Bank of Ireland Group plc

Annual Report 2017

Bank of Ireland Group

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Annual Report

for the year ended 31 December 2017

Forward-looking statement

This document contains forward-looking statements with respect to certain of the Bank of Ireland Group plc (the 'Company' or 'BOIG plc') and its subsidiaries' (collectively the 'Group' or 'BOIG plc 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, those as set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 43.

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

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Contents

Business Review	4
Key highlights	4
Performance summary	4
Chairman’s review	6
Group Chief Executive’s review	8
Operating and financial review	12
Risk Management Report	42
Governance	88
Corporate Governance Statement	88
Report of the Directors	113
Schedule to the Report of the Directors	115
Remuneration Report	118
Financial statements	124
Statement of Directors’ Responsibilities	124
Independent Auditors’ Report	125
Consolidated financial statements	137
Company financial statements	232
Other Information	240
Group exposures to selected countries	240
Supplementary asset quality and forbearance disclosures	242
Consolidated average balance sheet and interest rates	278
Shareholder information	279
Other disclosures	280

These are the consolidated results of the BOIG plc Group. See note 46 on page 203 for details of the Group’s corporate reorganisation in July 2017.

Following this reorganisation, predecessor accounting has been applied, such that the consolidated financial statements of the BOIG plc Group incorporate the assets and liabilities of the pre-existing group (before 7 July 2017, being the Bank and its subsidiaries) at their existing consolidated carrying values as at the date of the scheme of arrangement, and include the full year's results of the pre-existing group, including comparatives.

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www.bankofireland.com

Business Review

Key highlights

Profitability	**€1.1bn**	• Underlying profit before tax of €1,078m; increased NIM to 2.29% • Tracker charge of €170m classified as non-core
New Lending	**€14.1bn** *11% increase vs 2016*	• New Irish mortgages: growth of 41% and market share increased to 27% • Strong commercial discipline maintained
Asset Quality	**8.3%** *NPEs reduced by 31% to 8.3% of customer loans*	• NPEs reduced by €2.9bn to €6.5bn; Impaired loans reduced by 35% • Reversals reduced the impairment charge to €15m (2bps)
Capital	**13.8%** *Strong CET 1 ratios*	• Organic capital generation of 140bps • Pension volatility materially reduced • Modest IFRS 9 transition impact of c.20 bps
Dividend	**11.5c per share** *€124m*	• Dividends will increase on a prudent and progressive basis • Over time, will build towards a payout ratio of around 50% of sustainable earnings

Performance summary

	2017 €m	Restated[1] 2016 €m
Group performance on an underlying[2] basis		
Net interest income (before ELG fees)	2,248	2,298
Eligible Liabilities Guarantee (ELG) Scheme fees[3]	-	(20)
Other income (net)	801	848
Operating income (net of insurance claims)	3,049	3,126
Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	(1,789)	(1,741)
Core Banking Platforms Investment charge (page 18)	(111)	(41)
Levies and regulatory charges	(99)	(109)
Operating profit before impairment charges on financial assets	**1,050**	**1,235**
Impairment charges on loans and advances to customers	(15)	(176)
Impairment charges on available for sale financial assets	-	(2)
Share of results of associates and joint ventures (after tax)	43	41
Underlying[2] profit before tax	**1,078**	**1,098**
Total non-core items (page 19)	(226)	(63)
Profit before tax	**852**	**1,035**
Group performance		
Net interest margin[4] (%)	2.29%	2.20%
Cost income ratio (excluding levies and regulatory charges) (%)	62%	57%
Gross new lending volumes[5] (€bn)	14.2	13.2
Impairment charge on loans and advances to customers (bps)	2	21
Return on assets (bps)	56	65

For further information on measures referred to in the key highlights and performance summary see page 283.

