, Group Chief Executive Officer

'Having, to date, returned c.€6 billion in cash to the Irish taxpayers for their support and €4.8 billion investment in Bank of Ireland, we have made further substantial progress against our strategic priorities in 2014. We have grown our new lending by more than 50% to €10 billion and were the largest lender to the Irish economy last year. We have also generated capital at an accelerated pace and improved our asset quality. Our progress is reflected in our underlying financial performance, which we improved by almost €1.5 billion, with all trading divisions profitable.

We are confident in the Group's prospects. The outlook for the Irish and UK economies remains favourable. We have our strong retail and commercial franchises in these markets and we have resilient and professional people, who are motivated and focused and have a proven track record of delivery. The combination of these factors gives me confidence in our ability to responsibly deliver attractive and sustainable returns to our shareholders.'

We have made substantial progress against our strategic priorities in 2014

We set a number of strategic priorities at the beginning of the year including continuing to:

- win new customers and develop relationships with existing customers,
- build our margins whilst achieving new lending and deposit gathering targets,
- manage our costs whilst investing for the future,
- maintain the morale and commitment of our staff whilst driving through significant change,
- reduce the absolute quantum of defaulted loans through seeking to work with customers who have financial challenges,
- protect and manage our capital, and
- effectively manage within the evolving regulatory environment.

We have made substantial progress against these strategic priorities during the year as we focus on generating attractive and sustainable returns for our shareholders.

We have returned to profit and substantially improved our capital position

Underlying performance improved by c.€1.5 billion; all trading divisions profitable

We generated an underlying profit before tax of €921 million - c.€1.5 billion better than 2013. Higher net interest income, lower ELG fees and significantly reduced loan impairment charges all contributed to this result. It also reflects additional gains amounting to c.€500 million, relating primarily to impairment provision reversals and gains from the rebalancing of our liquid asset portfolio. Each of our trading divisions is generating profits and contributed to the significant improvement in our underlying profit. On a statutory basis, the Group reported a profit before tax of €920 million.

UK and Irish economies improved during 2014; outlook remains favourable

The Irish and UK economies continued to strengthen in 2014, providing supportive backdrops for our businesses. Ireland was the fastest growing economy in the Eurozone, with GDP growth of c.5%. Irish growth became more broadly based with domestic demand making a positive contribution. Employment continued to increase and the Irish unemployment rate, while still elevated, moved below the European average. Residential and commercial property markets also continued their recovery. In the UK, GDP expanded by 2.6% with employment growing and property prices increasing. The outlook for both the Irish and UK economies remains favourable, albeit we are conscious of increased geopolitical risks.

Delivered strong new lending performance – up more than 50%; largest lender to the Irish economy during 2014

Gross new lending of €10 billion in 2014 was more than 50% higher than the previous year.

In Ireland, we see encouraging signs of increased credit demand across our residential mortgage, SME and corporate businesses. Excluding our Irish tracker mortgages books (which in total reduced by €1.5 billion), total new lending of €5.7 billion by our Irish businesses exceeded repayments and redemptions. We were the largest lender to the Irish economy during 2014.

In the UK, ongoing investment in our consumer banking business resulted in a more than doubling of new mortgage lending to €2.3 billion in 2014.

Overall, net loans and advances to customers were €82.1 billion at 31 December 2014, a net reduction of €2.4 billion since 31 December 2013 (€4.5 billion on a constant currency basis). Redemptions, repayments and loan sales across our Group totalled c.€14 billion in 2014. Our actions to reduce defaulted loans, repayments in our RoI mortgage tracker book and the run-down of our non-core GB business banking / corporate banking books, together accounted for more than €3 billion of this figure.

Looking ahead, we are confident of further progress.

In Ireland, with our strong franchise positions, we are well positioned to meet credit demand which has begun to recover as the economy grows and confidence returns. We are also focused on capitalising on further refinancing opportunities from other financial institutions on both a customer specific basis and through acquiring loan portfolios which conform to our risk appetite, at prices which are margin accretive and are above our hurdle rate of return. We have had a positive start in 2015, including our recently announced acquisitions of performing loan books from Danske and the liquidators of IBRC. These acquisitions demonstrate our capability and appetite to develop new customer relationships and we welcome these new customers to the Group.

Our UK mortgage business is also enjoying continued momentum from 2014.

Net interest income increased 11% in 2014; net interest margin has improved to 2.11% with a Q4 NIM of 2.22%

Our net interest income increased 11% in 2014, with a higher net interest margin being partially offset by lower average interest earning assets.

We earned an average net interest margin of 2.11% in 2014, compared to 1.84% in 2013. Our 4th quarter net interest margin was 2.22%. The increase in our margin reflects the actions that the Group has taken to further reduce funding costs and the positive impact of new lending volumes, partially offset by the impact of ECB rate cuts in 2013 and 2014. From here, we expect that our net interest margin will grow further, albeit at a more modest pace than in 2014, with positive impacts from new lending and lower funding costs being partially offset by the impact of the low interest rate environment.

Average interest earning assets fell 5% to €109 billion during the year reflecting the movement in our loan book and lower liquid assets, as a consequence of NAMA bond repayments and our management of our liquid asset portfolio. Looking forward, we expect that our liquid assets will fall modestly from year end levels.

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

We continued to maintain tight control over costs. At the same time, we are investing in our businesses, technology, digital and people. We are focused on introducing new technologies to make banking easier and more cost efficient for our customers and staff who serve them. In Ireland, a substantial and increasing proportion of our customers are adopting self-service, e-banking and mobile technologies. Overall staff costs, including pensions, are in line with 2013. Other costs increased in 2014 reflecting continued investment in customer acquisition in Ireland and the UK and investments in technology and digital, partially offset by ongoing operational efficiencies. Our costs were also impacted by the relative strengthening of sterling against the euro. Looking forward, we remain focused on controlling our operating expenses while investing to support our growth opportunities. New regulatory requirements, particularly the deposit and resolution funds, will impact our cost base in 2015 and beyond.

Restructuring solutions for challenged loans are working; reduced defaulted loans by 22% (€4 billion) from peak

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

Our defaulted loan volumes continued to fall - by €2.8 billion in 2014 and by €4 billion from their reported peak in June 2013. These reductions reflect our ongoing efforts to appropriately and sustainably support customers who are in financial difficulty, the improving economic environment and the ongoing recovery in collateral values. We anticipate further reductions in defaulted loans in 2015 and beyond with the pace being influenced by a range of factors.

Total impairment charge reduced by c.€1.2 billion; RoI mortgage provision reversal of €280 million

Our total impairment charge reduced by c.€1.2 billion relative to the prior year. This reflects lower customer loan impairment charges of c.€840 million, a provision reversal of €280 million following changes to our RoI mortgage collective provisioning assumptions and the reversal of an impairment charge previously taken on NAMA subordinated debt of €70 million. Customer loan impairment charges were reduced across all asset categories. Excluding the positive impact of the RoI mortgage provision reversal, the impairment charge would have reduced to 90 basis points during 2014. We expect this charge to continue to progress toward normalised levels during 2015.

Generated capital at a significant pace in 2014; CET 1 ratios grown by 250-300 basis points

The Group generated capital at a significant pace during 2014 with a 250 basis points increase in our transitional Basel III Common equity tier 1 (CET 1) capital ratio and a 300 basis points increase in our fully loaded CET 1 ratio (excluding the 2009 Preference Stock). At the end of December 2014, the Group's transitional CET 1 ratio was 14.8%, the Group's fully loaded CET 1 ratio (including the 2009 Preference Stock) was 11.9% and the Group's fully loaded CET 1 ratio (excluding the 2009 Preference Stock) was 9.3%. The increase in our capital ratios during 2014 primarily reflects our trading performance, a modest reduction in risk weighted assets and a more efficient capital structure in our New Ireland life assurance subsidiary.

We have strengthened our Total capital ratio to 18.3%. This reflects the improvement in our CET 1 position and our €750 million Tier 2 bond issue in June 2014. The coupon on this bond was 4.25% compared to 10% on a similar bond issued 18 months ago.

The Group passed the ECB's Comprehensive Assessment with substantial capital buffers in October.

We continue to expect to maintain a buffer above a CET 1 ratio of 10%, taking account of the transition rules and our intention to de-recognise the 2009 Preference Stock between January and July 2016. This provides for a meaningful buffer over regulatory requirements.

As we have previously stated, we are prioritising the capital we are generating towards facilitating the de-recognition of the remaining €1.3 billion 2009 Preference Stock between January 2016 and July 2016. After that, our ambition will be to progress towards dividend payments.

Maintaining a robust liquidity position

Our liquidity position is robust, reflecting the actions we have taken to restructure our balance sheet and to strengthen our funding position. Customer deposits account for c.80% of Group funding and these are predominantly retail oriented. Our wholesale funding requirement has further reduced in 2014, with our remaining Monetary Authority funding at operational levels. At the end of December 2014, our net stable funding ratio was 114%, our Liquidity Coverage Ratio was 98% and our loan to deposit ratio was 110%.

Increased our Tangible Net Asset Value by c.13%

As a result of our financial performance, our Tangible Net Asset Value (TNAV) has increased by c.13% in 2014 to 21.6 cents per share.

Supporting our customers and the economy

We have continued to win new customers and develop our relationships with our existing customers across all our franchises.

We remain the number 1 business bank in Ireland

In Ireland, we are the number 1 bank for businesses, providing over 50% of new non property business lending in 2014. The domestic economy grew in 2014, which had a positive impact on confidence, and as a consequence, credit demand has begun to slowly improve. New lending volumes to businesses were up over 20% compared to 2013, reflecting our franchises' strength. We had particularly strong performances in our agricultural, motor finance and commercial finance businesses and we continue to provide over 50% of new agricultural lending. We believe there are further opportunities to build new relationships with businesses who are refinancing from other financial institutions. In February 2015, we announced the acquisition of a €274 million performing business banking portfolio from Danske Bank.

Strong performance in our Irish consumer businesses

Our Irish consumer businesses also performed well in 2014. Our mortgage business provided one out of every three mortgages in Ireland. Our new mortgage lending levels were up over 40% compared to 2013. We are continuing to innovate our mortgage offering and enhance our customer propositions. We continue to see new customers joining Bank of Ireland, and have benefited from other banks with challenged business models exiting the market. We completed the acquisition of a c.€250 million performing mortgage book from IBRC's liquidators in January 2015. We have a 27% share of the deposit market and have enhanced our direct and online product offerings.

Strong growth in UK mortgage lending; partnership with the UK Post Office continuing to develop

In the UK, through our partnership with the Post Office, we are one of the leading challenger consumer banking franchises with c.3 million customers. A key objective for 2014 was to significantly grow our mortgage business and our new lending volumes have more than doubled. This performance reflects the success of various development initiatives, including our investment in capacity and capabilities to prepare for Mortgage Market Review introduction in early 2014 and the launch of additional distribution partnerships including with Legal & General from June 2014. Supported by the momentum we are seeing, we are confident that we can deliver further new lending growth in 2015. Our foreign exchange joint venture with the Post Office remains the largest provider of consumer foreign exchange in the UK. We successfully launched a new foreign currency payment app in the first half, which has been well received by customers.

Continue to safely run down our GB non-core books	Our GB Corporate and Business Banking activities, which we are required to run-down under our EU-approved Restructuring Plan, reduced by £1.0 billion during 2014. The remaining book at the end of 2014 amounted to £1.9 billion. We expect the level of redemptions to slow in 2015.
Northern Ireland and motor / agri on track	Our UK motor and agri-asset finance business (NIIB) had a strong year. Our Northern Ireland business made a modest profit in 2014, following a cost base restructuring in 2013.
Corporate business focused on growth opportunities	Our Corporate and Treasury business delivered a very good result. New lending in our Irish corporate business was up c.€900 million, or more than 100%, compared to 2013 and the book has grown during the year. Our dedicated teams focused on new to Bank of Ireland customers and customers refinancing from other financial institutions had a successful year. We continue to achieve a strong share of banking relationships arising from new foreign direct investment in Ireland and we have maintained our leading position in the Irish corporate banking sector. Our global markets business developed relationships with a significant number of new customers in its foreign exchange business and saw increased demand from customers for interest rate and foreign exchange hedging protection products.
Our international acquisition finance business performed well	Our international acquisition finance business has delivered a strong performance and volumes have increased at appropriate margins and fees, despite our cautious stance in certain segments of this market.

Our People are a key differentiator for our business

My colleagues continue to be a key differentiator for our businesses. Our success relies on their professionalism and dedication, the service they provide to our customers and the long-term partnerships they build with them. I would like to personally thank my colleagues for their tremendous efforts which have enabled us to make further significant progress on our shared objectives during 2014.

Our future success depends on having colleagues who are equipped to effectively navigate the dynamic commercial, technological and regulatory environments in which we operate. We continue to invest in our people to ensure that they are able to further accelerate our momentum and more effectively support and serve our customers. Over the past year 2,900 colleagues achieved professional accredited qualifications and we sponsored 1,950 individuals to undertake education programmes.

We continue to strive to enhance our employer brand across all jurisdictions and have delivered a portfolio of successful Group-wide engagement and wellbeing programmes that have achieved positive external recognition.

During 2014, in conjunction with staff members, we completed the implementation of a shared solution to strengthen the Group's sponsored defined benefit pension schemes. This will improve the security of future pension benefits for the scheme's members and will support a reduction in the size and volatility of the Group's pension deficit over time.

In 2014, we transitioned to a new sustainable career and reward framework for our employees. The framework provides significant transparency and agility and reinforces our focus on investing in our people, our need to support career development and to reinforce the flexibility and professionalism of our people.

Well positioned for sustainable profitable growth in 2015 and beyond

2014 was another year of continued strong delivery against the strategic objectives we set for ourselves and have articulated to our shareholders. We have further enhanced the Group and its franchises through our lending performance, our return to profitability, our improved asset quality and the pace of our capital generation.

While there are geopolitical risks, the macroeconomic outlook remains favourable in both Ireland and the UK. With a business model focused on retail and commercial customers, we are well placed to continue to benefit from our support of the economic recovery in our chosen markets. We have the capital, liquidity, infrastructure and strategic imperative to support our businesses and meet our objectives for them. The strength and momentum in our businesses gives us confidence in the Group's prospects and in our ability to continue to focus on our duty to responsibly deliver attractive and sustainable returns to our shareholders.

Richie Boucher
26 February 2015

Operating and financial review

Performance summary

	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Group performance on an underlying[1] basis		
Net interest income (before ELG fees)	2,358	2,133
Eligible Liabilities Guarantee (ELG) Scheme fees[2]	(37)	(129)
Other income (net)	653	642
Operating income (net of insurance claims)	2,974	2,646
Operating expenses (before Irish Bank Levy)	(1,635)	(1,576)
Irish Bank Levy	(38)	-
Operating profit before impairment charges on financial assets	**1,301**	**1,070**
Impairment charges on loans and advances to customers	(542)	(1,665)
Reversal of impairment charges on available for sale (AFS) financial assets	70	-
Share of results of associates and joint ventures (after tax)	92	31
Underlying[1] profit / (loss) before tax	**921**	**(564)**
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	93	274
Cost of restructuring programme	(56)	(90)
Payment in respect of the career and reward framework	(32)	-
Charge arising on the movement in the Group's credit spreads	(10)	(154)
Other non-core items	4	14
Total non-core items (page 23)	(1)	44
Profit / (loss) before tax	**920**	**(520)**
Group performance (underlying[1])		
Net interest margin[3] (%)	2.11%	1.84%
Average interest earning assets (€bn)	109	115
Per unit of €0.05 ordinary stock		
Basic profit / (loss) per share (€ cent)	2.0	(2.3)
Underlying profit / (loss) per share (€ cent)	2.0	(2.4)
Tangible Net Asset Value (€ cent)	22	19
Impairment charges / (reversals) on loans and advances to customers		
Residential mortgages	(148)	573
Non-property SME and corporate	218	468
Property and construction	451	583
Consumer	21	41
Impairment charges / (reversals) on loans and advances to customers	**542**	**1,665**
Divisional performance[4]		
Underlying[1] profit / (loss) before tax		
Retail Ireland	328	(697)
Bank of Ireland Life	133	107
Retail UK	127	(153)
Retail UK (Stg£ million equivalent)	*103*	*(129)*
Corporate and Treasury	553	487
Group Centre (including ELG fees)	(220)	(305)
Other reconciling items[5]	-	(3)
Underlying[1] profit / (loss) before tax	**921**	**(564)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 23 for further information.*

[2] *The Government Guarantee Scheme, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme) ended for all new liabilities on 28 March 2013. A fee is payable in respect of each liability guaranteed under the ELG Scheme until the maturity of the guaranteed deposit or term funding.*

[3] *The net interest margin is stated before ELG fees.*

[4] *For more details on the performance of each division see pages 37 to 51.*

[5] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

Performance summary (continued)

Balance sheet and key metrics	**Year ended 31 December 2014 €bn**	Restated* Year ended 31 December 2013 €bn
Total assets	130	132
Stockholders' equity	8.8	7.9
Return on assets (%)[1]	0.61%	(0.37%)
Loans and advances to customers (after impairment provisions)	82	85
Defaulted loan volumes (€bn)	14.3	17.1
Customer deposits	75	74
Wholesale funding	20	27
Of which:		
Drawings from Monetary Authorities < 1 year to maturity	3	-
Drawings from Monetary Authorities > 1 year to maturity	1	8
Wholesale market funding < 1 year to maturity	8	7
Wholesale market funding > 1 year to maturity	8	12
Liquidity		
Liquidity Coverage ratio	98%	n/d[2]
Net Stable Funding ratio	114%	n/d[2]
Loan to deposit ratio	110%	114%
Capital[3]		
Common equity tier 1 ratio - Basel III transitional rules	14.8%	12.3%
Common equity tier 1 ratio - Basel III fully loaded (including 2009 Preference Stock)	11.9%	9.0%
Common equity tier 1 ratio - Basel III fully loaded (excluding 2009 Preference Stock)	9.3%	6.3%
Total capital ratio	18.3%	14.1%
Risk weighted assets (€bn)	51.6	54.8

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *Return on assets is calculated as being net profit (being profit after tax) divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations 2014.*

[2] *The Net Stable Funding Ratio and the Liquidity Coverage Ratio were not disclosed at 31 December 2013.*

[3] *The Common equity tier 1 ratio - Basel III transitional, total capital ratio and risk weighted assets are presented with a comparative as at 1 January 2014, incorporating Basel III transitional treatments which became effective from 1 January 2014. Unless otherwise stated all capital ratios include the 2009 Preference Stock.*

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 23.

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

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

Strategic report

- Bank of Ireland Group (the 'Group') is one of the largest financial services groups in Ireland with total assets of €130 billion as at 31 December 2014.
- The Group provides a broad range of banking and other financial services. These services include; current account and deposit services, overdrafts, term loans, mortgages, business and corporate lending, international asset financing, leasing, instalment credit, invoice discounting, foreign exchange facilities, interest and exchange rate hedging instruments, life assurance, pension and protection products. All of these services are provided by the Group in Ireland with selected services being offered in the UK and internationally.
- The Group generates the majority of its revenue from traditional lending and deposit taking activities as well as fees for a range of banking and transaction services.
- The Group operates an extensive distribution network of 246 branches and over 1,200 ATMs in the Republic of Ireland and access to 11,500 branches and over 2,500 ATMs in the UK via the Group's relationship as financial services partner with the UK Post Office.
- The Group is organised into four trading divisions to effectively service its customers as follows: Retail Ireland, Bank of Ireland Life, Retail UK and Corporate and Treasury.
- The Group's central functions, through Group Centre, establish and oversee policies and provide and manage certain processes and delivery platforms for divisions. These Group central functions comprise Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk and Group Human Resources.

Retail Ireland

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

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

Bank of Ireland Life

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

Retail UK

Retail UK primarily comprises consumer and business banking via a branch network in Northern Ireland, its UK residential mortgage business and the business partnerships with the UK Post Office. Most of Retail UK's operations are conducted through the Group's wholly owned UK licensed subsidiary, Bank of Ireland (UK) plc.

A range of retail financial services are provided in the UK via an exclusive relationship with the UK Post Office and a range of other partners. This gives the Group access to an extensive distribution network through which it distributes mortgage, personal lending, savings, insurance, banking and foreign exchange products and a large fleet of ATMs.

Corporate and Treasury

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

Corporate Banking provides banking services to major corporations and financial institutions. The range of lending products provided includes overdraft and short term loan facilities, term loans, project finance and structured finance. Corporate Banking also includes the Group's Leveraged Acquisition Finance (LAF) business.

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

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

Group Centre

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

Strategic objectives

The Group's balance sheet, credit risk profile and funding profile have been substantially restructured since 2008, with a focus on the Group's core Republic of Ireland (RoI) market and selected international diversification. The Group is focused on building sustainable profitability by nurturing and developing its:

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

All delivered by well trained, committed and motivated employees.

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

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

(a) Focus on RoI

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

(b) Selective international diversification

The Group's international businesses provide diversification from the Irish economy. The relationship with the UK Post Office is a key priority, in addition to which the Group will continue to leverage our strong capabilities in LAF, which has consistently provided profitable returns from exposure to assets in Europe and in the US. The Group carefully evaluates investments in these international markets, focusing on opportunities where there is potential for profitable returns.

(c) Funding model

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

Staff

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

EU Restructuring Plan

On 1 September 2014, as part of the Group's EU Restructuring Plan, the Group exited from the origination of new mortgage lending through the intermediary channel in Ireland. The exit from the intermediary business was implemented by transferring all regulated activities, assets and liabilities of ICS Building Society to the Governor and Company of the Bank of Ireland (the 'Bank') at book value.

On 1 September 2014, the sale of the ICS Building Society's distribution platform to Dilosk Limited, together with a c.€223 million gross performing mortgage asset pool, forming part of the Retail Ireland division, was completed. No deposits transferred as part of the sale.

ICS Building Society was placed in Members' Voluntary Liquidation on 15 December 2014.

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m	Change %
Net interest income (before ELG fees)	1	2,358	2,133	11%
Eligible Liabilities Guarantee (ELG) fees	2	(37)	(129)	(71%)
Net other income	3	653	642	2%
Operating income (net of insurance claims)		**2,974**	**2,646**	**12%**
Operating expenses (before Irish Bank Levy)	4	(1,635)	(1,576)	(4%)
Irish Bank Levy		(38)	-	n/m
Operating profit before impairment charges on financial assets		**1,301**	**1,070**	**22%**
Impairment charges on loans and advances to customers	6	(542)	(1,665)	67%
Reversal of impairment charges on available for sale (AFS) financial assets		70	-	n/m
Share of results of associates and joint ventures (after tax)		92	31	n/m
Underlying[1] profit / (loss) before tax		**921**	**(564)**	**n/m**
Impact of changes to pension benefits in the Group sponsored defined benefit schemes		93	274	(66%)
Cost of restructuring programme		(56)	(90)	38%
Payment in respect of the career and reward framework		(32)	-	n/m
Charge arising on the movement in the Group's credit spreads		(10)	(154)	94%
Other non-core items		4	14	(71%)
Non-core items	7	(1)	44	n/m
Profit / (loss) before tax		**920**	**(520)**	**n/m**
Tax (charge) / credit		(134)	34	n/m
Profit / (loss) for the year		**786**	**(486)**	**n/m**
Profit / (loss) attributable to stockholders		786	(483)	n/m
Profit / (loss) attributable to non-controlling interests		-	(3)	n/m
Profit / (loss) for the year		**786**	**(486)**	**n/m**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 23 for further information.*

Profit before tax was €920 million for the year ended 31 December 2014, an increase of €1,440 million compared to the previous year.

Underlying profit before tax is €921 million, an increase of €1,485 million compared to the previous year.

Total income was €2,974 million, up 12% year on year reflecting expansion of the net interest margin, partially offset by lower average interest earning assets. ELG fees decreased from €129 million in the year ended 31 December 2013 to €37 million in the year ended 31 December 2014. This reflects the reduction in deposits and other liabilities covered by the guarantee during the year.

Impairment charges on loans and advances to customers saw a significant reduction to €542 million at 31 December 2014, compared to €1,665 million in the previous year. There have been reductions across each loan portfolio which is reflective of our ongoing work to support customers in financial difficulty, the improving economic climate, increasing liquidity in property markets and the impact of reflecting these factors and recent experience in our Retail Ireland mortgage collective provisioning parameters and assumptions at 31 December 2014.

Underlying profit before tax for the year ended 31 December 2014 reflects additional gains including a gain arising from changes in the RoI mortgages collective provisioning assumptions (c.€280 million), the reversal of an impairment charge related to NAMA subordinated debt (€70 million), gains crystallised from the sale of shorter dated Irish sovereign bonds as part of a rebalancing of our liquid asset portfolio (€177 million), of which the Group considers gains in the order of 75% to be in excess of normal levels, and a gain on the sale of an international investment property (€29 million).

Non-core items are a net charge of €1 million reflecting the impact in 2014 of changes to pension benefits of €93 million arising from the 2013 Pension Review, offset by the costs of our restructuring programme and a payment relating to the new career and reward framework. During the year ended 31 December 2014, the Group reflected a charge of €10 million relating to movements in the Group's credit spreads (31 December 2013 €154 million).

Operating income (net of insurance claims)

Net interest income

TABLE: 1

Net interest income / net interest margin	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Net interest income (before ELG fees)	2,358	2,133	11%
IFRS income classifications[1]	(53)	(10)	n/m
Net interest income (before ELG fees) after IFRS income classifications	**2,305**	**2,123**	**9%**
Average interest earning assets (€bn)			
Loans and advances to customers	84	88	(5%)
Other interest earning assets	25	27	(6%)
Total average interest earning assets	**109**	**115**	**(5%)**
Year end interest earning assets	107	111	(4%)
Net interest margin	**2.11%**	**1.84%**	**15%**

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

Net interest income (before ELG fees) after IFRS income classifications of €2,305 million for the year ended 31 December 2014 has increased by €182 million or 9% compared to the previous year.

The increase in net interest income reflects a 27 basis points increase in the Group's average net interest margin to 2.11% for the year ended 31 December 2014, partially offset by a 5% reduction in average interest earning assets in the year.

The average net interest margin for the six months ended 30 June 2014 was 2.05%. The average net interest margin for the second half of the year ended 31 December 2014 was 2.15%.

The Group's success in rebuilding its net interest margin, notwithstanding the low interest rate environment, reflects the continued progress on repricing deposit portfolios and the achievement of higher margins on new lending. The Group also benefited from more efficient balance sheet management, reduced risk premia in the capital markets partially offset by the impact of ECB rate cuts in November 2013, June 2014 and September 2014 along with the expiry of certain cash flow hedges.

The reduction in average interest earning assets is due to the level of redemptions exceeding the level of new lending in the period, including the impact of the Group's successful actions to reduce the level of defaulted assets, the reduction in excess regulatory liquidity in the Group's UK subsidiary and the redemption of NAMA senior bonds partially offset by the strengthening of the sterling exchange rate against the euro.

The annualised average net interest margin (after deducting the cost of ELG fees) increased by 35 basis points to 2.08% in the year ended 31 December 2014 compared to 1.73% in the previous year.

Eligible Liabilities Guarantee (ELG) fees

TABLE: 2

ELG	**Year ended 31 December 2014**	Year ended 31 December 2013	Change %
ELG fees (€m)	37	129	(71%)
Covered liabilities (at period end) (€bn)	3	5	(43%)
Average fee during period (%)	1.01%	1.05%	(3%)

ELG fees of €37 million for the year ended 31 December 2014 are €92 million lower compared to fees of €129 million for the previous year. Total liabilities covered by the ELG Scheme reduced from €5 billion at 31 December 2013 to €3 billion at 31 December 2014.

The ELG Scheme ended for all new liabilities on 28 March 2013.

The cost of the ELG Scheme will continue to reduce in line with the maturity of covered liabilities. Final maturity of the covered liabilities is expected to occur by December 2017, with three quarters of the remaining covered liabilities of €3 billion expected to mature by 31 December 2015.

Net other income

TABLE: 3

Net other income	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Net other income	653	642	2%
IFRS income classifications[1]	53	10	n/m
Net other income after IFRS income classifications	**706**	**652**	**8%**

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

Net other income (continued)

Net other income after IFRS income classifications	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Business income[1]			
Retail Ireland	323	303	7%
Bank of Ireland Life	145	131	11%
Retail UK	9	7	29%
Corporate and Treasury	152	122	25%
Group Centre and other	(24)	(5)	n/m
Other gains			
Transfer from available for sale reserve on asset disposal	192	50	n/m
Recovery arising on settlement of administration claims	-	43	n/m
Other valuation items			
Financial instrument valuation adjustments (CVA, DVA, FVA and other)[2]	(101)	(6)	n/m
Fair value movement on Contingent Capital Note (CCN) embedded derivative	(31)	(11)	n/m
Economic assumptions - Bank of Ireland Life	24	(3)	n/m
Investment variance - Bank of Ireland Life	17	21	(19%)
Net other income after IFRS income classifications	**706**	**652**	**8%**

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

Net other income, after IFRS income classifications, for the year ended 31 December 2014 increased by €54 million compared to the previous year from €652 million in December 2013 to €706 million in December 2014.

Business income for the year ended 31 December 2014 compares to the previous year as follows;

- business income in Retail Ireland has increased by €20 million due to higher retail banking fees, higher foreign exchange income and higher debit card interchange and fee income;
- other income in Bank of Ireland Life of €145 million increased by €14 million reflecting an increase in new and existing business profits along with an increase in the proportion of income recognised as net other income rather than as Net interest income. Total operating income in Bank of Ireland Life has increased by 5% to €188 million in the year ended 31 December 2014 compared to the previous year (see page 42);
- business income, net, in Retail UK of €9 million has increased by €2 million compared to the previous year primarily due to fees on deleveraging GB business banking loans and increased transaction fees;
- business income in Corporate and Treasury of €152 million increased by €30 million compared to the previous year, primarily due to higher fee income; and
- other net charges in Group Centre have increased by €19 million.

Other gains within net other income are as follows:

- a gain of €192 million relating to transfers from the AFS reserve on asset disposals for the year ended 31 December 2014 compared to a gain of €50 million in the previous year. These gains mainly arose from the sale of shorter dated Irish sovereign bonds as part of a rebalancing of our liquid asset portfolio; and
- during the year ended 31 December 2013 a one-time gain of €43 million was recognised due to a recovery in relation to the Lehman Brothers administration settlement which did not recur.

Other valuation items within net other income are as follows:

- a charge of €101 million due to valuation adjustments on financial instruments (CVA, DVA, FVA and other) compared to a charge of €6 million in the previous year;
- a charge of €31 million due to the accounting impact of fair value movements on the derivative embedded in the Contingent Capital Note during the year ended 31 December 2014 compared to a charge of €11 million in the previous year, the CCN has a fixed maturity date of July 2016;
- a gain of €24 million relating to economic assumption changes and interest rate movements in Bank of Ireland Life for the year ended 31 December 2014 compared to a charge of €3 million in 2013; and
- a positive investment variance of €17 million in Bank of Ireland Life in the year ended 31 December 2014 reflecting positive movements in investment markets during the year. This compares to a positive investment variance of €21 million in 2013.

Operating expenses (before Irish Bank Levy)

TABLE: 4

Operating expenses (before Irish Bank Levy)	**Year ended 31 December 2014 €m**	Restated* Year ended 31 December 2013 €m	Change %
Staff costs (excluding pension costs)	685	691	(1%)
Pension costs	138	133	4%
- Pension costs excluding recovery of pension levy	*142*	*161*	*(12%)*
- Recovery of pension levy	*(4)*	*(28)*	*86%*
Other costs	794	737	8%
Operating expenses (before Financial Services Compensation Scheme (FSCS) costs)	**1,617**	**1,561**	**4%**
FSCS costs	18	15	20%
Operating expenses (after FSCS costs)	**1,635**	**1,576**	**4%**
			Change
Staff numbers at period end	**11,086**	**11,255**	**(169)**
Average staff numbers during the period	**11,292**	**11,831**	**(539)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Operating expenses (before FSCS costs) of €1,617 million for the year ended 31 December 2014 are €56 million or 4% higher than the previous year.

The Group has continued its focus on delivering efficiencies during the year ended 31 December 2014 with savings being achieved across staff and other costs. However, these savings have been offset by further investment in our people, business, technology and digital.

Staff costs (excluding pension costs) of €685 million for the year ended 31 December 2014 were €6 million lower than in 2013. This is due to the reduction in employee numbers under the Group's restructuring programme. The average number of staff employed by the Group has declined by 539 from an average of 11,831 in the year ended 31 December 2013 to 11,292 in 2014. Staff numbers at 31 December 2014 were 11,086. The impact on staff costs of the reduction in employee numbers has been partially offset by a salary increase of 1.75% (effective July 2014) which was paid to nearly all staff in December 2014.

Pension costs of €138 million for the year ended 31 December 2014 were €5 million higher than the same period in 2013. Lower service cost and interest cost were offset by the lower level of recovery of the pension levy compared to 2013.

Other costs, including technology, property and other non-staff costs were €794 million for the year ended 31 December 2014 compared with €737 million in the previous year. The increase reflects the Group's continued investment in customer acquisition in Ireland and the UK and investments in technology and digital partially offset by operational efficiencies.

FSCS costs of €18 million for the year ended 31 December 2014 were €3 million higher than in 2013.

Irish Bank Levy

TABLE: 5

Irish Bank Levy	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Bank Levy costs	38	-	n/m

The Group incurred a cost of €38 million in the year ended 31 December 2014 due to the introduction of a new Irish Bank levy.

The levy is in the form of a stamp duty and applies for the years 2014 to 2016.

The charge is calculated as 35% of the DIRT paid by each relevant financial institution in respect of 2011. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The levy is payable on 20 October 2014, 2015 and 2016.

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

TABLE: 6

Impairment charges / (reversals) on loans and advances to customers	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Residential mortgages	(148)	573	n/m
- Retail Ireland	*(140)*	*542*	*n/m*
- Retail UK	*(8)*	*31*	*n/m*
Non-property SME and corporate	218	468	(53%)
- Republic of Ireland SME	*127*	*233*	*(45%)*
- UK SME	*17*	*113*	*(85%)*
- Corporate	*74*	*122*	*(39%)*
Property and construction	451	583	(23%)
- Investment	*307*	*343*	*(10%)*
- Land and development	*144*	*240*	*(40%)*
Consumer	21	41	(49%)
Total impairment charges / (reversals) on loans and advances to customers	**542**	**1,665**	**(67%)**

Impairment charges on loans and advances to customers of €542 million for the year ended 31 December 2014 were €1,123 million or 67% lower than the previous year. The impairment charge for the previous year reflected, among other factors, implementation of the CBI 'Impairment Provisioning and Disclosures Guidelines' (31 May 2013), and the observations from the CBI's 2013 Asset Quality Review (AQR) of the Group's loan portfolios as at 30 June 2013.

The significant reduction in impairment charges for 2014 reflects the performance of the Group's loan portfolios, improvements in the economic environment in the countries in which those portfolios are located and the significant reduction in defaulted loans. Additionally, impairment charges for 2014 reflect the impact of updated Retail Ireland mortgage collective impairment provisioning parameters and assumptions, primarily driven by improving economic factors, property prices and recent experience, and the Group's response to the observations from the 2014 ECB AQR. The impairment reversal on **Residential mortgages** of €148 million for the year ended 31 December 2014 compares to an impairment charge of €573 million in the previous year.

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

The impairment reversal on the Retail Ireland mortgage portfolio of €140 million for the year ended 31 December 2014 compares to an impairment charge of €542 million in the previous year. The 2013 impairment charge on the Retail Ireland portfolio reflected the impact of the implementation of the CBI guidelines and consideration of the CBI's 2013 AQR.

The current year impairment reversal on the Retail Ireland mortgage portfolio reflects a range of considerations including:

- improved performance within the portfolio (lower default rates);
- the improved economic conditions such as lower unemployment and higher property prices; and
- the impact of updated Retail Ireland mortgage collective provisioning assumptions.

Details of updated collective provisioning model parameters and assumptions for Retail Ireland mortgages, including property valuation assumptions and cure rates, are set out on pages 72 and 73. The estimated combined impact of the updated collective provisioning model parameters and assumptions is a €280 million net reduction in collective impairment provisions for Retail Ireland mortgages as at 31 December 2014.

Overall, there has been a significant reduction in Retail Ireland mortgage default arrears (based on loan volumes greater than 90 days past due and / or impaired) in 2014, continuing the trend seen in the second half of 2013.

Owner occupied default arrears (based on loan volumes greater than 90 days past due and / or impaired) were €1,685 million at 31 December 2014 as compared with €1,911 million at 30 June 2014 and €2,051 million at 31 December 2013. This reduction is reflective of the further improvement in economic conditions during the year and the considerable ongoing progress being made by the Group in effecting its mortgage arrears resolution strategies supported by improving economic conditions. The level of Owner occupied default arrears for the Group remains at less than half the level of those banks as published on a quarterly basis by the CBI (latest industry statistics are as at Q3 2014[1]).

Buy to let default arrears (based on loan volumes greater than 90 days past due and / or impaired) were €1,534 million at 31 December 2014 as compared to €1,787 million at 30 June 2014 and €1,745 million at 31 December 2013.

Buy to let borrowers continue to be impacted by rising repayments as interest only periods come to an end and they move to fully amortising loans. At 31 December 2014, 70% of the Buy to let mortgage book was on a 'principal and interest' repayment basis (31 December 2013: 65%). As part of the Group's mortgage arrears resolution strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are coming to an end, to restructure customer mortgages on a sustainable basis, as appropriate.

The €253 million reduction in Buy to let default arrears in the second half of 2014 reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed mortgage assets, supported by improved rental market conditions for investors, particularly evident in primary urban areas. The level of Buy to let default arrears for the Group remains below the level of those banks as published on a quarterly basis by the CBI (latest industry statistics are as at Q3 2014[1]).

The Group's progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties has resulted in higher cure rates, and thus has also contributed to the significant reduction in the stock of default arrears and lower impairment charges in 2014. In line with the CBI 'Impairment Provisioning and Disclosures Guidelines', application of a twelve month probation period continues to apply in all cases to be eligible for inclusion in collective provisioning model cure rate calculations.

The impairment reversal on the Retail UK mortgage portfolio of €8 million for the year ended 31 December 2014, compared to an impairment charge of €31 million in the previous year. This reflects the improved residential property market in the UK, allied with the satisfactory performance of the portfolio which has seen low and reducing levels of default arrears across all market segments. Default arrears (volume of loans greater than 90 days past due and / or impaired) decreased to £395 million at 31 December 2014 as compared with £457 million at 30 June 2014 and £492 million at 31 December 2013.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €218 million for the year ended 31 December 2014 has decreased by €250 million from the previous year.

Republic of Ireland SME impairment charges of €127 million for the year ended 31 December 2014 have decreased by €106 million from the previous year. The reduction reflects general improvements in economic and trading conditions in the Irish SME sector in 2014. Current year impairment charges continue to relate mainly to those segments dependent on discretionary consumer spending, in addition to individual case specific events.

Impairment charges on the UK SME portfolio decreased to €17 million for the year ended 31 December 2014 compared to an impairment charge of €113 million in the previous year. Previous year impairment charges were driven by a small number of large individual cases, which were not a feature in the current

[1] *CBI Mortgage Arrears industry statistics report adjusted to exclude Bank of Ireland.*

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

year. The portfolio also benefited from the further improvement in macroeconomic conditions.

The impairment charges on the Corporate portfolios reduced to €74 million for the year ended 31 December 2014 compared to €122 million in the previous year. As was the case in the first half of 2014, impairment charges have primarily been driven by individual case specific events. Overall, the pace of migration of new cases into our challenged portfolios has reduced considerably, with both the domestic Irish and international corporate banking portfolios continuing to benefit from the improvement in economic conditions.

The impairment charge on the **Property and construction** loan portfolio of €451 million for the year ended 31 December 2014 decreased by €132 million compared to €583 million in the previous year.

The impairment charge on the Investment property element of the Property and construction portfolio was €307 million for the year ended 31 December 2014 compared to €343 million in the previous year. Investment property impairment charges reflect the regional distribution of assets within the Investment property portfolio. While prime Dublin and London markets continue to lead the property market recovery, in non-urban / regional areas the recovery is slower, with demand dependent on location, asset type and quality. Investment property impairment charges also reflect resolution activity such as selected property asset sales for a small number of individual cases in certain market segments.

The positive sentiment that has been witnessed in the Dublin commercial property market over the past twelve months in the office and retail sectors is supported by stronger occupier demand. Dublin continues to lead the recovery with increased activity present in the urban centres of Cork, Galway and Limerick. Other regions are showing improved sentiment, however recovery is moving more slowly. The sale of significant regional shopping centre and retail park portfolios in the market has had a positive impact on the pricing of retail assets in those sectors. These transactions illustrate investor confidence towards future expectations in the sector but the retail occupier market is at an earlier stage in the cycle having yet to record meaningful rental growth.

Within the UK, both London and the South East are experiencing yields close to their historic lows. Investors continue to have a strong appetite for regional assets, including shopping centres, which have seen yield spreads between prime and strong regional assets narrow. Location and scheme specific rental growth is expected to return.

The impairment charge on the Land and development element of the Property and construction portfolio was €144 million for the year ended 31 December 2014 compared to €240 million in the previous year. Development activity has increased in Dublin, with commuter counties now also improving; however, other regional areas remain challenging and are recovering more slowly. This urban / rural divide in property markets, in addition to the revision of exit strategies on a small number of challenged cases, is reflected in Land and development impairment charges in 2014.

The impairment charge of €21 million on **Consumer** loans for the year ended 31 December 2014 has reduced significantly from the impairment charge of €41 million in the previous year, reflecting the ongoing improvements in economic conditions in 2014, and consequently low levels of default and higher cure rates, particularly in the Retail Ireland Consumer portfolio.

Reversal of impairment charge on available for sale financial assets

At the balance sheet date the Group held €281 million (nominal value) of subordinated bonds issued by the National Asset Management Agency (NAMA). Following NAMA's updated outlook for its long term performance and the payment to the Group of a coupon of €15 million, the Group updated its valuation of the bonds to 82.6% of their nominal value at 31 December 2014, and reversed €70 million of impairment previously recognised.

There was no impairment charge on available for sale (AFS) financial assets for the year ended 31 December 2013.

Non-core items

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

TABLE: 7

Non-core items	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	93	274	(66%)
Cost of restructuring programme	(56)	(90)	38%
Payment in respect of the career and reward framework	(32)	-	n/m
Gross-up for policyholder tax in the Life business	14	26	(46%)
Charge arising on the movement in the Group's credit spreads	(10)	(154)	93%
(Loss) / gain on liability management exercises	(5)	4	n/m
Loss on disposal / liquidation of business activities	(4)	(10)	61%
Investment return on treasury stock held for policyholders	(1)	(3)	66%
Loss on deleveraging of financial assets	-	(3)	n/m
Total non-core items	**(1)**	**44**	**n/m**

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

The largest of the Group sponsored defined benefit pension schemes is the Bank of Ireland Staff Pensions Fund (BSPF) which accounted for approximately 76% of the total liabilities across all of its defined benefit sponsored schemes.