[1] *Comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations (see note 62 on page 229 for further detail) which on an underlying basis has resulted in an increase of €6 million in 2016 Other income (net) and a €3 million increase in the net charge from non-core items and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €15 million in 2016 Net interest income (before ELG fees) and a decrease of €6 million in 2016 Operating expenses (before Core Banking Platforms investment and levies and regulatory charges) with a corresponding increase of €21 million in the 2016 net charge from non-core items. These restatements have resulted in an increase of 1 basis point to the 2016 Net interest margin, a 1 percentage point reduction in the 2016 Cost income ratio and a 1 basis point increase to the 2016 return on assets.*

[2] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 19 for further information.*

[3] *A fee was payable in respect of each liability guaranteed under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme) until the maturity of the guaranteed deposit or term funding. As the Group has had no eligible liabilities for the purpose of the ELG Scheme since October 2016, no ELG fees accrued in the current year.*

[4] *The net interest margin is stated before ELG fees and after adjusting for International Financial Reporting Standards (IFRS) income classifications. See page 16 for further details.*

[5] *Gross new lending volumes represents €14.1 billion (2016: €13.0 billion) of loans and advances to customers drawn down during the period and €0.1 billion (2016: €0.2 billion) of portfolio acquisitions.*

	2017 € cent	Restated[1] 2016 € cent
Per ordinary share[2]		
Basic earnings per share[3]	59.1	66.6
Underlying earnings per share[3]	78.3	72.6
Tangible Net Asset Value per share	752	740

Divisional performance[4]	2017 €m	Restated[1] 2016 €m
Underlying profit before tax		
Retail Ireland	712	636
Bank of Ireland Life	106	127
Retail UK	103	133
Retail UK (Stg£ million equivalent)	*91*	*106*
Corporate and Treasury	553	531
Group Centre and other (excluding Core Banking Platforms Investment charge)	(285)	(288)
Core Banking Platforms Investment Charge[5]	(111)	(41)
Underlying profit before tax	**1,078**	**1,098**

Balance sheet and key metrics	2017 €bn	2016 €bn
Total assets	123	123
Average interest earning assets	98	102
Ordinary shareholders' equity	8.9	8.6
Loans and advances to customers (after impairment provisions)	76.1	78.5
Impaired loan volumes[6]	4.0	6.2
Non-performing exposures[6] (NPE)	6.5	9.4
Customer deposits	75.9	75.2
Wholesale funding	12.7	14.4
- Wholesale market funding	*7.7*	*11.0*
- Drawings from Monetary Authorities	*5.0*	*3.4*
Liquidity		
Liquidity Coverage ratio[7]	136%	113%
Net Stable Funding ratio[8]	127%	122%
Loan to deposit ratio	100%	104%
Capital		
Common equity tier 1 ratio - fully loaded	13.8%	12.3%
Common equity tier 1 ratio - regulatory rules	15.8%	14.2%
Total capital ratio - regulatory	20.2%	18.5%
Risk weighted assets (€bn)	45.0	50.7

[1] Comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations (see note 62 on page 229 for further detail) which on an underlying basis has resulted in an increase of €6 million in the 2016 Other income (net) and a €3 million increase in the net charge from non-core items and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €15 million in 2016 Net interest income (before ELG fees) and a decrease of €6 million in 2016 Operating expenses (before Core Banking Platforms investment and levies and regulatory charges) with a corresponding increase of €21 million in the 2016 net charge from non-core items. These restatements have resulted in a 1 cent increase to the 2016 Basic earnings per share, 2 cent increase to the 2016 Underlying earnings per share and 1 cent increase to the 2016 Tangible Net Asset Value (TNAV).

[2] The earnings per share and TNAV measures for the current and prior year reflect the results after the share consolidation implemented in July 2017 as described in note 46 on page 203. The par value of an ordinary share following the share consolidation is €1.00 (prior to consolidation the par value of each unit of ordinary stock was €0.05).

[3] For basis of calculation of basic earnings per share see note 19 on page 175. Underlying earnings per share excludes non-core items and related tax impacts.

[4] For more details on the performance of each division see pages 29 to 41.

[5] The Core Banking Platforms Investment charges have been booked in Group Centre for the current and comparative year.

[6] As set out on page 60, the Group has revised its asset quality reporting methodology and (i) now reports non-performing exposures and (ii) has modified its definition of impaired loans. For an analysis of non-performing exposures see page 61.

[7] The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.

[8] The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision (BCBS) October 2014 document.

Chairman's review

Archie G Kane, Chairman

'The Group has continued to deliver on its strategic priorities during 2017 and business activity has been robust in both our Irish and international franchises resulting in strong organic capital generation'

Dividend
As anticipated, the Group is re-commencing dividends in respect of the 2017 financial year; a dividend of 11.5 cents per share has been proposed. This is a significant milestone for the Group and reflects the progress we have made in transforming our bank and our businesses following the financial crisis. The Group expects that dividends will increase on a prudent and progressive basis and, over time, will build towards a payout ratio of around 50% of sustainable earnings. At the same time, the Group has updated its capital guidance such that we now expect to maintain a CET 1 ratio in excess of 13% on a regulatory basis and on a fully loaded basis by the end of the O-SII phase-in period.

Economies in Ireland and UK continue to grow
Economic growth in our core markets of Ireland and the UK remained positive notwithstanding ongoing uncertainties related to the UK's decision to leave the European Union. The Irish economy was once again one of the fastest growing economies in the euro area, driven by growth in domestic demand, exports, construction and employment. The UK economy also expanded in 2017 driven by growth in the manufacturing and the service sectors which were supported by the weaker pound.

Group's progress continued in 2017
We are pro-actively supporting economic activity in Ireland and we have been the largest lender to the Irish economy for each of the past 4 years. We continue to strengthen and to benefit from the quality of our franchise positions in our Irish businesses, providing products, services and funding to all sectors of the economy including consumers, businesses and corporates. Our UK business has had a solid 12 months, providing simple, flexible financial service propositions to UK consumers, both directly and through our long-term partnerships with the Post Office and the AA.

The underlying strength of our franchises and the progress of our businesses is reflected in the strong financial performance of the Group during 2017. Our strong operating performance and the accretion of organic capital has further strengthened our capital position and facilitated the proposed re-commencement of dividend payments to our shareholders. This performance has been achieved against the ongoing backdrop of historically low interest rates and the significant investments we are making in our people, our infrastructure and our businesses. We also made significant progress towards achieving our objective of resolving the Tracker Mortgage Examination and to ensuring all impacted customers are fairly compensated.

The Group continues to have the capital, liquidity, ambition and strategic imperative to support our Irish and international customers.

Our customers, colleagues and communities
Our purpose at Bank of Ireland is to enable our customers, colleagues and communities to thrive and our progress would not be possible without their collective support. I would particularly like to thank our customers for their ongoing loyalty and confidence. Bank of Ireland continues to place customers at the heart of its businesses by delivering products and services that meet their evolving financial requirements. We are a customer focussed business and we are intent on maintaining and developing positive, lasting and sustainable relationships with our customers.

We are continuing to see a transformation in customer preferences on how they interact with their bank and our business transformation programme, including the replacement of our core banking platforms is making progress. The Board has spent time reviewing and overseeing the delivery of this key strategic programme and remains confident in the Group's ability to successfully and safely implement each element of the programme over the coming years. This programme will support our franchises, create opportunities for competitive advantage, deliver efficiencies and underpin growth in sustainable shareholder value. Our commitment to putting our customers first is crucial in supporting the long-term success of our businesses.

I want to thank all of our colleagues, led by a commercially focussed and cohesive senior management team, for their unrelenting professionalism and commitment to their businesses, their customers and the communities they serve. We continue to see significant numbers of our colleagues invest in enhancing their competencies and skills to assist in better serving and meeting evolving customer requirements, which is a source of great pride and confidence for the Board.

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

Following shareholder and High Court approvals and in line with our regulators' preferred resolution strategy, the Group implemented a corporate reorganisation resulting in Bank of Ireland Group plc being introduced as the listed holding company of the Group in July 2017.

Doing business responsibly
As I have noted previously, conducting our business responsibly is an integral part of our interactions with those who engage with the Group. Further enhancing stakeholder confidence and staff pride continue to be important objectives for us. We will soon publish our fourth annual Responsible Business Report which underlines the importance we place on this aspect of our business conduct and highlights the further progress we have made in 2017. I am pleased to note that our approach to responsible business continues to be recognised externally, including accreditation by the National Standards Authority of Ireland.

Board
Mr Richie Boucher stepped down as Group Chief Executive Officer (CEO) and resigned from the board in October 2017. I would like to thank Richie for his exemplary personal commitment to the Group during a period which has seen the Group transformed from an organisation in significant difficulty to one which has returned to profit and which is well positioned to deliver on its strategic objectives for customers and shareholders.