The Group completed a review of the BSPF during 2013 and implemented amendments to benefits to address the IAS 19 deficit of same. The amendment to future increases in members' pensionable salaries required active members in RoI and UK to individually accept the changes. In 2013 the Group recognised €274 million non-core gain in the income statement as a result. In the year ended 31 December 2014 a further non-core gain of €93 million was recognised reflecting the increased level of acceptances at 31 December 2014 of c.100% (31 December 2013: 19%) together with the impact of a similar review carried out on a number of smaller Group sponsored pension schemes during the year.

Cost of restructuring programme
During the year ended 31 December 2014, the Group continued its restructuring programme which further reduced the number of people employed by the Group and further rationalised the Group's office space. The Group recognised a charge of €56 million in relation to the restructuring programme during the year ended 31 December 2014, primarily related to the reduction in employee numbers. A restructuring charge of €90 million was incurred in the year ended 31 December 2013 of which €48 million related to a reduction in employee numbers and €42 million to office rationalisation.

Payment in respect of the career and reward framework
During 2014, and linked to the 2013 Pension Review, the Group agreed a new career and reward framework, across the Group, giving transparency and flexibility around change and career development in the Group and consequently a change to certain historical employment contracts and practices. In recognition of the career and reward framework implementation virtually all staff accepted a 5% of salary once off payment resulting in a non-core charge of €32 million in the year. Virtually all staff also received a 1.75% salary increase paid in 2014 and included in 2014 operating costs, and a 2% pay increase for 2015 paid from January 2015.

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

Charge arising on the movement in the Group's credit spreads
A charge of €10 million was recognised in the year ended 31 December 2014 compared with a charge of €154 million during the year ended 31 December 2013. This charge arises from the impact of narrowing in the credit spreads on the Group's own debt and deposits that are accounted for at 'fair value through profit or loss'. The impact of credit spreads

Non-core items (continued)

tightening has been partially offset by gains arising from the 'pull to par' effect of cumulative losses reversing over time. These Group liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits. These charges do not impact the Group's regulatory capital.

(Loss) / gain on liability management exercises
A loss of €5 million on liability management exercises was recognised in the year ended 31 December 2014 compared with a gain of €4 million in the previous year, reflecting the repurchase of certain Group debt securities that were guaranteed under the ELG Scheme. While a loss was recognised on these exercises, these actions have had a positive impact on Group earnings. Savings were achieved as guarantee fees were no longer payable and interest costs were reduced following the buyback of these higher coupon bonds.

Loss on disposal / liquidation of business activities
A loss on disposal / liquidation of business activities of €4 million was recognised in the year ended 31 December 2014 which primarily relates to the disposal of the ICS mortgage platform and c.€223 million of mortgages to Dilosk Limited. This compared to a loss of €10 million in the previous year in relation to other disposals.

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was a €1 million charge in the year ended 31 December 2014, compared to a charge of €3 million in 2013. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2014 were 17 million units (31 December 2013: 20 million units).

Loss on deleveraging of financial assets
A loss on the planned deleveraging of financial assets of €3 million was recognised in the year ended 31 December 2013. There was no such loss in the current year.

Taxation

The taxation charge for the Group was €134 million for the year ended 31 December 2014 compared to a taxation credit of €34 million (restated)* in the previous year. Excluding the impact of non-core items, the effective tax rate for the year ended 31 December 2014 is 13% (taxation charge) which compares with the comparable (restated) rate for the previous year of 12% (taxation credit). The effective tax rate is influenced by changes in the geographic mix of profits and losses.

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Group balance sheet

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

Summary consolidated balance sheet

Summary consolidated balance sheet	**Table**	**31 December 2014 €bn**	Restated* 31 December 2013 €bn	Change %
Loans and advances to customers (after impairment provisions)		82	85	(3%)
Liquid assets	8	25	27	(6%)
Bank of Ireland Life assets		16	14	11%
Other assets	11	7	6	8%
Total assets		**130**	**132**	**(2%)**
Customer deposits	9	75	74	1%
Wholesale funding	10	20	27	(28%)
Bank of Ireland Life liabilities		16	14	11%
Other liabilities	11	8	7	14%
Subordinated liabilities	12	2	2	49%
Total liabilities		**121**	**124**	**(3%)**
Stockholders' equity	13	9	8	11%
Total liabilities and stockholders' equity		**130**	**132**	**(2%)**
Loan to deposit ratio		**110%**	**114%**	
Common equity tier 1 ratio - Basel III transitional rules		**14.8%**	**12.3%**	
Total capital ratio[1]		**18.3%**	**14.1%**	

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *The Common equity tier 1 ratio - Basel III transitional and the total capital ratio are presented with a comparative as at 1 January 2014. Both capital ratios include the 2009 Preference Stock.*

Loans and advances to customers

The Group's **loans and advances to customers (after impairment provisions)** of €82 billion have decreased by €2.4 billion or 3% since 31 December 2013. On a constant currency basis, loans and advances to customers have decreased by €4.5 billion or 5% during the year ended 31 December 2014.

The decrease in loans and advances to customers reflects that redemptions, repayments and loan sales have exceeded new lending across the Group. Gross new lending of c.€10 billion was more than 50% higher than in 2013 and that reflects in particular new lending, particularly in mortgages and business banking in the Republic of Ireland, Corporate Banking and UK mortgages. Redemptions, repayments and loan sales totalled €14 billion, of which the Group's success in progressing (through resolution or cure) a significant volume of defaulted assets, repayments in our RoI mortgage tracker book and the run-down of our GB business banking / GB corporate banking book together accounted for c.€3 billion of this figure.

The composition of the Group's loans and advances to customers by portfolio and by division at 31 December 2014 was broadly consistent with 31 December 2013. On 23 January 2015, Bank of Ireland completed the purchase of a book of performing Residential mortgages of €253 million from the Irish Bank Resolution Corporation Limited (in Special Liquidation) (IBRC). On 5 February 2015, the Group and Goldman Sachs agreed terms to acquire a commercial loan portfolio of face value €540 million from Danske Bank A/S. As part of the transaction, the Group will acquire a €274 million portfolio of performing commercial loans, comprising over 1,000 customers in the SME, Agriculture and CRE sectors.

Defaulted loans of €14.3 billion at 31 December 2014 have decreased by €2.8 billion or 16% since the previous year. The decrease has occurred across all portfolios and reflects our ongoing efforts to appropriately and sustainably support customers who are in financial difficulty, the improving economic environment and the ongoing recovery in collateral values.

The stock of impairment provisions on loans and advances to customers of €7.4 billion has decreased by €0.8 billion since 31 December 2013 reflecting the impact of provisions utilised in 2014 partially offset by new impairment provisions during the year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section of Risk Management, see pages 52 to 75.

Liquid assets

TABLE: 8

Liquid assets	**31 December 2014 €bn**	31 December 2013 €bn
Cash at banks	4	5
Cash and balances at Central Banks	5	6
- Bank of England	*4*	*5*
- Central Bank of Ireland and US Federal Reserve	*1*	*1*
Government bonds	8	7
NAMA senior bonds	2	4
Covered bonds	3	3
Senior bank bonds and other	3	2
	25	**27**

The Group's portfolio of **liquid assets** of €25 billion has decreased by c.€2 billion since 31 December 2013, primarily reflecting a reduction in cash balances.

Within the liquid assets securities portfolio, the redemption of €1.6 billion of NAMA senior bonds was offset by an increase in holdings of (non-Irish) EU sovereign bonds.

During the year ended 31 December 2014, gains of €192 million relating to transfers from the AFS reserve on asset disposals were recognised. These gains primarily arose from the sale of shorter dated Irish sovereign bonds (included in net other income see page 18).

Further analysis of the Group's sovereign and other bonds is set out on pages 146 to 154.

Customer deposits

TABLE: 9

Customer deposits	31 December 2014 €bn	31 December 2013 €bn
Retail Ireland	37	36
- Deposits	*22*	*24*
- Current account credit balances	*15*	*12*
Retail UK	26	26
Retail UK (Stg£bn equivalent)	20	22
- UK Post Office	*16*	*16*
- Other Retail UK	*4*	*6*
Corporate and Treasury	12	12
Total customer deposits	**75**	**74**
Loan to deposit ratio	**110%**	**114%**
Deposits covered by ELG Scheme	1	2

Group customer deposits (including current accounts with credit balances) of €75 billion have increased by €0.9 billion since 31 December 2013 due to increases in Retail Ireland (€0.7 billion) and Corporate and Treasury (€0.4 billion), partially offset by a decrease in Retail UK (€0.2 billion). On a constant currency basis, Group customer deposits decreased by €0.8 billion, largely due to the planned reduction of excess liquidity in Bank of Ireland (UK) plc, the exit from Business Banking in mainland Britain and the closure of the Group's Isle of Man activities.

The key focus for the Group with respect to its deposit management strategy has been to:

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

In the Retail Ireland Division, current account credit balances increased by c.€3 billion, partially offset by a decrease of c.€2 billion in deposit balances. This change in mix is attributable to customer behaviour in the lower interest rate environment, and is in line with overall market trends.

In the Corporate and Treasury Division, deposits increased by €0.4 billion largely due to higher current account credit balances.

Balances in Retail UK reduced by a planned £1.6 billion to £20.2 billion at 31 December 2014 in line with the Bank of Ireland (UK) plc balance sheet requirements. Balances originated through the Group's Northern Ireland branch network remained unchanged. Deposit balances originated through the Post Office network decreased by £0.2 billion to £16.0 billion, while other Retail UK balances decreased by c.£2 billion due to business changes during the year (the exit from Business Banking GB activities in accordance with the Group's revised 2011 EU Restructuring Plan and the closure of the Group's Isle of Man deposit gathering activities in May 2014).

Customer deposits of €75 billion at 31 December 2014 (31 December 2013: €74 billion) do not include €2.3 billion (31 December 2013: €2.3 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically of five years) and consequently are an additional source of stable retail funding for the Group.

The Group's Loan to deposit ratio reduced by 4% to 110%, with deposit balances covered by the ELG Scheme reducing by c.€1 billion during the year.

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended in line with the Government's announcement of 20 September 2008, deposits of up to €100,000 per eligible depositor per credit institution authorised by the CBI are protected by the Irish Deposit Guarantee Scheme. This Scheme covers current accounts, demand deposit accounts and term deposit accounts and is funded by the credit institutions lodging funds in a deposit protection account maintained at the CBI.

In addition to the deposits covered by these Regulations and by the ELG Scheme as set out above, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc).

At 31 December 2014, the majority of personal and SME customer deposits continue to be covered under the deposit protection schemes.

Wholesale funding

TABLE: 10

Wholesale funding sources	**31 December 2014** €bn	**31 December 2014** %	31 December 2013 €bn	31 December 2013 %
Secured funding	14	72%	22	81%
- Monetary Authority	*4*	*22%*	*8*	*30%*
- Covered bonds	*6*	*31%*	*7*	*26%*
- Securitisations	*3*	*13%*	*3*	*11%*
- Private market repo	*1*	*6%*	*4*	*14%*
Unsecured funding	6	28%	5	19%
- Senior debt	*5*	*23%*	*3*	*11%*
- Bank deposits	*1*	*5%*	*2*	*8%*
Total Wholesale funding	**20**	**100%**	**27**	**100%**
Wholesale market funding < 1 year to maturity	8	48%	7	40%
Wholesale market funding > 1 year to maturity	8	52%	12	60%
Monetary Authority funding < 1 year to maturity	3	-	-	-
Monetary Authority funding > 1 year to maturity	1	-	8	-
Wholesale funding covered by ELG Scheme	2	-	3	-
Liquidity metrics				
Liquidity Coverage Ratio		98%		n/d[1]
Net Stable Funding Ratio		114%		n/d[1]
Loan to deposit ratio		110%		114%

[1] *The Net Stable Funding Ratio and the Liquidity Coverage Ratio were not disclosed at 31 December 2013.*

Wholesale funding of €20 billion has decreased by c.€7.6 billion since 31 December 2013 primarily related to the impact of:

- a reduction in loans and advances to customers (c.€2.4 billion);
- the issue of a Lower tier 2 security in June 2014 (c.€0.75 billion);
- lower holdings of NAMA bonds (c.€1.6 billion);
- lower cash and balances at central banks (c.€1.4 billion);
- higher customer deposits (c.€1 billion); and
- retained earnings c.€0.4 billion.

During the year ended 31 December 2014, the Group has continued to access the term debt markets at reducing cost by issuing:

- €750 million five-year senior unsecured security in January 2014 at 210 basis points above mid swaps;
- €750 million of Irish Mortgage Asset Covered Securities in a five-year transaction in March 2014 at 80 basis points above mid swaps; and
- €750 million three-year senior unsecured security in May 2014 at 150 basis points above mid swaps.

In January 2015, the Group issued €750 million of Irish Mortgage Asset Covered Securities in a five-year transaction at 20 basis points over mid swaps.

The Group's funding from Monetary Authorities of €4.4 billion at 31 December 2014 has decreased by c.€4 billion since 31 December 2013 and includes €1.5 billion of funding drawn from the ECB's Targeted Longer Term Refinancing Operation (TLTRO) in December 2014. Monetary Authority funding of c.€2.4 billion is related to the funding of NAMA bonds.

At 31 December 2014, €9.5 billion or 48% of wholesale funding had a term to maturity of greater than one year (31 December 2013: €19.9 billion or 72%). The reduction since 31 December 2013 is primarily related to the maturity profile of borrowings via the ECB's Long Term Repo Operations (TLTRO & LTRO). Excluding borrowings from Monetary Authorities, wholesale market funding with a maturity of less than one year was €7.5 billion of which €4.5 billion is secured.

At 31 December 2014, c.€1.9 billion of wholesale funding related eligible liabilities continue to be covered under the ELG Scheme (31 December 2013: c.€3 billion). In January 2015 c.€1.8 billion of the Group's senior debt covered under the ELG Scheme matured.

The Group's Liquidity Coverage Ratio (LCR) was 98% at 31 December 2014.

Wholesale funding (continued)

Based on the Group's interpretation of Basel guidance, the Group's Net Stable Funding Ratio (NSFR) was 114% at 31 December 2014.

The Group's Loan to Deposit ratio decreased from 114% at 31 December 2013 to 110% at 31 December 2014.

Liquidity Regulation

The Group must comply with 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 CRD IV regulations which introduce minimum liquidity requirements for the Group and licensed subsidiaries including:

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

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

The Group has remained in full compliance with the regulatory liquidity requirements in Ireland throughout 2014, and as at 31 December 2014 maintained a buffer significantly in excess of regulatory minima.

Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority (PRA) and is subject to the regulatory liquidity regime of the PRA. Bank of Ireland (UK) Plc has remained in full compliance with the regulatory liquidity regime in the UK throughout 2014, and as at 31 December 2014 maintains a buffer significantly in excess of regulatory minima.

Other assets and other liabilities

TABLE: 11

Other assets and other liabilities	**31 December 2014 €bn**	31 December 2013 €bn
Other assets	7.0	6.5
- Derivative financial instruments	*3.7*	*3.5*
- Deferred tax asset	*1.6*	*1.7*
- Other assets	*1.7*	*1.3*
Other liabilities	8.2	7.2
- Derivative financial instruments	*4.0*	*3.2*
- Pension deficit	*1.0*	*0.8*
- Other liabilities	*3.2*	*3.2*

Other assets at 31 December 2014 include derivative financial instruments with a positive fair value of €3.7 billion compared to a positive fair value of €3.5 billion at 31 December 2013. Other liabilities at 31 December 2014 include derivative financial instruments with a negative fair value of €4.0 billion compared to a negative fair value of €3.2 billion at 31 December 2013. The movement in the fair value of derivative assets and derivative liabilities is due to the impact of the movements in foreign exchange rates (particularly the euro / sterling exchange rate) and in interest rates during 2014.

At 31 December 2014, the deferred tax asset was €1.6 billion, which has reduced from the balance at 31 December 2013 of €1.7 billion. The deferred tax asset of €1.6 billion at 31 December 2014 includes an amount of €1.6 billion in respect of trading losses which are available to relieve future profits from tax. Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses and based on its estimates of future taxable income, the Group has concluded that it is probable that

Other assets and other liabilities (continued)

sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full. Due to operating profits in the year, and as set out in note 30, there has been a reduction in the value of the deferred tax asset recognised for operating losses which arose in prior periods.

At 31 December 2014, the pension deficit was €1.0 billion, a net increase of €0.2 billion from the position at 31 December 2013. The drivers of this increase are principally as follows:

- a reduction in discount rates, with the RoI discount rate reducing by 145 basis points to 2.20% at 31 December 2014 from 3.65% at 31 December 2013. Together with other liability assumption changes, this increased the deficit by c.€1.1 billion;
- in addition, interest cost and current service cost increase the deficit by c.€0.2 billion;
- these impacts were partially offset by an increase of €1.1 billion in the value of pension scheme assets during the period; and
- the impact in the current period of the Pensions 2013 Review, reducing the deficit by €0.1 billion during the period.

See note 31 for further details.

Subordinated liabilities

TABLE: 12

Subordinated liabilities	**31 December 2014 €m**	31 December 2013 €m
Contingent Capital Note (CCN)	989	977
€750 million 4.25% Fixed Rate Notes	760	-
€250 million 10% Fixed Rate Notes	269	240
Other	482	458
Total	**2,500**	**1,675**

In June 2014, the Group issued a €750 million 10 year (callable at the end of year 5) Tier 2 capital bond. The bond carries a coupon of 4.25%.

Stockholders' equity

TABLE: 13

Movements in stockholders' equity	**Year ended 31 December 2014 €m**	Restated* Year ended 31 December 2013 €m
Stockholders' equity at beginning of year	**7,889**	**8,667**
Movements:		
Profit / (loss) attributable to stockholders	786	(483)
Dividends on preference stock	(141)	(240)
Remeasurement of the net defined benefit pension liability	(353)	(117)
- Changes in actuarial assumptions and other movements	*(353)*	*(218)*
- Impact of amendments to defined benefit pension schemes	*-*	*101*
Available for sale (AFS) reserve movements	133	317
Cash flow hedge reserve movement	159	(181)
Foreign exchange movements	275	(81)
Other movements	5	7
Stockholders' equity at end of year	**8,753**	**7,889**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Stockholders' equity increased from €7,889 million at 31 December 2013 to €8,753 million at 31 December 2014.

The profit attributable to stockholders of €786 million for the year ended 31 December 2014 compares to the loss attributable to stockholders of €483 million for the year ended 31 December 2013.

During 2014, the Group paid dividends of €133.3 million on the 2009 Preference Stock. The Group also paid dividends of €4.4 million and £2.1 million on its other euro and sterling preference stock respectively.

The remeasurement of the net defined benefit pension liability is primarily driven by changes in actuarial assumptions including the discount rates and inflation rates and by asset returns. The RoI discount rate has reduced by c.145 basis points since 31 December 2013, from 3.65% to 2.20%. The impact of this reduction together with other liability assumption changes was partially offset by an increase of 21% in the market value of pension scheme assets during the year ended 31 December 2014.

The AFS reserve movement during 2014 is primarily due to an improvement / tightening of credit spreads, particularly on the portfolio of Irish Government bonds and Spanish covered bonds. Gains recognised on transfers from the AFS reserve during the year are included in other income on page 17.

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

Foreign exchange movements are driven by the translation of the Group's net investments in foreign operations. The movement in the period is due primarily to the 6.6% weakening of the euro against sterling in the year ended 31 December 2014.

Capital

Regulatory capital and key capital ratios

Basel III / CRD IV Transitional 1 January 2014 €m		Basel III / CRD IV Transitional 31 December 2014 €m	Basel III / CRD IV Fully Loaded 31 December 2014 €m
	Capital Base		
7,869	Total equity	8,747	8,747
81	- Impact of amendments to defined benefit pension schemes[1]	-	-
(465)	**Regulatory adjustments being phased in / out under Basel III / CRD IV**	(329)	(1,825)
-	*- Deferred tax assets[2]*	-	(1,452)
(47)	*- 10% / 15% threshold deduction[3]*	-	-
609	*- Retirement benefit obligations[4]*	714	-
(486)	*- Available for sale reserve[5]*	(609)	-
(60)	*- Pension supplementary contributions[4]*	(56)	-
(47)	*- Capital contribution on CCN[4]*	(29)	-
(187)	*- Tier 1 deductions in excess of Tier 1 capital[6]*	-	-
(247)	*- Other adjustments[7]*	(349)	(373)
(730)	**Other regulatory adjustments**	**(777)**	**(786)**
(83)	*- Expected loss deduction[8]*	(10)	(19)
(368)	*- Intangible assets and goodwill*	(405)	(405)
(115)	*- Dividend expected on 2009 Preference Stock*	(115)	(115)
(46)	*- Cash flow hedge reserve*	(205)	(205)
22	*- Own credit spread adjustment (net of tax)*	26	26
(140)	*- Securitisation deduction*	(68)	(68)
6,755	**Common equity tier 1[9]**	**7,641**	**6,136**
	Additional tier 1		
74	Tier 1 hybrid debt[6,10]	75	-
(261)	**Regulatory adjustments**	**(5)**	**-**
(167)	*- Expected loss deduction[8]*	(5)	-
(94)	*- 10% / 15% threshold[3]*	-	-
187	Tier 1 capital deficit deducted from CET 1 capital[6]	-	-
6,755	**Total tier 1 capital**	**7,711**	**6,136**
	Tier 2		
987	Tier 2 dated debt	1,525	1,514
106	Tier 2 undated debt	113	163
(261)	**Regulatory adjustments**	**(5)**	**-**
(167)	*- Expected loss deduction[8]*	(5)	-
(94)	*- 10% / 15% threshold[3]*	-	-
60	Standardised incurred but not reported (IBNR) provisions	44	-
83	Other adjustments	53	(80)
975	**Total tier 2 capital**	**1,730**	**1,597**
7,730	**Total capital**	**9,441**	**7,733**
54.8	**Total risk weighted assets (€bn)**	**51.6**	**51.6**
	Capital ratios (including 2009 Preference Stock)		
12.3%	Common equity tier 1	14.8%	11.9%
12.3%	Tier 1	14.9%	11.9%
14.1%	Total capital	18.3%	15.0%
4.9%	Leverage ratio	6.4%	5.1%

Capital (continued)

Risk weighted assets (RWA)[11]

Basel III / CRD IV Transitional 1 January 2014 €bn		Basel III / CRD IV Transitional 31 December 2014 €bn	Basel III / CRD IV Fully Loaded 31 December 2014 €bn
49.7	Credit risk[12]	46.8	46.8
1.2	Market risk	0.5	0.5
3.5	Operational risk	4.0	4.0
0.4	Credit valuation adjustment	0.3	0.3
54.8	**Total RWA**	**51.6**	**51.6**

Basel III / CRD IV

The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to the CRD and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain.

The CRD IV Legislation is being implemented on a phased basis from 1 January 2014, with full implementation from 1 January 2019. The CRD IV transition rules result in a number of new deductions from CET 1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013 which clarifies the application of transitional rules in Ireland under CRD IV. This document was finalised in May 2014 to reflect the Member State discretions and options that have been allocated to the CBI.

Risk weighted assets

Risk weighted assets (RWA) at 31 December 2014 of €51.6 billion compares to RWA of €54.8 billon at 1 January 2014. Reductions in RWA are primarily due to a reduction in the quantum of loans and advances and a reduction in market risk RWA due to adopting a duration based approach, partially offset by the impact of foreign exchange movements and an increase in operational risk RWA arising from increased income.

Transitional Ratio

The Common equity tier 1 (CET 1) ratio at 31 December 2014 of 14.8% compares to the pro forma ratio of 12.3% at 1 January 2014. The increase is primarily due to the impact of attributable profits for the period, a decrease in the expected loss deduction,

1 *Equity was increased in the Basel III pro forma transitional and fully loaded ratios at 1 January 2014 to account for the €81 million arising from the impact of changes made to defined benefit pension schemes which was realised in Q1 2014.*
2 *Deduction for deferred tax assets (DTA) relates to DTA on losses carried forward, net of associated deferred tax liabilities. The deduction is phased at 0% in 2014 and 10% per annum thereafter.*
3 *The 10% / 15% threshold deduction is phased in at 20% in 2014 and increases by 20% per annum thereafter, and is deducted in full from CET 1 under fully-loaded rules. The calculation of the 10% / 15% threshold amount includes the benefit of the 2009 Preference Stock on a transitional and fully loaded basis.*
4 *Regulatory deductions applicable under Basel II and phased out under Basel III relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules. The Basel III transitional adjustment for Retirement benefit obligations as at 1 January 2014 has been amended to reflect the €81 million of gains arising from the impacts of changes made to defined benefit pension schemes highlighted in footnote 1.*
5 *Basel III transitional rules in 2014 require phasing in 20% of unrealised losses and 0% of unrealised gains. Between 2015-2018 unrealised losses and gains will be phased in at the following rates 40%, 60%, 80%, 100%. The Group has opted to maintain its filter on both unrealised gains or losses on exposures to central governments classified in the 'Available for Sale' category. The reserve is recognisable in capital under fully loaded Basel III rules.*
6 *Under Basel III, Additional tier 1 deductions in excess of Additional tier 1 capital are deducted from CET 1. Under Basel III transitional rules expected loss and significant investments not deducted from CET 1 are deducted 50:50 from Tier 1 and Tier 2 capital. These deductions contribute to the excess of Additional tier 1 deductions over Additional tier 1 capital. Grandfathered Tier 1 hybrid debt has been offset against total Additional tier 1 deductions.*
7 *Includes technical items such as other national filters and non-qualifying CET 1 items.*
8 *Under Basel III transitional rules, expected loss is phased in at 20% in 2014 however, the CBI's implementation of competent authority discretions requires 50% of expected loss to be deducted from CET 1 overall. It is deducted in full from CET 1 under fully loaded rules. See also footnote 6.*
9 *CET 1 capital calculated under both the fully loaded and transitional rules includes the benefits of the 2009 Preference Stock (€1.3 billion outstanding at 31 December 2014). Under Basel III transitional rules state aid instruments are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013 the Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET 1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.*
10 *Non-qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 20% in 2014 and 10% per annum thereafter. Certain debt instruments are phased into Tier 2 capital from Tier 1 capital.*
11 *Risk weighted assets reflect the application of certain Central Bank of Ireland required BSA adjustments and the updated treatments of expected loss.*
12 *Includes risk weighted assets (RWA) relating to non-credit obligation assets / other assets, RWA attributable to Credit Valuation Adjustment (CVA) risk and RWA arising from the 10% / 15% threshold deduction.*

Capital (continued)

a decrease in the 10% / 15% threshold deduction and lower RWAs.

The pro forma CET 1 ratio at 1 January 2015 is estimated at 14.3%.

The Group continues to expect to maintain a buffer above a CET 1 ratio of 10%, taking account of the transition rules and the intention to derecognise the 2009 Preference Stock from regulatory CET 1 capital between January and July 2016. This provides for a meaningful buffer over regulatory requirements.

The Total capital ratio at 31 December 2014 of 18.3% compares to 14.1% on a pro forma basis at 1 January 2014 and reflects the impact of increased CET 1, the issuance of €750 million Tier 2 subordinated debt in June 2014 and lower RWAs.

Fully Loaded Ratio

The Group's pro forma CET 1 ratio, including the 2009 Preference Stock is estimated at 11.9% as at 31 December 2014 on a fully loaded basis, which has increased from 9.0% as at 31 December 2013. The increase is primarily due to the impact of attributable profits for the period, a decrease in the expected loss deduction, a decrease in the 10% / 15% threshold deduction and lower RWAs. Under Basel III transitional rules, state aid instruments, including the 2009 Preference Stock, are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013, the Group announced that, save in certain circumstances (including changes in the regulatory capital treatment of the 2009 Preference Stock or taxation events), it does not intend to redeem the 2009 Preference Stock prior to 1 January 2016. The Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET 1 capital after July 2016, unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.

The Group's pro forma fully loaded CET 1 ratio, excluding the 2009 Preference Stock, is estimated to be 9.3% at 31 December 2014 (6.3% at 31 December 2013).

Leverage ratio[1]

The leverage ratio is 6.4% on a Basel III / CRD IV transitional basis, 5.1% on a pro forma full implementation basis including the 2009 Preference Stock and 4.0% excluding the 2009 Preference Stock. The Group expects to remain above the Basel Committee indicated minimum level leverage ratio of 3%.

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

Capital actions

In June 2014, the Group issued €750 million of Tier 2 capital at 4.25% with a maturity of 10 years. The issuance order book was five times oversubscribed.

In July 2014, a NIAC capital efficiency transaction was completed. This comprised of a €80 million Tier 2 subordinated debt issued by NIAC to the Group and a contingent loan of €120 million with an external third party investor which secured the value in force of certain unit linked policies. Both of these actions facilitated the release of equity capital from NIAC to the Group.

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

Capital (continued)

ECB Comprehensive Assessment

The European Central Bank (ECB) under the Single Supervisory Mechanism (SSM) conducted a Comprehensive Assessment (CA) which consisted of:

- a supervisory risk assessment to assess key risks in the Group's balance sheet, including liquidity and funding;
- an asset quality review of all asset classes including non-performing loans, restructured loans and sovereign exposures as at 31 December 2013; and
- a stress test (comprising base and stress scenarios), building on and complementing the asset quality review by providing a forward-looking view of the Group's shock-absorbing capacity under stress.

The overall results were announced in October 2014 and they confirmed that the Group had passed the ECB CA, with substantial capital buffers over the threshold capital ratios in both the baseline and adverse stress test scenarios as follows:

	BoI[1]	Threshold	Buffer
Baseline scenario	12.43%	8.0%	4.43%
Adverse scenario	9.31%	5.5%	3.81%

[1] *The 'BoI' column in the table shows the Group's lowest Basel III transitional CET 1 ratio in the three year period 2014 to 2016, in both the base and adverse scenarios, as projected under the ECB's comprehensive assessment process. The 'threshold' column shows the capital ratios required to pass the ECB's comprehensive assessment. The 'buffer' column shows the difference between the first two columns.*

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Divisional performance

Divisional performance - on an underlying basis

Divisional performance is presented on an underlying basis, which is the measure of profit or loss used to measure the performance of the divisions and the measure of profit or loss disclosed for each division under IFRS (see note 1).

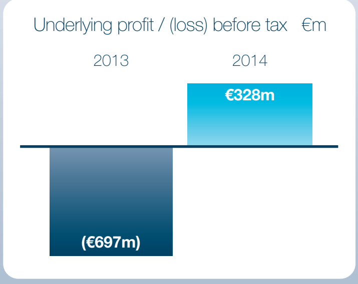
Income statement - underlying profit / (loss) before tax	Table	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m	Change €m
Retail Ireland		328	(697)	1,025
Bank of Ireland Life		133	107	26
Retail UK		127	(153)	280
Corporate and Treasury		553	487	66
Group Centre		(220)	(305)	85
Other reconciling items[1]		-	(3)	3
Underlying profit / (loss) before tax		**921**	**(564)**	**1,485**
Non-core items	7	(1)	44	(45)
Profit / (loss) before tax		**920**	**(520)**	**1,440**

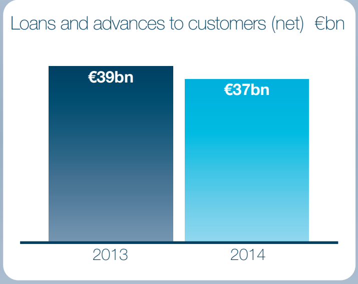
* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

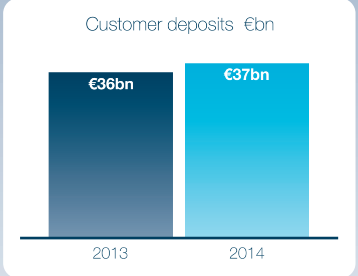
[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

Retail Ireland

Retail Ireland: Income statement	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m	Change %
Net interest income	1,004	886	13%
Net other income	318	326	(2%)
Operating income	**1,322**	**1,212**	**9%**
Operating expenses	(817)	(791)	(3%)
Operating profit before impairment charges on financial assets	**505**	**421**	**20%**
Impairment charges on loans and advances to customers	(226)	(1,109)	80%
Share of results of associates and joint ventures (after tax)	49	(9)	n/m
Underlying profit / (loss) before tax	**328**	**(697)**	**n/m**
Loans and advances to customers (net) (€bn)	37	39	(6%)
Customer deposits (€bn)	37	36	2%
Staff numbers at period end	4,525	4,592	







Retail Ireland incorporates the Group's branch network and Direct Channels (mobile, online and phone), Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and has a comprehensive suite of retail and business products and services.

Retail Ireland (continued)

Retail Ireland reported an **underlying profit before tax** of €328 million for the year ended 31 December 2014 compared to a loss of €697 million for the previous year. The improvement of €1,025 million was due primarily to a reduction of €883 million in impairment charges and an increase of 20% in operating profit before impairment charges to €505 million.

Loans and advances to customers (after impairment provisions) of €37 billion at 31 December 2014 have decreased by €2 billion since 31 December 2013. This net decrease is as a result of loan repayments and impairment provisions, partially offset by new lending across all sectors. During the year ended 31 December 2014, there has been a gross reduction of c.€1.5 billion in Retail Ireland's low yielding tracker mortgage book and of €1.4 billion in Retail Ireland's non-performing loan book.

Customer deposits of €37 billion at 31 December 2014 have increased by €1 billion since 31 December 2013. Within deposits, current account credit balances of €15 billion at 31 December 2014 have increased by €3 billion and demand deposits have increased by €1 billion since 31 December 2013 while term deposits have decreased by €3 billion.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see pages 16 and 17).

Net interest income	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Net interest income	1,004	886	13%
IFRS income classifications	3	24	(86%)
Net interest income (after IFRS income classifications)	**1,007**	**910**	**11%**

Net interest income (after IFRS income classifications) of €1,007 million for the year ended 31 December 2014 was €97 million or 11% higher than the previous year. This increase is primarily driven by the lower cost of funding from customer deposits and other sources and the impact of higher lending margins on new lending. These factors have been partially offset by the continued negative impact of historically low official interest rates and lower average loan volumes.

Retail Ireland (continued)

Net other income	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m	Change %
Net other income	318	326	(2%)
IFRS income classifications	(3)	(24)	86%
Net other income (after IFRS income classifications)	**315**	**302**	**4%**

Net other income (after IFRS income classifications)	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m	Change %
Business income	323	303	7%
Financial instrument valuation adjustments (CVA, DVA, FVA and other)	(8)	(1)	n/m
Net other income (after IFRS income classifications)	**315**	**302**	**4%**

Net other income (after IFRS income classifications) of €315 million for the year ended 31 December 2014 was €13 million or 4% higher than the previous year. This is primarily due to higher retail banking fees, higher foreign exchange income and higher debit card interchange and fee income.

Operating expenses of €817 million for the year ended 31 December 2014 were €26 million higher than the previous year. The impact of lower staff numbers is offset by investment associated with strategic initiatives. Staff numbers have decreased by 1% from 4,592 at 31 December 2013 to 4,525 at 31 December 2014.

The **share of results of associates and joint ventures (after tax)** was €49 million for the year ended 31 December 2014 compared to a charge of €9 million for the previous year. The gains in the current year are primarily due to the sales of an international investment property and venture capital investments, in addition to increases in the value of other investment properties and investment funds.

Impairment charges / (reversals) on loans and advances to customers	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m	Change %
Residential mortgages	(140)	542	n/m
Non-property SME and corporate	127	233	(45%)
Property and construction	233	309	(25%)
Consumer	6	25	(76%)
Impairment charges / (reversals) on loans and advances to customers	**226**	**1,109**	**(80%)**

Impairment charges / (reversals) on loans and advances to customers of €226 million for the year ended 31 December 2014 were €883 million or 80% lower compared to the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 52 to 68 and the supplementary asset quality and forbearance disclosures section on pages 155 to 202.

EU Restructuring Plan

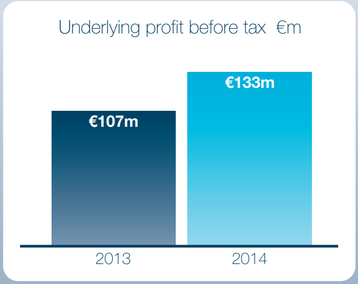
On 1 September 2014, the sale of the ICS Building Society's distribution platform to Dilosk Limited, together with a c.€223 million gross performing mortgage asset pool, forming part of the Retail Ireland division, was completed. No deposits transferred as part of the sale.

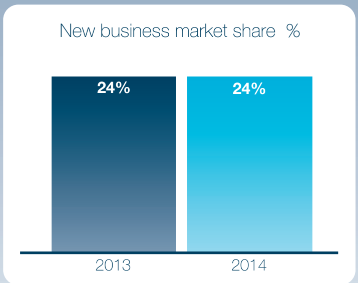
ICS Building Society was placed in Members' Voluntary Liquidation on 15 December 2014.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Bank of Ireland Life

Bank of Ireland Life: Income statement (IFRS performance)	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m	Change %
Net interest income	43	48	(10%)
Net other income	145	131	11%
Operating income	188	179	5%
Operating expenses	(96)	(90)	7%
Operating profit	**92**	**89**	**3%**
Investment variance	17	21	(19%)
Economic assumption changes	24	(3)	n/m
Underlying profit before tax	**133**	**107**	**24%**
Staff numbers period end	903	936	





Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc (NIAC), which distributes protection, investment and pension products to the Irish market through independent brokers, its tied financial advisors and the Group's branch network.

The **underlying profit before tax** of €133 million for the year ended 31 December 2014 is €26 million or 24% higher than the previous year and reflects strong operating profit growth and gains in respect of the economic assumptions and a positive investment variance.

New business sales for Bank of Ireland Life grew by 7% over the year ended 31 December 2014 resulting in a 24% market share of new business. Sales were ahead in each channel compared to the previous year with single premium investment and regular premium pension sales in particular showing strong growth. The value of new business is up 8% compared to the previous year. Profits from the book of existing business were also strong reflecting positive experience variances from mortality and persistency compared to those which were assumed.

Operating profit of €92 million for the year ended 31 December 2014 was €3 million or 3% higher than the previous year where the income growth on new and existing business outweighed the increase in costs over the year.

Operating income of €188 million for the year ended 31 December 2014 is €9 million or 5% higher than the previous year. In new business, the strong growth in single premium Life and pension sales offset the reduction in protection volumes and margins over the period. On the book of existing policies, mortality experience continued to be positive and coupled with positive lapse experience, most notably with respect to pensions, contributed to the growth in existing business income.

Operating expenses of €96 million for the year ended 31 December 2014 are €6 million or 7% higher than the previous year. In the main, the rise reflects an increase of €5 million in NIAC's share of Group infrastructure costs.

As part of the Group's capital programme the Life company undertook a capital restructuring exercise in 2014. This involved the introduction of an amount of subordinated debt together with a financial reinsurance arrangement secured against a defined block of in force policies. The interest cost relating to these transactions has reduced operating profit in Bank of Ireland Life in 2014 by €3 million (31 December 2013: €nil). The impact at a Bank of Ireland Group level is to reduce operating profit by €1 million.

During the year ended 31 December 2014, strong growth in equity markets meant that investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €17 million (31 December 2013: €21 million).

The overall impact of lower interest rates, including the impact on the economic assumptions, resulted in a gain of €24 million for the year ended 31 December 2014 (31 December 2013: charge of €3 million).

The discount rate applied to future cash flows was decreased to 5.9% at 31 December 2014, a decrease of 1.2% as compared to 31 December 2013. The future growth rate on unit linked assets decreased by 1.4% to 3.4% at 31 December 2014. These decreases were driven by a fall in 10 year swap rates during 2014.

Bank of Ireland Life (continued)

Embedded value performance

Bank of Ireland Life: income statement (Embedded value performance)	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
New business profits	27	25	8%
Existing business profits	77	77	-
Expected return	*63*	*67*	*(6%)*
Experience variance	*13*	*11*	*18%*
Assumption changes	*1*	*(1)*	*n/m*
Intercompany payments	(13)	(12)	8%
Operating profit	**91**	**90**	**1%**
Investment variance	25	31	(19%)
Economic assumption changes	11	-	n/m
Underlying profit before tax	**127**	**121**	**5%**

The alternative method of presenting the performance of the Life business is on an **embedded value (EV) basis**. This method is widely used in the life assurance industry.

Operating profit for the year ended 31 December 2014 of €91 million was €1 million or 1% higher than the previous year.

New business profits of €27 million were 8% higher than the previous year reflecting the strong growth in pension and single premium sales.

Existing business profits of €77 million were in line with the year ended 31 December 2013 reflecting positive experience variances from mortality and persistency compared to that assumed. In particular, a strong improvement in the company's lapse experience, most notably with respect to pensions, contributed to the growth in existing business profits.

The **underlying profit before tax**, on an embedded value basis, of €127 million for the year ended 31 December 2014 compares to €121 million for the previous year.

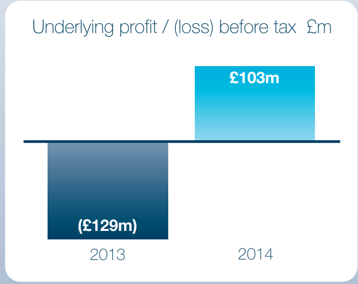
The underlying profit before tax has benefited from a positive investment variance. During the year ended 31 December 2014, strong growth in equity markets meant that investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €25 million (31 December 2013: €31 million).

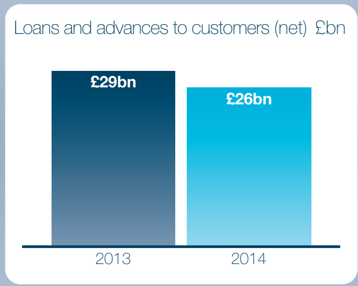
The overall impact of lower interest rates, including the effect on the economic assumptions resulted in a gain of €11 million for the year ended 31 December 2014 (31 December 2013: €nil).

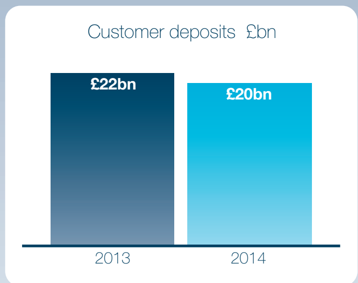
The key assumptions used in the EV methodology are consistent with those used under the IFRS methodology, being a discount rate of 5.9% (31 December 2013: 7.1%), future unit growth rate on unit linked assets of 3.4% (31 December 2013: 4.8%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2013: 12.5%).

Retail UK (Sterling)

Retail UK: Income statement	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Change %
Net interest income	542	486	12%
Net other income	3	3	-
Operating income	**545**	**489**	**11%**
Operating expenses	(294)	(292)	(1%)
Operating profit before impairment charges on financial assets	**251**	**197**	**27%**
Impairment charges on loans and advances to customers	(183)	(360)	49%
Share of results of associates and joint ventures (after tax)	35	34	3%
Underlying profit / (loss) before tax	**103**	**(129)**	**n/m**
Underlying profit / (loss) before tax (€m equivalent)	**127**	**(153)**	**n/m**
Loans and advances to customers (net) (£bn)	26	29	(10%)
Customer deposits (£bn)	20	22	(7%)
Staff numbers at period end	1,516	1,422	







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

Retail UK reported an **underlying profit before tax** of £103 million for the year ended 31 December 2014 compared to an underlying loss before tax of £129 million in the previous year. The year on year increase of £232 million relates to a £54 million improvement in operating profit before impairment charges, a decrease of £177 million in impairment charges and an increase of £1 million in the share of results of associates and joint ventures.