In October 2017 Ms Francesca McDonagh commenced her position as Group CEO, having previously held a number of senior leadership roles in HSBC over a 20 year period. I would like to welcome Francesca and the Board very much looks forward to working with and supporting her over the coming years as she leads the Group and its senior management team into the next phase of its development.

Mr Richard Goulding joined the Board in July 2017 and he brings significant international commercial and risk management experience to the role. Richard is an independent Non-executive Director of Citigroup Global Markets Limited and previously served as Group Chief Risk Officer and Director at Standard Chartered Bank where he was a member of the Group Executive Committee.

Mr Brad Martin, Mr Tom Considine and Mr Pat Butler retired from the Board during 2017. I would like to thank Brad, Tom and Pat for their diligence, support and counsel as Board members during their tenure.

I have notified the Board of my intention to step down later this year, as originally planned, and the Board has a process underway to identify the next Chairman.

Annual General Meeting
I always welcome the opportunities I have to engage with our shareholders during the year and I am grateful for their input and advice. The Annual General Meeting (AGM) is an important forum for Directors to meet and hear the views of all shareholders. Our 2018 AGM is scheduled to be held on 20 April 2018 and I encourage shareholders to attend, participate and, in particular, to exercise their voting rights.

Outlook
It has been a privilege to serve as Chairman of the Board during such a transformational period in the Group's history including the full repayment with profit to the Irish taxpayer in return for the Irish State's support to the Group during the financial crisis. I would like to thank my fellow Board members, the senior management team and all colleagues for their contribution, support and loyalty. I remain confident in the Group's prospects for 2018 and beyond. We cannot afford to be complacent and are mindful of the challenges ahead. However, with its strong retail and commercial franchises and, under the stewardship of Francesca and her commercially focussed senior management team, the Group is well positioned to build on the substantive progress made in recent years and to continue to deliver sustainable returns for our shareholders.

Archie G Kane
Chairman
23 February 2018

Group Chief Executive's review

'I am honoured to be leading Bank of Ireland and convinced that we will deliver on our growth potential and ambitions by fulfilling our purpose of enabling our customers, colleagues and communities to thrive'

Francesca McDonagh
Group Chief Executive

Bank of Ireland has a rich history and heritage, and I am honoured to lead the next phase in the Group's growth and development. Our purpose is to enable our customers, colleagues and communities to thrive. We are transforming the Bank to build a truly customer focussed organisation which positively impacts the communities we serve and delivers attractive sustainable returns to our shareholders. Our ambition is to be the National Champion Bank in Ireland with UK and selective international diversification.

In my first set of financial results as Group CEO, I am delighted to report that the Group had a strong performance in 2017. All trading divisions are profitable and have contributed to an underlying profit of €1,078 million for the year. In Ireland, we have grown our market share in residential mortgages and we have the largest market share in the business banking sector. We materially improved our asset quality, reducing our level of non-performing exposures by a further 31%. Our fully loaded CET 1 ratio has increased to 13.8% and we are re-commencing dividend payments to our shareholders for the first time in ten years.

My Strategic Priorities

Since joining the Group in October 2017, I have engaged extensively with each of our businesses and met with many of my colleagues, our customers and wider stakeholders. What has been very clear to me, from the outset, is the strength of our customer franchises across the range of markets we operate in and the commitment, drive and loyalty of our people. Our businesses are based in growing economies with strong fundamentals. Our core home market is in Ireland. We are the largest lender to the Irish economy, with a growing market share in residential mortgages and the largest market share in business banking. At the same time, our asset quality continues to improve with further material reductions in our non-performing exposures. We are transforming our culture, technology and business models to ensure we can serve our customers brilliantly and achieve our growth ambitions.

The most successful companies in the world are typically the most purposeful. In December 2017, I shared with my colleagues the purpose and values which I am committed to embedding across our organisation. Our purpose is to enable our customers, colleagues and communities to thrive. Serving our customers brilliantly must be our mantra as these relationships are fundamental to the future success of each of our businesses. Our colleagues are a key asset for the Group, a view consistently articulated to me by the many customers I have met since I joined the Bank. Our communities include the broad group of stakeholders that are a critical part of our eco-system as an organisation. This includes our shareholders, our regulators and other partners in addition to the political, media and societal communities in which we operate. Our purpose is underpinned by four values: customer focussed, one group one team, agile and accountable.

I am excited about the future potential and growth prospects for the Group. Our strategic priorities are concentrated on:

- Transforming our culture, our technology and our business models;
- Serving our customers brilliantly; and
- Growing sustainable profitability and returns for our shareholders.

We will hold an Investor Day in June 2018 where I will further expand on these strategic priorities.

Strong financial performance in 2017

The Group generated an **underlying profit before tax of €1,078 million** in 2017. All trading divisions are profitable. Strong commercial discipline on lending and deposit pricing, management of our cost base while investing for the future and further significant improvements in asset quality contributed to this positive financial result. Separately, as part of non-core charges, the Group incurred a charge of €170 million during 2017 primarily in respect of redress and compensation associated with tracker mortgage customer accounts.

The Group continued to generate strong organic capital. **Our fully loaded CET 1 ratio increased by 150 basis points during 2017 to 13.8%**, and our regulatory CET 1 ratio increased by 160 basis points to 15.8%. The Board's confidence in our capital position and outlook is reflected in our decision to propose re-commencing dividend payments for the first time in 10 years. The increase in our fully loaded capital ratio primarily reflects organic capital generation of 140 basis points from profits earned during the period, partly offset by the investment of 40 basis points in the replacement of our Core Banking Platforms and the proposed dividend payment of c.25 basis points. The Group's capital ratio also benefitted from the 50 basis points of capital achieved as part of the credit risk transfer transaction executed in November 2017, although, as indicated at the time, this benefit, in part or in full, could be absorbed as part of the TRIM process in 2018. The Group expects to maintain a CET 1 ratio in excess of 13% on a regulatory basis and on a fully loaded basis by the end of the O-SII buffer phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

Our businesses benefitted from continued economic growth in our two key markets last year. In Ireland, increased consumer spending, construction activity and exports supported employment growth and the number at work is now nearing its previous peak. The UK economy also saw employment gains in 2017, leading to a multi-decade low for the unemployment rate. The uncertainty generated by the UK's decision to leave the European Union remains a potentially significant headwind for both economies but, notwithstanding this, Ireland is expected to be at the top end of the euro area growth league table for a fifth year in succession in 2018, with the UK economy also expected to expand.

Gross new lending volumes of €14.1 billion were €1.1 billion or 11% higher than 2016 on a constant currency basis, while redemptions of €15.0 billion included €1.2 billion related to repayments and redemptions from our impaired loan book and our non-core Great Britain business banking and corporate book that is in run-down.

We remain the **largest lender to the Irish economy with a growing market share in residential mortgages and the largest market share in business banking**. We provided €7.1 billion of credit to personal, business and corporate customers in Ireland in 2017 while maintaining our commercial discipline. Our customers appreciate and value our mortgage propositions including the certainty and value that comes from fixed rate mortgage products. As a consequence, our market share of new Irish residential mortgages increased to 27% in 2017 compared to 25% in 2016, with a strong 29% market share in the most recent quarter.

The **average net interest margin (NIM) for the Group was 2.29% for 2017**, an increase of 9 basis points from 2016, primarily reflecting strong commercial discipline on pricing and further reductions in our cost of funding. NIM in 2018 is expected to be broadly in line with the December exit NIM of 2.24%.

Fees and other income of €801 million arise from diversified business activities including bancassurance, foreign exchange and transactional banking fees. This includes **sustainable business income of €662 million**, which increased by c.8% from 2016. The Group also benefitted in 2017 from certain valuation items of €65 million and additional gains of €74 million.

Our **asset quality continues to improve**. Reflecting the ongoing improvement in the credit quality of our loan portfolios and our actions to manage our impaired loan portfolios, we reduced our impaired loans by €2.2 billion or 35% during 2017 to €4 billion which is c.5% of gross customer loans compared to c.8% at the end of 2016. Impaired loans have reduced by 73% since their reported peak in June 2013. Non-performing exposures also reduced over the period by €2.9 billion to €6.5 billion, which is c.8% of gross customer loans compared to c.11% at the end of 2016. We expect further reductions in 2018 and beyond.

The **net customer loan impairment charge for 2017 benefitted from reversals**, particularly on the Irish mortgage portfolio, and was €15 million (2 basis points) compared to €176 million in 2016. We expect the impairment charge for 2018 to be up to c.20 basis points, reflecting the transition to IFRS 9 and a slower pace of impairment reversals with a consequent trend towards more normalised levels.