Loans and advances to customers (after impairment provisions) of £26 billion have decreased by £3 billion since 31 December 2013. The net decrease reflects ongoing customer deleveraging (albeit at a slower pace) where repayments exceeded new loans in the year. The volume of UK Residential mortgages reduced as mortgage redemptions continued to exceed new business written. In June 2014, UK mortgages widened its distribution with one of its strategic partners, Legal & General, under the Post Office brand. The decrease in overall lending balances was also impacted by the transfer of loans of £0.6 billion to the Group's Corporate and Treasury division and repayments and redemptions in the business banking activities in Great Britain.

Retail UK (Sterling) (continued)

Customer deposits of £20 billion have decreased by £1.6 billion since 31 December 2013. This decrease is linked to the EU mandated run-down of GB business banking activities resulting in lower customer related deposits. In addition, during 2014 the Group closed its Isle of Man and certain other deposit gathering activities.

Net interest income of £542 million for the year ended 31 December 2014 is £56 million or 12% higher than the previous year. This increase reflects the impact of back-book pricing decisions implemented in 2013 and the reduction in deposit pay rates during 2014.

Net other income	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m	Change %
Business income	8	5	60%
Financial instrument valuation adjustments (CVA, DVA, FVA and other)	(5)	(2)	n/m
Net other income	**3**	**3**	**-**

Net other income was a gain of £3 million for the year ended 31 December 2014 and primarily relates to fees from deleveraging GB business banking loans and increased transaction fees. This was partially offset by valuation losses in relation to the settlement of certain customer derivative transactions and the closure of offshore and financial advisory operations.

Operating expenses of £294 million for the year ended 31 December 2014 are £2 million higher than the previous year. Ongoing investment in the relationship with the UK Post Office was partially offset by lower staff, processing, property and IT costs primarily reflecting the implementation of cost reduction programmes in the Northern Ireland business and the Group's business banking business in Great Britain.

The **share of results of associates and joint ventures (after tax)** of £35 million, relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, which is £1 million higher than the previous year.

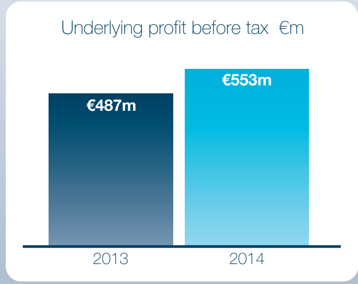
Impairment charges / (reversals) on loans and advances to customers	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m	Change %
Residential mortgages	(6)	27	n/m
Non-property SME and corporate	14	95	(85%)
Property and construction	163	224	(27%)
Consumer	12	14	(14%)
Impairment charges / (reversals) on loans and advances to customers	**183**	**360**	**(49%)**

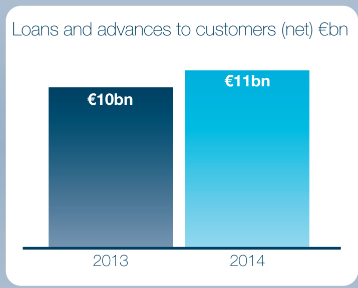
Impairment charges / (reversals) on loans and advances to customers of £183 million for the year ended 31 December 2014 were £177 million or 49% lower than the previous year.

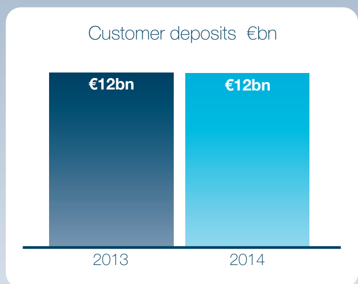
Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 52 to 68 and the supplementary asset quality and forbearance disclosures section on pages 155 to 202.

Corporate and Treasury

Corporate and Treasury: Income statement	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m	Change %
Net interest income	602	617	(2%)
Net other income	217	174	25%
Operating income	**819**	**791**	**4%**
Operating expenses	(178)	(172)	(3%)
Operating profit before impairment charges on financial assets	**641**	**619**	**4%**
Impairment charges on loans and advances to customers	(88)	(132)	33%
Underlying profit before tax	**553**	**487**	**14%**
Loans and advances to customers (net) (€bn)	11	10	10%
Customer deposits (€bn)	12	12	3%
AFS liquid assets (€bn)	11	10	7%
NAMA bonds (€bn)	2	4	(40%)
Staff numbers at period end	586	580	







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

Corporate and Treasury (continued)

Corporate and Treasury reported an **underlying profit before tax** of €553 million for the year ended 31 December 2014 compared to €487 million in the previous year. The increase of €66 million or 14% is primarily driven by gains from the sale of bonds arising through ongoing rebalancing of the Group's available for sale liquid asset portfolio, lower impairment charges, higher lending margins and higher fee income, partially offset by the continued negative impact of historically low official interest rates and the negative impact on interest income of the gains recognised on sales from the liquid asset portfolio.

Loans and advances to customers (after impairment provisions) of €11 billion at 31 December 2014 were €1 billion higher than at 31 December 2013. The increase is primarily as a result of net new lending in each of our core portfolios and the transfer of a loan portfolio of €0.8 billion to the Corporate and Treasury division from the Retail UK division, partially offset by the proceeds of the resolution of impaired loans.

Customer deposits at 31 December 2014 of €12 billion were €0.4 billion higher than at 31 December 2013, primarily due to higher current account credit balances. The deposit book primarily comprises a mixture of corporate, State, SME and structured retail customer deposits.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see pages 16 and 17).

Net interest income	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Net interest income	602	617	(2%)
IFRS income classifications	(56)	(34)	(66%)
Net interest income (after IFRS income classifications)	**546**	**583**	**(6%)**

Net interest income (after IFRS classifications) of €546 million for the year ended 31 December 2014 has decreased by €37 million or 6% compared to the previous year. The decline in loan volumes in 2013 reversed in 2014, with the result that average volumes in 2014 were similar to 2013. The decrease in net interest income is primarily as a result of the continued negative impact of historically low official interest rates and lower margins on the liquid asset portfolio, offset by improved margins on the corporate loan books, as term facilities at historic lower margins are replaced by facilities reflecting current market pricing, and gains resulting from re-estimating the timing of cash flows on NAMA senior bonds (c.€13 million).

Net other income	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Net other income	217	174	25%
IFRS income classifications	56	34	66%
Net other income (after IFRS income classifications)	**273**	**208**	**31%**

Net other income (after IFRS income classifications)	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Business income	152	122	25%
Financial instrument valuation adjustments (CVA, DVA, FVA and other)	(71)	(7)	n/m
Transfer from available for sale reserve on asset disposal	192	50	n/m
Recovery arising on settlement of administration claims	-	43	n/m
Net other income (after IFRS income classifications)	**273**	**208**	**31%**

Corporate and Treasury (continued)

Net other income (after IFRS classifications) of €273 million for the year ended 31 December 2014 has increased by €65 million or 31% compared to the previous year. This increase is primarily due to higher transfers from the available for sale reserve on asset disposals, including gains crystallised from the sale of shorter dated Irish sovereign bonds as part of a rebalancing of our liquid asset portfolio and gains on equity investments, higher business income and the introduction of a valuation adjustment in 2013 related to the funding cost of derivatives, partially offset by recoveries in the prior year on the administration settlement associated with the collapse of Lehman Brothers in September 2008 and the impact of the movement in the value of certain liabilities carried on the balance sheet at fair value through profit and loss and certain derivatives, as they did not fully meet the required criteria for hedge accounting.

Operating expenses of €178 million for the year ended 31 December 2014 are €6 million higher than the previous year. Costs have increased reflecting our investment in people, infrastructure and technology as well as the impact of the weaker euro on the translation of the costs of overseas offices.

Impairment charges on loans and advances to customers	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Non-property SME and Corporate	75	122	(39%)
Property and construction	13	10	30%
Total impairment charges on loans and advances to customers	**88**	**132**	**(33%)**

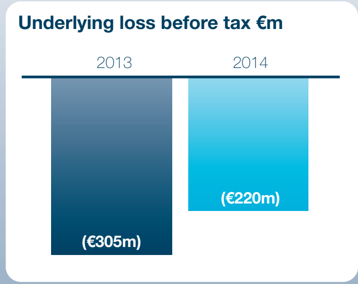
Impairment charges on loans and advances to customers of €88 million for the year ended 31 December 2014 have decreased by €44 million or 33% compared to the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 52 to 68 and the supplementary asset quality and forbearance disclosures section on pages 155 to 202.

Group Centre

Group Centre: Income statement	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m	Change %
ELG fees	**(37)**	**(129)**	**71%**
Other income	(31)	3	n/m
Net operating income / (expense)	**(68)**	**(126)**	**46%**
Operating expenses (before Irish Bank Levy)	(184)	(179)	(3%)
Irish Bank Levy	(38)	-	n/m
Reversal of impairment charge on available for sale (AFS) financial assets	70	-	n/m
Underlying loss before tax	**(220)**	**(305)**	**28%**
Staff numbers at period end	3,556	3,725	

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*



Group Centre's income and costs comprises income from capital and other management activities, unallocated Group support costs and the cost associated with schemes such as the ELG Scheme, the Deposit Guarantee Scheme (DGS), the Irish Bank Levy and the UK Financial Services Compensation Scheme (FSCS).

Group Centre reported an **underlying loss before tax** of €220 million for the year ended 31 December 2014 compared to €305 million for the previous year.

Net operating income was a charge of €68 million for the year ended 31 December 2014 compared to a charge of €126 million for the previous year. The reduction of €58 million in the period is driven primarily by a combination of lower ELG fees and lower net gains from derivatives. **ELG fees** of €37 million for the year ended 31 December 2014 compared to €129 million for the previous year. The total liabilities covered by the ELG Scheme are €3 billion at 31 December 2014 compared to €5 billion at 31 December 2013. Final maturity of the covered liabilities is expected to occur by December 2017, with c.76% of the covered liabilities of €3 billion expected to mature by 31 December 2015.

Other income was a charge of €31 million for the year ended 31 December 2014 and is €34 million lower than the previous year. The decrease is primarily due to the impact of changes in credit spreads on the Contingent Capital Note embedded derivative as it approaches its redemption date in 2016, along with fair value and other valuation adjustments on derivatives that hedge the Group's balance sheet.

Operating expenses of €184 million for the year ended 31 December 2014 are €5 million higher than the previous year. The increase primarily relates to increased regulatory and compliance requirements.

The Group incurred a cost of €38 million due to the introduction of a new **Irish Bank Levy** during 2014, see page 20.

The **reversal of an impairment charge on available for sale (AFS) financial assets** of €70 million for the year ended 31 December 2014 related to the NAMA subordinated bonds, the valuation of which was updated following the payment of a discretionary coupon on these bonds and NAMA's updated outlook for its long term performance.

Income statement - Operating segments

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

[1] *Underlying performance excludes the impact of non-core items (see page 23).*

Income statement - Operating segments

Restated* Year ended 31 December 2013	Net interest income €m	Insurance net premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charge on loans and advances to customers €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	Profit / (loss) before taxation €m
Retail Ireland	886	-	326	1,212	-	1,212	(791)	421	(1,109)	(9)	-	(697)
Bank of Ireland Life	48	1,064	551	1,663	(1,466)	197	(90)	107	-	-	-	107
Retail UK	572	-	3	575	-	575	(344)	231	(424)	40	-	(153)
Corporate and Treasury	617	-	174	791	-	791	(172)	619	(132)	-	-	487
Group Centre	(120)	9	(47)	(158)	32	(126)	(179)	(305)	-	-	-	(305)
Other reconciling items	1	-	(4)	(3)	-	(3)	-	(3)	-	-	-	(3)
Group - underlying[1]	2,004	1,073	1,003	4,080	(1,434)	2,646	(1,576)	1,070	(1,665)	31	-	(564)
Total non-core items												
- Impact of changes to pension benefits in the Group sponsored defined benefit schemes	-	-	-	-	-	-	274	274	-	-	-	274
- Change arising on the movement in the Group's credit spreads	-	-	(118)	(118)	(36)	(154)	-	(154)	-	-	-	(154)
- Cost of restructuring programme	-	-	-	-	-	-	(90)	(90)	-	-	-	(90)
- Gross-up for policyholder tax in the Life business	-	-	26	26	-	26	-	26	-	-	-	26
- Loss on disposal / liquidation of business activities	-	-	-	-	-	-	-	-	-	-	(10)	(10)
- Loss on deleveraging of financial assets	-	-	(3)	(3)	-	(3)	-	(3)	-	-	-	(3)
- Gain on liability management exercises	-	-	4	4	-	4	-	4	-	-	-	4
- Investment return on treasury stock held for policyholders	-	-	(3)	(3)	-	(3)	-	(3)	-	-	-	(3)
Group total	2,004	1,073	909	3,986	(1,470)	2,516	(1,392)	1,124	(1,665)	31	(10)	(520)

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *Underlying performance excludes the impact of non-core items (see page 23).*

Risk Management

Credit risk

Key points:

- The economic environment in both Ireland and the UK has continued to improve over the past year.
- Values in a number of segments of the commercial property market increased in both Ireland and the UK in 2014. Residential property prices increased in Ireland in 2014, with Dublin residential property prices recovering more quickly than those outside the capital. Residential property prices also increased in the UK in 2014.
- Total loans and advances to customers (before impairment provisions) reduced to €90 billion at 31 December 2014 from €93 billion at 31 December 2013.
- While defaulted and forborne loans remain elevated, the volume of defaulted loans reduced significantly in 2014, with defaulted loans totalling €14.3 billion at 31 December 2014 compared to €17.1 billion at 31 December 2013 and €16.7 billion at 30 June 2014.
- Provision coverage on defaulted loans was 52% at 31 December 2014 compared to 48% at 31 December 2013.
- Default arrears in the Retail Ireland Residential mortgage book have reduced significantly reflecting improving economic conditions and the Group's ongoing strategy to assist customers in financial difficulty with sustainable mortgage restructure and resolution strategies.
- Effective workout structures comprising the Group's Mortgage Arrears Resolution Strategies (MARS) and Challenged Assets Group (CAG) continued the alignment of significant specialist resources to the management of challenged assets.
- Total impairment charges on loans and advances to customers of €542 million fell materially on the prior year (31 December 2013: €1,665 million).

Definition of Credit Risk

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

How Credit Risk arises

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

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

Country risk

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

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

Settlement risk

Settlement risk arises in any situation where a payment in cash, securities or equities is made in expectation of a corresponding receipt in cash, securities or equities. Appropriate policies exist and settlement limits are monitored.

Credit concentration risk

Credit concentration risk is the risk of loss due to exposures to a single entity or group of entities engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Undue concentrations could lead to increased volatility in the Group's impairment charges on financial assets, earnings,

Credit risk (continued)

Definition of Credit Risk (continued)

capital requirements and financial prospects. Management of risk concentrations is an integral part of the Group's approach to risk management. Target levels and, where appropriate, limits are defined by the Court for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Court. These target levels and, where appropriate, limits, are informed by the Group's Risk Appetite Statement. Single name concentrations are also subject to limits. As the overall size of the Group's balance sheet reduces, concentration risk may increase in relative terms.

Large exposures

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

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

The Group also monitors single customer exposure against regulatory requirements. In accordance with regulatory requirements, the Group implemented in the course of 2014 an amended large exposures regime provided for in the Capital Requirements Regulation. As at 31 December 2014, the Group's 20 largest exposures (excluding exempt exposures) reported under the amended large exposures regulatory regime amounted to €5.4 billion.

Credit related commitments

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

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

Credit risk management

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

Credit policy

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

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

Lending authorisation

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

Counterparty credit risk arising from derivatives

Credit risk exposure arising from derivative instruments is managed as part of the overall lending limits to customers and financial institutions. Credit risk exposure on derivative transactions is calculated using the current value of the contract (on a mark to market basis) and an estimate of the maximum cost of rewriting the contract in the event of counterparty default. The credit process also limits gross derivative positions.

Credit risk (continued)

Management of challenged assets

A range of initiatives are in place on an ongoing basis to deal with the effects of the deterioration in the credit environment and decline in asset quality in recent years including:

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

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

Group forbearance strategies

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

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

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

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

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

Forborne loans are reviewed in line with the Group's credit management processes, which include monitoring borrower compliance with the revised terms and conditions of the forbearance arrangement. Loans to which forbearance has been applied continue to be classified as forborne until the forbearance measure expires. The Group does not currently apply a set time period after which the forbearance classification on a performing forborne loan is discontinued but may do so in future in light of regulatory guidance in this area. Borrower compliance with revised terms and conditions may not be

Credit risk (continued)

Management of challenged assets (continued)

achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continue to deteriorate, or fail to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met. In the event of non-compliance, a request for further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken - this could for example arise where the value of security held in respect of a loan diminishes over the period of a forbearance arrangement which ultimately proves unsustainable.

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

Book profile - Loans and advances to customers

Loans and advances to customers are shown in the tables below and in the tables on pages 61 to 68.

Geographical and industry analysis of loans and advances to customers

The following table gives the geographical and industry breakdown of total loans (before impairment provisions).

31 December 2014 **Geographical / industry analysis[1]**	**RoI** **€m**	**UK** **€m**	**US** **€m**	**RoW** **€m**	**Total** **€m**
Personal	27,072	26,865	-	-	53,937
- Residential mortgages	*25,588*	*25,395*	-	-	*50,983*
- Other consumer lending	*1,484*	*1,470*	-	-	*2,954*
Property and construction	8,762	6,457	-	-	15,219
- Investment	*7,150*	*5,372*	-	-	*12,522*
- Land and Development	*1,612*	*1,085*	-	-	*2,697*
Business and other services	6,332	2,310	225	74	8,941
Distribution	2,736	147	-	-	2,883
Manufacturing	2,798	728	392	133	4,051
Transport	1,267	101	23	-	1,391
Financial	569	87	-	26	682
Agriculture	1,454	496	-	-	1,950
Energy	456	30	-	-	486
Total	**51,446**	**37,221**	**640**	**233**	**89,540**

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

Credit risk (continued)

Book profile - Loans and advances to customers (continued)

31 December 2013 Geographical / industry analysis[1]	RoI €m	UK €m	US €m	RoW €m	Total €m
Personal	28,206	26,262	-	-	54,468
- Residential mortgages	*26,700*	*24,946*	-	-	*51,646*
- Other consumer lending	*1,506*	*1,316*	-	-	*2,822*
Property and construction	9,144	7,647	11	-	16,802
- Investment	*7,263*	*6,365*	*11*	-	*13,639*
- Land and Development	*1,881*	*1,282*	-	-	*3,163*
Business and other services	6,323	2,891	224	46	9,484
Distribution	2,883	176	-	-	3,059
Manufacturing	2,627	739	336	99	3,801
Transport	1,437	160	20	-	1,617
Financial	880	177	-	-	1,057
Agriculture	1,499	283	-	-	1,782
Energy	599	86	-	-	685
Total	53,598	38,421	591	145	92,755

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

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

The Group’s Residential mortgage portfolio is widely diversified by individual borrower and amounted to 57% of total gross loans at 31 December 2014 (31 December 2013: 56%). At 31 December 2014, 50% of Residential mortgages related to Ireland (31 December 2013: 52%) and 50% related to the UK (31 December 2013: 48%). At 31 December 2014, the Group’s UK Residential mortgage book amounted to £19.8 billion (31 December 2013: £20.8 billion) (before impairment provisions).

The Property and construction sector accounted for 17% or €15.2 billion of total gross loans at 31 December 2014 (31 December 2013: 18% or €16.8 billion). This book consists primarily of investment property loans.

Credit risk (continued)

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

For an analysis of the Group's impairment charge on forborne loans and advances to customers see page 156 in the supplementary asset quality and forbearance disclosures.

Impairment charges / (reversals) on loans and advances to customers Composition	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m	Change %
Residential mortgages	(148)	573	n/m
- Retail Ireland	*(140)*	*542*	*n/m*
- Retail UK	*(8)*	*31*	*n/m*
Non-property SME and corporate	218	468	(53%)
- Republic of Ireland SME	*127*	*233*	*(45%)*
- UK SME	*17*	*113*	*(85%)*
- Corporate	*74*	*122*	*(39%)*
Property and construction	451	583	(23%)
- Investment	*307*	*343*	*(10%)*
- Land and development	*144*	*240*	*(40%)*
Consumer	21	41	(49%)
Total impairment charges / (reversals) on loans and advances to customers	**542**	**1,665**	**(67%)**

Impairment charges on loans and advances to customers of €542 million for the year ended 31 December 2014 were €1,123 million or 67% lower than the previous year. The impairment charge for the previous year reflected, among other factors, implementation of the CBI 'Impairment Provisioning and Disclosures Guidelines' (31 May 2013), and the observations from the CBI's 2013 Asset Quality Review (AQR) of the Group's loan portfolios as at 30 June 2013.

The significant reduction in impairment charges for 2014 reflects the performance of the Group's loan portfolios, improvements in the economic environment in the countries in which those portfolios are located and the significant reduction in defaulted loans. Additionally, impairment charges for 2014 reflect the impact of updated Retail Ireland mortgage collective impairment provisioning parameters and assumptions, primarily driven by improving economic factors, property prices and recent experience, and the Group's response to the observations from the 2014 ECB AQR.

The impairment reversal on **Residential mortgages** of €148 million for the year ended 31 December 2014 compares to an impairment charge of €573 million in the previous year.

The impairment reversal on the Retail Ireland mortgage portfolio of €140 million for the year ended 31 December 2014 compares to an impairment charge of €542 million in the previous year. The 2013 impairment charge on the Retail Ireland portfolio reflected the impact of the implementation of the CBI guidelines and consideration of the CBI's 2013 AQR.

The current year impairment reversal on the Retail Ireland mortgage portfolio reflects a range of considerations including:

- improved performance within the portfolio (lower default rates);
- the improved economic conditions such as lower unemployment and higher property prices; and
- the impact of updated Retail Ireland mortgage collective provisioning assumptions.

Details of updated collective provisioning model parameters and assumptions for Retail Ireland mortgages, including property valuation assumptions and cure rates, are set out on pages 72 and 73. The estimated combined impact of the updated collective provisioning model parameters and assumptions is a €280 million net reduction in collective impairment provisions for Retail Ireland mortgages as at 31 December 2014.

Overall, there has been a significant reduction in Retail Ireland mortgage default arrears (based on loan volumes greater than 90 days past due and / or impaired) in 2014, continuing the trend seen in the second half of 2013.

Owner occupied default arrears (based on loan volumes greater than 90 days past due and / or impaired) were €1,685 million at 31 December 2014 as compared with €1,911 million at 30 June 2014 and €2,051 million at 31 December 2013. This reduction is reflective of the considerable ongoing progress being made by the Group in effecting its mortgage arrears resolution strategies, supported by improving economic conditions. The level of Owner occupied default arrears for the Group remains at less than half the level of those banks as published on a quarterly basis by the CBI (latest industry statistics are as at Q3 2014[1]).

[1] *CBI Mortgage Arrears industry statistics report adjusted to exclude Bank of Ireland.*

Credit risk (continued)

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

Buy to let default arrears (based on loan volumes greater than 90 days past due and / or impaired) were €1,534 million at 31 December 2014 as compared to €1,787 million at 30 June 2014 and €1,745 million at 31 December 2013.

Buy to let borrowers continue to be impacted by rising repayments as interest only periods come to an end and they move to fully amortising loans. At 31 December 2014, 70% of the Buy to let mortgage book was on a 'principal and interest' repayment basis (31 December 2013: 65%). As part of the Group's mortgage arrears resolution strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are coming to an end, to restructure customer mortgages on a sustainable basis, as appropriate.

The €253 million reduction in Buy to let default arrears in the second half of 2014 reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed mortgage assets, supported by improved rental market conditions for investors, particularly evident in primary urban areas. The level of Buy to let default arrears for the Group remains below the level of those banks as published on a quarterly basis by the CBI (latest industry statistics are as at Q3 2014[1]).

The Group's progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties has resulted in higher cure rates, and thus has also contributed to the significant reduction in the stock of default arrears and lower impairment charges in 2014. In line with the CBI 'Impairment Provisioning and Disclosures Guidelines', application of a twelve month probation period continues to apply in all cases in order to be eligible for inclusion in collective provisioning model cure rate calculations.

The impairment reversal on the Retail UK mortgage portfolio of €8 million for the year ended 31 December 2014, compared to an impairment charge of €31 million in the previous year. This reflects the improved residential property market in the UK, allied with the satisfactory performance of the portfolio which has seen low and reducing levels of default arrears across all market segments. Default arrears (volume of loans greater than 90 days past due and / or impaired) decreased to £395 million at 31 December 2014 as compared with £457 million at 30 June 2014 and £492 million at 31 December 2013.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €218 million for the year ended 31 December 2014 has decreased by €250 million from the previous year.

Republic of Ireland SME impairment charges of €127 million for the year ended 31 December 2014 have decreased by €106 million from the previous year. The reduction reflects general improvements in economic and trading conditions in the Irish SME sector in 2014. Current year impairment charges continue to relate mainly to those segments dependent on discretionary consumer spending, in addition to individual case specific events.

Impairment charges on the UK SME portfolio decreased to €17 million for the year ended 31 December 2014 compared to an impairment charge of €113 million in the previous year. Previous year impairment charges were driven by a small number of large individual cases, which were not a feature in the current year. The portfolio also benefited from the further improvement in macroeconomic conditions.

The impairment charges on the Corporate portfolios reduced to €74 million for the year ended 31 December 2014 compared to €122 million in the previous year. As was the case in the first half of 2014, impairment charges have primarily been driven by individual case specific events.

Overall, the pace of migration of new cases into our challenged portfolios has reduced considerably, with both the domestic Irish and international corporate banking portfolios continuing to benefit from the improvement in economic conditions.

The impairment charge on the **Property and construction** loan portfolio of €451 million for the year ended 31 December 2014 decreased by €132 million compared to €583 million in the previous year.

The impairment charge on the Investment property element of the Property and construction portfolio was €307 million for the year ended 31 December 2014 compared to €343 million in the previous year. Investment property impairment charges reflect the regional distribution of assets within the Investment property portfolio. While prime Dublin and London markets continue to lead the property market recovery, in non-urban / regional areas the recovery is slower, with demand dependent on location, asset type and quality. Investment property impairment charges also reflect resolution activity such as selected property asset sales for a small number of individual cases in certain market segments.

The positive sentiment that has been witnessed in the Dublin commercial property market over the past twelve months in the office and retail sectors is supported by stronger occupier demand. Dublin continues to lead the recovery with increased activity present in the urban centres of Cork, Galway and Limerick. Other regions are showing improved sentiment, however recovery is moving more slowly. The sale of significant regional shopping centre and retail park portfolios in the market has had a positive impact on the pricing of retail assets in those sectors. These transactions illustrate investor confidence towards future expectations in the sector but the retail occupier market is at an earlier stage in the cycle having yet to record meaningful rental growth.

[1] *CBI Mortgage Arrears industry statistics report adjusted to exclude Bank of Ireland.*

Credit risk (continued)

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

Within the UK, both London and the South East are experiencing yields close to their historic lows. Investors continue to have a strong appetite for regional assets, including shopping centres, which have seen yield spreads between prime and strong regional assets narrow. Location and scheme specific rental growth is expected to return.

The impairment charge on the Land and development element of the Property and construction portfolio was €144 million for the year ended 31 December 2014 compared to €240 million in the previous year. Development activity has increased in Dublin, with commuter counties now also improving; however, other regional areas remain challenging and are recovering more slowly. This urban / rural divide in property markets, in addition to the revision of exit strategies on a small number of challenged cases, is reflected in Land and development impairment charges in 2014.

The impairment charge of €21 million on **Consumer** loans for the year ended 31 December 2014 has reduced significantly from the impairment charge of €41 million in the previous year, reflecting the ongoing improvements in economic conditions in 2014, and consequently low levels of default and higher cure rates, particularly in the Retail Ireland Consumer portfolio.

Impairment charge by nature of impairment provision	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m
Specific charge individually assessed	865	1,323
Specific charge collectively assessed	(126)	151
Incurred but not reported	(197)	191
Total impairment charge	**542**	**1,665**

Impairment provision by nature of impairment provision	**31 December 2014 €m**	31 December 2013 €m
Specific provisions individually assessed	5,838	6,195
Specific provisions collectively assessed	878	1,155
Incurred but not reported	707	891
Total impairment provision	**7,423**	**8,241**

The decrease in individual specific provisions in 2014 reflects the impact of provisions utilised during the year, partially offset by increases to existing specific provisions attaching to individually assessed Residential mortgage, Non-property SME and corporate and Property and construction exposures. The individual and collective specific provisions at 31 December 2014 are after provisions utilised in the year of €1.6 billion as set out in note 22 on page 124.

The decrease in collective specific provisions in the year reflects the impact of the updated Retail Ireland Residential mortgage collective provisioning model parameters and assumptions (as set out on pages 72 and 73) and to a lesser extent, an increase in the volume of Irish mortgage loans subject to individual, rather than collective, assessment for provisioning. Additionally, some of the reduction in collective specific provisions was due to provision utilised activity in other portfolios.

Incurred but not reported (IBNR) impairment provisions decreased by €184 million to €707 million in the year to 31 December 2014. The reduction in IBNR impairment provisions was almost exclusively related to Retail Ireland Residential mortgages, and reflected the combined impact of the updated collective provisioning model parameters and assumptions (as noted above), the improving risk profile of the non-defaulted loan book, and the decrease in the volume of non-defaulted loans assessed for IBNR provisions, which is consistent with the overall reduction in the Irish mortgage portfolio.

Credit risk (continued)

Asset Quality - Loans and advances to customers

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

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. A loan which has an active forbearance measure is a 'forborne loan'.

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

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

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

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

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

'Impaired' loans are defined as follows:

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

'Defaulted' loans are defined as follows:

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Composition of loans and advances to customers

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

Loans and advances to customers Composition (before impairment provisions)	31 December 2014 €m	31 December 2014 %	31 December 2013 €m	31 December 2013 %
Residential mortgages	50,983	57%	51,646	56%
- Retail Ireland	*25,588*	*29%*	*26,700*	*29%*
- Retail UK	*25,395*	*28%*	*24,946*	*27%*
Non-property SME and corporate	20,384	23%	21,485	23%
- Republic of Ireland SME	*9,628*	*11%*	*10,275*	*11%*
- UK SME	*2,498*	*3%*	*3,339*	*4%*
- Corporate	*8,258*	*9%*	*7,871*	*8%*
Property and construction	15,219	17%	16,802	18%
- Investment	*12,522*	*14%*	*13,639*	*15%*
- Land and development	*2,697*	*3%*	*3,163*	*3%*
Consumer	2,954	3%	2,822	3%
Total loans and advances to customers	**89,540**	**100%**	**92,755**	**100%**

The Group's loans and advances to customers before impairment provisions at 31 December 2014 were €89.5 billion compared to €92.8 billion at 31 December 2013. Current levels of demand for credit and ongoing repayments contributed to the reduction in loans and advances to customers, partially offset by foreign exchange rate movements. The distribution of the Group's loans and advances to customers by loan portfolio was broadly similar at 31 December 2014 and at 31 December 2013.

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

For an analysis of the Group's Risk profile of loans and advances to customers (before impairment provisions) between 'non-forborne' and 'forborne' see table 3 on pages 158 and 159 in the supplementary asset quality and forbearance disclosures.

Risk profile of loans and advances to customers

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

31 December 2014 **Risk profile of loans and advances to customers (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
Total loans and advances to customers						
High quality	43,344	4,299	1,777	2,429	51,849	58%
Satisfactory quality	994	8,879	2,195	210	12,278	14%
Acceptable quality	914	2,298	2,072	31	5,315	6%
Lower quality but neither past due nor impaired	363	1,398	1,765	-	3,526	3%
Neither past due nor impaired	**45,615**	**16,874**	**7,809**	**2,670**	**72,968**	**81%**
Past due but not impaired	2,584	159	336	95	3,174	4%
Impaired	2,784	3,351	7,074	189	13,398	15%
Total loans and advances to customers	**50,983**	**20,384**	**15,219**	**2,954**	**89,540**	**100%**

31 December 2013 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Total loans and advances to customers						
High quality	43,625	3,886	946	2,003	50,460	54%
Satisfactory quality	659	8,685	2,805	454	12,603	14%
Acceptable quality	769	3,055	2,397	23	6,244	7%
Lower quality but neither past due nor impaired	258	1,705	1,650	-	3,613	4%
Neither past due nor impaired	45,311	17,331	7,798	2,480	72,920	79%
Past due but not impaired	3,288	243	413	106	4,050	4%
Impaired	3,047	3,911	8,591	236	15,785	17%
Total loans and advances to customers	51,646	21,485	16,802	2,822	92,755	100%

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Loans and advances to customers classified as **'neither past due nor impaired'** amounted to €73.0 billion at 31 December 2014 compared to €72.9 billion at 31 December 2013.

The **'past due but not impaired'** category amounted to €3.2 billion of loans and advances to customers at 31 December 2014 compared to €4.0 billion at 31 December 2013. This reduction is largely driven by the decrease in Residential mortgages 'past due but not impaired', reflecting improving economic conditions and the Group's ongoing strategy to assist customers in financial difficulty with sustainable mortgage restructures.

'Impaired' loans decreased to €13.4 billion of loans and advances to customers at 31 December 2014 from €15.8 billion of loans and advances to customers at 31 December 2013. This significant reduction reflects the Group's continued progress in executing a combination of resolution strategies (and the consequent utilisation of provisions in some cases), aided by the improvement in economic and property market conditions. In particular, during the second half of 2014, the Group has taken advantage of improved conditions in certain market segments (e.g. commercial investment property) by conducting sales of selected property assets.

For an analysis of the Group's risk profile of loans and advances to customers (before impairment provisions) between 'non-forborne' and 'forborne' see pages 158 and 159 in the supplementary asset quality and forbearance disclosures.

'Past due and / or impaired'

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

31 December 2014 **Risk profile of loans and advances to customers - past due and / or impaired**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Total loans and advances to customers					
Past due up to 30 days	643	93	61	55	852
Past due 31 - 60 days	728	37	242	28	1,035
Past due 61 - 90 days	271	29	33	12	345
	1,642	**159**	**336**	**95**	**2,232**
Past due greater than 90 days but not impaired	942	-	-	-	942
Impaired	2,784	3,351	7,074	189	13,398
Defaulted loans	**3,726**	**3,351**	**7,074**	**189**	**14,340**
Total loans and advances to customers - past due and / or impaired	**5,368**	**3,510**	**7,410**	**284**	**16,572**

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

31 December 2013

Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	684	169	154	59	1,066
Past due 31 - 60 days	887	36	171	33	1,127
Past due 61 - 90 days	377	38	88	14	517
	1,948	243	413	106	2,710
Past due greater than 90 days but not impaired	1,340	-	-	-	1,340
Impaired	3,047	3,911	8,591	236	15,785
Defaulted loans	4,387	3,911	8,591	236	17,125
Total loans and advances to customers - past due and / or impaired	6,335	4,154	9,004	342	19,835

Loans and advances to customers classified as 'past due and / or impaired' amounted to €16.6 billion at 31 December 2014 compared to €19.8 billion at 31 December 2013.

Residential mortgages classified as 'past due and / or impaired' decreased by €0.9 billion from €6.3 billion at 31 December 2013 to €5.4 billion at 31 December 2014 reflecting a significant reduction in the volume of Retail Ireland Residential mortgages classified as past due and impaired, reflecting significant improvements in default arrears and the ongoing restructure and resolution activity.

Property and construction loans classified as 'past due and / or impaired' were €7.4 billion at 31 December 2014 compared to €9.0 billion at 31 December 2013. This reduction is reflective of the Group's progress in executing resolution strategies, including sales of selected property assets in the commercial investment property market in the latter half of 2014, and the consequent utilisation of provisions in some cases.

The volume of Non-property SME and corporate loans that are 'past due and / or impaired' was €3.5 billion at 31 December 2014 compared to €4.2 billion at 31 December 2013 reflecting reductions in the volume of loans classified as 'impaired' on foot of resolution activity in 2014.

Consumer loans that are 'past due and / or impaired' were €284 million at 31 December 2014 compared to €342 million at 31 December 2013.

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Composition and impairment

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

31 December 2014 **Total loans and advances to customers** **Composition and impairment**	**Advances (pre-impairment)** **€m**	**Defaulted loans** **€m**	**Defaulted loans as % of advances** **%**	**Impairment provisions** **€m**	**Impairment provisions as % of defaulted loans** **%**
Residential mortgages	50,983	3,726	7.3%	1,604	43%
- Retail Ireland	*25,588*	*3,219*	*12.6%*	*1,486*	*46%*
- Retail UK	*25,395*	*507*	*2.0%*	*118*	*23%*
Non-property SME and corporate	20,384	3,351	16.4%	1,699	51%
- Republic of Ireland SME	*9,628*	*2,468*	*25.6%*	*1,264*	*51%*
- UK SME	*2,498*	*421*	*16.9%*	*186*	*44%*
- Corporate	*8,258*	*462*	*5.6%*	*249*	*54%*
Property and construction	15,219	7,074	46.5%	3,935	56%
- Investment	*12,522*	*4,660*	*37.2%*	*2,138*	*46%*
- Land and development	*2,697*	*2,414*	*89.5%*	*1,797*	*74%*
Consumer	2,954	189	6.4%	185	98%
Total loans and advances to customers	**89,540**	**14,340**	**16.0%**	**7,423**	**52%**

31 December 2013 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %
Residential mortgages	51,646	4,387	8.5%	2,002	46%
- Retail Ireland	*26,700*	*3,796*	*14.2%*	*1,863*	*49%*
- Retail UK	*24,946*	*591*	*2.4%*	*139*	*24%*
Non-property SME and corporate	21,485	3,911	18.2%	1,909	49%
- Republic of Ireland SME	*10,275*	*2,747*	*26.7%*	*1,379*	*50%*
- UK SME	*3,339*	*571*	*17.1%*	*286*	*50%*
- Corporate	*7,871*	*593*	*7.5%*	*244*	*41%*
Property and construction	16,802	8,591	51.1%	4,118	48%
- Investment	*13,639*	*5,766*	*42.3%*	*2,183*	*38%*
- Land and development	*3,163*	*2,825*	*89.3%*	*1,935*	*68%*
Consumer	2,822	236	8.4%	212	90%
Total loans and advances to customers	92,755	17,125	18.5%	8,241	48%

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Loans and advances to customers (pre-impairment) reduced by 3% from €92.8 billion at 31 December 2013 to €89.5 billion at 31 December 2014 due to the impact of current demand for new lending and actions taken by customers to reduce their levels of debt, partially offset by foreign exchange rate movements.

Defaulted loans decreased to €14.3 billion at 31 December 2014 from €17.1 billion at 31 December 2013. The significant reduction in defaulted loans reflects the Group's continued progress in executing a combination of resolution strategies, aided by the further improvement in economic and property market conditions. In particular, during the second half of 2014, the Group has taken advantage of improved conditions in certain market segments (e.g. commercial investment property) by conducting sales of selected property assets.

The stock of **impairment provisions** decreased from €8.2 billion at 31 December 2013 to €7.4 billion at 31 December 2014, however impairment provisions as a percentage of defaulted loans ('total provision cover') increased from 48% at 31 December 2013 to 52% at 31 December 2014. Impairment provisions of €7.4 billion at 31 December 2014 are after provisions utilised of €1.6 billion as set out in note 22 on page 124.

Total **Residential mortgages** defaulted loans decreased to €3.7 billion at 31 December 2014 from €4.4 billion at 31 December 2013. The material reduction in Retail Ireland Residential mortgages defaulted loans, across both the Owner occupied and Buy to let market segments, reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity, and the disposal of a portfolio of distressed assets (concentrated in the Buy to let market segment), supported by improved economic and residential property market conditions. The Retail UK Residential mortgage loan book continues to perform well, with reduced defaulted loans reflecting further improvements in economic and residential property market conditions in the UK.

Further additional disclosures on the Retail Ireland and Retail UK Residential mortgage portfolios are set out in the supplementary asset quality and forbearance disclosures section on pages 162 to 194.

Non-property SME and corporate defaulted loans decreased to €3.4 billion at 31 December 2014 from €3.9 billion at 31 December 2013. The reduction in Non-property SME defaulted loans reflects general improvements in economic and trading conditions in both the Irish and UK SME sectors in 2014. Notwithstanding the improvements in trading conditions, challenges remain in certain SME market segments, and particularly those outside urban centres. The reduction also reflects the Group's progress in executing resolution strategies for some larger Corporate challenged borrowers.

Defaulted loans in the **Property and construction** portfolio decreased to €7.1 billion at 31 December 2014 from €8.6 billion at 31 December 2013. In the Investment property sector, defaulted loans were €4.7 billion at 31 December 2014 as compared with €5.8 billion at 31 December 2013. This significant reduction reflects resolution activity (such as selected property asset sales) during the latter half of 2014, aided by better market conditions in certain segments.

Land and development defaulted loans amounted to €2.4 billion of the portfolio at 31 December 2014, down from €2.8 billion at 31 December 2013, reflecting resolution activity on challenged cases and the consequent utilisation of provisions.

Consumer defaulted loans decreased to €189 million at 31 December 2014 from €236 million at 31 December 2013, aided by improved economic conditions.

Coverage ratios have increased from 48% at 31 December 2013 to 52% at 31 December 2014 reflecting the decrease in the level of defaulted loans and the impact of impairment charges during 2014. Coverage ratios have increased across most portfolios over the same period.

The reduction in the coverage ratio for Retail Ireland Residential mortgages reflects the impact of updated Retail Ireland mortgage collective provisioning parameters and assumptions as set out on pages 72 and 73 which were predominately driven by improving economic factors, property prices and experience. The reduction in the coverage ratio for UK SME reflects the impact of provisions utilised and particularly the resolution of one large, highly provisioned challenged exposure in the first half of 2014.