IFRS 9, which addresses impairment, classification, measurement and hedge accounting, is effective from 1 January 2018. **The estimated quantitative impact on initial adoption of IFRS 9 is a reduction in shareholders' equity of c.€120 million after tax**, substantially all of which relates to an increase in impairment loss allowance on loans and advances to our customers. On a pro forma basis, this is expected to reduce our fully loaded CET 1 ratio by c.20 basis points.

Operating expenses of €1.8 billion in 2017, increased by c.3% compared to 2016. Levies and regulatory charges of €99 million were also incurred during the year. We have continued to maintain our focus on cost management while, at the same time, making appropriate investments in our businesses, infrastructure and initiatives to further enhance our customer propositions. However efficiency must improve and we are taking further actions to address this. **We expect operating expenses will reduce in 2018 as an important step on our ambition to reduce our cost income ratio to below 50% over the medium term.**

In October 2017, I made it clear that resolving the Tracker Mortgage Examination and ensuring that all impacted customers were compensated as quickly as possible, was a personal priority. **The Group incurred a charge of €170 million during 2017 in respect of this review**. The Group has now largely completed the identification process for all of our impacted customers and all impacted customers have been returned to the correct tracker rate. Offers of compensation and redress have been made to 9 out of 10 impacted customers and we are making great efforts to contact the remaining customers. Our

independent appeals panels are now fully in place as an integral part of the Tracker Examination Framework. We expect to complete all payments to customers, subject to their agreement, by the end of March 2018.

Transformation of our technology is one of my strategic priorities and is required for the long term sustainability and competiveness of our businesses. Our technology strategy includes our investment programme to replace our Core Banking Platforms, and we invested €195 million in this programme in 2017. **I believe this is the right strategy, the right technology and I am committed to this programme.** We have recently strengthened the leadership capabilities on the programme and we expect the build work on the integrated infrastructure to be completed in the second quarter of 2018. Programmes of this scale are multi-year and complex. We are challenging ourselves to ensure we appropriately balance the delivery of our new core processing systems at the back-end and new enhanced customer functionality at the front-end. This work is ongoing and we will provide an update at our Investor Day in June 2018.

Customers

Customers are the core of our businesses, and Bank of Ireland has valuable, long-established customer franchises across a broad range of markets. Across all industries, including banking, customer expectations and requirements are evolving rapidly in this digital age. Our **customer focussed strategy** is to deliver a brilliant experience to all of our customers. We will do this as we transform our businesses by providing products and services which meet their financial requirements through easy, simple and accessible processes which align to their digital expectations.

Our **Irish mortgage business has performed strongly** over the period. We provided c.€2 billion of new residential mortgage lending in Ireland, an increase of 41% from 2016 with an increase in market share to 27% in 2017 compared to 25% in 2016. Following the recent regulatory proposals in relation to intermediary commissions and other payments, we expect to re-enter the Irish mortgage broker market later in 2018, which will further support growth in our mortgage business.

We continue to be the **number one bank for Irish businesses** and the largest provider of new business lending into the Irish economy. During 2017, the Group provided over 50% of all new lending to the agricultural sector in Ireland while also being one of the main supporters of the Strategic Banking Corporation of Ireland's Agricultural Cashflow Support Loan Scheme. The Group is the **only bancassurer in the Irish market** and our Bank of Ireland Life division saw sales volumes increase year on year by 10%, with a new business market share of 19%. We are determined to increase our support for our business and personal customers in managing their long-term savings, protection and retirement needs. In this regard, I have agreed a strategy with the new leadership team in New Ireland which targets growth in this part of our business.

Our **Retail UK division provides strategic diversification**, primarily through our separately regulated, capitalised and self-funded subsidiary, Bank of Ireland (UK) plc. With c.3 million customers, our business in Great Britain is largely focussed on providing banking services in the domestic consumer sector, primarily operating via attractive partnerships with two of the UK's most trusted brands, the Post Office and the Automobile Association (AA), and other strategic intermediaries. Our Northern Ireland business is a full service retail and commercial bank and is performing in line with our business objectives. During 2017, we acquired a leasing and fleet management business, Marshall Leasing, which complements and supports our well established motor financing business, Northridge Finance. First Rate Exchange Services, our joint venture with the Post Office, continued to be the market leader for FX travel money with a market share of 24%.