Credit risk (continued)

Asset Quality - Segmental analysis

31 December 2014

Risk profile of loans and advances to customers Total before impairment provisions	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
High quality	22,088	26,017	3,744	51,849
Satisfactory quality	5,556	1,871	4,851	12,278
Acceptable quality	2,734	897	1,684	5,315
Lower quality but neither past due nor impaired	1,582	1,337	607	3,526
Neither past due nor impaired	**31,960**	**30,122**	**10,886**	**72,968**
Past due but not impaired	1,540	1,620	14	3,174
Impaired	9,149	3,547	702	13,398
Past due and / or impaired	**10,689**	**5,167**	**716**	**16,572**
Total	**42,649**	**35,289**	**11,602**	**89,540**

31 December 2013

Risk profile of loans and advances to customers Total before impairment provisions	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
High quality	22,641	25,454	2,365	50,460
Satisfactory quality	5,464	2,470	4,669	12,603
Acceptable quality	3,002	1,612	1,630	6,244
Lower quality but neither past due nor impaired	1,558	1,283	772	3,613
Neither past due nor impaired	32,665	30,819	9,436	72,920
Past due but not impaired	2,268	1,717	65	4,050
Impaired	10,237	4,530	1,018	15,785
Past due and / or impaired	12,505	6,247	1,083	19,835
Total	45,170	37,066	10,519	92,755

Credit risk (continued)

Asset Quality - Segmental analysis (continued)

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

31 December 2014 **Loans and advances to customers which are past due and / or impaired** **Total before impairment provisions**	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
Past due up to 30 days	514	328	10	852
Past due 31 - 60 days	205	829	1	1,035
Past due 61 - 90 days	144	198	3	345
	863	**1,355**	**14**	**2,232**
Past due greater than 90 days but not impaired	677	265	-	942
Impaired	9,149	3,547	702	13,398
Defaulted loans	**9,826**	**3,812**	**702**	**14,340**
Total past due and / or impaired loans	**10,689**	**5,167**	**716**	**16,572**

31 December 2013 Loans and advances to customers which are past due and / or impaired Total before impairment provisions	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
Past due up to 30 days	687	371	8	1,066
Past due 31 - 60 days	344	745	38	1,127
Past due 61 - 90 days	221	277	19	517
	1,252	1,393	65	2,710
Past due greater than 90 days but not impaired	1,016	324	-	1,340
Impaired	10,237	4,530	1,018	15,785
Defaulted loans	11,253	4,854	1,018	17,125
Total past due and / or impaired loans	12,505	6,247	1,083	19,835

Repossessed collateral

At 31 December 2014, the Group had collateral held as security, as follows:

Repossessed collateral	**31 December 2014 €m**	31 December 2013 €m
Residential properties:		
Ireland	20	25
UK and other	38	35
	58	**60**
Other	3	6
Total	**61**	**66**

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

Credit risk (continued)

Asset Quality - Other financial instruments

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

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

Asset quality:	**31 December 2014**		31 December 2013	
Other financial instruments with ratings equivalent to:	**€m**	**%**	€m	%
AAA to AA-	9,817	33%	7,500	25%
A+ to A-	17,781	59%	7,209	24%
BBB+ to BBB-	1,549	5%	13,988	47%
BB+ to BB-	509	1%	510	2%
B+ to B-	168	1%	125	1%
Lower than B-	246	1%	201	1%
Total	**30,070**	**100%**	**29,533**	**100%**

Other financial instruments at 31 December 2014 amounted to €30.1 billion, an increase of €0.6 billion as compared with €29.5 billion at 31 December 2013. The large movement in exposures between the BBB and single A ranges primarily reflects the upgrading of Irish sovereign exposure from BBB+ to A- during the year.

Credit risk methodologies

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

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

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

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

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

Credit risk (continued)

Credit risk methodologies (continued)

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

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

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

Regulatory approval of approaches

The Bank of Ireland Group has regulatory approval to use its internal credit models in the calculation of its capital requirements. As at 31 December 2014, 80% of credit risk weighted assets (excluding non-credit obligations) were calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures.

The structure of internal rating systems

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

PD calculation

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

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

Non-Retail internal rating systems

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

Retail internal rating systems

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

Other uses of Internal Estimates

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

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

For non-retail exposures, through-the-cycle PD estimates are used to calculate internal economic capital.
For other purposes, the cyclical PD estimates typically are used. Both estimates feature within internal management reporting.

Control mechanisms for rating systems

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

Credit risk (continued)

Credit risk methodologies (continued)

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

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

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

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

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

At 31 December 2014, each of the following portfolio specific events requires the completion of an impairment assessment to determine whether a loss event has occurred at the balance sheet date that may lead to recognition of impairment losses:

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

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

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

Credit risk (continued)

Credit risk methodologies (continued)

Consumer

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

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

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

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

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

Methodology for individually assessing impairment

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

A significant element of the Group's credit exposures are assessed for impairment on an individual basis. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 59.

Methodology for collectively assessing impairment

Where exposures fall below the threshold for individual assessment of impairment by way of discounted cash flow analysis, such exposures are subject to individual lender assessment to assess for impairment (which may involve the completion of a discounted cash flow analysis to quantify the specific provision amount), or are automatically included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics (e.g. portfolio of consumer personal loans) are pooled together and a provision is calculated by estimating the future cash flows of a group of exposures.

In pooling exposures based on similar credit risk characteristics, consideration is given to features including: asset type; industry; past due status; collateral type; and forbearance status. The provision estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which are based on historical experience (i.e. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

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

- refined assumptions for residential property valuations;
- enhanced and more granular assumptions regarding forced sale discounts; and
- updated cure rate, time to sale and work-out cost assumptions informed by the Group's observed experience.

Some of the key parameters used in the Retail Ireland Residential mortgage collective specific provisioning model include assumptions in relation to: residential property valuation (31 December 2014: 10% discount to

Credit risk (continued)

Credit risk methodologies (continued)

indexed value[1] for both Dublin and Non-Dublin properties); forced sale discount (31 December 2014: 10% to 25%); work-out costs (31 December 2014: 6%), weighted average cure rate (31 December 2014: c.8.0% over two and a half years) and time to sale (31 December 2014: two and a half year rolling average from the reporting date).

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

The more material changes in the parameters and assumptions used in the 31 December 2014 model compared to the 31 December 2013 model relate to refined assumptions for residential property valuations combined with the enhanced, more granular assumptions regarding forced sale discounts. As outlined above, the assumption adopted by the Group at 31 December 2014 in respect of the value of Irish residential properties reflected the indexed value[1] discounted by 10% for both Dublin and Non-Dublin properties. Previously, the Group assumed an average decline in the value of all Irish residential properties equal to 55% from their peak in 2007. This change was prompted by continued residential property price increases observed throughout 2014. The forced sale discounts applied at 31 December 2014 are informed by the Group’s recent property sales experience and are more granular being segmented by region (i.e. Dublin and Non-Dublin) and market segment (i.e. Owner occupied and Buy to let), with forced sale discounts ranging from 10% - 25%. At 31 December 2013, the collective specific provisioning model applied a 10% forced sale discount assumption to all properties.

The Group’s critical accounting estimates and judgements on pages 98 and 99, include sensitivity analysis disclosure on some of the key judgmental areas, including Residential mortgages, in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision (‘collective specific’) in line with individually assessed loans. An analysis of the Group’s impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 59.

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

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

Account performance is reviewed periodically to confirm that the credit grade or PD assigned remains appropriate and to determine if impairment has arisen. For consumer and smaller ticket commercial exposures, the review is largely based on account behaviour and is highly automated. Where there are loan arrears, excesses, dormancy, etc. the account is downgraded to reflect the higher underlying risk.

A significant element of the Group’s IBNR provisions relate to the Retail Ireland Residential mortgage portfolio. A key assumption used in the calculation of the IBNR impairment provisions for defaulted (but not impaired) Retail Ireland Residential mortgages is the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions have been reviewed during the year informed by the Group’s recent observed experience (incorporating increased and more granular residential property sales data) and property price movements in the period. The resulting changes, particularly in relation to the residential property value assumptions, the forced sale discounts and work-out costs used in the IBNR provisioning model, are the same as those outlined above in respect of the Retail Ireland Residential mortgage collective specific provisioning methodology. The default (but not impaired) IBNR model cure assumptions are segmented by a number of factors, including forbearance classification, and LTV (for relevant cohorts), and have been updated for recent observed experience. At 31 December 2014 the cure assumptions reflect a weighted average cure rate of c.12.9% over a two and a half year

[1] *Indexed value with reference to end September 2014 CSO residential property price index for ‘Dublin – all residential properties’ and ‘National excluding Dublin – all residential properties’ (hereafter ‘Non-Dublin’). At that date, the Dublin index was 39.6% lower than its peak and the non-Dublin index was 44.0% lower than its peak. The end September CSO index was published on 22 October 2014 and was used in the updating of the Retail Ireland mortgage collective impairment provisioning parameters and assumptions, which were approved internally in December 2014.*

Credit risk (continued)

Credit risk methodologies (continued)

period. At 31 December 2013 the assumptions reflected a weighted average cure rate of 7.4% over a two year period.

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

Emergence period refers to the period of time between the occurrence and reporting of a loss event. Emergence periods are reflective of the characteristics of the particular portfolio. For example, at 31 December 2014, emergence periods are in the following ranges: forborne 9-11 months, non-forborne 6-8 months for Retail Ireland Residential mortgages and 3-4 months for both forborne and non-forborne larger SME / Corporate and Property loans. Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling. Given the economic environment over recent years, emergence periods reflect the more intensive credit management model in place, particularly for the Group's larger SME corporate and Property loans. Emergence periods are reviewed and back tested half-yearly and updated as appropriate.

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

While loss emergence rates have been assessed in light of the Group's recent grade migration experience and current PD grades, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2013, with the exception of the changes outlined above in relation to Retail Ireland Residential mortgages. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, if appropriate, based on recent observed experience. Increasing the emergence period or LGD factors in the IBNR model would give rise to an increase in the level of IBNR provisions for a portfolio.

The Group's critical accounting estimates and judgements on pages 98 and 99 include sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

Methodology for loan loss provisioning and forbearance

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

Individually assessing impairment & forbearance

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

Collectively assessing impairment and forbearance

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

Provisioning and forbearance

For Residential mortgages, exposures which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision book cover on the Residential mortgage portfolio which is subject to forbearance is higher (typically c.2-3 times higher) than that of the similar portfolio of Residential mortgage exposures which are not subject to forbearance. For non-residential mortgage exposures which are subject to forbearance and where a

Credit risk (continued)

Credit risk methodologies (continued)

specific provision is required, the exposure is reported as 'impaired' and is not reported as 'forborne'. The IBNR provision book cover on the non-residential mortgage portfolio which is subject to forbearance is higher (typically c.4 times higher) than that of the similar portfolio of non-residential mortgage exposures which are not subject to forbearance. In both cases, the higher provision cover is reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and / or re-default.

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

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

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

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

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

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

The appropriate methodology applied depends in part on the options available to management to maximise recovery which are driven by the particular circumstances of the loan and underlying collateral, e.g. the degree of liquidity and recent transactional evidence in the relevant market segment, the type, size and location of the property asset and its development potential and marketability. In all cases where the valuations for property collateral are used, the initial recommendation of the realisable value and the timeline for realisation are arrived at by specialist work-out units. These estimated valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Credit & Market Risk function and are ultimately approved in line with delegated authority upon the recommendation of the credit underwriting unit. At all approval levels, the impairment provision and the underlying valuation methodology is reviewed and challenged for appropriateness, adequacy and consistency.

Liquidity risk

Key points

- Group customer deposits of €75 billion have increased by €0.9 billion since 31 December 2013. Planned volume reductions in Retail UK balances (closure of Isle of Man and Business Banking (GB)) have been offset by growth in Retail Ireland and Corporate and Treasury balances.
- The Group's Loan to Deposit Ratio (LDR) reduced by 4% to 110% at end December 2014.
- The Group's Liquidity Coverage Ratio (LCR) at end December 2014 was 98%. Based on current market conditions, the Group expects to be in full compliance with the applicable phase-in ratio once the LCR requirements take effect from October 2015.
- The Group has issued €2.25 billion of senior funding during 2014, in both secured and unsecured formats.
- The Group continues to reduce funding from Monetary Authorities, with a reduction from €8.3 billion at December 2013 to €4.4 billion at end December 2014. Funding at end December 2014 includes €1.5 billion of Targeted Longer Term Refinancing Operations (TLTRO) borrowings and c.€2 billion related to NAMA bonds.
- Based on current market conditions, the Group expects to be in full compliance with the Net Stable Funding requirements expected to come into effect from January 2018.

Definition of Liquidity Risk

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

Liquidity Risk Framework

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

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

The Group's Liquidity Risk Appetite is developed through a risk assessment of the Group's activities within a spectrum of business models and market opportunities. In addition, it takes account of external regulatory requirements including, for example, regulatory liquidity standards arising from the implementation of CRD IV.

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

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

Liquidity risk management

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

Liquidity risk management consists of two main activities:

- structural liquidity management focuses on assessing an optimal balance sheet structure taking account of the expected maturity profile of assets and liabilities and the Group's debt issuance strategy; and
- tactical liquidity management focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs can be met. This takes account of the Group's access to unsecured funding (customer deposits and wholesale funding), the liquidity value of a portfolio of highly marketable assets and a portfolio of secondary assets eligible for use in Monetary Authority liquidity facilities that can be readily converted into liquidity to cover unforeseen cash outflows.

Liquidity risk (continued)

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

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

The Group has remained in full compliance with the regulatory liquidity requirements throughout 2014, and as at 31 December 2014 maintained a buffer significantly in excess of regulatory minima.

Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority (PRA) and is subject to the regulatory liquidity regime of the PRA. Bank of Ireland (UK) plc has remained in full compliance with the regulatory liquidity regime in the UK throughout 2014, and as at 31 December 2014 maintained a buffer significantly in excess of regulatory liquidity requirements.

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

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

Liquidity risk reporting

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

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

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

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

Liquidity risk measurement

The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on-balance sheet and off-balance sheet transactions. The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2014 and 31 December 2013. These maturity profiles are based on the remaining contractual maturity period at the balance sheet date (discounted). Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,680 million and €9,918 million respectively (31 December 2013: €5,460 million and €8,502 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on deposit books to reflect their inherent stability.

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

Liquidity risk (continued)

31 December 2014 **Maturities of financial assets and liabilities**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Assets						
Cash and balances at central banks	4,991	-	-	-	-	4,991
Trading securities	-	-	-	-	12	12
Derivative financial instruments	356	94	212	1,324	1,706	3,692
Other financial assets at fair value through profit or loss[1]	988	27	37	544	2,321	3,917
Loans and advances to banks	913	3,553	381	-	4	4,851
Available for sale financial assets[1]	-	1,144	393	5,624	6,419	13,580
NAMA senior bonds[2]	-	183	548	1,643	-	2,374
Loans and advances to customers (before impairment provisions)	5,647	7,519	5,735	23,486	47,154	89,541
	12,895	**12,520**	**7,306**	**32,621**	**57,616**	**122,958**
Liabilities						
Deposits from banks	153	1,503	428	86	-	2,170
Drawings from Monetary Authorities (gross)	-	2,905	-	1,495	-	4,400
Customer accounts	43,671	15,578	9,741	5,600	247	74,837
Derivative financial instruments	275	264	129	1,281	2,089	4,038
Debt securities in issue	-	2,041	3,039	4,547	3,698	13,325
Subordinated liabilities	-	-	70	1,005	1,425	2,500
Total	**44,099**	**22,291**	**13,407**	**14,014**	**7,459**	**101,270**

31 December 2013 Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	6,385	-	-	-	-	6,385
Trading securities	-	-	-	252	-	252
Derivative financial instruments	517	86	199	1,435	1,255	3,492
Other financial assets at fair value through profit or loss[1]	1,017	65	80	186	2,227	3,575
Loans and advances to banks	1,594	2,882	254	25	4	4,759
Available for sale financial assets[1]	14	200	166	7,990	3,734	12,104
NAMA senior bonds[2]	-	-	417	2,187	1,353	3,957
Loans and advances to customers (before impairment provisions)	5,627	8,115	6,098	24,147	48,768	92,755
Total	15,154	11,348	7,214	36,222	57,341	127,279
Liabilities						
Deposits from banks	358	3,267	1,975	198	-	5,798
Drawings from Monetary Authorities (gross)	-	-	-	8,300	-	8,300
Customer accounts	43,527	16,950	9,135	4,085	170	73,867
Derivative financial instruments	388	72	127	1,134	1,507	3,228
Debt securities in issue	-	143	1,554	7,876	3,822	13,395
Subordinated liabilities	-	-	-	1,041	634	1,675
Total	44,273	20,432	12,791	22,634	6,133	106,263

[1] *Excluding equity shares which have no contractual maturity.*
[2] *The maturity date of the NAMA senior bonds is based on their assessed behavioural maturity.*

Liquidity risk (continued)

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

Customer deposits
The Group's customer deposit strategy is focused on growing high quality stable deposits at acceptable pricing by leveraging the Group's extensive retail and corporate customer franchise in Ireland and by accessing the UK retail market through Bank of Ireland (UK) plc and in particular the Group's strategic partnership with the UK Post Office. The Group continues to focus on the growth of retail deposits and relationship-based corporate deposits which arise from the Group's broader lending and treasury risk management activities.

Group customer deposits of €75 billion have increased by €0.9 billion since 31 December 2013. Notwithstanding actions to reduce the cost of deposits, balances in the Retail Ireland division have grown by €0.7 billion. In line with the overall trend in the Irish market, current account credit balances have increased offsetting a reduction in term deposit balances. The £1.6 billion decrease in Retail UK deposits reflects the planned reduction of excess liquidity in Bank of Ireland (UK) plc, the exit from business banking in mainland Britain and the closure of the Isle of Man activities. Deposits in the Corporate and Treasury division have increased by €0.4 billion.

Deposits include €0.6 billion which relate to sale and repurchase agreements with financial institutions that do not hold a banking licence.

Customer deposits of €75 billion at 31 December 2014 (31 December 2013: €74 billion) do not include €2.3 billion (31 December 2013: €2.3 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically of five years) and consequently are an additional source of stable retail funding for the Group.

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

Customer deposits	**31 December 2014 €bn**	31 December 2013 €bn
Retail Ireland	37	36
- Deposits	*22*	*24*
- Current account credit balances	*15*	*12*
Retail UK	26	26
Retail UK (Stg£bn equivalent)	20	22
- UK Post Office	*16*	*16*
- Other Retail UK	*4*	*6*
Corporate and Treasury	12	12
Total customer deposits	**75**	**74**
Loan to deposit ratio	**110%**	**114%**

Liquidity risk (continued)

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

Wholesale funding of €20 billion has decreased by c.€7.6 billion since 31 December 2013 primarily related to the impact of:
- a reduction in loans and advances to customers (c.€2.4 billion);
- the issue of a lower tier 2 security in June 2014 (c.€750 million);
- lower holdings of NAMA bonds (c.€1.6 billion);
- lower cash and balances at central banks (c.€1.4 billion);
- higher customer deposits (c.€1 billion); and
- retained earnings c.€0.4 billion.

At 31 December 2014, €9.5 billion or 48% of wholesale funding had a term to maturity of greater than one year (31 December 2013: €19.9 billion or 72%). The reduction since 31 December 2013 is primarily related to the maturity profile of borrowings via the ECB's Long Term Repo Operations (TLTRO and LTRO). Excluding borrowings from Monetary Authorities, wholesale market funding with a maturity of less than one year was €7.5 billion of which €4.5 billion is secured.

The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. The reduction in wholesale funding includes a decrease in the Group's usage of liquidity facilities made available by Monetary Authorities. The Group's funding from Monetary Authorities of €4.4 billion has decreased by c.€4 billion since 31 December 2013 and includes €1.5 billion of TLTRO funding drawn in December 2014. Monetary Authority funding of c.€2.4 billion is related to the funding of NAMA bonds.

During the year ended 31 December 2014, the Group has continued to access the term debt markets at reducing costs by issuing:
- €750 million five-year senior unsecured security in January 2014 at 210 basis points above mid swaps;
- €750 million of Irish Mortgage Asset Covered Securities in a five-year transaction in March 2014 at 80 basis points above mid swaps; and
- €750 million three-year senior unsecured security in May 2014 at 150 basis points above mid swaps.

Since the year end the Group has issued €750 million of Irish Mortgage Asset Covered Securities in a five-year transaction in January 2015 at a price of 20 basis points above mid swaps.

Eligible Liabilities Guarantee Scheme
As described in note 34, the Group participated in the ELG Scheme, which guaranteed certain liabilities of Irish financial institutions. The scheme was withdrawn effective 28 March 2013. Any existing qualifying liabilities (i.e. liabilities originated from 11 January 2010 up to and including 28 March 2013) will continue to be covered until maturity up to a limit of five years.

At 31 December 2014, €2.8 billion of eligible liabilities continue to be covered under the ELG Scheme (31 December 2013: €5.0 billion) of which €1.9 billion related to senior debt and €0.9 billion related to customer deposits. In January 2015, c.€1.8 billion of the Group's senior debt covered under the ELG Scheme matured.

Liquidity risk (continued)

Wholesale funding sources	31 December 2014 €bn	31 December 2014 %	31 December 2013 €bn	31 December 2013 %
Secured funding	14	72%	22	81%
- Monetary Authority	*4*	*22%*	*8*	*30%*
- Covered bonds	*6*	*31%*	*7*	*26%*
- Securitisations	*3*	*13%*	*3*	*11%*
- Private market repo	*1*	*6%*	*4*	*14%*
Unsecured funding	6	28%	5	19%
- Senior debt	*5*	*23%*	*3*	*11%*
- Bank deposits	*1*	*5%*	*2*	*8%*
Total Wholesale funding	**20**	**100%**	**27**	**100%**
Wholesale market funding < 1 year to maturity	8	48%	7	40%
Wholesale market funding > 1 year to maturity	8	52%	12	60%
Monetary Authority funding < 1 year to maturity	3	-	-	-
Monetary Authority funding > 1 year to maturity	1	-	8	-
Wholesale funding covered by ELG Scheme	2	-	3	-
Liquidity metrics				
Liquidity Coverage Ratio		98%		n/d[1]
Net Stable Funding Ratio		114%		n/d[1]
Loan to deposit ratio		110%		114%

[1] The Net Stable Funding Ratio and the Liquidity Coverage Ratio were not disclosed at 31 December 2013.

At 31 December 2014[1,2]

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

At 31 December 2013

Wholesale funding maturity analysis[3]	Unsecured funding €bn	Secured funding from Monetary Authorities €bn	Secured funding private sources €bn	Total wholesale funding €bn
Less than three months	1	-	2	3
3 months to one year	-	-	4	4
One to five years	4	8	6	18
More than five-years	-	-	2	2
Wholesale funding	5	8	14	27

[1] Since the year end the Group has issued €750 million of Irish Mortgage Asset Covered Securities in a five-year transaction in January 2015 at a price of 20 basis points above mid swaps.
[2] The ECB has committed to full allotment in its monetary policy operations at least until the end of the reserve maintanance period ending in December 2016.
[3] The maturity analysis has been prepared using the expected maturity of the liabilities.

Liquidity risk (continued)

Funding and liquidity position
Moody's raised the Group's senior debt credit rating from Ba3 to Ba1 and deposit rating from Ba2 to Baa3 in December 2014, revising the outlook on the Group's senior debt to stable from negative (negative outlook maintained on deposit ratings).

The Group's credit ratings from Fitch, DBRS and S&P have remained stable during 2014 at (BBB / BBB / BB+) respectively. S&P revised the outlook on the Group's senior unsecured debt rating from negative to positive in December 2014.

Ireland - Senior debt	**31 December 2014**	31 December 2013
Standard & Poor's	A (Stable)	BBB+ (Positive)
Moody's	Baa1 (Stable)	Ba1 (Stable)
Fitch	A- (Stable)	BBB+ (Stable)
DBRS	A (Low) (Positive trend)	A (Low) (Negative trend)

BoI - Senior debt	**31 December 2014**	31 December 2013
Standard & Poor's	BB+ (Positive)	BB+ (Stable)
Moody's	Ba1 (Stable)	Ba3 (Negative)
Fitch	BBB (Negative)	BBB (Stable)
DBRS	BBB (High) (Negative trend)	BBB (High) (Negative trend)

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

For the purposes of liquidity risk management the Group monitors and manages balance sheet encumbrance via risk appetite. The Group's overall encumbrance level at year ended 31 December 2014 was 24% with c.€28 billion of the Group's assets encumbered.

Capital management

Key points:

- Common equity tier 1 (CET 1) ratio is 14.8% under the Basel III / CRD IV transitional rules at 31 December 2014.
- The Group continues to expect to maintain a buffer above a CET 1 ratio of 10%, taking account of the transition rules and the intention to derecognise the 2009 Preference Stock from regulatory CET 1 capital between January and July 2016. This provides for a meaningful buffer over regulatory requirements.
- The results of the ECB Comprehensive Assessment, completed in October 2014, confirm that the Group has passed the assessment, with substantial capital buffers over the threshold capital ratios in both the baseline and adverse stress test scenarios.
- On a pro forma full implementation basis the CET 1 ratio is 11.9% at 31 December 2014 including the 2009 Preference Stock and 9.3% excluding the 2009 Preference Stock.
- CET 1 ratio is 14.3% on a pro forma basis under the Basel III / CRD IV transitional rules at 1 January 2015.
- Total capital ratio is 18.3% under Basel III / CRD IV transitional rules at 31 December 2014.
- In June 2014, the Group issued €750 million of Tier 2 capital at a coupon of 4.25% with a maturity of 10 years.
- Leverage ratio is 6.4% on a Basel III / CRD IV pro forma transitional basis and 5.1% on a pro forma full implementation basis including 2009 Preference Stock and 4.0% excluding the 2009 Preference Stock.

Capital management objectives and policies

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised. The capital adequacy requirements set by the ECB (the SSM, introduced on 4 November 2014, is the mechanism through which the ECB will carry out key supervisory tasks for banks in the EU member states particularly in the European banking union), peer analysis 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.

Basel III / CRD IV

The Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states while the CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain. The CRD IV Legislation is being implemented on a phased basis from 1 January 2014, with full implementation by 2019 (with the exception of Deferred Tax Assets which are phased to 2023).

The Group's key capital ratios are set out on pages 32 to 34.

The Group continues to expect to maintain a buffer above a CET 1 ratio of 10%, taking account of the transition rules and the intention to derecognise the 2009 Preference Stock from regulatory CET 1 capital between January and July 2016. This provides for a meaningful buffer over regulatory requirements. The Basel III / CRD IV transition rules result in a number of new deductions from CET 1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The Central Bank of Ireland (CBI) published its 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 21 May 2014 which clarified the application of transitional rules in Ireland under CRD IV.

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

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

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

The Group's Pillar III disclosures for year ended 31 December 2014 should be read in conjunction with this section of the report.

Capital management (continued)

ECB Comprehensive Assessment

The European Central Bank (ECB) under the Single Supervisory Mechanism (SSM) conducted a Comprehensive Assessment (CA) which consisted of:

- a supervisory risk assessment to assess key risks in the Group's balance sheet, including liquidity and funding;
- an asset quality review of all asset classes including non-performing loans, restructured loans and sovereign exposures as at 31 December 2013; and
- a stress test (comprising base and stress scenarios), building on and complementing the asset quality review by providing a forward-looking view of the Group's shock-absorbing capacity under stress.

The overall results were announced in October 2014 and they confirmed that the Group had passed the ECB CA, with substantial capital buffers over the threshold capital ratios in both the baseline and adverse stress test scenarios as follows:

	BoI[1]	**Threshold**	**Buffer**
Baseline scenario	12.43%	8.0%	4.43%
Adverse scenario	9.31%	5.5%	3.81%

[1] The 'BoI' column in the table shows the Group's lowest Basel III transitional CET 1 ratio in the three year period 2014 to 2016, in both the base and adverse scenarios, as projected under the ECB's comprehensive assessment process. The 'threshold' column shows the capital ratios required to pass the ECB's comprehensive assessment. The 'buffer' column shows the difference between the first two columns.

Capital actions completed in 2014

Tier 2 Issuance

In June 2014, the Group issued €750 million of Tier 2 capital at a coupon of 4.25% with a maturity of 10 years. The issuance order book was five times oversubscribed.

New Ireland Assurance Company (NIAC) capital structure optimisation

In July 2014, a NIAC capital efficiency transaction was completed. This comprised of a €80 million Tier 2 subordinated debt issued by NIAC to the Group and a contingent loan of €120 million with an external third party investor which secured the value in force of certain unit linked policies. Both of these actions facilitated the release of equity capital to the Group.

Capital resources

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

Group capital resources	**31 December 2014 €m**	Restated* 31 December 2013 €m
Other equity (including equity reserves)	7,453	6,589
Nominal amount outstanding of 2009 Preference Stock	1,300	1,300
Stockholders' equity	8,753	7,889
Non-controlling interests - equity	(6)	(6)
Total equity	**8,747**	**7,883**
Undated subordinated loan capital	171	162
Dated subordinated loan capital	2,329	1,513
Total capital resources	**11,247**	**9,558**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

In the year ended 31 December 2014 the Group's total capital resources increased by €1.6 billion to €11.2 billion due primarily to:

- the profit after tax arising during the year ended 31 December 2014; and
- the issuance of €750 million of Tier 2 capital in June 2014.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Financial information

Consolidated income statement for the year ended 31 December 2014

	Note	**Year ended 31 December 2014 €m**	Restated* Year ended 31 December 2013 €m
Interest income	2	3,432	3,669
Interest expense	3	(1,111)	(1,665)
Net interest income		**2,321**	**2,004**
Net insurance premium income	4	1,344	1,073
Fee and commission income	5	558	493
Fee and commission expense	5	(214)	(192)
Net trading (expense) / income	6	(42)	12
Life assurance investment income, gains and losses	7	814	531
Other operating income	8	270	65
Total operating income		**5,051**	**3,986**
Insurance contract liabilities and claims paid	9	(2,079)	(1,470)
Total operating income, net of insurance claims		**2,972**	**2,516**
Other operating expenses	10	(1,705)	(1,576)
Impact of amendments to defined benefit pension schemes	31	93	274
Cost of restructuring programme	11	(56)	(90)
Operating profit before impairment charges on financial assets		**1,304**	**1,124**
Impairment charges on financial assets	12	(472)	(1,665)
Operating profit / (loss)		**832**	**(541)**
Share of results of associates and joint ventures (after tax)	13	92	31
Loss on disposal / liquidation of business activities	14	(4)	(10)
Profit / (loss) before tax		**920**	**(520)**
Taxation (charge) / credit	15	(134)	34
Profit / (loss) for the year		**786**	**(486)**
Attributable to stockholders		786	(483)
Attributable to non-controlling interests		-	(3)
Profit / (loss) for the year		**786**	**(486)**
Earnings per unit of €0.05 ordinary stock	16	2.0c	(2.3c)
Diluted earnings per unit of €0.05 ordinary stock	16	2.0c	(2.3c)

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of comprehensive income for the year ended 31 December 2014

	Note	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Profit / (loss) for the year		**786**	**(486)**
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss in subsequent years:			
Available for sale reserve, net of tax:			
Changes in fair value		301	361
Transfer to income statement			
- Asset disposal		(168)	(44)
Net change in available for sale reserve		**133**	**317**
Cash flow hedge reserve, net of tax:			
Changes in fair value		(108)	230
Transfer to income statement		267	(411)
Net change in cash flow hedge reserve		**159**	**(181)**
Foreign exchange reserve:			
Foreign exchange translation gains / (losses)		275	(93)
Transfer to income statement on liquidation of non-trading entities	14	-	12
Net change in foreign exchange reserve		**275**	**(81)**
Total items that may be reclassified to profit or loss in subsequent years		**567**	**55**
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement of the net defined benefit pension liability	31	(353)	(117)
Revaluation of property, net of tax		1	-
Total items that will not be reclassified to profit or loss in subsequent years		**(352)**	**(117)**
Other comprehensive income for the year, net of tax		**215**	**(62)**
Total comprehensive income for the year, net of tax		**1,001**	**(548)**
Total comprehensive income attributable to equity stockholders		1,001	(545)
Total comprehensive income attributable to non-controlling interests		-	(3)
Total comprehensive income for the year, net of tax		**1,001**	**(548)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

The effect of tax on these items is shown in note 15.

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated balance sheet as at 31 December 2014

	Note	31 December 2014 €m	Restated* As at 31 December 2013 €m	Restated* As at 1 January 2013[1] €m
Assets				
Cash and balances at central banks		4,991	6,385	8,472
Items in the course of collection from other banks		435	363	448
Trading securities		12	252	143
Derivative financial instruments		3,692	3,492	5,847
Other financial assets at fair value through profit or loss	17	11,528	10,306	9,460
Loans and advances to banks	18	4,851	4,759	9,502
Available for sale financial assets	19	13,580	12,104	11,093
NAMA senior bonds	20	2,374	3,957	4,428
Loans and advances to customers	21	82,118	84,514	92,621
Interest in associates	23	56	89	91
Interest in joint ventures		233	209	227
Intangible assets		410	374	371
Investment properties		701	805	848
Assets classified as held for sale	24	135	-	-
Property, plant and equipment		324	322	333
Current tax assets		11	28	33
Deferred tax assets	30	1,638	1,710	1,637
Other assets		2,705	2,460	2,405
Retirement benefit asset	31	6	4	2
Total assets		**129,800**	**132,133**	**147,961**
Equity and liabilities				
Deposits from banks	25	3,855	12,213	21,125
Customer accounts	26	74,837	73,867	75,170
Items in the course of transmission to other banks		379	147	268
Derivative financial instruments		4,038	3,228	5,274
Debt securities in issue	27	16,040	15,280	18,073
Liabilities to customers under investment contracts		5,680	5,460	5,256
Insurance contract liabilities		9,918	8,502	7,988
Other liabilities		2,628	2,823	3,124
Current tax liabilities		30	28	23
Provisions	29	85	90	119
Deferred tax liabilities	30	71	92	92
Retirement benefit obligations	31	992	845	1,077
Subordinated liabilities	28	2,500	1,675	1,707
Total liabilities		**121,053**	**124,250**	**139,296**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *Opening balance sheet as at 1 January 2013 reflects the Group's restated closing balance as at 31 December 2012.*

Consolidated balance sheet as at 31 December 2014 (continued)

	Note	31 December 2014 €m	Restated* As at 31 December 2013 €m	Restated* As at 1 January 2013[1] €m
Equity				
Capital stock	33	2,558	2,558	2,452
Stock premium account		1,135	1,135	1,210
Retained earnings		4,196	3,805	4,683
Other reserves		876	404	336
Own stock held for the benefit of life assurance policyholders		(12)	(13)	(14)
Stockholders' equity		**8,753**	**7,889**	**8,667**
Non-controlling interests		(6)	(6)	(2)
Total equity		**8,747**	**7,883**	**8,665**
Total equity and liabilities		**129,800**	**132,133**	**147,961**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*
[1] *Opening balance sheet as at 1 January 2013 reflects the Group's restated closing balance as at 31 December 2012.*

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of changes in equity for the year ended 31 December 2014

	Note	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Capital stock			
Balance at the beginning of the year		2,558	2,452
Issue of ordinary stock		-	111
Redemption of the 2009 Preference Stock		-	(5)
Balance at the end of the year	33	**2,558**	**2,558**
Stock premium account			
Balance at the beginning of the year		1,135	1,210
Issue of ordinary stock		-	469
Transaction costs on issue of ordinary stock		-	(12)
Redemption of the 2009 Preference Stock		-	(532)
Balance at the end of the year		**1,135**	**1,135**
Retained earnings			
Balance at the beginning of the year (prior to restatement)		3,791	4,673
Effect of change in accounting policy*		14	10
Balance at the beginning of the year (restated)		3,805	4,683
Profit / (loss) retained		645	(723)
- Profit / (loss) for year attributable to stockholders		*786*	*(483)*
- Dividends on 2009 Preference Stock and other preference equity interests paid in cash		*(141)*	*(240)*
Transfer from / (to) capital reserve		94	(17)
Transaction costs on the transfer of the 2009 Preference Stock		-	(27)
Remeasurement of the net defined benefit pension liability	31	(353)	(117)
Transfer from share based payment reserve		2	4
Other movements		3	2
Balance at the end of the year		**4,196**	**3,805**
Other Reserves:			
Available for sale reserve			
Balance at the beginning of the year		467	150
Net changes in fair value		342	414
Transfer to income statement (pre tax)			
- Asset disposal	8	(192)	(50)
Deferred tax on reserve movements		(17)	(47)
Balance at the end of the year		**600**	**467**
Cash flow hedge reserve			
Balance at the beginning of the year		46	227
Changes in fair value		(125)	259
Transfer to income statement (pre tax)			
- Net trading expense / (income) (foreign exchange)		389	(329)
- Net interest expense / (income)	2	(81)	(132)
Deferred tax on reserve movements		(24)	21
Balance at the end of the year		**205**	**46**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Consolidated statement of changes in equity for the year ended 31 December 2014 (continued)

	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Foreign exchange reserve		
Balance at the beginning of the year	(807)	(726)
Exchange adjustments during the year	275	(93)
Transfer to income statement on liquidation of non-trading entities (note 14)	-	12
Balance at the end of the year	**(532)**	**(807)**
Capital contribution	**116**	**116**
Capital reserve		
Balance at the beginning of the year	574	557
Transfer (to) / from retained earnings	(94)	17
Balance at the end of the year	**480**	**574**
Share based payment reserve		
Balance at the beginning of the year	3	7
Transfer to retained earnings	(2)	(4)
Balance at the end of the year	**1**	**3**
Revaluation reserve		
Balance at the beginning of the year	5	5
Revaluation of property	1	-
Balance at the end of the year	**6**	**5**
Total other reserves	**876**	**404**
Own stock held for the benefit of life assurance policyholders		
Balance at the beginning of the year	(13)	(14)
Changes in value and amount of stock held	1	1
Balance at the end of the year	**(12)**	**(13)**
Total stockholders' equity excluding non-controlling interests	**8,753**	**7,889**
Non-controlling interests		
Balance at the beginning of the year	(6)	(2)
Share of net loss	-	(3)
Other movements	-	(1)
Balance at the end of the year	**(6)**	**(6)**
Total equity	**8,747**	**7,883**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Business Review | Financial Information | Other Information

Consolidated cash flow statement for the year ended 31 December 2014

	Note	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Cash flows from operating activities			
Profit / (loss) before tax		920	(520)
Share of results of associates and joint ventures	13	(92)	(31)
Loss on disposal / liquidation of business activities	14	4	10
Depreciation and amortisation	10	118	118
Impairment charges on financial assets	12	472	1,665
Loss on deleveraging of financial assets		-	3
(Reversal of impairment) / revaluation of property		(9)	1
Revaluation of investment property		(94)	32
Interest expense on subordinated liabilities	3	200	178
Charge for retirement benefit obligation	31	138	133
Impact of amendments to defined benefit pension schemes	31	(93)	(274)
Loss / (gain) on liability management exercises	8	5	(4)
Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	6	10	154
Net change in accruals and interest payable		(220)	(464)
Other non-cash items		(153)	73
Cash flows from operating activities before changes in operating assets and liabilities		**1,206**	**1,074**
Net change in items in the course of collection from other banks		163	(41)
Net change in trading securities		240	(109)
Net change in derivative financial instruments		512	481
Net change in other financial assets at fair value through profit or loss		(1,222)	(848)
Net change in loans and advances to banks		132	3,189
Net change in loans and advances to customers		4,048	5,301
Net change in other assets		1,345	382
Net change in deposits from banks		(8,381)	(8,901)
Net change in customer accounts		(886)	(687)
Net change in debt securities in issue		1,308	(2,477)
Net change in liabilities to customers under investment contracts		220	204
Net change in insurance contract liabilities		1,416	514
Net change in other liabilities		(518)	25
Effect of exchange translation and other adjustments		51	(405)
Net cash flow from operating assets and liabilities		**(1,572)**	**(3,372)**
Net cash flow from operating activities before tax		**(366)**	**(2,298)**
Tax paid		(25)	(50)
Net cash flow from operating activities		**(391)**	**(2,348)**
Investing activities (section a below)		(345)	(766)
Financing activities (section b below)		(253)	(694)
Net change in cash and cash equivalents		**(989)**	**(3,808)**
Opening cash and cash equivalents		10,754	14,328
Effect of exchange translation adjustments		(308)	234
Closing cash and cash equivalents		**9,457**	**10,754**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

Consolidated cash flow statement
for the year ended 31 December 2014 (continued)

	Note	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
(a) Investing activities			
Additions to available for sale financial assets	19	(3,844)	(3,346)
Disposal / redemption of available for sale financial assets	19	3,220	2,549
Additions to property, plant and equipment[1]		(25)	(33)
Disposal of property, plant and equipment		2	2
Additions to intangible assets		(112)	(84)
Disposal of investment property		140	12
Additions to investment property		(57)	-
Dividends received from joint ventures		36	50
Net change in interest in associates		72	(2)
Net proceeds from disposal of loan portfolios		-	86
Net proceeds from disposal of business activity	14	223	-
Cash flows from investing activities		**(345)**	**(766)**
(b) Financing activities			
Redemption of the 2009 Preference Stock		-	(537)
Transaction costs on the transfer of the 2009 Preference Stock		-	(27)
Net proceeds from issue of ordinary stock		-	568
Net proceeds from issue of new subordinated liabilities		750	-
Interest paid on subordinated liabilities		(159)	(159)
Dividend paid on 2009 Preference Stock and other preference equity interests		(141)	(240)
Consideration paid in respect of liability management exercises		(703)	(299)
Cash flows from financing activities		**(253)**	**(694)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'.*

[1] *Excludes €nil (31 December 2013: €1 million) of property, plant and equipment acquired under finance lease agreements.*

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Basis of preparation, going concern and other information

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments - Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

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

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 98 to 100.

There have been no significant changes to the Group's accounting policies as set out on pages 184 to 208 of the Annual Report for the year ended 31 December 2013, except for the adoption of IFRIC Interpretation 21 'Levies'. IFRIC 21 deals with accounting for levies imposed by governments. It principally addresses the question of when an entity should recognise a liability to pay a levy. The interpretation provides that a levy is provided for on the date identified by the legislation that triggers the obligation to pay the levy. This pronouncement has caused the trigger date for the UK FSCS levy to change from 31 December each year to the following 1 April, the start of the levy year. The comparative figures for the year ended 31 December 2013 have been restated to reflect the change in timing of recognition of the FSCS levy with a decrease in operating loss of €5 million, a decrease in loss for the year of €4 million and an increase in retained earnings of €14 million.

The financial statements in this preliminary announcement are not the statutory financial statements of the Group, a copy of which is required to be annexed to the Bank's annual return to the Companies Registration Office in Ireland. A copy of the statutory financial statements required to be annexed to the Bank's annual return in respect of the year ended 31 December 2013 has in fact been so annexed. The auditors of the Group have made a report, without any qualification, on their audit of those statutory financial statements. A copy of the statutory financial statements in respect of the year ended 31 December 2014 will be annexed to the next annual return. The directors approved the Group's statutory financial statements for the year ended 31 December 2014 on 26 February 2015 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

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

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 2014 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, taking due account of the availability of collateral to access the Eurosystem along with ongoing developments in the eurozone including the impact of the change of government in Greece in January 2015. The matters of primary consideration by the Directors are set out below:

Capital

On 26 October 2014 the ECB announced the results of its comprehensive assessment, which covered 130 European banks, including the Group. The overall result for Bank of Ireland confirmed that the Group has passed the comprehensive assessment, with substantial capital buffers over the threshold capital ratios in both the baseline and adverse stress test scenarios.

The phased implementation of CRD IV impacts the Group's capital position during the period of assessment. The Group has developed capital plans under base and stress scenarios and expects to maintain a buffer over regulatory minima throughout the period of assessment.

The Directors believe this satisfactorily addresses the capital risk.

Liquidity and funding

During 2014 the Group has accessed wholesale funding markets through both secured and unsecured issuances.

The Group's drawings from Monetary Authorities reduced by €3.9 billion to €4.4 billion during the year ended 31 December 2014. Of these drawings, €1.5 billion were drawn under the ECB's targeted longer-term refinancing operations (TLTRO), and mature beyond the period of assessment, while the remainder, including the Group's drawings of €1.7 billion under the three-year longer-term refinancing operations (LTRO), mature during the period of assessment. The ECB fixed rate full allotment policy in respect of its main refinancing operations, which roll on a short term basis, has been extended at least until the end of the Eurosystem's reserve maintenance period ending in December 2016, and is available to the Group during the period of assessment.

It is expected that the Group will continue to require access to the Monetary Authorities for funding during the period of assessment. In addition, in the context of its assessment of going concern, the Group discussed this funding with the Central Bank and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Directors are satisfied, based on the clarity of confirmations received from the Central Bank that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk.

Conclusion

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

Comparatives

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

Comparative periods have been restated to reflect the impact of the adoption of IFRIC Interpretation 21: Levies.

The loss on deleveraging of financial assets during the year ended 31 December 2013, a loss of €3 million, previously shown on the face of the income statement, has been reclassified to other operating income in accordance with IAS 1.

See basis of preparation for additional information.

Foreign currency translation

The principal rates of exchange used in the preparation of the financial statements are as follows:

	31 December 2014		31 December 2013	
	Average	**Closing**	Average	Closing
€ / Stg£	0.8061	0.7789	0.8493	0.8337
€ / US$	1.3285	1.2141	1.3281	1.3791

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Critical accounting estimates and judgements

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

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

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

At 31 December 2014, the Retail Ireland Residential mortgage portfolio before impairment provisions amounted to €26 billion (31 December 2013: €27 billion), against which were held provisions for impairment of €1.5 billion (31 December 2013: €1.9 billion), which comprised collective provisions and IBNR of €0.8 billion and individually assessed provisions of €0.7 billion. A key assumption used in the calculation of the impairment charge for Retail Ireland Residential mortgages is the value of the underlying residential properties securing the loans. Previously the Group assumed an average decline in the value of all Irish residential properties equal to 55% from their peak in 2007. As set out on page 72, at 31 December 2014, the assumption adopted by the Group in respect of the value of Irish residential properties for collective provisioning (i.e. collective specific and incurred but not reported (IBNR) provisioning) reflected the indexed value (using the CSO Residential Property Price Index as at 30 September 2014) discounted (i.e. adjusted downwards) by 10% for both Dublin and Non-Dublin properties. The assumptions relating to the value of underlying properties securing the loans, together with all other key impairment provisioning model factors, continue to be reviewed as part of the Group's year-end and half year financial reporting cycle. A 1% decrease in the assumed adjusted index value would give rise to additional collective impairment provisions of c.€16 million to €22 million for the Retail Ireland mortgage portfolio.

Retail Ireland Residential mortgage collective impairment charges, in addition to containing judgements in relation to the assumed value of residential properties, also contain key assumptions relating to 'Forced sale discount', 'Time to sale', 'Loss emergence periods' and 'Weighted average cure rates'. The collective impairment charges on this portfolio can be sensitive to movements in these assumptions as set out below.

'Forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the assumed value of the underlying residential properties securing the loans (as set out above) and the expected sales price, as informed by the Group's most recent property sales experience. A 1% increase in the segmented 'Forced sale discount' assumptions would give rise to additional collective impairment provisions of c.€8 million to €11 million.

'Time to sale' assumptions estimate the period of time taken from the recognition of the impairment charge to the sale of that collateral. An increase of three months in this assumption would give rise to additional collective impairment provisions of c.€5 million to €7 million.

'Loss emergence periods' refer to the period of time between the occurrence and reporting of a loss event. An increase of one month in this assumed loss emergence period would give rise to additional collective impairment provisions of c.€5 million to €7 million.

'Weighted average cure rate' assumptions refer to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period. A 1% increase in this factor would give rise to a release of collective impairment provisions of c.€6 million to €8 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. Property and construction loans before impairment provisions at 31 December 2014 amounted to €15.2 billion (31 December 2013: €16.8 billion), against which were held provisions for impairment of €3.9 billion (31 December 2013: €4.1 billion).

In the case of the Property and construction portfolio a collective impairment provision is also made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. An increase of one month in this emergence period beyond the assumed level would give rise to additional impairment provisions of c.€38 million to €43 million.

In the case of the Non-property SME and corporate portfolio a collective impairment provision is also made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. An increase of one month in this emergence period beyond the assumed level would give rise to additional impairment provisions of c.€26 million to €31 million.

The estimation of impairment charges is subject to uncertainty and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the Credit Risk Methodologies section on pages 69 to 75 of Risk Management.

(b) Taxation

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

At 31 December 2014, the Group had a net deferred tax asset of €1,567 million (31 December 2013: €1,618 million (restated)), of which €1,595 million (31 December 2013: €1,646 million (restated)) related to trading losses. See note 30.

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

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

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. The Group expects to recover a significant portion of the deferred tax asset in a period more than ten years from the balance sheet date, however it expects that the greater part of the deferred tax asset will be recovered within ten years of the balance sheet date. Under current Irish and UK tax legislation there is no time restriction on the utilisation of these losses. Of the Group's total deferred tax asset of c.€1.6 billion at 31 December 2014, c.€1.2 billion related to Irish tax losses.

Based on its projections of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

(c) Retirement benefits

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, employee mortality and other demographic assumptions. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. An analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 31 on retirement benefit obligations.

(d) Life assurance operations

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

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

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

(e) Fair value of financial instruments

The Group measures certain of its financial instruments at fair value on the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and where an active market exists. Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs. Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

The fair value movements on assets and liabilities held at fair value through profit or loss, including those held for trading, are included in net trading income.

Index to selected note information

1 Operating segments

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

Retail Ireland
Retail Ireland incorporates the Group's branch network and Direct Channels (mobile, online and phone), Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and has a comprehensive suite of retail and business products and services.

As set out in note 14, on 1 September 2014, the Group sold the ICS distribution platform to Dilosk Limited together with c.€223 million of mortgage assets.

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

Retail UK
The Retail UK Division incorporates the financial services relationship and foreign exchange joint venture with the UK Post Office, the UK Residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Northern Ireland. It also includes the Group's business banking business in Great Britain which is in run-down in accordance with the EU Restructuring Plan. The division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

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

Group Centre
Group Centre comprises capital and other management activities, unallocated Group support costs and the cost associated with schemes such as the ELG Scheme, the Deposit Guarantee Scheme (DGS), the Irish Bank levy and the UK Financial Services Compensation Scheme (FSCS).

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

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

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

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

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. The Group amended the allocation of funding and liquidity costs across the divisions which resulted, in a reduction of net interest income for the year ended 31 December 2014 in the Retail UK division of €27 million, with a corresponding increase in net interest income in the Retail Ireland and Corporate and Treasury divisions of €21 million and €6 million respectively.

1 Operating segments (continued)

During the year, Retail UK transferred loans of c.€770 million to the Corporate and Treasury division.

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

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

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

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

1 Operating segments (continued)

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

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

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

1 Operating segments (continued)

Restated* Year ended 31 December 2013	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[1] €m	Group €m
Net interest income	886	48	572	617	(120)	1	2,004
Other income, net of insurance claims	326	149	3	174	(6)	(4)	642
Total operating income, net of insurance claims	1,212	197	575	791	(126)	(3)	2,646
Other operating expenses	(759)	(86)	(312)	(167)	(134)	-	(1,458)
Depreciation and amortisation	(32)	(4)	(32)	(5)	(45)	-	(118)
Total operating expenses	(791)	(90)	(344)	(172)	(179)	-	(1,576)
Underlying operating profit / (loss) before impairment charges on financial assets	421	107	231	619	(305)	(3)	1,070
Impairment charges on financial assets	(1,109)	-	(424)	(132)	-	-	(1,665)
Share of results of associates and joint ventures	(9)	-	40	-	-	-	31
Underlying (loss) / profit before tax	(697)	107	(153)	487	(305)	(3)	(564)

Reconciliation of underlying loss before tax to loss before tax	Group €m
Underlying loss before tax	(564)
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	274
Change arising on the movement in the Group's credit spreads	(154)
Cost of restructuring programme	(90)
Gross-up for policyholder tax in the Life business	26
Loss on disposal / liquidation of business activities	(10)
Loss on deleveraging of financial assets	(3)
Gain on liability management exercises	4
Investment return on treasury stock held for policyholders	(3)
Loss before tax	(520)

* *During the year ended 31 December 2014, the Group adopted IFRIC 21 'Levies'. The comparative figures for the year ended 31 December 2013 for Group Centre have been restated to reflect the change in timing of recognition of the UK FSCS levy, resulting in a €5 million decrease in other operating expenses.*

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

1 Operating segments (continued)

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

Restated* Year ended 31 December 2013 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	196	36	66	-	-	-	298
External assets	40,514	13,153	43,924	30,222	4,320	-	132,133
Inter segment assets	51,134	2,397	23,000	103,403	35,394	(215,328)	-
Total assets	91,648	15,550	66,924	133,625	39,714	(215,328)	132,133
External liabilities	47,421	14,438	29,818	29,929	2,630	14	124,250
Inter segment liabilities	43,920	321	34,731	102,861	33,489	(215,322)	-
Total liabilities	91,341	14,759	64,549	132,790	36,119	(215,308)	124,250

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies*

1 Operating segments (continued)

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

Restated* Year ended 31 December 2013 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,739	1,615	1,448	1,058	17	(3)	5,874
Inter segment revenues	792	142	769	1,493	302	(3,498)	-
Gross revenue	2,531	1,757	2,217	2,551	319	(3,501)	5,874
Insurance contract liabilities and claims paid	-	(1,466)	-	-	(4)	-	(1,470)
Gross revenue after claims paid	2,531	291	2,217	2,551	315	(3,501)	4,404
Capital expenditure	24	1	18	3	72	-	118

* *The total loss on deleveraging of financial assets of €3 million for the year ended 31 December 2013 which had previously been reported across the segments as a separate line item is now included in other operating income.*

Business Review
Financial Information
Other Information

1 Operating segments (continued)

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

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

Restated* Year ended 31 December 2013 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
Gross external revenue	4,268	1,534	78	(3)	5,877
Inter segment revenues	182	510	36	(728)	-
Gross revenue	4,450	2,044	114	(731)	5,877
Insurance contract liabilities and claims paid	(1,466)	-	(4)	-	(1,470)
Gross revenue after claims paid	2,984	2,044	110	(731)	4,407
Capital expenditure	100	18	-	-	118
External assets	84,726	45,959	1,448	-	132,133
Inter segment assets	27,446	11,179	2,418	(41,043)	-
Total assets	112,172	57,138	3,866	(41,043)	132,133
External liabilities	92,257	31,299	694	-	124,250
Inter segment liabilities	15,159	23,523	2,361	(41,043)	-
Total liabilities	107,416	54,822	3,055	(41,043)	124,250

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

2 Interest income

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Loans and advances to customers	2,907	3,128
Available for sale financial assets	379	389
Finance leases and hire purchase receivables	111	101
Loans and advances to banks	35	51
Interest income	**3,432**	**3,669**

Interest income recognised on loans and advances to customers

Interest income recognised on loans and advances to customers includes:

- €201 million (year ended 31 December 2013: €212 million) of interest recognised on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end. €157 million of this amount (year ended 31 December 2013: €165 million) relates to loans on which specific provisions have been individually assessed and €44 million (year ended 31 December 2013: €47 million) relates to loans on which specific provisions have been collectively assessed;
- €53 million (31 December 2013: €74 million) of interest recognised on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €272 million (31 December 2013: €315 million) of interest recognised on loans and advances to customers classified as forborne and which are not in default at the year end.

For the year ended 31 December 2014, interest recognised on total forborne loans and advances to customers was €314 million (31 December 2013: €360 million).

Interest income received on loans and advances to customers

For the year ended 31 December 2014:

- €213 million (31 December 2013: €231 million) of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €47 million (31 December 2013: €61 million) of interest income was received on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €267 million (31 December 2013: €301 million) of interest income was received on arising on loans and advances to customers classified as forborne and which are not in default at the year end.

For the year ended 31 December 2014, interest income received on total forborne loans and advances to customers was €293 million (31 December 2013: €334 million).

Interest income recognised on available for sale financial assets

Interest income of €nil (year ended 31 December 2013: €15 million) relates to interest on impaired available for sale financial assets on which an individually assessed specific impairment charge has been recognised.

Transferred from cash flow hedge reserve

Net interest income also includes a gain of €81 million (year ended 31 December 2013: a gain of €132 million) transferred from the cash flow hedge reserve (see page 90).

3 Interest expense

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Customer accounts	660	1,066
Debt securities in issue	212	283
Deposits from banks	39	138
Subordinated liabilities	200	178
Interest expense	**1,111**	**1,665**

Included within interest expense for the year ended 31 December 2014 is an amount of €37 million (year ended 31 December 2013: €129 million) relating to the cost of the ELG. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 34.

4 Net insurance premium income

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Gross premiums written	1,447	1,297
Ceded reinsurance premiums	(103)	(224)
Net premiums written	1,344	1,073
Change in provision for unearned premiums	-	-
Net insurance premium income	**1,344**	**1,073**

5 Fee and commission income and expense

Income	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Retail banking customer fees	443	395
Insurance commissions	26	22
Credit related fees	45	34
Asset management fees	3	4
Brokerage fees	3	2
Other	38	36
Fee and commission income	**558**	**493**

Included in other fees is an amount of €nil (year ended 31 December 2013: €1 million) related to trust and other fiduciary fees.

Expense

Fee and commission expense of €214 million (year ended 31 December 2013: €192 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

6 Net trading (expense) / income

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Financial assets designated at fair value	3	13
Financial liabilities designated at fair value		
- Credit spreads relating to the Group's liabilities designated at fair value through profit or loss (see table below)	(16)	(112)
- Other	(136)	(86)
Related derivatives held for trading	64	3
	(85)	**(182)**
Other financial instruments held for trading	41	195
Net fair value hedge ineffectiveness	1	3
Cash flow hedge ineffectiveness	1	(4)
Net trading (expense) / income	**(42)**	**12**

Net trading (expense) / income includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €9 million (year ended 31 December 2013: €34 million) in relation to net gains arising from foreign exchange.

Net trading income / (expense) includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets, which are funded by those liabilities, is reported in net interest income.

Net trading income / (expense) also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €53 million (year ended 31 December 2013: €10 million).

Net fair value hedge ineffectiveness reflects a net charge from hedging instruments of €279 million (year ended 31 December 2013: net gain of €24 million) offsetting a net gain from hedged items of €280 million (year ended 31 December 2013: net charge of €21 million).

The table below sets out the impact on the Group's income statement of the (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits:

Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Recognised in		
- Net trading expense	(16)	(112)
- Insurance contract liabilities and claims paid	5	(36)
- Other operating income	1	(6)
	(10)	**(154)**
Cumulative charges arising on the movement in credit spreads relating the Group's liabilities designated at fair value through profit or loss	(36)	(26)

Business Review

Financial Information

Other Information

7 Life assurance investment income, gains and losses

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Gross life assurance investment income, gains and losses	814	532
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	-	(1)
Life assurance investment income, gains and losses	**814**	**531**

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

IFRS requires that Bank of Ireland stock held by the Group, including that held by Bank of Ireland Life for the benefit of policyholders, is reclassified as treasury stock and accounted for as a deduction from equity.

8 Other operating income

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Transfer from available for sale reserve on asset disposal (note 19)	192	50
Movement in value of in force asset	50	(21)
Other insurance income	25	32
Dividend income	11	5
(Loss) / gain on liability management exercises	(5)	4
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	(1)	(2)
Loss on deleveraging of financial assets[1]	-	(3)
Other income	(2)	-
Other operating income	**270**	**65**

[1] *Included within other operating income is a loss on deleveraging of financial assets of €nil (year ended 31 December 2013: €3 million). These losses were previously shown on a separate line item on the face of the income statement.*

There was no charge relating to the Group's share of joint operations (JO) during the year ended 31 December 2014 (year ended 31 December 2013: €nil).

9 Insurance contract liabilities and claims paid

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Claims paid		
Policy surrenders	785	895
Death and critical illness claims	141	126
Annuity payments	72	59
Policy maturities	1	1
Other claims	38	29
Gross claims paid	**1,037**	**1,110**
Recovered from reinsurers	(75)	(71)
Net claims paid	**962**	**1,039**
Change in insurance contract liabilities		
Change in gross liabilities	1,416	514
Change in reinsured liabilities	(299)	(83)
Net change in insurance contract liabilities	**1,117**	**431**
Insurance contract liabilities and claims paid	**2,079**	**1,470**

10 Other operating expenses

Administrative expenses and staff costs	**Year ended 31 December 2014 €m**	Restated* Year ended 31 December 2013 €m
Staff costs excluding cost of restructuring programme	855	824
Amortisation of intangible assets	82	78
Irish bank levy	38	-
FSCS levy	18	15
Depreciation of property, plant and equipment	36	40
Revaluation of property	-	1
Reversal of impairment on property	(9)	-
Other administrative expenses excluding cost of restructuring programme	685	618
Total	**1,705**	**1,576**
Total staff costs are analysed as follows:		
Total staff costs excluding restructuring	855	824
- Wages and salaries	*611*	*613*
- Social security costs	*67*	*67*
- Payment in respect of the career and reward framework	*32*	*-*
- Retirement benefit costs (defined benefit plans) (note 31)	*137*	*132*
- Retirement benefit costs (defined contribution plans) (note 31)	*1*	*1*
- Other staff costs	*7*	*11*
Staff costs included in cost of restructuring programme *(note 11)*	58	48
Total staff costs	**913**	**872**
Retirement benefit gain *(note 31)*	(93)	(274)
Total staff costs including retirement benefit gain	**820**	**598**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

10 Other operating expenses (continued)

The Group agreed a new career and reward framework, across the Group, giving transparency and flexibility around change and career development in the Group and consequently a change to certain historical employment contracts and practices. In recognition of the career and reward framework implementation virtually all staff accepted a 5% of salary once off payment resulting in a charge of €32 million in the year.

Retirement benefit costs exclude a gain of €93 million in relation to the impact of amendments to the Group's sponsored defined benefit pension scheme, the Bank of Ireland Staff Pensions Fund (BSPF) and a number of smaller Group sponsored pension schemes (year ended 31 December 2013: €274 million) which has been recognised within the income statement as a separate line item, net of any directly related expenses. Further details are set out in note 31.

Defined benefit retirement benefit costs of €137 million for the year ended 31 December 2014 (year ended 31 December 2013: €132 million) includes a recovery of €4 million in respect of the Irish pension levy for the BIF, ICS and BAPF schemes (year ended 31 December 2013: €28 million in respect of the BSPF, BIF, ICS and BAPF schemes) (note 31).

Other administrative expenses includes an amount of €47 million (year ended 31 December 2013: €70 million) relating to operating lease payments.

Also included in other administrative expenses is an amount of €3.5 million (year ended 31 December 2013: €5 million) relating to the Group's share of joint operation (JO).

The interpretation IFRIC 21 'Levies' was adopted during the year, and provides guidance on accounting for liabilities in respect of government imposed levies. This has resulted in a change in the timing of recognition of the UK FSCS levy, and prior year comparatives have been restated to reflect the change. Further information is provided in basis of preparation on page 94.

Staff numbers
At 31 December 2014, the number of staff (full time equivalents) was 11,086 (31 December 2013: 11,255).

The average number of staff (full time equivalents) during the year was 11,292 (year ended 31 December 2013: 11,831) categorised as follows in line with the operating segments as stated in note 1.

Average number of staff (full time equivalents)	**Year ended 31 December 2014**	Year ended 31 December 2013
Retail Ireland	4,696	4,794
Retail UK	1,454	1,446
Bank of Ireland Life	928	968
Corporate and Treasury	582	580
Group Centre	3,632	4,043
Total	**11,292**	**11,831**

11 Cost of restructuring programme

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Staff costs (note 10)	58	48
Property and other	(2)	42
Total	**56**	**90**

12 Impairment charges on financial assets

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Loans and advances to customers (note 21)	542	1,665
Reversal of impairment charge on available for sale financial assets (AFS)	(70)	-
Impairment charges on financial assets	**472**	**1,665**

The reversal of an impairment charge on available for sale financial assets of €70 million relates to the NAMA subordinated bonds (see note 19 for further details).

13 Share of results of associates and joint ventures (after tax)

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
First Rate Exchange Services	43	40
Property unit trust	8	(5)
Associates (note 23)	41	(4)
Share of results of associates and joint ventures (after tax)	**92**	**31**

14 Loss on disposal / liquidation of business activities

	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Retail Ireland Division		
ICS Building Society (In Members' Voluntary Liquidation)	(3)	-
Corporate and Treasury Division		
Bank of Ireland Asset Management (BIAM)	-	1
Bank of Ireland Securities Services (BoISS)	(1)	1
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	**-**	**(12)**
Loss on disposal / liquidation of business activities	**(4)**	**(10)**

Retail Ireland Division

On 25 June 2014, the Group announced that it had agreed to sell ICS Building Society's distribution platform to Dilosk Limited, together with a c.€223 million gross performing mortgage asset pool for a total consideration of c.€223 million cash. The disposal was concluded on 1 September 2014 and the Group incurred transaction costs of €3 million relating to the sale.

ICS Building Society was placed in Members' Voluntary Liquidation on 15 December 2014.

Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities

As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During this process, the Group voluntarily appointed a liquidator to manage the winding up. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative foreign exchange losses of €nil relating to these companies from the foreign exchange reserve to the income statement during the year ended 31 December 2014 (year ended 31 December 2013: €12 million) (see page 91).

15 Taxation

	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Current tax		
Irish Corporation Tax		
- Current year	18	20
- Transfer from deferred tax	(7)	(6)
Double taxation relief	(2)	(2)
Foreign tax		
- Current year	34	25
- Adjustments in respect of prior year	(1)	44
- Transfer from deferred tax	-	(19)
	42	**62**
Deferred tax		
- Current year profits / (losses)	55	(174)
- Impact of Corporation Tax rate change	-	58
- Origination and reversal of temporary differences	38	66
- Transfer to current tax	7	25
- Reassessment of the value of tax losses carried forward	(12)	(65)
- Adjustments in respect of prior year	4	(6)
Taxation charge / (credit)	**134**	**(34)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

The reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to the Group's actual tax charge for the year ended 31 December 2014 and tax credit for the year ended 31 December 2013 is as follows:

	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Profit / (loss) before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2013: 12.5%)	115	(65)
Effects of:		
Reassessment of the value of tax losses carried forward	(12)	(65)
Foreign earnings subject to different rates of tax	42	(15)
Other adjustments for tax purposes	4	8
Share of results of associates and joint ventures shown post tax in the income statement	(5)	(5)
Impact of corporation tax rate change on deferred tax	-	58
Adjustments in respect of prior year	3	38
Bank of Ireland Life companies - different basis of accounting	(13)	12
Taxation charge / (credit)	**134**	**(34)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

The effective taxation rate on a statutory profit basis for the year ended 31 December 2014 is 15% (tax charge) (year ended 31 December 2013: 7% (tax credit)). On an underlying profit basis the effective taxation rate was 13% (tax charge) for the year ended 31 December 2014 (year ended 31 December 2013: 12% (tax credit)). Note 1 sets out a reconciliation of statutory profit / (loss) to underlying profit / (loss).

15 Taxation (continued)

The tax effects relating to each component of other comprehensive income are as follows:

	Year ended 31 December 2014			Year ended 31 December 2013		
	Pre tax €m	**Tax €m**	**Net of tax €m**	Pre tax €m	Tax €m	Net of tax €m
Available for sale reserve						
Changes in fair value	342	(41)	301	414	(53)	361
Transfer to income statement						
- On asset disposal	(192)	24	(168)	(50)	6	(44)
Net change in reserve	**150**	**(17)**	**133**	**364**	**(47)**	**317**
Remeasurement of the net defined benefit pension liability	**(396)**	**43**	**(353)**	**(130)**	**13**	**(117)**
Cash flow hedge reserve						
Changes in fair value	(125)	17	(108)	259	(29)	230
Transfer to income statement	308	(41)	267	(461)	50	(411)
Net change in cash flow hedge reserve	**183**	**(24)**	**159**	**(202)**	**21**	**(181)**
Net change in foreign exchange reserve	**275**	**-**	**275**	**(81)**	**-**	**(81)**
Net change in revaluation reserve	**1**	**-**	**1**	**-**	**-**	**-**
Other comprehensive income for the year	**213**	**2**	**215**	**(49)**	**(13)**	**(62)**

16 Earnings per share

The calculation of basic earnings per unit of €0.05 ordinary stock is based on the profit / (loss) attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

The diluted earnings per share is based on the profit / (loss) attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock.

For the years ended 31 December 2014 and the year ended 31 December 2013, there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

	Year ended 31 December 2014 €m	Restated* Year ended 31 December 2013 €m
Basic and diluted earnings per share		
Profit / (loss) attributable to stockholders	786	(483)
Dividend on 2009 Preference Stock	(133)	(185)
Adjustment on partial redemption of 2009 Preference Stock	-	(23)[1]
Dividend on other preference equity interests	(8)	(7)
Profit / (loss) attributable to ordinary stockholders	**645**	**(698)**
	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders[2]	32,345	30,252[3]
Basic and diluted earnings / (loss) per share (cent)	**2.0c**	**(2.3c)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

1 *537,041,304 units of 2009 Preference Stock were redeemed at the subscription price of €1 per unit. This was greater than its carrying value of €0.9577 per unit due to transaction costs and warrants issued on the issue of the stock on 31 March 2009. Under IAS 33 , the difference of €23 million on redemption has been reflected in the EPS calculation by reducing the profit or loss attributable to ordinary equity holders of the parent entity.*

2 *The weighted average number of units of treasury stock and own stock held for the benefit of life assurance policyholders amounted to 40.7 million units (year ended 31 December 2013: 42.9 million).*

3 *The weighted average number of units of stock in issue is calculated based on daily averages. As a result the number of weighted average units of stock in issue reflect c.20 days of the units of the Placing Stock.*

As at 31 December 2014, the Convertible Contingent Capital Note (CCCN) and options of c.0.5 million units of potential ordinary stock (31 December 2013: 1.2 million units) could potentially have a dilutive impact in the future, but were anti-dilutive in the year ended 31 December 2014 and the year ended 31 December 2013. The CCCN has a fixed maturity date of 30 July 2016.

17 Other financial assets at fair value through profit or loss

	31 December 2014 €m	31 December 2013 €m
Assets linked to policyholder liabilities		
Equity securities	7,618	6,735
Government bonds	971	933
Unit trusts	928	994
Debt securities	405	381
	9,922	**9,043**
Other financial assets		
Government bonds	1,210	890
Other	396	373
	1,606	**1,263**
Other financial assets at fair value through profit or loss	**11,528**	**10,306**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2014, such assets amounted to €9,922 million (31 December 2013: €9,043 million).

Other financial assets of €1,606 million (31 December 2013: €1,263 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

18 Loans and advances to banks

	31 December 2014 €m	31 December 2013 €m
Placements with other banks	3,064	3,264
Mandatory deposits with central banks	1,411	1,311
Funds placed with the Central Bank of Ireland not on demand	349	-
Securities purchased with agreement to resell	27	184
Loans and advances to banks	**4,851**	**4,759**

18 Loans and advances to banks (continued)

Placements with other banks includes cash collateral of €1.3 billion (31 December 2013: €1.1 billion) placed with derivative counterparties in relation to net derivative liability positions.

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2014 was €27 million (31 December 2013: €207 million).

Mandatory deposits with central banks includes €1,283 million relating to collateral in respect of the Group's issued bank notes in Northern Ireland (31 December 2013: €1,134 million).

Loans and advances to banks of €4,851 million (31 December 2013: €4,759 million) included €349 million (31 December 2013: €312 million) of assets held on behalf of Bank of Ireland Life policyholders.

For the purpose of disclosure of credit risk exposures, loans and advances to banks of €4,851 million are included within other financial instruments of €30.1 billion (31 December 2013: €29.5 billion) in Risk Management on page 69.

19 Available for sale financial assets

	31 December 2014 €m	31 December 2013 €m
Government bonds	8,276	6,619
Other debt securities		
- listed	4,941	5,251
- unlisted	315	198
Equity securities		
- listed	1	4
- unlisted	47	32
Available for sale financial assets	**13,580**	**12,104**

Further details on the Group's available for sale financial assets are set out on page 150.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a nominal value of €281 million (31 December 2013: €281 million) and a fair value of €232 million (31 December 2013: €132 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. During the year ended 31 December 2014, NAMA revised its outlook and paid the Group a discretionary coupon of €15 million on the bonds. As a consequence, the Group revised its assumption as to future expected cash flows on the bonds, resulting in a reversal of impairment of €70 million (year ended 31 December 2013: €nil) (note 12).

At 31 December 2014, available for sale financial assets with a fair value of €1.6 billion (31 December 2013: €4 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements.

19 Available for sale financial assets (continued)

The movement on available for sale financial assets is analysed as follows:

	31 December 2014 €m	31 December 2013 €m
At beginning of year	12,104	11,093
Revaluation, exchange and other adjustments	819	159
Additions	3,844	3,346
Redemptions	(469)	(1,422)
Sales	(2,751)	(1,127)
Amortisation	33	55
At end of year	**13,580**	**12,104**

During the year ended 31 December 2014, the Group sold available for sale assets of €2.8 billion (31 December 2013: €1.1 billion) which resulted in a gain of €192 million (year ended 31 December 2013: €50 million) (note 8).

During the years ended 31 March 2009 and 31 December 2013, the Group reclassified available for sale financial assets with a carrying amount and fair value of €459 million to loans and advances to customers with expected recoverable cash flows of €805 million. For assets reclassified during 31 March 2009 the effective interest rate at the date of reclassification ranged from 0.73% to 7.12%, and for assets reclassified during year ended 31 December 2013 was 5.17%. At the date of these reclassifications, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity.

The carrying amount and fair value of these assets as at 31 December 2014 and 31 December 2013 are set out as follows:

	31 December 2014		31 December 2013	
	Carrying amount €m	**Fair value €m**	Carrying amount €m	Fair value €m
AFS financial assets reclassified to loans and advances to customers	197	199	243	232

Interest income of €14 million (year ended 31 December 2013: €25 million) and a reversal of an impairment charge of €3 million (year ended 31 December 2013: €12 million charge) have been recognised in the income statement for the year ended 31 December 2014 in relation to these assets. If the assets had not been reclassified a fair value gain of €12 million (year ended 31 December 2013: €18 million) would have been recognised in Other comprehensive income.

20 NAMA senior bonds

	31 December 2014 €m	31 December 2013 €m
NAMA senior bonds	**2,374**	**3,957**

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

At 31 December 2014, €nil (31 December 2013: €2.8 billion) of NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually. It was 0.384% on 1 March 2014 and was 0.267% on 1 September 2014. The contractual maturity of these bonds is 1 March 2015. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days. On 13 February 2015, the Group agreed to accept the issuance of new bonds, in settlement of the existing debt. These bonds have the same terms and conditions as the original NAMA senior bonds and mature on 2 March 2016.

During the year ended 31 December 2014, NAMA redeemed senior bonds held by the Group with a nominal value of €1,602 million (year ended 31 December 2013: €484 million).

21 Loans and advances to customers

	31 December 2014 €m	31 December 2013 €m
Loans and advances to customers	87,707	91,214
Finance leases and hire purchase receivables (see below)	1,834	1,541
	89,541	92,755
Less allowance for impairment charges on loans and advances to customers (note 12)	(7,423)	(8,241)
Loans and advances to customers	**82,118**	**84,514**
Amounts include		
Due from joint ventures and associates	96	170

For further details in the Group's loans and advances to customers are set out on page 55 of Risk Management.

22 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers during the year ended 31 December 2014 and 31 December 2013.

31 December 2014	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total impairment provisions €m**
Provision at 1 January 2014	2,003	1,909	4,118	211	8,241
Exchange adjustments	8	25	90	4	127
Charge / (reversal) in income statement	(148)	219	450	21	542
Provisions utilised	(275)	(456)	(827)	(72)	(1,630)
Other movements	16	2	104	21	143
Provision at 31 December 2014	**1,604**	**1,699**	**3,935**	**185**	**7,423**

31 December 2013	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2013	1,594	1,836	3,876	238	7,544
Exchange adjustments	(3)	(12)	(22)	(1)	(38)
Charge in income statement	573	468	583	41	1,665
Provisions utilised	(187)	(579)	(233)	(89)	(1,088)
Other movements	26	196	(86)	22	158
Provision at 31 December 2013	2,003	1,909	4,118	211	8,241

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not, of itself, alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

23 Interest in associates

	31 December 2014 €m	31 December 2013 €m
At beginning of year	89	91
Share of results after tax	41	(4)
Increase in investments	11	13
Fair value and other movements	1	(10)
Decrease in investments	(86)	(1)
At end of year	**56**	**89**

In presenting details of the associates of the Group, the exemption permitted by Regulation 10 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

24 Assets classified as held for sale

	31 December 2014 €m	31 December 2013 €m
Investment property - Galleri K	135	-
Assets classified as held for sale	**135**	**-**

Following a review of the rental market in Copenhagen and reflecting hardening rental yields, the Group decided during 2014 to sell an investment property, Galleri K, which consists of a large block of high street retail in Copenhagen and forms part of the Retail Ireland division. A sales agent has been appointed by the Group and the property is been actively marketed for sale. A sale is expected to be completed in 2015. The property continues to be measured at fair value.

25 Deposits from banks

	31 December 2014 €m	31 December 2013 €m
Securities sold under agreement to repurchase	2,899	10,533
- Monetary Authorities	*1,685*	*6,415*
- Private market repos	*1,214*	*4,118*
Deposits from banks	956	1,537
Other bank borrowings	-	143
Deposits from banks	**3,855**	**12,213**

Deposits from banks include cash collateral of €0.6 billion (31 December 2013: €0.9 billion) received from derivative counterparties in relation to net derivative asset positions.

	31 December 2014				31 December 2013			
Monetary Authority Funding	**LTRO €m**	**MRO €m**	**TLTRO €m**	**Total €m**	LTRO €m	MRO €m	TLTRO €m	Total €m
Of which:								
Deposits from Banks	1,040	100	545	1,685	6,415	-	-	6,415
Debt securities in issue (note 27)	615	1,150	950	2,715	1,885	-	-	1,885
Total	**1,655**	**1,250**	**1,495**	**4,400**	**8,300**	**-**	**-**	**8,300**

The Group's Main Refinancing Operations (MROs) and Long Term Refinancing Operations (LTROs) borrowings mature in January 2015 and February 2015 respectively. The ECB have confirmed their intention to continue conducting 7-day MROs and three month LTROs as fixed rate tenders with full allotment for as long as necessary, and at least until the end of the reserve maintenance period ending in December 2016.

The Group's Targeted Longer-Term Refinancing Operations (TLTROs) borrowings will be repaid between September 2016 and September 2018, in line with the terms and conditions of the TLTRO facility.

26 Customer accounts

	31 December 2014 €m	31 December 2013 €m
Term deposits and other products	33,733	37,056
Demand deposits	21,014	19,453
Current accounts	20,090	17,358
Customer accounts	**74,837**	**73,867**
Amounts include;		
Due to associates and joint ventures	69	55

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

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

At 31 December 2014, the Group's largest 20 customer deposits amounted to 5% (31 December 2013: 7%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 78 in Risk Management.

Included within Term deposits and other products is €0.6 billion (31 December 2013: €0.5 billion) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended in line with the Government's announcement of 20 September 2008, deposits of up to €100,000 per eligible depositor per credit institution authorised by the CBI are protected by the Irish Deposit Guarantee Scheme. This Scheme covers current accounts, demand deposit accounts and term deposit accounts and is funded by the credit institutions lodging funds in a deposit protection account maintained at the CBI.

In addition to the deposits covered by these Regulations and by the ELG Scheme, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc).

27 Debt securities in issue

	31 December 2014 €m	31 December 2013 €m
Bonds and medium term notes	11,621	11,548
Monetary Authorities (note 25)	2,715	1,885
Other debt securities in issue	1,704	1,847
Debt securities in issue	**16,040**	**15,280**

The movement on debt securities in issue is analysed as follows:

	31 December 2014 €m	31 December 2013 €m
Opening balance	15,280	18,073
Issued during the period	4,220	4,465
Repurchases	(698)	(303)
Redemptions	(2,974)	(6,658)
Other movements	212	(297)
Closing balance	**16,040**	**15,280**

28 Subordinated liabilities

	31 December 2014 €m	31 December 2013 €m
Undated loan capital		
Bank of Ireland UK Holdings plc		
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	32	32
Bank of Ireland		
Stg£75 million 13⅜% Perpetual Subordinated Bonds	97	91
Bristol & West plc		
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	42	39
	171	**162**
Dated loan capital		
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	69	63
€1,000 million 10% Convertible Contingent Capital Note 2016	989	977
€600 million Subordinated Floating Rate Notes 2017	1	1
€750 million 4.25% Fixed Rate Subordinated Notes 2024	760	-
€1,002 million 10% Fixed Rate Subordinated Notes 2020	239	230
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
€250 million 10% Fixed Rate Subordinated Notes 2022	269	240
	2,329	**1,513**
Total subordinated liabilities	**2,500**	**1,675**

29 Provisions

	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
As at 1 January 2014	67	5	3	15	90
Exchange adjustment	2	-	-	-	2
Charge to income statement	54	-	1	29	84
Utilised during the year	(67)	(1)	(1)	(6)	(75)
Unused amounts reversed during the year	(7)	-	(1)	(8)	(16)
As at 31 December 2014	**49**	**4**	**2**	**30**	**85**

Of the €49 million closing provision for restructuring, €16 million relates to staff exits and €33 million relates to property and other costs.

Expected utilisation	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
Less than 1 year	30	-	2	24	56
1 to 2 years	9	1	-	2	12
2 to 5 years	7	1	-	1	9
5 to 10 years	3	1	-	3	7
More than 10 years	-	1	-	-	1
Total	**49**	**4**	**2**	**30**	**85**

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

30 Deferred tax

	31 December 2014 €m	Restated* 31 December 2013 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,618	1,545
Income statement credit / (charge) for year	(92)	96
Pensions and other retirement benefits	43	16
Available for sale financial assets - charge to other comprehensive income	(17)	(47)
Cash flow hedges - charge to other comprehensive income	(24)	21
Other movements	39	(13)
At end of year	**1,567**	**1,618**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	1,595	1,646
Pensions and other post retirement benefits	131	115
Accelerated capital allowances on equipment used by the Group	17	20
Provision for loan impairment	16	12
Cash flow hedge reserve	-	3
Deferred tax assets	**1,759**	**1,796**
Deferred tax liabilities		
Available for sale reserve	(84)	(72)
Life companies	(74)	(69)
Property revaluation surplus	(9)	(9)
Accelerated capital allowances on finance leases	(3)	(5)
Cash flow hedge reserve	(21)	-
Other temporary differences	(1)	(23)
Deferred tax liabilities	**(192)**	**(178)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,638	1,710
Deferred tax liabilities	(71)	(92)
	1,567	**1,618**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

30 Deferred tax (continued)

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €145 million (31 December 2013: €121 million).

The deferred tax asset of €1,638 million (31 December 2013: €1,710 million (restated)) shown on the balance sheet is after netting by jurisdiction (€1,759 million before netting by jurisdiction, 31 December 2013: €1,796 million (restated)). This includes an amount of €1,595 million at 31 December 2014 (31 December 2013: €1,646 million (restated)) in respect of operating losses which are available to relieve future profits from tax. In order for the Group to recognise an asset for unutilised losses it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised. The deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the unutilised losses can be utilised.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. The Group expects to recover a significant portion of the deferred tax asset in a period more than ten years from the balance sheet date, however it expects that the greater part of the deferred tax asset will be recovered within ten years of the of the balance sheet date. Under accounting standards these assets are measured on an undiscounted basis.

The Group's projections of future taxable profits incorporate estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes and impairment losses. The Group projections are based on the current business plan for the four years to 2018. The Group assumes long term growth in profitability thereafter. The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's deferred tax assets, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by 2 percentage points, the Group estimates that this would respectively decrease or increase the recovery period for the majority of losses by up to two years.

The UK Government had previously enacted legislation to reduce the main rate of corporation tax to 21% from 1 April 2014 and 20% for years beginning on or after 1 April 2015.

On 3 December 2014, as part of their Autumn Statement, the UK Government proposed a new loss restriction whereby banks will only be able offset 50% of their trading profits arising from 1 April 2015 with losses carried forward from before that date. The proposed restriction would significantly lengthen the period over which the Group could use its UK trading losses. Legislation for the proposed restriction was not enacted by the balance sheet date and therefore in line with IAS 12 it is not considered in the context of the deferred tax asset measurement or recognition at 31 December 2014. Trading losses in both UK and Ireland would continue to be available for indefinite carry forward.

Deferred tax assets have not been recognised in respect of US tax losses of €79 million (31 December 2013: €73 million) and US temporary differences of €3 million (31 December 2013: €2 million). At 31 December 2014, €29 million (31 December 2013: €27 million) of the tax losses expire in the period 2020 to 2028 with €50 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

The amount of the deferred tax asset expected to be recovered after more than one year is c.€1.5 billion (31 December 2013: c.€1.7 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.1 billion (31 December 2013: c.€0.2 billion).

30 Deferred tax (continued)

The deferred tax charge / (credit) in the income statement comprises the following temporary differences:

	31 December 2014 €m	Restated* 31 December 2013 €m
Current year profits / (losses)	55	(174)
Reassessment of the value of tax losses carried forward[1]	(12)	(65)
Impact of corporation tax rate change	-	58
Pensions and other retirement benefits	27	50
Life companies	4	15
Accelerated tax depreciation	2	(14)
Other temporary differences	5	15
Transfer to current tax	7	25
Adjustments in respect of prior year	4	(6)
Total deferred tax charge / (credit)	**92**	**(96)**

* *As outlined in the basis of preparation on page 94, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies.*

[1] *During the year the Group's assessment of the value of UK losses has increased by €12 million (31 December 2013: €65 million).*

31 Retirement benefit obligations

The Group sponsors a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 76% of the total liabilities across all Group sponsored defined benefit schemes at 31 December 2014. The BSPF and all of the Group's other RoI and UK defined benefit schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of defined benefit and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in late 2014 and a new defined contribution scheme was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

Regulatory Framework

The Group operates the defined benefit plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to provide a check that a scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS at a specified future point in time.