Our Corporate and Treasury division provides banking services to our larger business customers. We continue to be **Ireland's number one Corporate bank**. Our Corporate UK business continued to grow and overall divisional new lending volumes of €3.6 billion during 2017 were up 13% on 2016. This included significant support for housing development in Ireland and supporting 2 out every 3 FDI projects into Ireland. Our international Acquisition Finance business, which accounts for c.10% of Group income, maintained its leading position in the mid-market sector and had another very successful year.

Colleagues

I have sought feedback from my colleagues since I joined the Group, holding multiple informal 'open door' sessions across all levels in the organisation and launching an **employee engagement survey** to get an insight into how our people feel and what is important to them. I believe we have a very strong foundation on which to build our future and the level of pride and loyalty in the Bank's history and heritage has been striking. However there are areas we need to strengthen and **I have prioritised transforming the culture within the Group** where we reinforce the positive behaviours that provide a work environment where colleagues feel closer to our customers, act in an agile manner and as one team, take accountability across our shared transformation objectives and feel supported, included and engaged.

Fostering an **inclusive and diverse workforce** is also critical to enhancing workforce agility and securing a sustainable business. We will continue to focus on attracting, developing and retaining talent that enhance our capability to deliver for our customers and drive the success of our business. We are committed to a culture which always respects and values diversity of characteristics and background and which reflects the society we serve.

During 2017, we continued to invest in and support our staff with their development. Aligned to our **Career and Reward Framework**, we approved c.1,500 applications under the Group Education Scheme for individuals commencing 3rd level programmes. Congratulations to all of our colleagues who completed their programmes and achieved one of the c.1,900 qualification awards during the year.

We continue to progress our **digital learning capability** with 68% of total learning hours now delivered through digital and mobile. Our focus for 2018 will be to continue to evolve our overall learning proposition leveraging the opportunities presented by social, mobile and digital technology.

The **capability, determination and commitment of our people continues to be a key asset in our businesses**. I would like to acknowledge the ongoing skills, dedication and support of all my colleagues throughout the Group, who enable us to deliver on our shared objectives for our customers and stakeholders. I am confident that my colleagues' professionalism and dedication will continue to be a key driver of the Group's success into the future.

Communities

The Group engages with a broad range of communities. We must deliver attractive sustainable returns to our shareholders within a dynamic regulatory environment. We must support our customers in their local communities and enterprises. Further normalisation of the banking sector is important for economic growth in Ireland and, as the leading bank in Ireland, we must engage and support a broad range of stakeholders across political, media and social platforms.

Our Enterprise and Innovation strategy continues to evolve. **Our Enterprise Town Programme hosted over 130 Enterprise Town events in 2017, reaching 160 communities and giving in excess of 5,000 businesses the opportunity to present their products and services**. Our complementary Innovation Programme hosted over 1,400 businesses across our Workbenches and Startlabs. As well as enabling stronger local economic connection and prosperity, these programmes are a central pillar to repurpose our distribution channels to hubs which connect, support and power the communities we work and live in.

Our **Corporate Social Responsibility** agenda is of significant importance to all our colleagues across the Group. It enables us to positively impact and to connect with the people, organisations and communities in which we live, work and belong. This includes our support of charitable organisations through our fundraising matching programme 'Give Together' and our other initiatives and wellbeing programmes including 'Be At Your Best' and 'Working Together'. These aspects of our business are described in further detail in the Group's annual Responsible Business Report, the fourth edition of which we will publish in March. **The Responsible Business Report provides a comprehensive account of our business approach and practice from the perspective of customers, colleagues and communities**. We are proud that our responsible business programme is externally accredited through the Business Working Responsibly Mark provided by Business in the Community Ireland and audited by the National Standards Authority of Ireland.

Looking Forward

During 2017, we have delivered against our strategic objectives and the commitments we have made to our shareholders. Over the next couple of years the prospects and economic outlook in Ireland are projected to continue to be at the top end of the table in the euro area. After a prolonged period of contraction following the global financial crisis, credit growth in Ireland for both consumers and businesses is now turning positive. The strength of our customer franchises and the track record of our businesses position us strongly to benefit from this growth in credit demand and economic activity.

In 2018, we expect the loan book to start to grow with our NIM expected to be modestly lower than in 2017. We expect our operating expenses to be lower in 2018 and, reflecting the transition to IFRS 9 and a slower pace of impairment reversals, our impairment charges to trend towards more normalised levels.

Our strategy and the investments we are making will ensure we continue to responsibly develop our profitable, long term franchises and serve our customers brilliantly in a way that delivers **attractive sustainable returns to our shareholders**. I am excited about the future potential for the Group and I am committed to ensuring we fulfil our purpose of enabling our customers, colleagues and communities to thrive. I look forward to our Investor Day in June 2018 where I will expand further on our strategic priorities and our growth ambitions for the Group.

Francesca McDonagh
Group Chief Executive
23 February 2018

Operating and financial review

Index	Page
Basis of presentation	13
Strategic report	13
Group income statement	15
Group balance sheet	21
Capital	26
Divisional performance	29

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 19.

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 is one of the largest financial services groups in Ireland with total assets of €123 billion at 31 December 2017.
- 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 (FX) 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 c.250 branches and c.1,600 ATMs in the Republic of Ireland. It has access to c.11,500 branches and c.2,400 ATMs in the UK via the Group's relationship as financial services partner with the UK Post Office. The Group also has access to distribution in the UK via its partnership with the AA and through a number of strategic intermediary relationships.
- The Group is organised into four trading divisions to effectively service its customers as follows: Retail Ireland, Bank of Ireland Life, Retail UK and Corporate and Treasury.
- The Group's central functions, through Group Centre, establish and oversee policies and provide and manage certain processes and delivery platforms for divisions. These Group central functions comprise Group Manufacturing, Group Finance, Group Risk, Group Governance and Regulatory and Group Human Resources.
- The Group Risk function was restructured in April 2017 to ensure that the Group has an efficient, best in class infrastructure and framework in place for managing and overseeing risk to meet the current and emerging needs of the Group.

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

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

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

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

Retail UK also has a UK residential mortgage business: a full service retail and commercial branch network in Northern Ireland and a business banking portfolio in Great Britain (GB) which is being run-down. In addition, Retail UK has a motor and asset finance business operating under the Northridge brand and provides vehicle leasing and fleet management services through Marshall Leasing Limited, which was acquired in November 2017. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licenced banking subsidiary.

Corporate and Treasury
Corporate and Treasury comprises the Group's Corporate Banking and Global Markets activities across the Republic of Ireland, UK and selected international jurisdictions.

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

In International markets, Corporate Banking's strategy is to focus on our mid-market European and US Acquisition Finance business where the Group has a strong track record for more than 20

years. The Acquisition Finance business operates out of Dublin, London, Frankfurt and Paris in Europe and Stamford and Chicago in the US and focuses on lead arranging and underwriting leveraged finance transactions for private equity sponsors. The business generates attractive margins and fee income within disciplined risk appetite.

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

Group Centre
The Group's central functions are responsible for delivering services to each division and include Group Manufacturing, Group Finance, Group Risk, Group Governance and Regulatory and Group Human Resources.

Strategic priorities
The Group is focused on delivering three key strategic priorities:

- **transforming** the Group's culture, systems and business model;
- **serving customers brilliantly**; and
- **growing sustainable profits** and returns for shareholders.

Transform the Group
Business Transformation, enabled by technology investments, is required for the long term sustainability and competitiveness of the Group's businesses. The investment to replace the Core Banking Platform is a key strategic priority for the Group.

Transformation of the Group's culture has been prioritised with a focus on constantly improving on the following behaviour values: customer focus, one group one team, agility and accountability. Fostering an inclusive and diverse workforce is critical to enhancing workforce agility and securing a sustainable business.

Serve Customers Brilliantly
The Group aims to be the National Champion Bank in Ireland while maintaining selective international diversification. This involves moving to a truly customer-centric organisation by deepening understanding of their needs.

The Group engages and supports a broad range of communities through its enterprise and innovation programmes which are a central pillar to repurposing the Group's distribution channels to hubs which connect, support and power the local community. The Corporate Social Responsibility (CSR) agenda enables colleagues to positively impact and connect with local organisations and communities.

Grow Sustainable Profits
Consistent with the objective of delivering long-term sustainable returns to shareholders, the Group will continue to focus on growing:