31 Retirement benefit obligations (continued)

The responsibilities of the Trustees, and the regulatory framework, are broadly similar for the Group's other defined benefit schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

Actuarial Valuation of the BSPF

The last formal Triennial valuation of the BSPF, using the Attained Age method, was carried out as at 31 December 2012. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. For measurement of the obligation in the financial statements under IAS 19R the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Triennial valuation disclosed that the fair value of scheme assets represented 88% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. Following acceptance of the Pensions 2013 Review the actuary recalculated the funding level of the scheme and the joint future service contribution rate taking account of the impact of post-retirement changes to benefits and assumptions. The fair value of the scheme assets represented 97% of the liabilities on this revised basis and the actuary recommended a joint future service contribution rate of 19.8% following this change (unchanged from 19.8% at the previous triennial valuation).

In addition to the future service contributions the Group continues to make additional contributions of €25.75 million per quarter to mid-2016 to the BSPF arising from the 2010 Group Pensions Review. During 2014, the Group accelerated the payment of the full amount of the 2015 additional contributions of €103 million to the BSPF.

The next formal triennial valuation of the BSPF will be carried out during 2016 based on the position at 31 December 2015.

The actuarial valuations are available for inspection by members but are not available for public inspection.

Pension levy

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The Irish Finance (No. 2) Act 2013 gave effect to an increase in the pension levy by 0.15% to 0.75% in 2014 and introduced a further levy of 0.15% in 2015. The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The Group has recognised a charge of €33 million in respect of the 2014 pension levy through other comprehensive income for the year ended 31 December 2014 (year ended 31 December 2013: €24 million).

During 2012 and 2013, the Group and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed that in exchange for additional security for scheme members, the cost of the pension levies incurred from 2011 to 2013 would be would be borne by the relevant Republic of Ireland scheme members, in the form of adjustments to members' benefits. The additional security was provided by a charge over a portfolio of Group assets (a contingent asset) with an initial value of €250 million which increased to €375 million at 31 December 2013. This contingent asset, including Group properties with a fair value of €49 million at 31 December 2014 (31 December 2013: €42 million), reduced to €164 million at 31 December 2014 as the scheme's assets exceeded the core liabilities under the Minimum Funding Standard by a satisfactory margin. There was no recovery in respect of the BSPF pension levy during 2014, as discussions with the Trustees of the BSPF are still ongoing in relation to members benefits. Following discussions with the Group, the Trustees of the BIF, ICS and BAPF schemes accepted that the cost of the levies incurred from 2011 to 2014 would be borne by the relevant Republic of Ireland scheme members, in the form of an adjustment to member's benefits, resulting in a negative past service cost of €4 million in the income statement during the year ended 31 December 2014 (31 December 2013: €28 million in relation to the BSPF, BIF, ICS and BAPF).

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €43 million at 31 December 2014 (31 December 2013: €50 million).

Pensions 2013 Review

During 2013, the Group completed a review of the BSPF and implemented amendments to benefits to address the IAS 19R deficit of same.

31 Retirement benefit obligations (continued)

The objectives of this review were to continue to sponsor competitive pension arrangements and benefits and help secure the future viability of the scheme, while recognising the need to substantially reduce the IAS 19R deficit and associated volatility.

Arising from this review the Group proposed a number of amendments to the scheme and also advised members of changes to how increases to pensions in payment will be determined.

The amendment to future increases in members' pensionable salaries required employee members in RoI and UK to individually accept the changes. As at 31 December 2014, c.100% of those members had accepted the changes (31 December 2013: 19%) and the defined benefit pension scheme deficit at 31 December 2014 reflects this level of acceptances together with the impact of a similar review carried out on a number of smaller Group sponsored pension schemes during the year. This has been recognised as a negative past service cost of €93 million (year ended 31 December 2013: negative past service cost of €274 million, net of directly related costs recognised in the income statement and changes in financial assumptions of €117 million recognised in other comprehensive income).

In return for agreement from employee members to changes in how potential future salary increase qualify for pension, the Group has agreed to increase its support for the BSPF between 2016 and 2020, above existing arrangements, so as to broadly match the IAS 19R deficit reduction arising from changes to potential benefits.

Future deficit-reducing contributions from Pensions 2010 and arising from Pensions 2013 review in the form of cash or other suitable assets are estimated to be €550 million across all Group sponsored defined benefit pension schemes.

Plan details
The following table sets out details of the membership of the BSPF.

Plan details at last valuation date	Number of members	Proportion of funding liability
Active members	8,598	37%
Deferred members	6,380	19%
Pensioner members	3,097	44%
Total	**18,075**	**100%**

Financial and Demographic assumptions
The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments. The yield curve is extrapolated when the term of the benefit payments is longer than the term of available bonds and the single discount rate specified takes the shape of the yield curve and the benefit payments into account. The assumption for RoI price inflation is informed by reference to the European Central Bank inflation target for eurozone countries, which is to maintain inflation at close to but below 2% per annum, and to the long term expectation for eurozone inflation as implied by the difference between eurozone fixed interest and indexed linked bonds. The assumptions for UK price inflation are informed by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds with appropriate adjustments to reflect distortions due to supply and demand, except for UK CPI inflation, which is set by reference to RPI inflation, with an adjustment applied, as there are insufficient CPI-linked bonds from which to derive an assumption.

The salary assumption takes into account inflation, seniority, promotion and current employment markets relevant to the Group.

Other demographic assumptions are reviewed in line with the actual experience of the Group's schemes. This resulted in a change in demographic assumptions, the impact of which was to reduce the Group's deficit by €308 million as at 31 December 2014.

31 Retirement benefit obligations (continued)

The financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	**31 December 2014 % p.a.**	31 December 2013 % p.a.
Irish schemes		
Discount rate	2.20	3.65
Inflation rate	1.50	2.00
Rate of general increase in salaries	*2.00	*2.50
Rate of increase in pensions in payments	*0.96	*1.24
Rate of increase to deferred pensions	1.45	1.90
UK schemes		
Discount rate	3.70	4.45
Consumer Price Inflation	2.25	2.70
Retail Price Inflation	3.25	3.60
Rate of general increase in salaries	*3.75	*4.10
Rate of increase in pensions in payments	*2.17	*2.49
Rate of increase to deferred pensions	2.25	2.70

* *Weighted average increase across all Group schemes.*

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland mortality investigations that are considered a best fit for the Group's expected future mortality experience.

	31 December 2014 years	31 December 2013 years
Longevity at age 70 for current pensioners		
Males	17.3	17.5
Females	18.8	18.9
Longevity at age 60 for active members currently aged 60 years		
Males	26.8	27.1
Females	28.6	28.7
Longevity at age 60 for active members currently aged 40 years		
Males	29.3	29.6
Females	30.8	30.8

31 Retirement benefit obligations (continued)

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements

31 December 2014	**Irish Pension Plans €m**	**UK Pension[1] Plans €m**	**Total €m**
Income statement credit / (charge)			
- Other operating expenses	(113)	(24)	(137)
- Impact of amendments to the defined benefit pension scheme, net of directly related expenses	81	12	93
- Cost of restructuring programme	(4)	1	(3)
Statement of other comprehensive income			
Impact of remeasurement	(419)	23	(396)
Balance sheet obligations	**(949)**	**(37)**	**(986)**
This is shown on the balance sheet as:			
Retirement benefit obligation			(992)
Retirement benefit asset			6
Total net liability			**(986)**

All figures above are shown before deferred tax.

31 December 2013	Irish Pension Plans €m	UK Pension[1] Plans €m	Total €m
Income statement credit / (charge)			
- Other operating expenses	(110)	(22)	(132)
- Impact of amendments to the defined benefit pension scheme, net of directly related expenses	237	37	274
- Cost of restructuring programme	3	2	5
Statement of other comprehensive income			
- Impact of remeasurement	(106)	(23)	(129)
Balance sheet obligations	(747)	(94)	(841)
This is shown on the balance sheet as:			
Retirement benefit obligation			(845)
Retirement benefit asset			4
Total net liability			(841)

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

31 Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year in respect of the Group's defined benefit plans is as follows:

	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
At 1 January 2014	**(6,253)**	**5,412**	**(841)**
Impact of Pensions 2013 Review			
- Negative past service cost (income statement)	93	-	93
Cost of restructuring programme			
- Past service cost	(3)	-	(3)
Other operating expenses	(340)	203	(137)
- Current service cost	*(113)*	*-*	*(113)*
- Negative past service cost	*3*	*-*	*3*
- Interest (expense) / income	*(230)*	*203*	*(27)*
Return on plan assets not included in income statement	-	739	739
Change in demographic assumptions	308	-	308
Change in financial assumptions	(1,430)	-	(1,430)
Experience gains	38	-	38
Employer contributions	-	297	297
- Deficit clearing[1]	-	*210*	*210*
- Other	-	*87*	*87*
Employee contributions	(13)	13	-
Benefit payments	170	(170)	-
Changes in exchange rates	(95)	45	(50)
At 31 December 2014	**(7,525)**	**6,539**	**(986)**

The above amounts are recognised in the financial statements as follows: (charge) / credit

	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
Other operating expenses	(340)	203	(137)
Impact of amendments to defined benefit pension schemes, net of directly related costs	93	-	93
Cost of restructuring programme	(3)	-	(3)
Total amount recognised in income statement	**(250)**	**203**	**(47)**
Changes in financial assumptions	(1,430)	-	(1,430)
Return on plan assets not included in income statement	-	739	739
Change in demographic assumptions	308	-	308
Changes in exchange rates	(95)	45	(50)
Experience gains	38	-	38
Total remeasurements in other comprehensive income	**(1,179)**	**784**	**(395)**

Total Negative past service cost comprises	
Impact of amendments to defined benefit pension schemes	93
Impact of restructuring programme	(3)
Other operating expenses	3
Total	**93**

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

31 Retirement benefit obligations (continued)

	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
At 1 January 2013	(6,137)	5,062	(1,075)
Impact of Pensions 2013 Review	394	-	394
- Negative past service cost (income statement)	*277*	-	*277*
- Change in financial assumptions (other comprehensive income)	*117*	-	*117*
Cost of restructuring programme	5	-	5
- Negative past service cost	*5*	-	*5*
Other operating expenses	(333)	201	(132)
- Current service cost	*(122)*	-	*(122)*
- Negative past service cost	*28*	-	*28*
- Interest (expense) / income	*(239)*	*201*	*(38)*
Return on plan assets not included in income statement	-	85	85
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(355)	-	(355)
Experience gains	8	-	8
Employer contributions	-	213	213
- Deficit clearing[1]	-	*119*	*119*
- Other	-	*94*	*94*
Employee contributions	(13)	13	-
Benefit payments	153	(153)	-
Changes in exchange rates	25	(9)	16
At 31 December 2013	(6,253)	5,412	(841)

The above amounts are recognised in the financial statements as follows: (charge) / credit

Other operating expenses	(333)	201	(132)
Impact of amendments to defined benefit pension schemes, net of directly related costs	274	-	274
Cost of restructuring programme	5	-	5
Total amount recognised in income statement	(54)	201	147
Changes in financial assumptions	(238)	-	(238)
Return on plan assets not included in income statement	-	85	85
Change in demographic assumptions	-	-	-
Changes in exchange rates	25	(9)	16
Experience gains	8	-	8
Total remeasurements in other comprehensive income	(205)	76	(129)

Total Negative past service cost comprises

Impact of amendments to defined benefit pension schemes	277
Impact of restructuring programme	5
Other operating expenses	28
Total	310

[1] Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.

31 Retirement benefit obligations (continued)

Asset breakdown	Year ended 31 December 2014 €m	Year ended 31 December 2013 €m
Equities (quoted)	2,088	2,375
Liability Driven Investment (unquoted)	1,489	1,219
Corporate bonds (quoted)	449	318
Property (unquoted)	417	314
Government bonds (quoted)	890	283
Cash (quoted)	392	251
Senior secured loans (unquoted)	212	197
Reinsurance (unquoted)	235	196
Hedge funds (unquoted)	234	193
Private equities (unquoted)	133	66
Total fair value of assets	**6,539**	**5,412**

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €9 million (31 December 2013: €7 million) and property occupied by Bank of Ireland Group companies to the value of €31 million (31 December 2013: €25 million).

Sensitivity of defined benefit obligation to key assumptions
The table below sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible:

Impact on defined benefit obligation	Change in assumption	Impact on actuarial liabilities increase / (decrease) 31 December 2014 €m	Impact on actuarial liabilities increase / (decrease) 31 December 2013 €m
Discount rate	0.25% decrease	407	318
RPI inflation*	0.10% decrease	(101)	(84)
Salary growth	0.10% decrease	(27)	(21)
Life expectancy	1 year increase	211	152

* *Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth)*

The sensitivity analysis is prepared by the independent actuaries calculating the defined benefit obligation under the alternative assumptions.

While the table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the above changes in assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

31 Retirement benefit obligations (continued)

Future cash flows

The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration, or average term to payment for the benefits due weighted by liability, is c.22 years for the Irish plans and c.21 years for the UK plans.

Expected employer contributions for the year ended 31 December 2015 are €112 million. Expected employee contributions for the year ended 31 December 2015 are €13 million.

Risks and risk management

The Group's defined benefit pension plans have a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the following table.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

31 Retirement benefit obligations (continued)

Risk	Description
Asset volatility	The defined benefit pension plans hold a significant proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the defined benefit liabilities, however, are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. For measurement of the obligation in the financial statements under IAS 19R the defined benefit obligation is calculated using a discount rate set with reference to high-quality corporate bond yields. The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit deficit recorded on the balance sheet. In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. During 2014 20% of the BSPF listed equity portfolio was allocated to bonds to further reduce the volatility and exposure to equity markets. The investment in bonds is discussed further below.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the defined benefit schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its Risk Management the largest Group sponsored pension scheme, the BSPF has invested 29% in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk. The LDI approach invests in cash and interest rate and inflation swaps to create a portfolio which is both euro inflation-linked and of significantly longer duration than possible in the physical bond market. The portfolio will broadly hedge against movements in long-term interest rates and inflation expectations. The LDI portfolio only hedges a portion of the BSPF's interest rate and inflation risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities, nor protect against differences between expectations for eurozone average inflation and the Fund's Irish inflation exposure. However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.
Inflation risk	The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the Pensions 2013 Review changes have further limited this exposure.
Life expectancy	The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but not are limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

32 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

	31 December 2014 Contract amount €m	31 December 2013 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	12	9
Guarantees and irrevocable letters of credit	698	819
Other contingent liabilities	199	327
	909	**1,155**
Commitments		
Documentary credits and short term trade related transactions	113	85
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	14,062	13,043
- irrevocable with original maturity of over 1 year	3,469	2,764
	17,644	**15,892**

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory and other actions arising out of its normal business operations. At 31 December 2014, the Group is assessing an emerging industry-wide issue with respect to technical compliance with the UK Consumer Credit Act. In accordance with IAS37.92, the Group has not provided further information on this issue.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

33 Capital stock

Authorised	31 December 2014	31 December 2013
Eur€	**€m**	€m
90 billion units of ordinary stock of €0.05 each	4,500	4,500
228 billion units of deferred stock of €0.01 each	2,280	2,280
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2014 €m	31 December 2013 €m
32.346 billion units of ordinary stock of €0.05 each (31 December 2013: 32.344 billion units)	1,616	1,616
91.981 billion units of deferred stock of €0.01 each	920	920
39.291 million units of treasury stock of €0.05 (31 December 2013: 41.696 million units)	2	2
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.3 billion units of non-cumulative 2009 Preference Stock of €0.01 each (31 December 2013: 1.3 billion units)	13	13
	2,558	**2,558**

Ordinary stock
All units of ordinary stock carry the same voting rights.

The weighted average number of units of ordinary stock in issue at 31 December 2014, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally ranks for dividend, in line with accounting standards any dividend would not accrue in the Group financial statements.

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	**31 December 2014**	31 December 2013	**31 December 2014**	31 December 2013
At beginning of year	32,343,587,302	30,108,928,692	41,696,461	45,585,840
Issue of ordinary stock	-	2,230,769,231	-	-
Stock sold / (purchased) and held for the benefit of life assurance policyholders	2,405,365	3,889,379	(2,405,365)	(3,889,379)
At end of year	**32,345,992,667**	**32,343,587,302**	**39,291,096**	**41,696,461**

At 31 December 2014, New Ireland Assurance Company plc held 17,282,406 units of ordinary stock as ‘own shares’ (31 December 2013: 19,687,771 units).

34 Summary of relations with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

(a) Ordinary stock

At 31 December 2014, the State held through the Ireland Strategic Investment Fund (ISIF) 13.95% (31 December 2013: 14.08%) of the ordinary stock of the Bank.

(b) Guarantee schemes

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme)

The ELG Scheme ended for all new liabilities on 28 March 2013. After this date no new liabilities were guaranteed under the scheme. All qualifying deposits and other liabilities made up to the date of expiry from the ELG Scheme continued to be covered until the date of maturity of the deposit or liability.

A fee is payable in respect of each liability guaranteed under the ELG Scheme. This fee amounted to €37 million for the year ended 31 December 2014 (year ended 31 December 2013: €129 million) (note 3).

At 31 December 2014, €2.8 billion of eligible liabilities continue to be covered under the ELG Scheme (31 December 2013: €5.0 billion) of which €1.9 billion related to senior debt and €0.9 billion related to customer deposits. In January 2015, €1.8 billion of the Group's senior debt covered under the ELG Scheme matured.

European Communities (Deposit Guarantee Schemes) Regulations, 1995

Details of the deposits protected by these schemes are set out in note 26.

(c) Bonds issued by the State

At 31 December 2014, the Group held sovereign bonds issued by the State with a carrying value of €6,918 million (31 December 2013: €6,846 million) of which €6,409 million (31 December 2013: €6,403 million) are classified as available for sale financial assets and €509 million (31 December 2013: €443 million) are classified as other financial assets at fair value through profit or loss.

(d) National Asset Management Agency (NAMA)

At 31 December 2014, the Group held bonds issued by NAMA with a carrying value of €2,606 million (31 December 2013: €4,089 million)

	31 December 2014 €m	31 December 2013 €m
NAMA senior bonds (guaranteed by the State) (note 20)	2,374	3,957
NAMA subordinated bonds (note 19)	232	132
Total	**2,606**	**4,089**

(e) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired at that time in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL has also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six Directors to the board of NAMAIL. In total, the B shareholders may also jointly appoint up to six Directors and have

34 Summary of relations with the State (continued)

collectively appointed one director. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €0.5 million was received by the Group on 31 March 2014 (2 April 2013: €0.7 million).

(f) Securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)
Following the announcement by the Irish Government in early February 2013 that it would liquidate the Irish Bank Resolution Corporation (IBRC), the Group's IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013.

On 29 March 2012, the Bank, the State and IBRC, reached a conditional agreement to enter into a securities repurchase transaction (repo) whereby the Group would purchase long term Irish Government Bonds from IBRC for a purchase price of €3.1 billion, less any cash margin payable by IBRC to the Bank on the purchase date. IBRC had an obligation to repurchase the bonds for €3.1 billion in cash, less any cash margin held by the Bank on the repurchase date, not later than 364 days after the effective date of the transaction. The transaction was considered to be a related party transaction under the Listing Rules and consequently required independent stockholder approval which involved the publication of a stockholder circular and an Extraordinary General Court (EGC) which approved the transaction on 18 June 2012. The transaction was financed by the Group by using the bonds, which are eurosystem eligible, to access standard ECB open market operations. The margin for the Group over ECB funding which applies to this transaction was 135 basis points. The transaction was governed by a Global Master Repurchase Agreement which incorporates standard market terms including daily margining provisions with respect to changes in the value of the bonds. All IBRC's payment obligations to the Group under the terms of the transaction were guaranteed by the Minister for Finance. The impact of this transaction on the financial statements at 31 December 2012 was an increase in Loans and advances to banks of €3.1 billion, an increase in Deposits from banks of €3.1 billion and net interest income of €22 million. Transaction costs of €6 million were incurred and, under the terms of the transaction agreement, were reimbursed by IBRC.

(g) Other transactions with the State and entities under its control or joint control
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks.

At 31 December 2014, the Group held senior bonds with a carrying value of €954 million issued by the following entities which are related parties of the Group, as follows:

	31 December 2014 €m	31 December 2013 €m
Allied Irish Banks plc (AIB)	753	618
Permanent TSB Group Holdings plc	201	204
Total	**954**	**822**

At 31 December 2014, €468 million (31 December 2013: €566 million) of the AIB senior bonds and €201 million (31 December 2013: €204 million) of the Permanent TSB Group Holdings plc senior bonds were guaranteed under the ELG Scheme.

34 Summary of relations with the State (continued)

At 31 December 2014, the Group also had loans of €14 million to AIB (31 December 2013: €59 million) and €6 million to Permanent TSB Group Holdings plc (31 December 2013: €6 million) which were included within loans and advances to banks.

At 31 December 2014, the Group held deposits from the National Treasury Management Agency (NTMA) of €1.0 billion (31 December 2013: €1.7 billion). The maximum amount of these deposits during the period was €1.9 billion (31 December 2013: €2.1 billion).

The Group also held a number of deposits from the State, its agencies and entities under its control or joint control, which are considered to be collectively significant, totalling c.€0.7 billion (31 December 2013: c.€0.8 billion).

In addition, at 31 December 2014, the Group held accounts from IBRC (in Special Liquidation) and its associates of €158 million (31 December 2013: €668 million) which were included in the Customer accounts at 31 December 2014.

(h) Irish bank levy
The Finance Bill (No. 2) 2013 which was enacted on 18 December 2013, introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The levy will equal 35% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for 2011 and will be charged for three-years, from 2014 to 2016 inclusive. The annual levy paid by the Group on 20 October 2014 was €38 million.

35 Post balance sheet events

€750 million covered bond
On 13 January 2015, the Group issued €750 million of five-year dated secured funding at a yield of 0.527%.

American Depositary Receipts
On 21 January 2015, the Group announced that its Court of Directors has resolved to voluntarily delist its American Depositary Shares (ADSs) from the New York Stock Exchange (NYSE) and to terminate its sponsored ADR programme on or around 22 April 2015.

Irish Bank Resolution Corporation Limited (in Special Liquidation) mortgages
On 23 January 2015, the Group completed the purchase of a €253 million book of performing residential mortgages from Irish Bank Resolution Corporation Limited (in Special Liquidation).

Danske Bank A/S loan portfolio
On 5 February 2015, the Group and Goldman Sachs agreed terms to acquire a commercial loan portfolio of face value €540 million from Danske Bank A/S. As part of the transaction, the Group will acquire a €274 million portfolio of performing commercial loans, comprising over 1,000 customers in the SME, Agriculture and CRE sectors.

2009 Preference Stock Dividend
On 20 February 2015, the Group paid a cash dividend of €133.3 million on the 2009 Preference Stock to Baggot Securities Limited.

Other Information

Group exposures to selected countries

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items as at 31 December 2014. For these line items, further information on the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain and France), is set out on pages 151 to 154.

31 December 2014 **Assets**	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[3] €m**	**Total €m**
Cash and balances at central banks	722	3,805	198	-	-	266	4,991
Trading securities	12	-	-	-	-	-	12
Derivative financial instruments (net)[1]	139	453	12	14	2	55	675
Other financial assets at fair value through profit or loss[2]	511	42	37	12	480	524	1,606
Loans and advances to banks[2]	517	2,550	259	1	580	595	4,502
Available for sale financial assets	7,599	1,359	293	968	934	2,427	13,580
NAMA senior bonds	2,374	-	-	-	-	-	2,374
Total	**11,874**	**8,209**	**799**	**995**	**1,996**	**3,867**	**27,740**

31 December 2013 Assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[4] €m	Total €m
Cash and balances at central banks	663	4,948	484	-	-	290	6,385
Trading securities	17	-	36	11	25	163	252
Derivative financial instruments (net)[1]	129	433	12	16	5	41	636
Other financial assets at fair value through profit or loss[2]	449	37	26	12	386	353	1,263
Loans and advances to banks[2]	188	2,586	49	-	980	644	4,447
Available for sale financial assets	7,364	840	331	956	647	1,966	12,104
NAMA senior bonds	3,957	-	-	-	-	-	3,957
Total	12,767	8,844	938	995	2,043	3,457	29,044

1 *Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
2 *This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.*
3 *At 31 December 2014, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Norway: €0.2 billion, Austria: €0.2 billion, Italy: €0.2 billion, Sweden €0.2 billion, Switzerland: €0.2 billion, Belgium: €0.2 billion, Portugal: €0.2 billion and other Supranational bonds: €1.1 billion). Also included in other is the Group's euro cash holding in branches.*
4 *At 31 December 2013, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Germany: €0.2 billion, Norway: €0.2 billion, Austria: €0.2 billion, Italy: €0.2 billion, Sweden €0.2 billion, Switzerland: €0.2 billion and other Supranational bonds: €0.9 billion. Also included in other is the Group's euro cash holding in branches.*

Group exposures to selected countries (continued)

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2014 by asset class:

Cash and balances at central banks

Cash and balances at central banks is made up as follows:

Cash and balances at central banks	**Year ended 31 December 2014 €m**	Year ended 31 December 2013 €m
United Kingdom (Bank of England)	3,746	4,903
United States (Federal Reserve)	199	484
Central Bank of Ireland	678	663
Other (cash holdings)	368	335
Total	**4,991**	**6,385**

Trading securities

31 December 2014 **Trading securities**	**Ireland €m**	**United States €m**	**Spain €m**	**France €m**	**Other €m**	**Total €m**
Government bonds	12	-	-	-	-	12
Corporate and other bonds	-	-	-	-	-	
Total	**12**	**-**	**-**	**-**	**-**	**12**

31 December 2013 Trading securities	Ireland €m	United States €m	Spain €m	France €m	Other[1] €m	Total €m
Government bonds	17	36	11	-	18	82
Corporate and other bonds	-	-	-	25	145	170
Total	17	36	11	25	163	252

[1] *At 31 December 2013, other is made up of exposures to the following countries: Netherlands: €50 million, Australia: €39 million, Sweden: €32 million, Italy €23 million and Canada: €19 million.*

Trading securities are carried in the balance sheet at their fair value. Any changes in the fair value of these assets are treated as gains or charges in the Group's income statement.

Group exposures to selected countries (continued)

Derivative financial instruments

31 December 2014	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Gross derivative assets							
Financial institutions	13	1,281	314	8	377	921	2,914
Corporate	147	570	12	12	2	35	778
Total	**160**	**1,851**	**326**	**20**	**379**	**956**	**3,692**
Net Derivative Assets[1]							
Financial institutions	-	71	-	2	-	20	93
Corporate	139	382	12	12	2	35	582
Total	**139**	**453**	**12**	**14**	**2**	**55**	**675**

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Gross derivative assets							
Sovereign	5	-	-	-	-	-	5
Financial institutions	39	1,295	504	7	307	776	2,928
Corporate	129	372	8	11	4	34	558
Total	173	1,667	512	18	311	810	3,491
Net Derivative Assets[1]							
Sovereign	-	-	-	-	-	-	-
Financial institutions	8	67	4	5	1	7	92
Corporate	121	366	8	11	4	34	544
Total	129	433	12	16	5	41	636

1 Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.
2 At 31 December 2014, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €23 million, Germany: €10 million, Australia: €7 million, Austria: €6 million and Netherlands: €5 million.
3 At 31 December 2013, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €26 million, Austria: €7 million, Australia: €6 million and Netherlands: €2 million.

Group exposures to selected countries (continued)

Other financial assets at fair value through profit or loss

31 December 2014	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[1] €m**	**Total €m**
Government bonds	427	-	-	-	431	352	1,210
Other	84	42	37	12	49	172	396
Total	**511**	**42**	**37**	**12**	**480**	**524**	**1,606**

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Government bonds	354	-	-	-	333	203	890
Other	95	37	26	12	53	150	373
Total	449	37	26	12	386	353	1,263

[1] At 31 December 2014, other is primarily made up of exposures to the following country: Austria: €0.2 billion, Belgium: €0.1 billion and Italy: €0.1 billion.
[2] At 31 December 2013, other is primarily made up of exposures to the following country: Austria: €0.2 billion.

The Group's holdings of 'Other financial assets at fair value through profit or loss' primarily relate to the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. These assets have been excluded from the analysis of the Groups exposure in the tables above.

At 31 December 2014, such assets which were included in Other financial assets at fair value through profit or loss amounted to €9,922 million (31 December 2013: €9,043 million). At 31 December 2014, Loans and advances to banks also included an amount of €349 million (31 December 2013: €312 million) relating to such assets.

Loans and advances to banks

31 December 2014	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[2] €m**	**Total €m**
Loans and advances to banks[1]	517	2,550	259	1	580	595	4,502

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Loans and advances to banks[1]	188	2,586	49	-	980	644	4,447

[1] Loans and advances to banks of €349 million (31 December 2013: €312 million) is held on behalf of Bank of Ireland Life policyholders and has been excluded from the analysis above.
[2] At 31 December 2014, other is primarily made up of exposures to the following countries: Switzerland: €0.2 billion, Turkey: €0.1 billion and Canada: €0.1 billion.
[3] At 31 December 2013, other is primarily made up of exposures to the following countries: Germany: €0.2 billion, Switzerland: €0.2 billion and Turkey: €0.2 billion.

Loans and advances to banks include loans to and placements with credit institutions and certain placements with central banks which are accounted for at amortised cost. No provisions are held against these balances. The Group exposures disclosed above are prepared on the basis of exposure to the country of operations of the counterparty.

Group exposures to selected countries (continued)

Available for sale financial assets

31 December 2014 Available for sale financial assets	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[2] €m**	**Total €m**
Government bonds	6,409	687	2	290	446	442	8,276
Senior bank debt and other senior debt	669	-	40	-	111	1,433	2,253
Covered bonds	286	529	214	628	368	505	2,530
Subordinated debt	232[1]	-	-	-	-	-	232
Asset backed securities	3	142	37	50	9	48	289
Total	**7,599**	**1,358**	**293**	**968**	**934**	**2,428**	**13,580**

31 December 2013 Available for sale financial assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Government bonds	6,403	118	2	-	-	97	6,620
Senior bank debt and other senior debt	770	-	40	-	210	1,238	2,258
Covered bonds	52	521	252	903	428	581	2,737
Subordinated debt	132[1]	1	-	-	-	-	133
Asset backed securities	7	200	37	53	9	50	356
Total	7,364	840	331	956	647	1,966	12,104

[1] *NAMA subordinated debt of €232 million (31 December 2013: €132 million) is classified as an available for sale debt instrument (note 19).*
[2] *At 31 December 2014, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Norway: €0.2 billion, Sweden: €0.2 billion, Portugal: €0.2 billion, Italy: €0.1 billion and other Supranational bonds: €1.1 billion.*
[3] *At 31 December 2013, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Norway: €0.2 billion, Sweden: €0.2 billion and other Supranational bonds: €0.9 billion.*

Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholder’s equity.

NAMA senior bonds
At 31 December 2014, the Group had holdings of NAMA senior bonds which are guaranteed by the Irish Government with a nominal value of €2,389 million (31 December 2013: €3,991 million) and a fair value at that date of €2,389 million (31 December 2013: €3,986 million). The contractual maturity date of the NAMA senior bonds is 1 March 2015. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days. On 13 February 2015, the Group agreed to accept the issuance of new bonds, in settlement of the existing debt. These bonds have the same terms and conditions as the original NAMA senior bonds and mature on 2 March 2016.

NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

Group exposures to selected countries (continued)

Additional information on selected European countries

The tables below show the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain and France). The maturity analysis in the tables below is based on the residual contractual maturity of the exposures (except where otherwise indicated).

Ireland

As at 31 December 2014, Ireland's credit rating from Standard & Poor's was A (31 December 2013: BBB+). The table below shows the Group's exposure to Ireland by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2014	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss[1]	60	-	-	8	151	292	511	420
- Government bonds	*-*	*-*	*-*	*4*	*130*	*292*	*426*	*333*
- Other	*60*	*-*	*-*	*4*	*21*	*-*	*85*	*87*
Loans and advances to banks[1]	407	110	-	-	-	-	517	517
Available for sale financial assets	1,067	-	281	2,435	3,138	678	7,599	6,574
- Government bonds	*394*	*-*	*281*	*2,203*	*2,853*	*678*	*6,409*	*5,370*
- Senior bank debt and other[2]	*673*	*-*	*-*	*232*	*285*	*-*	*1,190*	*1,204*
NAMA senior bonds[3]	183	548	730	913	-	-	2,374	2,389
Total[4]	**1,717**	**658**	**1,011**	**3,356**	**3,289**	**970**	**11,001**	**9,900**

	Carrying value							Nominal value
As at 31 December 2013	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss[1]	30	42	-	7	140	230	449	412
- Government bonds	*-*	*-*	*-*	*6*	*118*	*230*	*354*	*325*
- Other	*30*	*42*	*-*	*1*	*22*	*-*	*95*	*87*
Loans and advances to banks[1]	46	142	-	-	-	-	188	188
Available for sale financial assets	3	-	1,541	3,376	2,444	-	7,364	6,902
- Government bonds	*-*	*-*	*751*	*3,340*	*2,312*	*-*	*6,403*	*5,816*
- Senior bank debt and other[2]	*3*	*-*	*790*	*36*	*132*	*-*	*961*	*1,086*
NAMA senior bonds[3]	-	417	417	1,770	1,353	-	3,957	3,991
Total[4]	79	601	1,958	5,153	3,937	230	11,958	11,493

[1] This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.
[2] Senior bank debt and other primarily relates to the Group's holdings of Irish Government guaranteed senior bank debt issued by Irish financial institutions.
[3] The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.
[4] The Group also has a net derivative asset exposure to counterparties based in Ireland at 31 December 2014 of €139 million (31 December 2013: €129 million).

Group exposures to selected countries (continued)

Ireland (continued)

Available for sale financial assets As at 31 December 2014 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	1,057	-	265	2,075	2,684	493	6,574
Fair value	1,067	-	281	2,435	3,138	678	7,599
AFS reserve (before tax)	9	-	29	304	271	26	639

Available for sale financial assets As at 31 December 2013 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	3	-	1,486	3,046	2,367	-	6,902
Fair value	3	-	1,541	3,376	2,444	-	7,364
AFS reserve (before tax)	-	-	85	370	176	-	631

Spain

As at 31 December 2014, Spain's credit rating from Standard & Poor's was BBB (31 December 2013: BBB-). The table below shows the Group's exposure to Spain by selected balance sheet line items:

	Carrying value							**Nominal Value**
As at 31 December 2014	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	1	11	-	12	10
Loans and advance to banks	1	-	-	-	-	-	1	1
Available for sale financial assets	35	51	178	286	408	10	968	870
- Government bonds	*-*	*-*	*-*	*23*	*266*	*-*	*289*	*237*
- Covered bonds and other	*35*	*51*	*178*	*263*	*142*	*10*	*679*	*633*
Total[1]	**36**	**51**	**178**	**287**	**419**	**10**	**981**	**881**

	Carrying value							Nominal Value
As at 31 December 2013	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	-	12	-	12	11
Loans and advance to banks	-	-	-	-	-	-	-	-
Available for sale financial assets	7	-	136	648	155	10	956	932
- Government bonds	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Covered bonds and other	*7*	*-*	*136*	*648*	*155*	*10*	*956*	*932*
Total[1]	7	-	136	648	167	10	968	943

[1] *The Group also has a net derivative asset exposure to counterparties based in Spain at 31 December 2014 of €14 million (31 December 2013: €16 million).*

Group exposures to selected countries (continued)

Spain (continued)

Available for sale financial assets As at 31 December 2014 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	35	50	171	266	338	10	870
Fair value	35	51	178	286	408	10	968
AFS reserve (before tax)	-	-	-	1	6	-	7

Available for sale financial assets As at 31 December 2013 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	8	-	133	623	157	11	932
Fair value	7	-	136	648	155	10	956
AFS reserve (before tax)	(1)	-	(1)	(25)	-	(25)	(52)

France

As at 31 December 2014, France's credit rating from Standard & Poor's was AA (31 December 2013: AA). The table below shows the Group's exposure to France by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2014	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	6	31	443	480	384
- Government bonds	*-*	*-*	*-*	*-*	*-*	*431*	*431*	*340*
- Other	*-*	*-*	*-*	*6*	*31*	*12*	*49*	*44*
Loans and advances to banks	560	20	-	-	-	-	580	580
Available for sale financial assets	-	81	-	240	613	-	934	850
- Government bonds	*-*	*-*	*-*	*-*	*446*	*-*	*446*	*400*
- Senior bank debt and other	*-*	*81*	*-*	*240*	*167*	*-*	*488*	*450*
Total[1]	**560**	**101**	**-**	**246**	**644**	**443**	**1,994**	**1,814**

[1] *The Group also has a net derivative asset exposure to counterparties based in France at 31 December 2014 of €2 million (31 December 2013: €5 million).*

Group exposures to selected countries (continued)

France (continued)

As at 31 December 2013	Carrying value 0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Nominal value Total €m
Other financial assets at fair value through profit or loss	-	-	-	3	32	351	386	367
- Government bonds	*-*	*-*	*-*	*-*	*-*	*333*	*333*	*315*
- Other	*-*	*-*	*-*	*3*	*32*	*18*	*53*	*52*
Loans and advances to banks	960	20	-	-	-	-	980	980
Available for sale financial assets	65	51	84	243	204	-	647	614
- Government bonds	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Senior bank debt and other	*65*	*51*	*84*	*243*	*204*	*-*	*647*	*614*
Total[1]	1,025	71	84	246	236	351	2,013	1,961

[1] *The Group also has a net derivative asset exposure to counterparties based in France at 31 December 2014 of €2 million (31 December 2013: €5 million).*

Available for sale financial assets As at 31 December 2014 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	81	-	218	551	-	850
Fair value	-	81	-	240	613	-	934
AFS reserve (before tax)	-	-	-	2	7	-	9

Available for sale financial assets As at 31 December 2013 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	65	50	80	224	195	-	614
Fair value	65	51	84	243	204	-	647
AFS reserve (before tax)	-	-	-	-	-	(1)	(1)

Supplementary asset quality and forbearance disclosures

Group forbearance disclosures

Retail Ireland mortgages

Retail UK mortgages

Loans and advances (excluding Residential mortgages)

Group forbearance disclosures

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

The total impairment charge on loans and advances to customers for the year ended 31 December 2014 was €542 million (see page 57 in the Credit risk disclosures). Of this, the impairment reversal (net) on forborne loans amounted to €66 million as set out in the table below:

TABLE: 1

31 December 2014 **Impairment charges / (reversals) on forborne loan and advances** **Composition**	**Specific charge individually and collectively assessed** **€m**	**Incurred but not reported** **€m**	**Total impairment charge on forborne loans** **€m**
Residential mortgages	(15)	(46)	(61)
- Retail Ireland	*(15)*	*(44)*	*(59)*
- Retail UK	*-*	*(2)*	*(2)*
Non-property SME and corporate	-	(6)	(6)
- Republic of Ireland SME	*-*	*(6)*	*(6)*
- UK SME	*-*	*(2)*	*(2)*
- Corporate	*-*	*2*	*2*
Property and construction	-	(1)	(1)
- Investment	*-*	*2*	*2*
- Land and development	*-*	*(3)*	*(3)*
Consumer	-	2	2
Total Impairment charge / (reversal) on forborne loans	**(15)**	**(51)**	**(66)**

31 December 2013 Impairment charge on forborne loan and advances Composition	Specific charge individually and collectively assessed €m	Incurred but not reported €m	Total impairment charge on forborne loans €m
Residential mortgages	29	83	112
- Retail Ireland	*29*	*82*	*111*
- Retail UK	*-*	*1*	*1*
Non-property SME and corporate	-	(1)	(1)
- Republic of Ireland SME	*-*	*2*	*2*
- UK SME	*-*	*(2)*	*(2)*
- Corporate	*-*	*(1)*	*(1)*
Property and construction	-	3	3
- Investment	*-*	*2*	*2*
- Land and development	*-*	*1*	*1*
Consumer	-	(2)	(2)
Total Impairment charge on forborne loans	29	83	112

Impairment charge on forborne loans and advances

The impairment reversal (net) recognised on Retail Ireland forborne mortgage loans reflects the considerations as set out on page 57, which resulted in an overall impairment reversal on both the forborne and non-forborne Retail Ireland mortgage portfolios in 2014. The impairment reversal of €2 million on Retail UK forborne mortgage loans reflects the stable performance of the UK mortgage loan book.

In the non-mortgage book, where a specific provision is required the exposure is reported as 'impaired' and is not reported as 'forborne'; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. The IBNR reversal of €5 million on forborne non-mortgage loans in the year reflects the reduction in the volume of non-mortgage forborne loans assessed for IBNR provisions.

Impairment provisions on forborne loans and advances to customers

The total impairment provisions on loans and advances to customers for the year ended 31 December 2014 were €7,423 million (31 December 2013: €8,241 million) (see page 61 in the asset quality disclosures). Of this, the impairment provisions on forborne loans amounted to €591 million (31 December 2013: €521 million) as set out in the tables below:

TABLE: 2

31 December 2014 Impairment provision on forborne loan and advances Composition	**Specific provisions individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment provision on forborne loans €m**
Residential mortgages	205	231	436
- Retail Ireland	*204*	*229*	*433*
- Retail UK	*1*	*2*	*3*
Non-property SME and corporate	-	54	54
- Republic of Ireland	-	*28*	*28*
- UK SME	-	*12*	*12*
- Corporate	-	*14*	*14*
Property and construction	-	97	97
- Investment	-	*90*	*90*
- Land and development	-	*7*	*7*
Consumer	-	4	4
Total impairment provision on forborne loans	**205**	**386**	**591**

31 December 2013 Impairment provision on forborne loan and advances Composition	Specific provisions individually and collectively assessed €m	Incurred but not reported €m	Total impairment provision on forborne loans €m
Residential mortgages	182	181	363
- Retail Ireland	*181*	*177*	*358*
- Retail UK	*1*	*4*	*5*
Non-property SME and corporate	-	61	61
- Republic of Ireland	-	*34*	*34*
- UK SME	-	*13*	*13*
- Corporate	-	*14*	*14*
Property and construction	-	95	95
- Investment	-	*85*	*85*
- Land and development	-	*10*	*10*
Consumer	-	2	2
Total impairment provision on forborne loans	182	339	521

Impairment provision on forborne loans

Specific and Incurred but not reported (IBNR) provisions held against forborne Retail Ireland mortgage loans increased during 2014, primarily due to an increase in the number of customers with forbearance arrangements in place. This increase arose in both the 'neither past due nor impaired' and 'impaired' forborne mortgage loan categories in 2014. Provisions held against forborne Retail UK mortgage loans were €3 million, reflecting the stable performance of the UK mortgage loan book.

In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. IBNR provisions on non-mortgage forborne loans were largely unchanged at 31 December 2014 compared to 31 December 2013.

Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers at 31 December 2014 of €89.5 billion is available on page 62 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below provide an analysis of loans that are 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'. In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne.

TABLE: 3 **31 December 2014** **Risk profile of loans and advances to customers (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
Non-forborne loans and advances to customers						
High quality	43,344	4,263	1,662	2,428	51,697	65%
Satisfactory quality	-	8,481	1,547	130	10,158	13%
Acceptable quality	-	1,487	447	12	1,946	2%
Lower quality but neither past due or impaired	-	323	190	-	513	1%
Neither past due nor impaired	**43,344**	**14,554**	**3,846**	**2,570**	**64,314**	**81%**
Past due but not impaired	2,046	109	204	82	2,441	3%
Impaired	2,230	3,157	6,776	189	12,352	16%
Total non-forborne loans and advances to customers	**47,620**	**17,820**	**10,826**	**2,841**	**79,107**	**100%**
Forborne loans and advances to customers						
High quality	-	36	115	1	152	2%
Satisfactory quality	994	398	648	80	2,120	20%
Acceptable quality	914	811	1,625	19	3,369	32%
Lower quality but neither past due or impaired	363	1,075	1,575	-	3,013	29%
Neither past due nor impaired	**2,271**	**2,320**	**3,963**	**100**	**8,654**	**83%**
Past due but not impaired	538	50	132	13	733	7%
Impaired	554	194	298	-	1,046	10%
Total forborne loans and advances to customers	**3,363**	**2,564**	**4,393**	**113**	**10,433**	**100%**

Risk profile of forborne loans and advances to customers (continued)

31 December 2013 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	43,625	3,852	909	2,002	50,388	61%
Satisfactory quality	-	8,312	1,849	319	10,480	13%
Acceptable quality	-	1,985	376	13	2,374	3%
Lower quality but neither past due or impaired	-	413	610	-	1,023	1%
Neither past due nor impaired	43,625	14,562	3,744	2,334	64,265	78%
Past due but not impaired	2,619	156	160	87	3,022	4%
Impaired	2,597	3,621	8,008	236	14,462	18%
Total non-forborne loans and advances to customers	48,841	18,339	11,912	2,657	81,749	100%
Forborne loans and advances to customers						
High quality	-	34	37	1	72	1%
Satisfactory quality	659	373	956	135	2,123	19%
Acceptable quality	769	1,070	2,021	10	3,870	35%
Lower quality but neither past due or impaired	258	1,292	1,040	-	2,590	24%
Neither past due nor impaired	1,686	2,769	4,054	146	8,655	79%
Past due but not impaired	669	87	253	19	1,028	9%
Impaired	450	290	583	-	1,323	12%
Total forborne loans and advances to customers	2,805	3,146	4,890	165	11,006	100%

Forborne loans and advances to customers classified as ‘neither past due nor impaired’ amounted to €8.7 billion at 31 December 2014 compared to €8.7 billion at 31 December 2013.

Forborne loans and advances to customers classified as ‘past due but not impaired’ amounted to €0.7 billion at 31 December 2014 compared to €1.0 billion at 31 December 2013.

Forborne ‘impaired’ loans decreased to €1.0 billion at 31 December 2014 compared to €1.3 billion at 31 December 2013, consistent with the overall reduction in ‘impaired’ loans particularly in the Non-property SME and corporate and Property and construction portfolios.

Forborne ‘impaired’ Residential mortgage loans increased to €0.6 billion at 31 December 2014 compared to €0.5 billion at 31 December 2013 reflecting the ongoing restructure of customer mortgages on a sustainable basis in the Retail Ireland mortgage portfolio.

Past due and / or impaired

The Group's total risk profile of loans and advances to customers - past due and / or impaired at 31 December 2014 of €16.6 billion is available on page 63 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below provide an aged analysis of loans 'past due and / or impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded. In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne.

TABLE: 4 31 December 2014 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	514	70	25	50	659
Past due 31 - 60 days	649	22	160	22	853
Past due 61 - 90 days	225	17	19	10	271
	1,388	**109**	**204**	**82**	**1,783**
Past due greater than 90 days but not impaired	658	-	-	-	658
Impaired	2,230	3,157	6,776	189	12,352
Defaulted loans	**2,888**	**3,157**	**6,776**	**189**	**13,010**
Total non-forborne loans and advances to customers - past due and / or impaired	**4,276**	**3,266**	**6,980**	**271**	**14,793**
Forborne loans and advances to customers					
Past due up to 30 days	129	23	36	5	193
Past due 31 - 60 days	79	15	82	6	182
Past due 61 - 90 days	46	12	14	2	74
	254	**50**	**132**	**13**	**449**
Past due greater than 90 days but not impaired	284	-	-	-	284
Impaired	554	194	298	-	1,046
Defaulted loans	**838**	**194**	**298**	**-**	**1,330**
Total forborne loans and advances to customers - past due and / or impaired[1]	**1,092**	**244**	**430**	**13**	**1,779**

[1] The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.

Past due and / or impaired (continued)

The Group's total loans and advances to customers - past due and / or impaired of €19.8 billion at 31 December 2013 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

31 December 2013 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	557	118	58	53	786
Past due 31 - 60 days	780	13	75	24	892
Past due 61 - 90 days	307	25	27	10	369
	1,644	156	160	87	2,047
Past due greater than 90 days but not impaired	975	-	-	-	975
Impaired	2,597	3,621	8,008	236	14,462
Defaulted loans	3,572	3,621	8,008	236	15,437
Total non-forborne loans and advances to customers - past due and / or impaired	5,216	3,777	8,168	323	17,484
Forborne loans and advances to customers					
Past due up to 30 days	127	51	96	6	280
Past due 31 - 60 days	107	23	96	9	235
Past due 61 - 90 days	70	13	61	4	148
	304	87	253	19	663
Past due greater than 90 days but not impaired	365	-	-	-	365
Impaired	450	290	583	-	1,323
Defaulted loans	815	290	583	-	1,688
Total forborne loans and advances to customers - past due and / or impaired	1,119	377	836	19	2,351

Forborne loans and advances to customers classified as 'past due and / or impaired' amounted to €1.8 billion or 17% of the Group's forborne loan book at 31 December 2014 compared to €2.4 billion or 21% at 31 December 2013.

Forborne Residential mortgages classified as 'past due and / or impaired' remained unchanged at €1.1 billion.

Forborne Property and construction loans classified as 'past due and / or impaired' decreased by €0.4 billion from €0.8 billion at 31 December 2013 to €0.4 billion at 31 December 2014, consistent with the overall reduction in 'past due and / or impaired' Property and construction loans.

Forborne Non-property SME and corporate loans classified as 'past due and / or impaired' decreased by €0.2 billion from €0.4 billion at 31 December 2013 to €0.2 billion at 31 December 2014.

Forborne Consumer loans that are 'past due and / or impaired' are not significant in a Group context at €13 million at 31 December 2014 (31 December 2013: €19 million).

Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2014, lending criteria for the Retail Ireland mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1

Retail Ireland mortgages - Volumes (before impairment provisions)	**31 December 2014 €m**	31 December 2013 €m
Owner occupied mortgages	19,943	20,437
Buy to let mortgages	5,645	6,263
Total Retail Ireland mortgages	**25,588**	**26,700**

Retail Ireland mortgages were €25.6 billion at 31 December 2014 compared to €26.7 billion at 31 December 2013, a decrease of €1.1 billion or 4.2%. The movement in the book size reflects a combination of factors including principal repayments, resolution activity, the disposal of a portfolio of performing mortgage assets in line with the Group's EU Restructuring Plan and new mortgage lending.

The proportion of the Retail Ireland mortgage portfolio on a 'principal and interest'[1] repayment basis at 31 December 2014 was 89% (31 December 2013: 86%) with the balance of 11% on an 'interest only'[2] repayment basis (31 December 2013: 14%). Of the Owner occupied mortgages of €19.9 billion, 94% were on a 'principal and interest' repayment basis (31 December 2013: 93%), while 70% of the Buy to let mortgages of €5.6 billion were on a 'principal and interest' repayment basis (31 December 2013: 65%). It is the Group's policy to revert all loans to a 'principal and interest' basis on expiry of the 'interest only' period.

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 and 30 years.*
[2] *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' periods on Retail Ireland mortgages typically range between 3 and 5 years.*

Book composition (continued)

Origination profile

TABLE: 2

31 December 2014 Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	**Total Retail Ireland mortgage loan book Balance €m**	**Total Retail Ireland mortgage loan book Number of accounts[2]**	**Defaulted loans Balance €m**	**Defaulted loans Number of accounts[2]**
2000 and before	492	16,613	47	1,006
2001	349	6,147	30	381
2002	648	8,787	73	599
2003	1,140	12,397	155	1,007
2004	1,956	16,863	262	1,492
2005	3,146	22,296	432	2,055
2006	4,686	27,495	878	3,350
2007	4,081	22,538	813	2,865
2008	2,817	16,505	409	1,516
2009	1,495	10,417	91	516
2010	1,084	7,215	21	119
2011	942	6,317	7	40
2012	827	5,583	1	12
2013	779	4,948	-	2
2014	1,146	6,781	-	-
Total	**25,588**	**190,902**	**3,219**	**14,960**

31 December 2013 Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book Balance €m	Total Retail Ireland mortgage loan book Number of accounts[2]	Defaulted loans Balance €m	Defaulted loans Number of accounts[2]
2000 and before	605	19,295	64	1,240
2001	402	6,657	39	492
2002	748	9,590	91	770
2003	1,283	13,320	189	1,295
2004	2,163	18,129	315	1,831
2005	3,427	23,344	528	2,618
2006	5,067	28,479	1,036	4,107
2007	4,404	23,258	917	3,347
2008	3,029	17,005	481	1,848
2009	1,648	11,227	108	586
2010	1,176	7,609	22	123
2011	978	6,750	5	33
2012	920	6,034	1	9
2013	850	5,151	-	1
Total	26,700	195,848	3,796	18,300

[1] *The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

Business Review
Financial Information
Other Information

Book composition (continued)

Origination profile (continued)

The tables above illustrate that at 31 December 2014, €7.7 billion or 30% of the Retail Ireland mortgage loan book originated before 2006, €11.6 billion or 45% between 2006 and 2008 and €6.3 billion or 25% in the years since 2008.

At 31 December 2014, total defaulted loans were €3.2 billion (31 December 2013: €3.8 billion) or 13% of the Retail Ireland mortgage loan book, of which €2.1 billion originated between 2006 and 2008. There has been a significant decrease in total defaulted loans in the year ended 31 December 2014 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

At 31 December 2014, impairment provisions were €1.5 billion equating to 46% of defaulted balances on the Retail Ireland mortgage book.

Risk profile

TABLE: 3a

31 December 2014 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Neither past due nor impaired	17,800	89%	3,943	70%	21,743	85%
1-90 days past due but not impaired	458	2%	168	3%	626	2%
Defaulted loans	1,685	9%	1,534	27%	3,219	13%
Total	**19,943**	**100%**	**5,645**	**100%**	**25,588**	**100%**

31 December 2013 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Neither past due nor impaired	17,822	87%	4,252	68%	22,074	83%
1-90 days past due but not impaired	564	3%	266	4%	830	3%
Defaulted loans	2,051	10%	1,745	28%	3,796	14%
Total	20,437	100%	6,263	100%	26,700	100%

The tables above illustrate that €21.7 billion or 85% of the total Retail Ireland mortgage loan book at 31 December 2014 was classified as 'neither past due nor impaired' compared to €22.1 billion or 83% at 31 December 2013.

The '1-90 days past due but not impaired' category amounted to €0.6 billion or 2% of the total Retail Ireland mortgage loan book at 31 December 2014 compared to €0.8 billion or 3% at 31 December 2013.

The 'defaulted' category amounted to €3.2 billion or 13% of the total Retail Ireland mortgage loan book at 31 December 2014 compared to €3.8 billion or 14% at 31 December 2013.

Total defaulted mortgages reduced significantly by €0.6 billion or 15% to €3.2 billion at 31 December 2014 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

There has been a reduction in Owner occupied defaulted loans in the year ended 31 December 2014, decreasing to €1.7 billion at 31 December 2014 from €2.1 billion at 31 December 2013. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

Book composition (continued)

Risk profile (continued)

This progress is further evident in the reduction of defaulted Buy to let mortgages, decreasing to €1.5 billion at 31 December 2014 from €1.7 billion at 31 December 2013. This reduction reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed assets by fixed charge receivers, supported by improved rental market conditions, particularly evident in primary urban areas.

The Retail Ireland Buy to let mortgage loan portfolio reduced by €618 million or 9.9% in 2014 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 65% at 31 December 2013 to 70% at 31 December 2014.

Arrears profile

TABLE: 3b

Mortgage arrears - Defaulted loans (number of accounts)	**31 December 2014 %**	30 June 2014 %	31 December 2013 %
Retail Ireland Owner occupied mortgages	6.1%	7.0%	7.4%
Industry[1] Owner occupied (Number of accounts)	Not available	13.3%	14.1%
Retail Ireland Buy to let mortgages	16.2%	18.5%	18.2%
Industry[1] Buy to let (Number of accounts)	Not available	23.8%	22.6%

Mortgage arrears - Defaulted loans (value)	**31 December 2014 %**	30 June 2014 %	31 December 2013 %
Retail Ireland Owner occupied mortgages	8.5%	9.5%	10.1%
Industry[1] Owner occupied (value)	Not available	18.3%	18.7%
Retail Ireland Buy to let mortgages	27.2%	29.4%	27.7%
Industry[1] Buy to let (value)	Not available	32.0%	30.4%

The latest information published by the Central Bank of Ireland is for the quarter ended 30 September 2014. This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (less than 50% of industry average) and Buy to let (67% of industry average) mortgages. At 30 September 2014, 6.63% and 18.15% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due and / or impaired' compared to 12.54%[1] and 23.91%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland. Industry statistics do not include impaired loans less than or equal to 90 days past due (all quoted Bank of Ireland statistics include impaired loans less than or equal to 90 days past due).*

Book composition (continued)

Loan to value profiles - total loans

TABLE: 3c

31 December 2014

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	3,749	19%	633	11%	4,382	17%
51% to 70%	3,958	20%	634	11%	4,592	18%
71% to 80%	2,392	12%	420	7%	2,812	11%
81% to 90%	2,489	12%	734	13%	3,223	13%
91% to 100%	1,797	9%	599	11%	2,396	9%
Subtotal	**14,385**	**72%**	**3,020**	**53%**	**17,405**	**68%**
101% to 120%	2,923	15%	1,323	23%	4,246	17%
121% to 150%	2,310	12%	933	17%	3,243	13%
151% to 180%	222	1%	158	3%	380	1%
Greater than 181%	103	-	211	4%	314	1%
Subtotal	**5,558**	**28%**	**2,625**	**47%**	**8,183**	**32%**
Total	**19,943**	**100%**	**5,645**	**100%**	**25,588**	**100%**
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		80%		98%		84%
New Retail Ireland mortgages during the year		70%		50%		69%

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	2,901	14%	462	7%	3,363	13%
51% to 70%	2,823	14%	486	8%	3,309	12%
71% to 80%	1,909	9%	325	5%	2,234	8%
81% to 90%	2,049	10%	565	9%	2,614	10%
91% to 100%	1,800	9%	443	7%	2,243	9%
Subtotal	11,482	56%	2,281	36%	13,763	52%
101% to 120%	3,411	17%	1,095	18%	4,506	17%
121% to 150%	3,619	18%	1,848	30%	5,467	20%
151% to 180%	1,593	8%	714	11%	2,307	9%
Greater than 181%	332	1%	325	5%	657	2%
Subtotal	8,955	44%	3,982	64%	12,937	48%
Total	20,437	100%	6,263	100%	26,700	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		94%		115%		99%
New Retail Ireland mortgages during the year		70%		53%		70%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

The tables on the previous page set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which showed positive movements during 2014 and was, on average, 84% at 31 December 2014, 80% for Owner occupied mortgages and 98% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written during 2014 was 69%, being 70% for Owner occupied mortgages and 50% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the CSO Residential Property Price Index, at the applicable reporting date.

The CSO index for December 2014 reported that average national residential property prices were 38% below peak (31 December 2013: 46% below peak), with Dublin residential prices and outside of Dublin residential prices 38% and 41% below peak respectively (31 December 2013: 49% and 47% below peak respectively). In the year to December 2014, residential property prices at a national level, increased by 16.3%.

At 31 December 2014, €17.4 billion or 68% of Retail Ireland mortgages were classified as being in positive equity, 72% for Owner occupied mortgages and 53% for Buy to let mortgages.

At 31 December 2014, the total calculated negative equity in the Retail Ireland mortgage loan book was €1.4 billion (31 December 2013: €3.0 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.9 billion negative equity related to loans that were ‘neither past due nor impaired’ at 31 December 2014.

Loan to value profiles - defaulted loans

TABLE: 3d

31 December 2014	**Owner occupied**		**Buy to let**		**Total**	
Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	**€m**	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	127	7%	49	3%	176	6%
51% to 70%	163	10%	63	4%	226	7%
71% to 80%	116	7%	74	5%	190	6%
81% to 90%	137	8%	164	11%	301	9%
91% to 100%	152	9%	134	9%	286	9%
Subtotal	**695**	**41%**	**484**	**32%**	**1,179**	**37%**
101% to 120%	341	20%	397	26%	738	23%
121% to 150%	458	27%	448	29%	906	28%
151% to 180%	151	9%	79	5%	230	7%
Greater than 181%	40	3%	126	8%	166	5%
Subtotal	**990**	**59%**	**1,050**	**68%**	**2,040**	**63%**
Total	**1,685**	**100%**	**1,534**	**100%**	**3,219**	**100%**

Book composition (continued)

Loan to value profiles - defaulted loans (continued)

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	117	6%	43	2%	160	4%
51% to 70%	145	7%	48	3%	193	5%
71% to 80%	101	5%	39	2%	140	4%
81% to 90%	116	6%	102	6%	218	6%
91% to 100%	153	7%	81	5%	234	6%
Subtotal	632	31%	313	18%	945	25%
101% to 120%	330	16%	245	14%	575	15%
121% to 150%	548	27%	647	37%	1,195	32%
151% to 180%	420	20%	358	21%	778	20%
Greater than 181%	121	6%	182	10%	303	8%
Subtotal	1,419	69%	1,432	82%	2,851	75%
Total	2,051	100%	1,745	100%	3,796	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for defaulted Retail Ireland mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the defaulted Retail Ireland mortgages €1.2 billion or 37% are in positive equity (31 December 2013: €0.9 billion or 25%) while €2.0 billion or 63% are in negative equity at 31 December 2014 (31 December 2013: €2.9 billion or 75%).

For the defaulted category, 41% of the Owner occupied Retail Ireland mortgages (31 December 2013: 31%) and 32% of the Buy to let Retail Ireland mortgages (31 December 2013: 18%) were classified as being in positive equity at 31 December 2014.

Composition and impairment

TABLE: 4

31 December 2014 Retail Ireland mortgages	**Total: Retail Ireland mortgages €m**	**Total: Defaulted loans €m**	**Total: Defaulted loans as % of advances %**	**Total: Impairment provisions €m**	**Total: Impairment provisions as % of defaulted loans %**	**Of which: Forborne Retail Ireland mortgages €m**	**Of which: Defaulted[1] forborne loans €m**	**Of which: Impairment provisions forborne Retail Ireland mortgages €m**	**Of which: Impairment provisions forborne Retail Ireland mortgages as % of defaulted forborne Retail Ireland mortgages %**
Owner occupied mortgages	19,943	1,685	8.4%	672	40%	2,093	488	248	51%
Buy to let mortgages	5,645	1,534	27.2%	814	53%	1,002	326	185	57%
Total Retail Ireland	**25,588**	**3,219**	**12.6%**	**1,486**	**46%**	**3,095**	**814**	**433**	**53%**

[1] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.

Asset quality

Composition and impairment (continued)

31 December 2013 Retail Ireland mortgages	Total: Retail Ireland mortgages €m	Total: Defaulted loans €m	Total: Defaulted loans as % of advances %	Total: Impairment provisions €m	Total: Impairment provisions as % of defaulted loans %	Of which: Forborne Retail Ireland mortgages €m	Of which: Defaulted[1] forborne loans €m	Of which: Impairment provisions forborne Retail Ireland mortgages €m	Of which: Impairment provisions forborne Retail Ireland mortgages as % of defaulted forborne Retail Ireland mortgages %
Owner occupied mortgages	20,437	2,051	10.0%	869	42%	1,869	578	243	42%
Buy to let mortgages	6,263	1,745	27.9%	994	57%	657	207	115	56%
Total Retail Ireland	26,700	3,796	14.2%	1,863	49%	2,526	785	358	46%

[1] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

Defaulted Retail Ireland mortgages at 31 December 2014 were €3.2 billion or 12.6% of advances compared to €3.8 billion or 14.2% of advances at 31 December 2013.

Total defaulted mortgages reduced significantly by €0.6 billion or 15% to €3.2 billion at 31 December 2014 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

There has been a reduction in Owner occupied defaulted loans in the year ended 31 December 2014, decreasing to €1.7 billion at 31 December 2014 from €2.1 billion at 31 December 2013. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

This progress is further evident in the reduction of defaulted Buy to let mortgages, decreasing to €1.5 billion at 31 December 2014 from €1.7 billion at 31 December 2013. This reduction reflects the significant progress made by the Group in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed assets, supported by improved rental market conditions, particularly evident in primary urban areas.

Asset quality (continued)

Properties in possession

At 31 December 2014, the Group had possession of properties held as security as follows:

TABLE: 5a	31 December 2014		31 December 2013	
Properties in possession Retail Ireland mortgages	**Number of properties in possession at balance sheet date**	**Balance[1] outstanding before impairment provisions €m**	Number of properties in possession at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied	129	38	129	37
Buy to let	48	14	85	26
Total residential properties in possession	**177**	**52**	**214**	**63**

[1] *Gross balance outstanding before value of additional collateral held.*

Disposals of properties in possession

TABLE: 5b	31 December 2014		31 December 2013	
Disposals of properties in possession Retail Ireland mortgages	**Number of disposals during the year**	**Balance[1] outstanding after impairment provisions €m**	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied	144	18	86	10
Buy to let	104	12	63	11
Total disposals of properties in possession	**248**	**30**	**149**	**21**

[1] *Gross balance outstanding before value of additional collateral held.*

During the year ended 31 December 2014, the Group disposed of 248 properties (year ended 31 December 2013: 149 properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the year ended 31 December 2014, the proceeds from disposals of Owner occupied properties were €18 million (year ended 31 December 2013: €10 million).

For the year ended 31 December 2014, the proceeds from disposals of Buy to let properties before value of additional collateral applied were €12 million (year ended 31 December 2013: €9 million).

In addition, a further 1,103 Buy to let properties were disposed of by fixed charge receivers during the year ended 31 December 2014 (year ended 31 December 2013: 166).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan (‘forbearance measure’), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active ‘forbearance measure’ is a ‘forborne’ mortgage.

The Group has an established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Group to undertake an assessment of the customer’s financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of Default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group’s policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2014.

TABLE: 6a

31 December 2014 Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans		Defaulted loans[2]		All loans	
	Balance €m	Number of accounts[3]	Balance €m	Number of accounts[3]	Balance €m	Number of accounts[3]
Owner occupied						
Full interest	127	918	57	376	184	1,294
Reduced payment (greater than full interest)	271	2,325	192	966	463	3,291
Term extension	384	4,352	97	747	481	5,099
Capitalisation of arrears	300	2,079	49	264	349	2,343
Hybrids	502	3,591	82	447	584	4,038
Other	21	146	11	73	32	219
Total	**1,605**	**13,411**	**488**	**2,873**	**2,093**	**16,284**
Buy to let						
Full interest	92	390	87	259	179	649
Reduced payment (greater than full interest)	109	726	124	422	233	1,148
Term extension	152	1,081	37	187	189	1,268
Capitalisation of arrears	68	348	25	86	93	434
Hybrids	255	1,109	53	178	308	1,287
Other	-	5	-	1	-	6
Total	**676**	**3,659**	**326**	**1,133**	**1,002**	**4,792**
Total						
Full interest	219	1,308	144	635	363	1,943
Reduced payment (greater than full interest)	380	3,051	316	1,388	696	4,439
Term extension	536	5,433	134	934	670	6,367
Capitalisation of arrears	368	2,427	74	350	442	2,777
Hybrids	757	4,700	135	625	892	5,325
Other	21	151	11	74	32	225
Total	**2,281**	**17,070**	**814**	**4,006**	**3,095**	**21,076**

[1] *Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2014, this mortgage loan is not included in the stock of active forbearance measures.*
[2] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
[3] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

31 December 2013 Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans Balance €m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance €m	Defaulted loans[2] Number of accounts[3]	All loans Balance €m	All loans Number of accounts[3]
Owner occupied						
Full interest	205	1,452	116	785	321	2,237
Reduced payment (greater than full interest)	262	1,787	240	1,326	502	3,113
Term extension	351	3,923	96	835	447	4,758
Capitalisation of arrears	194	1,384	33	160	227	1,544
Hybrids	256	1,775	73	468	329	2,243
Other	23	126	20	114	43	240
Total	1,291	10,447	578	3,688	1,869	14,135
Buy to let						
Full interest	97	438	62	267	159	705
Reduced payment (greater than full interest)	101	466	60	270	161	736
Term extension	132	917	29	180	161	1,097
Capitalisation of arrears	30	170	22	70	52	240
Hybrids	89	423	34	123	123	546
Other	1	4	-	3	1	7
Total	450	2,418	207	913	657	3,331
Total						
Full interest	302	1,890	178	1,052	480	2,942
Reduced payment (greater than full interest)	363	2,253	300	1,596	663	3,849
Term extension	483	4,840	125	1,015	608	5,855
Capitalisation of arrears	224	1,554	55	230	279	1,784
Hybrids	345	2,198	107	591	452	2,789
Other	24	130	20	117	44	247
Total	1,741	12,865	785	4,601	2,526	17,466

[1] *Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2013, this mortgage loan is not included in the stock of active forbearance measures.*
[2] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
[3] *The number of accounts does not equate to either the number of customers or the number of properties.*

The total number of accounts in forbearance has increased from 17,466 at 31 December 2013 to 21,076 accounts at 31 December 2014. The balances on accounts in forbearance have increased from €2.5 billion at 31 December 2013 to €3.1 billion at 31 December 2014. This overall increase reflects the Group's progress in implementing restructure and resolution strategies.

For Owner occupied mortgages, 16,284 accounts or €2.1 billion are in forbearance at 31 December 2014 (31 December 2013: 14,135 accounts or €1.9 billion). For Buy to let mortgages, 4,792 accounts or €1.0 billion are in forbearance at 31 December 2014 (31 December 2013: 3,331 accounts or €0.7 billion).

At 31 December 2014, there were a further 1,042 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2013: 1,724 accounts).

Asset quality (continued)

Forbearance measures (continued)

In addition to the forbearance pertaining to Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2014, there were 1,289 properties where a fixed charge receiver had been appointed or approved, compared to 1,385 properties at 31 December 2013.

Term extension is the largest forbearance category by number of accounts with 6,367 accounts at 31 December 2014 (31 December 2013: 5,855 accounts), followed by hybrid forbearance treatments with 5,325 accounts at 31 December 2014 (31 December 2013: 2,789 accounts).

A total of 1,070 accounts or €0.1 billion new term extensions were extended during the year. A further 501 accounts or €0.1 billion changed to term extension from another forbearance measure, while 789 accounts or €0.1 billion changed forbearance measure. A reduction of 270 accounts relates to redeemed accounts; a reduction of €44 million was due to those redeemed accounts and principal repayments made during the year.

Hybrids increased to 5,325 accounts or €0.9 billion at 31 December 2014 from 2,789 accounts or €0.5 billion at 31 December 2013. A total of 1,341 accounts or €0.3 billion new hybrid measures were put in place during the year, 1,608 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 330 accounts or €0.1 billion changed to another forbearance measure. A reduction of 83 accounts relates to redeemed accounts; a reduction of €23 million was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 4,439 accounts or €0.7 billion at 31 December 2014, compared to 3,849 accounts or €0.7 billion at 31 December 2013. A total of 2,127 accounts or €0.4 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the year. A further 361 accounts or €0.1 billion changed their forbearance measure to reduced payment (greater than full interest with step up to full capital and interest), while 727 accounts or €0.1 billion changed to another forbearance measure. A total of 1,059 accounts or €0.2 billion exited during the year. A reduction of 112 accounts relates to redeemed accounts; a reduction of €49 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2014, 1,943 accounts or €0.4 billion were subject to full interest forbearance compared to 2,942 accounts or €0.5 billion at 31 December 2013. A total of 1,073 accounts or €0.2 billion of new full interest forbearance measures were extended during the year, 77 accounts or €12 million changed to full interest, while 765 accounts or €0.1 billion changed from full interest to another forbearance measure. A total of 1,236 accounts or €0.2 billion exited forbearance during the year. A reduction of 148 accounts relates to redeemed accounts; a reduction of €18 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisations of arrears increased to 2,777 accounts or €0.4 billion at 31 December 2014 from 1,784 accounts or €0.3 billion at 31 December 2013. A total of 931 accounts or €0.2 billion had capitalisation of arrears applied during the year. A further 226 accounts or €47 million changed to capitalisation of arrears from another forbearance measure, while 127 accounts or €22 million changed to another forbearance measure. A reduction of 37 accounts relates to redeemed accounts; a reduction of €16 million was due to those redeemed accounts and principal repayments made during the year.

'Other' forbearance measures decreased to 225 accounts or €32 million at 31 December 2014 from 247 accounts or €44 million at 31 December 2013.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of active forborne Retail Ireland mortgages (before impairment provisions) during the year ended 31 December 2014.

TABLE: 6b

Reconciliation of forborne loan stock by non-default / default status - Retail Ireland mortgages (before impairment provisions)	Owner occupied		Buy to let		All loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
All						
Opening balance at 1 January 2014	**1,869**	**14,135**	**657**	**3,331**	**2,526**	**17,466**
New forbearance extended	680	4,708	476	2,006	1,156	6,714
Exited forbearance						
- Improved to or remained in non-default	(180)	(1,133)	(47)	(185)	(227)	(1,318)
- Improved / stabilised and remained in default	(68)	(426)	(18)	(72)	(86)	(498)
- Redemptions, principal repayments and other	(106)	(467)	(43)	(172)	(149)	(639)
- Disimproved to or within default	(102)	(533)	(23)	(116)	(125)	(649)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-
Closing balance at 31 December 2014	**2,093**	**16,284**	**1,002**	**4,792**	**3,095**	**21,076**
Non-defaulted loans						
Opening balance at 1 January 2014	**1,291**	**10,447**	**450**	**2,418**	**1,741**	**12,865**
New forbearance extended	464	3,499	282	1,331	746	4,830
Exited forbearance						
- Remained in non-default	(165)	(1,022)	(45)	(171)	(210)	(1,193)
- Redemptions, principal repayments and other	(86)	(350)	(33)	(123)	(119)	(473)
- Disimproved to default	(23)	(132)	(6)	(36)	(29)	(168)
Transfers within forbearance between non-defaulted and defaulted loans	124	969	28	240	152	1,209
Closing balance at 31 December 2014	**1,605**	**13,411**	**676**	**3,659**	**2,281**	**17,070**
Defaulted loans						
Opening balance at 1 January 2014	**578**	**3,688**	**207**	**913**	**785**	**4,601**
New forbearance extended	216	1,209	194	675	410	1,884
Exited forbearance						
- Improved to non-default	(15)	(111)	(2)	(14)	(17)	(125)
- Improved / stabilised and remained in default	(68)	(426)	(18)	(72)	(86)	(498)
- Redemptions, principal repayments and other	(20)	(117)	(10)	(49)	(30)	(166)
- Disimproved and remained in default	(79)	(401)	(17)	(80)	(96)	(481)
Transfers within forbearance between non-defaulted and defaulted loans	(124)	(969)	(28)	(240)	(152)	(1,209)
Closing balance at 31 December 2014	**488**	**2,873**	**326**	**1,133**	**814**	**4,006**

[1] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2014 and 31 December 2014 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in non-default;
  - Improved / stabilised and remained in default;
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2014 and remained in forbearance stock at 31 December 2014);
  - Disimproved to or within default; and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The 'non-default / default' status of accounts which exited forbearance during the year is determined at the date of exit.

A total of 21,076 accounts or €3.1 billion of account balances were in forbearance at 31 December 2014, compared to 17,466 accounts or €2.5 billion at 31 December 2013. Of these, 6,714 accounts or €1.2 billion new forbearance measures were put in place during the year ended 31 December 2014, of which 4,830 accounts or €0.7 billion were classified as 'non-defaulted loans' while 1,884 accounts or €0.4 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 1,318 accounts or €0.2 billion improved to or remained in non-default, 498 accounts or €0.1 billion remained in default with improved or stabilised arrears and 649 accounts or €0.1 billion disimproved arrears to or within default. A reduction in the forbearance stock of 639 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 16,284 accounts or €2.1 billion of account balances were in forbearance at 31 December 2014 compared to 14,135 accounts or €1.9 billion at 31 December 2013. Of these, 4,708 accounts or €0.7 billion new forbearance were measures put in place during the year of which 3,499 accounts or €0.5 billion were classified as 'non-defaulted loans', while 1,209 accounts or €0.2 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 1,133 accounts or €0.2 billion improved to or remained in non-default, 426 accounts or €0.1 billion remained in default with improved or stabilised arrears and 533 accounts or €0.1 billion disimproved arrears to or within default. A reduction of 467 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 4,792 accounts or €1 billion of account balances were in forbearance at 31 December 2014 compared to 3,331 accounts or €0.7 billion at 31 December 2013. Of these, 2,006 accounts or €0.5 billion were new forbearance measures put in place during the year to date of which 1,331 accounts or €0.3 billion were classified as 'non-defaulted loans' while 675 accounts or €0.2 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 185 accounts or €47 million improved to or remained in non-default, 72 accounts or €18 million remained in default with improved or stabilised arrears and 116 accounts or €23 million disimproved arrears to or within default. A reduction of 172 accounts relates to redeemed accounts during the year; a reduction of €43 million was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears

The Group has invested in its Mortgage Arrears Resolution Strategy (MARS), its infrastructure and continues to implement restructuring and resolution options for customers. The increased level of forbearance treatments reflects the ongoing effectiveness of the Group's MARS strategy in supporting customers encountering mortgage difficulties.

The Group's defined Mortgage Arrears Resolution Strategy relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non-repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE: 7a

31 December 2014

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	286	14%	69	7%	355	12%
51% to 70%	309	15%	80	8%	389	13%
71% to 80%	188	9%	75	7%	263	8%
81% to 90%	218	10%	151	15%	369	12%
91% to 100%	213	10%	109	11%	322	10%
Subtotal	**1,214**	**58%**	**484**	**48%**	**1,698**	**55%**
101% to 120%	423	20%	262	26%	685	22%
121% to 150%	378	18%	203	20%	581	19%
151% to 180%	68	3%	26	3%	94	3%
Greater than 181%	10	1%	27	3%	37	1%
Subtotal	**879**	**42%**	**518**	**52%**	**1,397**	**45%**
Total	**2,093**	**100%**	**1,002**	**100%**	**3,095**	**100%**

31 December 2013

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	199	11%	37	6%	236	9%
51% to 70%	199	11%	44	7%	243	10%
71% to 80%	130	7%	30	4%	160	6%
81% to 90%	145	7%	71	11%	216	9%
91% to 100%	152	8%	59	9%	211	8%
Subtotal	825	44%	241	37%	1,066	42%
101% to 120%	346	19%	129	20%	475	19%
121% to 150%	427	23%	192	29%	619	25%
151% to 180%	230	12%	54	8%	284	11%
Greater than 181%	41	2%	41	6%	82	3%
Subtotal	1,044	56%	416	63%	1,460	58%
Total	1,869	100%	657	100%	2,526	100%

The tables above illustrate the indexed loan to value ratios for total Retail Ireland forborne mortgages which showed positive movements during 2014. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the total Retail Ireland mortgages with active forbearance measures in place €1.7 billion or 55% are in positive equity (31 December 2013: €1.1 billion or 42%) while €1.4 billion or 45% are in negative equity at 31 December 2014 (31 December 2013: €1.5 billion or 58%). 58% of forborne Owner occupied mortgages (31 December 2013: 44%) and 48% of forborne Buy to let mortgages (31 December 2013: 37%) are in positive equity at 31 December 2014.

Asset quality (continued)

Loan to value profiles - defaulted forborne loans

TABLE 7b

31 December 2014

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - defaulted loans	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	38	8%	13	4%	51	6%
51% to 70%	52	11%	16	5%	68	8%
71% to 80%	35	7%	17	5%	52	7%
81% to 90%	41	8%	49	15%	90	11%
91% to 100%	53	11%	36	11%	89	11%
Subtotal	**219**	**45%**	**131**	**40%**	**350**	**43%**
101% to 120%	109	22%	85	26%	194	24%
121% to 150%	123	25%	86	27%	209	26%
151% to 180%	27	6%	7	2%	34	4%
Greater than 181%	10	2%	17	5%	27	3%
Subtotal	**269**	**55%**	**195**	**60%**	**464**	**57%**
Total	**488**	**100%**	**326**	**100%**	**814**	**100%**

31 December 2013

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - defaulted loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	39	7%	8	4%	47	6%
51% to 70%	46	8%	9	4%	55	7%
71% to 80%	34	6%	7	3%	41	5%
81% to 90%	33	5%	13	6%	46	6%
91% to 100%	46	8%	18	9%	64	8%
Subtotal	198	34%	55	26%	253	32%
101% to 120%	103	18%	38	18%	141	18%
121% to 150%	151	26%	79	38%	230	29%
151% to 180%	108	19%	23	12%	131	17%
Greater than 181%	18	3%	12	6%	30	4%
Subtotal	380	66%	152	74%	532	68%
Total	578	100%	207	100%	785	100%

The tables above illustrate the indexed loan to value ratios for defaulted Retail Ireland forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the defaulted Retail Ireland mortgages with active forbearance measures in place, €0.3 billion or 43% are in positive equity (31 December 2013: €0.3 billion or 32%), while €0.5 billion or 57% are in negative equity at 31 December 2014 (31 December 2013: €0.5 billion or 68%). 45% of the Owner occupied Retail Ireland mortgages (31 December 2013: 34%) and 40% of the Buy to let Retail Ireland mortgages (31 December 2013: 26%) are in positive equity at 31 December 2014.

Retail UK mortgages

The following disclosures refer to the Retail UK mortgage loan book. These provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail UK mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2014, lending criteria for the Retail UK mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1

Retail UK mortgages - Volumes (before impairment provisions)	**31 December 2014 £m**	31 December 2013 £m
Standard mortgages	9,114	9,236
Buy to let mortgages	7,778	8,302
Self certified mortgages	2,888	3,259
Total Retail UK mortgages	**19,780**	**20,797**

Retail UK mortgages were £19.8 billion at 31 December 2014 compared to £20.8 billion at 31 December 2013. The decrease of £1 billion or 5% reflects continuing attrition of the book as customer repayments exceeded our new business generation.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through recently launched new distribution arrangements with other selected strategic partners and the Group's branch network in Northern Ireland.

Of the £9.1 billion standard mortgages, 63% are on a 'principal and interest'[1] repayment basis (31 December 2013: 57%). Of the Buy to let mortgages of £7.8 billion, 9% are on a 'principal and interest' repayment basis (31 December 2013: 9%). Of the Self certified mortgages of £2.9 billion, 22% are on a 'principal and interest' repayment basis (31 December 2013: 22%). Overall 64% of the UK Retail mortgage portfolio at 31 December 2014 are on an 'interest only'[2] repayment basis (31 December 2013: 68%).

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*

[2] *'Interest only' mortgages consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' on mortgage products offered in the UK may extend for the full period of the mortgage.*

Book composition (continued)

Origination profile

TABLE: 2

31 December 2014 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book		Defaulted loans	
	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
2000 and before	400	10,812	21	506
2001	190	2,958	3	38
2002	239	3,398	7	57
2003	540	6,372	16	131
2004	616	6,879	23	187
2005	1,601	14,912	38	287
2006	2,359	21,206	59	392
2007	3,852	32,606	95	636
2008	4,916	40,542	122	794
2009	711	6,134	7	64
2010	649	4,920	2	16
2011	456	3,394	2	14
2012	637	3,931	-	1
2013	851	4,776	-	-
2014	1,763	9,870	-	1
Total	**19,780**	**172,710**	**395**	**3,124**

31 December 2013 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book		Defaulted loans	
	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
2000 and before	525	13,648	20	466
2001	221	3,329	4	41
2002	284	3,913	8	80
2003	644	7,335	23	177
2004	721	7,913	25	188
2005	1,794	16,387	53	370
2006	2,626	23,144	77	510
2007	4,382	36,168	112	758
2008	5,454	44,228	159	1,040
2009	1,003	8,001	8	66
2010	829	5,918	2	16
2011	623	4,302	1	8
2012	792	4,625	-	3
2013	899	4,909	-	1
Total	20,797	183,820	492	3,724

[1] *The number of accounts does not equate to the number of customers.*

The tables above illustrate that at 31 December 2014, £3.6 billion or 18% of the Retail UK mortgage loan book originated before 2006, £11.1 billion or 56% between 2006 and 2008 and £5.1 billion or 26% in the years since.

Book composition (continued)

Origination profile (continued)

Defaulted Retail UK mortgages were £0.4 billion (31 December 2013: £0.5 billion) or 2% of the Retail UK mortgage loan book at 31 December 2014, of which £0.3 billion or 1.4% were originated between 2006 and 2008 (31 December 2013: £0.4 billion or 1.7%).

Risk profile

TABLE: 3a

31 December 2014 Risk profile of Retail UK mortgage loan book (before impairment provisions)	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	8,709	96%	7,449	96%	2,436	84%	18,594	94%
1-90 days past due but not impaired	273	3%	204	3%	314	11%	791	4%
Defaulted loans	132	1%	125	1%	138	5%	395	2%
Total Retail UK mortgages	**9,114**	**100%**	**7,778**	**100%**	**2,888**	**100%**	**19,780**	**100%**

31 December 2013 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	8,763	94%	7,885	95%	2,724	84%	19,372	94%
1-90 days past due but not impaired	327	4%	249	3%	357	11%	933	4%
Defaulted loans	146	2%	168	2%	178	5%	492	2%
Total Retail UK mortgages	9,236	100%	8,302	100%	3,259	100%	20,797	100%

The above tables illustrate that £18.6 billion or 94% of the total Retail UK mortgage loan book at 31 December 2014 was classified as 'neither past due nor impaired' compared to £19.4 billion or 94% at 31 December 2013.

The '1-90 days past due but not impaired' category amounted to £0.8 billion or 4% of the total Retail UK mortgage loan book at 31 December 2014 compared to £0.9 billion or 4% at 31 December 2013.

The defaulted loans category amounted to £0.4 billion or 2% of the total Retail UK mortgage loan book at 31 December 2014 compared to £0.5 billion or 2% at 31 December 2013.

Defaulted Standard mortgages reduced to £132 million at 31 December 2014 from £146 million at 31 December 2013.

Defaulted Buy to let mortgages reduced from £168 million at 31 December 2013 to £125 million at 31 December 2014 reflecting the effectiveness of collection activity supported by economic conditions.

Defaulted Self certified mortgages decreased to £138 million at 31 December 2014 compared to £178 million at 31 December 2013. This decrease reflects a reducing book due to normal attrition and no new business being written.

In the year ended 31 December 2014 the Buy to let portfolio reduced by £524 million or 6% while the Self certified portfolio reduced by £371 million or 11%.

Book composition (continued)

Arrears profile

TABLE: 3b

Mortgage arrears - Defaulted loans (number of accounts)	**31 December 2014 %**	30 June 2014 %	31 December 2013 %
Standard mortgages	1.67%	1.84%	1.69%
Buy to let mortgages	1.47%	1.60%	1.76%
Self certified mortgages	3.69%	4.19%	4.27%

Mortgage arrears - Defaulted loans (value)	**31 December 2014 %**	30 June 2014 %	31 December 2013 %
Standard mortgages	1.44%	1.66%	1.58%
Buy to let mortgages	1.60%	1.78%	2.02%
Self certified mortgages	4.77%	5.39%	5.46%

Data published by the Council Mortgage Lenders (CML) for September 2014 indicates that the proportion of the Retail UK mortgage book in default (greater than 90 days but excluding possessions and receivership cases) remains below the UK industry average of 1.42% across all segments (Retail UK equivalent : 1.31%).

Loan to value profiles - total loans

TABLE: 3c

31 December 2014	**Standard**		**Buy to let**		**Self certified**		**Total Retail UK mortgage portfolio**	
Loan to value (LTV) ratio of total Retail UK mortgages	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	1,823	20%	1,557	20%	467	16%	3,847	19%
51% to 70%	2,848	31%	3,218	41%	1,077	38%	7,143	36%
71% to 80%	1,943	21%	1,389	18%	585	20%	3,917	20%
81% to 90%	1,436	16%	965	13%	466	16%	2,867	15%
91% to 100%	647	7%	461	6%	222	8%	1,330	7%
Subtotal	**8,697**	**95%**	**7,590**	**98%**	**2,817**	**98%**	**19,104**	**97%**
101% to 120%	313	3%	157	2%	51	2%	521	3%
121% to 150%	60	1%	22	-	11	-	93	-
Greater than 150%	44	1%	9	-	9	-	62	-
Subtotal	**417**	**5%**	**188**	**2%**	**71**	**2%**	**676**	**3%**
Total	**9,114**	**100%**	**7,778**	**100%**	**2,888**	**100%**	**19,780**	**100%**
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		67%		65%		68%		66%
New Retail UK mortgages during year[1]		73%		62%		n/a		73%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

31 December 2013	Standard		Buy to let		Self certified		Total Retail UK mortgage portfolio	
Loan to value (LTV) ratio of total Retail UK mortgages	£m	%	£m	%	£m	%	£m	%
Less than 50%	1,774	19%	1,025	12%	350	11%	3,149	15%
51% to 70%	2,079	22%	2,901	35%	885	27%	5,865	28%
71% to 80%	1,916	21%	1,890	23%	786	24%	4,592	22%
81% to 90%	1,691	18%	1,355	16%	723	22%	3,769	18%
91% to 100%	1,007	11%	781	10%	403	13%	2,191	11%
Subtotal	8,467	91%	7,952	96%	3,147	97%	19,566	94%
101% to 120%	634	7%	283	3%	93	3%	1,010	5%
121% to 150%	82	1%	45	1%	9	-	136	1%
Greater than 150%	53	1%	22	-	10	-	85	-
Subtotal	769	9%	350	4%	112	3%	1,231	6%
Total	9,236	100%	8,302	100%	3,259	100%	20,797	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		71%		71%		73%		71%
New Retail UK mortgages during year[1]		70%		65%		n/a		70%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 66% at 31 December 2014, 67% for Standard mortgages, 68% for Self certified mortgages and 65% for Buy to let mortgages. The weighted average LTV for new Residential mortgages written during the year ended 31 December 2014 was 73%, 73% for Standard mortgages and 62% for Buy to let mortgages.

Property values are determined by reference to the original or latest property valuations held, indexed to the published 'Nationwide UK House Price Index'.

At 31 December 2014, £19.1 billion or 97% of the Retail UK mortgage book was in positive equity (year ended 31 December 2013: €19.6 billion or 94%), comprising £8.7 billion or 95% of Standard mortgages (year ended 31 December 2013: €8.5 billion or 91%), £7.6 billion or 98% of Buy to let mortgages (year ended 31 December 2013: €8.0 billion or 96%) and £2.8 billion or 98% of Self certified mortgages (year ended 31 December 2013: €3.1 billion or 97%) . This improvement reflects the upward movement in house prices in the year with house prices increasing by 7.23% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

At 31 December 2014, the total calculated negative equity in the Retail UK mortgage book was £71 million, which comprised £60 million (85%) related to mortgages classified as 'neither past due nor impaired', £4 million (6%) related to mortgages classified as '1-90 days past due but not impaired' and £7 million (9%) related to mortgages that were defaulted.

Book composition (continued)

Loan to value profiles - defaulted loans

TABLE: 3d

31 December 2014

Loan to value (LTV) ratio of total Retail UK mortgages - defaulted loans	**Standard £m**	**Standard %**	**Buy to let £m**	**Buy to let %**	**Self certified £m**	**Self certified %**	**Total £m**	**Total %**
Less than 50%	35	26%	13	11%	10	7%	58	14%
51% to 70%	29	22%	37	29%	36	26%	102	26%
71% to 80%	16	12%	19	15%	28	20%	63	16%
81% to 90%	18	14%	23	19%	29	21%	70	18%
91% to 100%	15	12%	21	17%	23	17%	59	15%
Subtotal	**113**	**86%**	**113**	**91%**	**126**	**91%**	**352**	**89%**
101% to 120%	11	8%	9	7%	8	6%	28	7%
121% to 150%	5	4%	3	2%	3	2%	11	3%
Greater than 150%	3	2%	-	-	1	1%	4	1%
Subtotal	**19**	**14%**	**12**	**9%**	**12**	**9%**	**43**	**11%**
Total	**132**	**100%**	**125**	**100%**	**138**	**100%**	**395**	**100%**

31 December 2013

Loan to value (LTV) ratio of total Retail UK mortgages - defaulted loans	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	28	19%	10	6%	6	3%	44	9%
51% to 70%	25	17%	35	21%	33	19%	93	19%
71% to 80%	20	14%	34	20%	38	21%	92	19%
81% to 90%	25	17%	30	18%	43	24%	98	19%
91% to 100%	20	13%	32	19%	40	22%	92	19%
Subtotal	118	80%	141	84%	160	89%	419	85%
101% to 120%	21	14%	20	12%	12	7%	53	11%
121% to 150%	5	4%	5	3%	3	2%	13	3%
Greater than 150%	2	2%	2	1%	3	2%	7	1%
Subtotal	28	20%	27	16%	18	11%	73	15%
Total	146	100%	168	100%	178	100%	492	100%

Business Review
Financial Information
Other Information

Asset quality

Composition and impairment

TABLE: 4

31 December 2014 Retail UK mortgages	Total: Retail UK mortgages £m	Total: Defaulted loans £m	Total: Defaulted loans as % of advances %	Total: Impairment provisions £m	Total: Impairment provisions as % of defaulted loans %	Of which: Forborne Retail UK mortgages £m	Of which: Defaulted[1] forborne loans £m	Of which: Impairment provisions forborne Retail UK mortgages £m	Of which: Impairment provisions forborne Retail UK mortgages as % of defaulted forborne Retail UK mortgages %
Standard mortgages	9,114	132	1.4%	32	24%	93	8	1	12%
Buy to let mortgages	7,778	125	1.6%	34	27%	46	2	1	23%
Self certified mortgages	2,888	138	4.8%	26	19%	68	9	1	20%
Total Retail UK	**19,780**	**395**	**2.0%**	**92**	**23%**	**207**	**19**	**3**	**17%**

31 December 2013 Retail UK mortgages	Total: Retail UK mortgages £m	Total: Defaulted loans £m	Total: Defaulted loans as % of advances %	Total: Impairment provisions £m	Total: Impairment provisions as % of defaulted loans %	Of which: Forborne Retail UK mortgages £m	Of which: Defaulted[1] forborne loans £m	Of which: Impairment provisions forborne Retail UK mortgages £m	Of which: Impairment provisions forborne Retail UK mortgages as % of defaulted forborne Retail UK mortgages %
Standard mortgages	9,236	146	1.6%	34	23%	106	10	1	10%
Buy to let mortgages	8,302	168	2.0%	51	30%	48	3	1	33%
Self certified mortgages	3,259	178	5.5%	31	17%	78	12	2	17%
Total Retail UK	20,797	492	2.4%	116	24%	232	25	4	16%

[1] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

Retail UK mortgages were £19.8 billion at 31 December 2014 compared to £20.8 billion at 31 December 2013. The decrease of £1 billion or 5% reflects continuing attrition of the book as customer repayments exceeded our new business generation.

Defaulted Retail UK mortgages were £395 million at 31 December 2014 compared to £492 million at 31 December 2013, a decrease of £97 million attributable to decreases in Standard mortgages of £14 million, Self certified mortgages of £40 million and Buy to let mortgages of £43 million reflecting the effectiveness of collection activity supported by economic conditions.

The overall impairment provision coverage ratio on the defaulted Retail UK mortgages book has decreased to 23% (31 December 2013: 24%).

Asset quality (continued)

Properties in possession

At 31 December 2014, the Group had possession of properties held as security as follows:

TABLE: 5a Properties in possession Retail UK mortgages	31 December 2014 Number of properties in possession at balance sheet date	31 December 2014 Balance outstanding before impairment provisions £m	31 December 2013 Number of properties in possession at balance sheet date	31 December 2013 Balance outstanding before impairment provisions £m
Standard mortgages	44	6	57	8
Buy to let mortgages	61	7	79	11
Self certified mortgages	34	7	47	10
Total residential properties in possession	**139**	**20**	**183**	**29**

Disposals of properties in possession

TABLE: 5b Disposals of properties in possession Retail UK mortgages	31 December 2014 Number of disposals during the year	31 December 2014 Balance outstanding after impairment provisions £m	31 December 2013 Number of disposals during the year	31 December 2013 Balance outstanding after impairment provisions £m
Standard mortgages	154	15	205	19
Buy to let mortgages	242	20	314	23
Self certified mortgages	121	18	131	19
Total disposals of properties in possession	**517**	**53**	**650**	**61**

During the year ended 31 December 2014, the Group disposed of 517 properties (for the year ended 31 December 2013: 650 properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the year ended 31 December 2014, the proceeds from disposals of Standard mortgages was £18 million (year ended 31 December 2013: £22 million).

For the year ended 31 December 2014, the proceeds from disposals of Buy to let mortgages was £23 million (year ended 31 December 2013: £25 million).

For the year ended 31 December 2014, the proceeds from disposals of Self certified mortgages was £20 million (year ended 31 December 2013: £20 million).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances.

A forbearance request, by the borrower, will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of Default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term; and
- other: comprising primarily a combination of forbearance measures and an element of temporary payment suspensions.

During the year ended 31 December 2014, the total number of loans entering forbearance was 108 with balances of £9 million with a total of 296 loans £34 million of balances exiting forbearance. Of the loans exiting forbearance 216 repaid their loan in full or in part.

Asset quality (continued)

Forbearance measures (continued)

The prominence of interest only as the most common measure is consistent with expectations and reflects the overall UK market. Such measures are now granted for a period of six months and then reviewed, if necessary and appropriate, with a view to achieving a sustainable means to repay the mortgage within an agreed time frame.

Although the volume of forborne accounts has reduced from £232 million to £207 million (a decrease of 11% in 2014), the distribution of forborne cases across asset quality segments based on performance has been static. As at 31 December 2014, the volume regarded as satisfactory, acceptable or lower quality but neither past due nor impaired stood at 71.7% against 69.5% as at 31 December 2013. There was general improvement across the other sub-segments with the exception of the impaired book which had a marginal increase.

The table below sets out Retail UK mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2014.

TABLE: 6a

31 December 2014 Formal forbearance measures - Retail UK mortgages (before impairment provisions)	**Non-defaulted loans Balance £m**	**Non-defaulted loans Number of accounts[3]**	**Defaulted loans[2] Balance £m**	**Defaulted loans[2] Number of accounts[3]**	**All loans Balance £m**	**All loans Number of accounts[3]**
Standard mortgages						
Full interest	64	581	6	57	70	638
Term extension	15	250	2	23	17	273
Capitalisation of arrears	5	27	-	2	5	29
Other	1	14	-	1	1	15
Total	**85**	**872**	**8**	**83**	**93**	**955**
Buy to let						
Full interest	21	221	1	12	22	233
Term extension	8	73	-	5	8	78
Capitalisation of arrears	15	103	1	5	16	108
Other	-	3	-	1	-	4
Total	**44**	**400**	**2**	**23**	**46**	**423**
Self certified						
Full interest	42	321	6	31	48	352
Term extension	4	26	-	1	4	27
Capitalisation of arrears	12	51	2	9	14	60
Other	1	8	1	1	2	9
Total	**59**	**406**	**9**	**42**	**68**	**448**
Total						
Full interest	127	1,123	13	100	140	1,223
Term extension	27	349	2	29	29	378
Capitalisation of arrears	32	181	3	16	35	197
Other	2	25	1	3	3	28
Total	**188**	**1,678**	**19**	**148**	**207**	**1,826**

1 *Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2014, this mortgage loan is not included in the stock of current active forbearance measures.*
2 *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
3 *The number of accounts does not equate to the number of customers.*

Asset quality (continued)

Forbearance measures (continued)

31 December 2013 Formal forbearance measures - Retail UK mortgages (before impairment provisions)	Non-defaulted loans		Defaulted loans[2]		All loans	
	Balance £m	Number of accounts[3]	Balance £m	Number of accounts[3]	Balance £m	Number of accounts[3]
Standard mortgages						
Full interest	72	656	8	79	80	735
Term extension	17	258	1	18	18	276
Capitalisation of arrears	5	31	1	4	6	35
Other	2	23	-	4	2	27
Total	96	968	10	105	106	1,073
Buy to let						
Full interest	22	230	2	16	24	246
Term extension	7	62	-	2	7	64
Capitalisation of arrears	15	107	1	4	16	111
Other	1	6	-	-	1	6
Total	45	405	3	22	48	427
Self certified						
Full interest	46	345	9	56	55	401
Term extension	4	27	-	1	4	28
Capitalisation of arrears	15	61	2	12	17	73
Other	1	8	1	4	2	12
Total	66	441	12	73	78	514
Total						
Full interest	140	1,231	19	151	159	1,382
Term extension	28	347	1	21	29	368
Capitalisation of arrears	35	199	4	20	39	219
Other	4	37	1	8	5	45
Total	207	1,814	25	200	232	2,014

[1] *Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2013, this mortgage loan is not included in the stock of current active forbearance measures.*
[2] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
[3] *The number of accounts does not equate to the number of customers.*

Asset quality (continued)

Forbearance measures (continued)

The total number of accounts has decreased from 2,014 accounts at 31 December 2013 to 1,826 accounts at 31 December 2014. The balances of accounts in forbearance have decreased from £232 million at 31 December 2013 to £207 million at 31 December 2014. For Standard mortgages 955 accounts or £93 million are in forbearance at 31 December 2014 (31 December 2013: 1,073 accounts or £106 million). For Buy to let mortgages, 423 accounts or £46 million are in forbearance at 31 December 2014 (31 December 2013: 427 accounts or £48 million). For Self certified mortgages, 448 accounts or £68 million are in forbearance at 31 December 2014 (31 December 2013: 514 accounts or £78 million).

At 31 December 2014, £140 million or 1,223 Retail UK Residential mortgage accounts in forbearance were subject to interest only payments, compared to £159 million or 1,382 accounts at 31 December 2013.

At 31 December 2014, £29 million or 378 Retail UK Residential mortgage accounts in forbearance were subject to term extension, compared to £29 million or 368 accounts at 31 December 2013. These loans may have been granted a temporary term extension pending sale of the property or maturity of a repayment vehicle.

At 31 December 2014, £35 million or 197 Retail UK Residential mortgage accounts in forbearance were subject to capitalisation of arrears, compared to £39 million or 219 accounts at 31 December 2013.

In addition to the forbearance pertaining to the Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2014, there were 213 properties where a Fixed Charge Receiver had been appointed or approved, compared to 272 properties at 31 December 2013.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of forborne Retail UK mortgages (before impairment provisions) during the year ended 31 December 2014.

TABLE: 6b

Reconciliation of forborne loan stock by non-default / default status - Retail UK mortgages (before impairment provisions)	**Standard mortgages**		**Buy to let**		**Self certified**		**All loans**	
	Balance £m	**Number of accounts[1]**	**Balance £m**	**Number of accounts[1]**	**Balance £m**	**Number of accounts[1]**	**Balance £m**	**Number of accounts[1]**
All loans								
Opening balance at 1 January 2014	**106**	**1,073**	**48**	**427**	**78**	**514**	**232**	**2,014**
New forbearance extended	6	72	2	22	1	14	9	108
Exited forbearance								
- Improved to or remained in non-default	(6)	(51)	-	(2)	(2)	(15)	(8)	(68)
- Improved / stabilised and remained in default	-	(4)	-	(1)	(1)	(4)	(1)	(9)
- Redemptions, principal repayments and other	(13)	(133)	(4)	(23)	(8)	(60)	(25)	(216)
- Disimproved to or within default	-	(2)	-	-	-	(1)	-	(3)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-	-	-
Closing balance at 31 December 2014	**93**	**955**	**46**	**423**	**68**	**448**	**207**	**1,826**
Non-defaulted loans								
Opening balance at 1 January 2014	**96**	**968**	**45**	**405**	**66**	**441**	**207**	**1,814**
New forbearance extended	6	66	2	19	1	12	9	97
Exited forbearance								
- Remained in non-default	(5)	(50)	-	(2)	(2)	(13)	(7)	(65)
- Redemptions, principal repayments and other	(12)	(108)	(3)	(21)	(7)	(47)	(22)	(176)
- Disimproved to default	-	(1)	-	-	-	-	-	(1)
Transfers within forbearance between non-defaulted and defaulted loans	-	(3)	-	(1)	1	13	1	9
Closing balance at 31 December 2014	**85**	**872**	**44**	**400**	**59**	**406**	**188**	**1,678**
Defaulted loans								
Opening balance at 1 January 2014	**10**	**105**	**3**	**22**	**12**	**73**	**25**	**200**
New forbearance extended	-	6	-	3	-	2	-	11
Exited forbearance								
- Improved to non-default	(1)	(1)	-	-	-	(2)	(1)	(3)
- Improved / stabilised and remained in default	-	(4)	-	(1)	(1)	(4)	(1)	(9)
- Redemptions, principal repayments and other	(1)	(25)	(1)	(2)	(1)	(13)	(3)	(40)
- Disimproved and remained in default	-	(1)	-	-	-	(1)	-	(2)
Transfers within forbearance between non-defaulted and defaulted loans	-	3	-	1	(1)	(13)	(1)	(9)
Closing balance at 31 December 2014	**8**	**83**	**2**	**23**	**9**	**42**	**19**	**148**

[1] *The number of accounts does not equate to the number of customers.*

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2014 and 31 December 2014 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the period;
- Those accounts which exited forbearance measures during the period, either:
  - Improved to or remained in non-default;
  - Improved / stabilised and remained in default;
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2014 and remained in forbearance stock at 31 December 2014);
  - Disimproved to or within default; and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The non-default / default status of accounts which exited forbearance during the period is determined at the date of exit.

A total of 1,826 accounts or £207 million of account balances were in forbearance at 31 December 2014, compared to 2,014 or £232 million at 31 December 2013. Of these, 108 accounts or £9 million new forbearance measures were put in place during the year, of which 97 accounts or £9 million were classified as 'non-defaulted loans' while 11 accounts were classified as 'defaulted loans'. Of those that exited forbearance during the year, 68 accounts or £8 million exited to 'non-defaulted' status, 9 accounts or £1 million remained in default with an improved or stabilised status, and 3 accounts within default with disimproved status. A reduction in the forbearance stock of 216 accounts relates to redeemed accounts during the year; a reduction of £25 million was due to those redeemed accounts and principal payments during the year.

For standard mortgages, 955 accounts or £93 million of account balances were in forbearance at 31 December 2014, compared to 1,073 accounts or £106 million at 31 December 2013.

For Buy to let mortgages 423 accounts or £46 million of account balances were in forbearance at 31 December 2014, compared to 427 accounts or £48 million at 31 December 2013.

For self-certified mortgages 448 accounts or £68 million of account balances were in forbearance at 31 December 2014, compared to 514 accounts or £78 million at 31 December 2013.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE: 7a

31 December 2014

Loan to value (LTV) ratio of forborne Retail UK mortgages	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	27	29%	11	24%	11	16%	49	24%
51% to 70%	22	24%	18	39%	19	28%	59	29%
71% to 80%	13	14%	5	11%	17	25%	35	17%
81% to 90%	12	13%	7	15%	12	18%	31	15%
91% to 100%	12	13%	3	7%	6	9%	21	10%
Subtotal	**86**	**93%**	**44**	**96%**	**65**	**96%**	**195**	**95%**
101% to 120%	5	5%	2	4%	2	3%	9	4%
121% to 150%	1	1%	-	-	-	-	1	-
Greater than 150%	1	1%	-	-	1	1%	2	1%
Subtotal	**7**	**7%**	**2**	**4%**	**3**	**4%**	**12**	**5%**
Total	**93**	**100%**	**46**	**100%**	**68**	**100%**	**207**	**100%**

31 December 2013

Loan to value (LTV) ratio of forborne Retail UK mortgages	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	26	25%	8	17%	8	10%	42	18%
51% to 70%	24	23%	16	33%	20	25%	60	26%
71% to 80%	12	11%	9	19%	16	21%	37	16%
81% to 90%	17	16%	7	15%	20	26%	44	19%
91% to 100%	14	13%	5	10%	9	12%	28	12%
Subtotal	93	88%	45	94%	73	94%	211	91%
101% to 120%	10	9%	2	4%	4	5%	16	7%
121% to 150%	2	2%	1	2%	1	1%	4	2%
Greater than 150%	1	1%	-	-	-	-	1	-
Subtotal	13	12%	3	6%	5	6%	21	9%
Total	106	100%	48	100%	78	100%	232	100%

The tables above illustrate the indexed loan to value ratios for Retail UK forborne mortgages. The ratios reflect the application of the published Nationwide UK House Price Index at the applicable reporting date on the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the Retail UK mortgages with active forbearance measures in place £195 million or 95% are in positive equity (31 December 2013: £211 million or 91%) while £12 million or 5% are in negative equity at 31 December 2014 (31 December 2013: £21 million or 9%). 93% of forborne standard mortgages (31 December 2013: 88%), 96% of forborne Buy to let mortgages (31 December 2013: 94%) and 96% of Self certified mortgages (31 December 2013: 94%) are in positive equity at 31 December 2014.

Asset quality (continued)

Loan to value profiles - defaulted forborne loans

TABLE: 7b

31 December 2014

Loan to value (LTV) ratio of forborne Retail UK mortgages - defaulted loans	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	3	38%	-	-	1	11%	4	21%
51% to 70%	2	23%	1	50%	1	11%	4	21%
71% to 80%	-	-	-	-	1	11%	1	5%
81% to 90%	1	13%	1	50%	3	34%	5	26%
91% to 100%	1	13%	-	-	1	11%	2	11%
Subtotal	**7**	**87%**	**2**	**100%**	**7**	**78%**	**16**	**84%**
101% to 120%	1	13%	-	-	1	11%	2	11%
121% to 150%	-	-	-	-	-	-	-	-
Greater than 150%	-	-	-	-	1	11%	1	5%
Subtotal	**1**	**13%**	**-**	**-**	**2**	**22%**	**3**	**16%**
Total	**8**	**100%**	**2**	**100%**	**9**	**100%**	**19**	**100%**

31 December 2013

Loan to value (LTV) ratio of forborne Retail UK mortgages - defaulted loans	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	3	30%	1	33%	-	-	4	16%
51% to 70%	2	20%	1	34%	3	25%	6	24%
71% to 80%	1	10%	-	-	2	17%	3	12%
81% to 90%	1	10%	-	-	3	25%	4	16%
91% to 100%	1	10%	-	-	2	17%	3	12%
Subtotal	8	80%	2	67%	10	84%	20	80%
101% to 120%	2	20%	-	-	1	8%	3	12%
121% to 150%	-	-	-	-	-	-	-	-
Greater than 150%	-	-	1	33%	1	8%	2	8%
Subtotal	2	20%	1	33%	2	16%	5	20%
Total	10	100%	3	100%	12	100%	25	100%

The tables above illustrate that the volume of forborne loans which are in default has reduced from £25 million as at 31 December 2013 to £19 million as at 31 December 2014 and the volume of defaulted forborne loans which are in negative equity has reduced from £5 million as at 31 December 2013 to £3 million as at 31 December 2014.

Loans and advances to customers (excluding Residential mortgages)

The following disclosures refer to the forbearance of the other loans and advances to customers (excluding Residential mortgages). These provide additional detail and analysis on the quality of the stock of forborne loans.

Asset quality

Forbearance measures

The Group continues to extend significant support to customers who are experiencing current difficulties in meeting their debt servicing commitments by restructuring loans on a sustainable basis using a range of short term and longer term forbearance solutions.

The range of forbearance solutions employed by the Group varies depending on the individual circumstances of the customer, and may result in an amendment to the timing of the contractual cash flows and / or an amendment to the other terms of a loan. Typically, a breach or expected breach of covenants is the first early indication of a borrower's actual or potential difficulty with servicing debt commitments. Therefore adjustment, non-enforcement or waiver of covenant(s) is frequently an important constituent part of a resolution strategy agreed with a customer, particularly in loan portfolios where covenants are a standard feature of facility agreements. These 'covenant forbearance' arrangements (for example, a waiver of a loan-to-value covenant breach) are unlikely, of themselves, to result in an impact to the timing of contractual cash flows. Other forbearance arrangements are more likely to have a direct impact on the timing of cash flows.

Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred and if a specific provision is required will always take place prior to a decision to grant forbearance to the customer. Where a loan is subject to forbearance and no specific provision is required, the loan is reported as forborne. However, where a specific provision is required, the loan is reported as impaired and is no longer reported as forborne.

Forbearance effectiveness
It is the Group's policy to measure the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and for the customer.

The performance of forbearance measures is measured taking account of:
- the strategy that is being followed with the customer with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

Each business unit within the Group has an operating infrastructure in place to assess and, where appropriate, implement suitable forbearance arrangements. Such arrangements are implemented on either a temporary or a permanent basis. Temporary forbearance occurs where the measure has a specific term and will expire at some point in the future in advance of maturity of the loan. Permanent forbearance occurs where the measure is intended to remain in place for the remainder of the loan term.

The choice of forbearance measure is considered on a case by case basis bearing in mind the individual circumstance and risk profile of each borrower.

An exposure is restored to 'non-forborne' status for reporting purposes on the expiration date of the forbearance measure.

Asset quality (continued)

Forbearance measures (continued)

The nature and type of forbearance measures include:

- **Term extension:** an arrangement where the original term of the loan is extended, all interest is fully serviced and a revised repayment arrangement is agreed for the principal balance;
- **Adjustment or non-enforcement of covenants:** an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjusts the covenant(s) to reflect the changed circumstances of the borrower;
- **Facilities in breach of terms placed on demand:** an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- **Reduced payments (full interest):** an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- **Reduced payments (greater than full interest) incorporating some principal repayments:** a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- **Capitalisation of arrears:** an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- **Other:** Additional, less frequently applied, forbearance arrangements include short term / temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2014, the stock of forborne other loans and advances to customers (excluding Residential mortgages), analysed by forbearance type is as follows:

TABLE: 1

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2014 Non-defaulted loans[1] balance €m	2014 Defaulted loans[2] balance €m	2014 Total loans balance €m	2013 Non-defaulted loans[1] balance €m	2013 Defaulted loans[2] balance €m	2013 Total loans balance €m
Republic of Ireland SME						
Term extension	544	72	616	615	64	679
Adjustment or non-enforcement of covenants	111	-	111	106	10	116
Facilities in breach of terms placed on demand	6	25	31	17	47	64
Reduced payment (full interest)	150	19	169	228	50	278
Reduced payment (greater than full interest)	203	23	226	225	52	277
Capitalisation of arrears	30	4	34	27	9	36
Other	31	5	36	23	14	37
Total	**1,075**	**148**	**1,223**	**1,241**	**246**	**1,487**
UK SME						
Term extension	79	13	92	65	14	79
Adjustment or non-enforcement of covenants	53	-	53	64	-	64
Facilities in breach of terms placed on demand	2	3	5	5	14	19
Reduced payment (full interest)	6	-	6	22	13	35
Reduced payment (greater than full interest)	8	-	8	39	-	39
Capitalisation of arrears	-	1	1	-	1	1
Other	132	3	135	54	2	56
Total	**280**	**20**	**300**	**249**	**44**	**293**
Corporate						
Term extension	286	-	286	441	-	441
Adjustment or non-enforcement of covenants	414	26	440	648	-	648
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	9	-	9
Reduced payment (greater than full interest)	66	-	66	9	-	9
Capitalisation of arrears	12	-	12	13	-	13
Other	237	-	237	246	-	246
Total	**1,015**	**26**	**1,041**	**1,366**	**-**	**1,366**
Investment property						
Term extension	2,743	144	2,887	2,532	305	2,837
Adjustment or non-enforcement of covenants	455	11	466	683	4	687
Facilities in breach of terms placed on demand	149	33	182	173	22	195
Reduced payment (full interest)	83	36	119	156	46	202
Reduced payment (greater than full interest)	201	22	223	309	38	347
Capitalisation of arrears	21	4	25	17	61	78
Other	282	8	290	247	18	265
Total	**3,934**	**258**	**4,192**	**4,117**	**494**	**4,611**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the year. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2014 Non-defaulted loans[1] balance €m	2014 Defaulted loans[2] balance €m	2014 Total loans balance €m	2013 Non-defaulted loans[1] balance €m	2013 Defaulted loans[2] balance €m	2013 Total loans balance €m
Land and development						
Term extension	135	26	161	163	49	212
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	2	13	15	2	31	33
Reduced payment (full interest)	13	1	14	16	4	20
Reduced payment (greater than full interest)	7	-	7	5	2	7
Capitalisation of arrears	-	-	-	-	-	-
Other	4	-	4	4	3	7
Total	**161**	**40**	**201**	**190**	**89**	**279**
Consumer						
Term extension	113	-	113	165	-	165
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	-	-	-
Reduced payment (greater than full interest)	-	-	-	-	-	-
Capitalisation of arrears	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**113**	**-**	**113**	**165**	**-**	**165**
Total						
Term extension	3,900	255	4,155	3,981	432	4,413
Adjustment or non-enforcement of covenants	1,033	37	1,070	1,501	14	1,515
Facilities in breach of terms placed on demand	159	74	233	197	114	311
Reduced payment (full interest)	252	56	308	431	113	544
Reduced payment (greater than full interest)	485	45	530	587	92	679
Capitalisation of arrears	63	9	72	57	71	128
Other	686	16	702	574	37	611
Total	**6,578**	**492**	**7,070**	**7,328**	**873**	**8,201**

1 Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.

2 Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the year. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.

Asset quality (continued)

Forbearance measures (continued)

The Group's other loans and advances to customers (excluding Residential mortgages) at 31 December 2014 were €38.6 billion before impairment provisions (31 December 2013: €41.1 billion), of which €7.1 billion or 18% was classified and reported as forborne (31 December 2013: €8.2 billion or 20%). Property and construction exposures represent 62% of all forborne loans (excluding Residential mortgages) at 31 December 2014, 36% relate to Non-property SME and Corporate lending, with Consumer Lending representing just 2% of forborne loans at 31 December 2014. The percentage of loans classified and reported as forborne and the percentage split of such forborne loans by portfolio has remained broadly consistent with the position at 31 December 2013.

The total volume of forborne loans reduced by €1.1 billion during the year, with reductions experienced across all forbearance measures with the exception of 'other' measures which increased during the year. This trend is consistent with the impact of the work the Group is doing to support its customers who are in financial difficulty together with an improvement in market conditions and liquidity in the Republic of Ireland.

The increase in 'other' forbearance measures during the year reflected the impact of new forbearance measures granted in the restructuring of a small number of large corporate transactions.

Further information on the movements in forborne loans during the year is set out later in this section.

Total loans and advances to customers in the **Non-property SME and Corporate** portfolio at 31 December 2014 were €20.4 billion before impairment provisions, of which €2.6 billion or 13% was classified and reported as forborne (31 December 2013: €3.1 billion or 15%).Customers in the Non-property SME and Corporate sector have a number of options typically available to deal with adverse trading conditions, particularly in times of depressed economic conditions in their primary markets, such as reducing operating overheads, sourcing new markets, asset sales and renegotiating terms with suppliers, before their ability to continue to meet their debt servicing commitments is at risk.

Within the Non-property SME and Corporate portfolio, the total **Republic of Ireland SME** loans and advances to customers before impairment provisions at 31 December 2014 were €9.6 billion, of which €1.2 billion or 13% was classified and reported as forborne (31 December 2013: €1.5 billion or 14%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 50% of forborne loans at 31 December 2014 (31 December 2013: 46%) with reduced payment (greater than full interest) accounting for 18% (31 December 2013: 19%) and a further 14% accounted for by reduced payment (full interest) (31 December 2013: 19%).

Forbearance resolution strategies for the Group's Republic of Ireland SME lending customers are assessed on a case-by-case basis taking account of the individual customer's circumstances and risk profile. Short term resolution arrangements are typically implemented in cases where a customer's cash flow difficulties are considered to be only short term in nature and are expected to improve in the near term due to a change in the customer's operating circumstances. Where cash flow difficulties are considered more long term, and where all other available options of dealing with adverse trading conditions have been considered, longer term forbearance solutions, such as term extensions, are implemented. The longer term strategies look to potential cash flows over a longer time horizon.

The total **UK SME** loans and advances to customers before impairment provisions at 31 December 2014 were €2.5 billion, of which €0.3 billion or 12% was classified and reported as forborne (31 December 2013: €0.3 billion or 9%). Within the UK SME portfolio, term extension and loan covenant amendments / waivers are the two primary forbearance measures, accounting for a combined 48% of forborne loans at 31 December 2014 (31 December 2013: 49%).

Asset quality (continued)

Forbearance measures (continued)

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2014 were €8.3 billion, of which €1.0 billion or 13% was classified and reported as forborne (31 December 2013: €1.4 billion or 17%). Loan covenant amendments / waivers account for 42% of forborne loans with term extensions accounting for a further 27% at 31 December 2014 (31 December 2013: 47% and 32% respectively). Covenants are a standard feature of most facilities originated within the corporate lending portfolio given the larger, structured nature of the facilities. Typically, breach of covenant is the first early indication of actual or potential financial difficulties of a borrower and, as such, a waiver or resetting of covenant levels is frequently an important element of any resolution strategy agreed with a borrower to address its new operating circumstances. Where a waiver or resetting of covenants of itself is not sufficient to address a borrower's financial difficulties, and given the relatively shorter term maturity profile of the portfolio, extension of the loan term represents the main alternative solution to assist customers that are experiencing financial difficulties.

In the **Investment property** portfolio, total loans and advances to customers at 31 December 2014 were €12.5 billion before impairment provisions, of which €4.2 billion or 33% was classified and reported as forborne (31 December 2013: €4.6 billion or 34%). Defaulted forborne loans were €0.3 billion (or 6% of total forborne loans) as at 31 December 2014 (31 December 2013: €0.5 billion or 11%). Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 69% of total forborne loans at 31 December 2014 (31 December 2013: 62%), with covenant amendments / waivers accounting for 11% (31 December 2013: 15%), and reduced payment (greater than full interest) accounting for 5% (31 December 2013: 4%). Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility and / or amending or adjusting the covenants are the most common longer term arrangements utilised.

The level of the Group's **Land and development** portfolio classified and reported as forborne, €0.2 billion or 7% at 31 December 2014 (31 December 2013: €0.3 billion or 9%), is reflective of the challenged nature of this sector which has seen significant declines in land values resulting in the majority of the portfolio being already specifically provisioned and therefore reported as 'impaired'.

Total loans and advances to customers in the **Consumer** portfolio at 31 December 2014 were €3.0 billion before impairment provisions, of which €0.1 billion or 4% was classified and reported as forborne (31 December 2013: €0.2 billion or 6%). The €0.1 billion of forborne balances at 31 December 2014 relate to personal loans that have had their term extended as part of a consolidated debt restructure.

Asset quality (continued)

Forbearance measures (continued)

TABLE: 2

31 December 2014

Reconciliation of forborne loan stock by non-default / default status - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	Non-property SME and Corporate			Property and Construction			
	Republic of Ireland SME €m	UK SME €m	Corporate €m	Investment property €m	Land and development €m	Consumer €m	All loans €m
All loans							
Opening balance at 1 January 2014	**1,487**	**293**	**1,366**	**4,611**	**279**	**165**	**8,201**
New forbearance extended	240	112	164	569	16	20	1,121
Exited forbearance							
- Improved to or remained in non-default	(68)	-	(39)	(126)	(1)	-	(234)
- Remained in / disimproved to default without specific provision	(37)	(24)	-	(76)	(11)	-	(148)
- Redemptions, principal repayments and other	(249)	(43)	(372)	(564)	(29)	(62)	(1,319)
- Disimproved to default with specific provision	(141)	(13)	(104)	(234)	(49)	(10)	(551)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-	-
Transfers between sub product class	(9)	(25)	26	12	(4)	-	-
Closing balance at 31 December 2014	**1,223**	**300**	**1,041**	**4,192**	**201**	**113**	**7,070**
Non-defaulted loans							
Opening balance at 1 January 2014	**1,241**	**249**	**1,366**	**4,117**	**190**	**165**	**7,328**
New forbearance extended	210	108	164	489	8	20	999
Exited forbearance							
- Remained in non-default	(63)	-	(39)	(120)	-	-	(222)
- Disimproved to default without specific provision	(12)	(6)	-	(35)	-	-	(53)
- Redemptions, principal repayments and other	(206)	(36)	(372)	(552)	(21)	(62)	(1,249)
- Disimproved to default with specific provision	(92)	(8)	(104)	(144)	(9)	(10)	(367)
Transfers within forbearance between non-defaulted and defaulted loans	4	(4)	-	144	(3)	-	141
Transfers between sub product class	(7)	(23)	-	35	(4)	-	1
Closing balance at 31 December 2014	**1,075**	**280**	**1,015**	**3,934**	**161**	**113**	**6,578**
Defaulted loans							
Opening balance at 1 January 2014	**246**	**44**	**-**	**494**	**89**	**-**	**873**
New forbearance extended	30	4	-	80	8	-	122
Exited forbearance							
- Improved to non-default	(5)	-	-	(6)	(1)	-	(12)
- Remained in default without specific provision	(25)	(18)	-	(41)	(11)	-	(95)
- Redemptions, principal repayments and other	(43)	(7)	-	(12)	(8)	-	(70)
- Disimproved to default with specific provision	(49)	(5)	-	(90)	(40)	-	(184)
Transfers within forbearance between non-defaulted and defaulted loans	(4)	4	-	(144)	3	-	(141)
Transfers between sub product class	(2)	(2)	26	(23)	-	-	(1)
Closing balance at 31 December 2014	**148**	**20**	**26**	**258**	**40**	**-**	**492**

Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2014, €7.1 billion of the Group's other loans and advances to customers (excluding Residential mortgages) were classified and reported as forborne. This represented a reduction of €1.1 billion from the level classified and reported as forborne at 31 December 2013.

The reduction in forborne loans during the year reflected the fact that €2.3 billion of forborne loans exited forbearance during the period while €1.1 billion of loans were granted new forbearance during the year.

Term extensions and loan covenant amendments / waivers were the most common principal forbearance measure utilised for new forborne loans during the period. This is consistent with experience in previous years and the nature of the underlying portfolios, which include a large proportion of loans that have shorter term maturities and financial covenants, as part of the facility terms, to facilitate improved credit management of these portfolios.

Of the new forborne loans during the year, €0.6 billion or 51% were from the Group's Investment property portfolio, €0.2 billion or 21% were from the Republic of Ireland SME loan portfolio and €0.2 billion or 15% were from the Corporate portfolio.

Of the loans that exited forbearance during the year, €0.2 billion improved to or remained in non-default. €222 million, or 95% of these loans, had been categorised as non-default at 31 December 2014, and, €12 million categorised as default at 31 December 2014 improved to non-default. €148 million in forborne loans remained in or dis-improved to default without a specific provision. €76 million or 51% of these loans were in the Investment portfolio.

€1.3 billion of loans exited forbearance during the year due to repayment, redemptions or sales. This reflected the impact of an improvement in market conditions and liquidity in the Group's principal markets during the year. €0.9 billion or 71% of these movements were in the Investment property and Corporate portfolios.

€0.55 billion in forborne loans dis-improved to default with a specific provision, of these €0.18 billion or 33% had been classified as default at 31 December 2014. The Investment property portfolio accounted for 42% of the total, with 19% from Corporate and 26% from Republic of Ireland SME portfolios.

When a specific provision is raised on a forborne loan, the loan ceases to be classified as forborne. It is expected that most loans that ultimately require a specific provision will previously have experienced a breach of loan terms and, in a large proportion of these cases, some element of forbearance will have been granted in order to provide flexibility to both the Group and the borrower to explore the optimum resolution for both parties.

At 31 December 2014, €0.5 billion or 7% of total forborne loans were classified as default (31 December 2013: €0.9 billion or 11%).

Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the year ended 31 December 2014 and the year ended 31 December 2013. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 16.

Average balance sheet

	Year ended 31 December 2014			Year ended 31 December 2013		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest[1] €m	Rate %
Assets						
Loans and advances to banks	8,589	35	0.41	10,866	51	0.47
Loans and advances to customers	83,879	3,018	3.60	87,832	3,229	3.68
Available for sale financial assets and NAMA senior bonds	16,514	379	2.29	16,049	389	2.42
Other financial assets at fair value through profit or loss	-	-	-	12	-	-
Total interest earning assets	**108,982**	**3,432**	**3.15**	**114,759**	**3,669**	**3.20**
Non interest earning assets	21,975	-	-	21,821	-	-
Total assets	**130,957**	**3,432**	**2.62**	**136,580**	**3,669**	**2.69**
Liabilities and stockholders' equity						
Deposits from banks	6,578	39[1]	0.59	15,307	137[1]	0.90
Customer accounts	56,135	643[1]	1.15	57,569	974[1]	1.69
Debt securities in issue	16,142	192[1]	1.19	14,910	247[1]	1.66
Subordinated liabilities	2,102	200	9.49	1,628	178	10.9
Total interest bearing liabilities	**80,957**	**1,074**	**1.33**	**89,414**	**1,536**	**1.72**
Current accounts	17,669	-	-	15,703	-	-
Non interest bearing liabilities	24,140	-	-	23,403	-	-
Stockholders' Equity	8,191	-	-	8,060	-	-
Total liabilities and stockholders' equity	**130,957**	**1,074**	**0.82**	**136,580**	**1,536**	**1.12**

[1] *Excludes the cost of the ELG Scheme of €37 million (31 December 2013: €129 million) which is included within interest expense.*

The yield on average interest bearing liabilities (including current accounts) for the year ended 31 December 2014 was 1.09% (year ended 31 December 2013: 1.46%)

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK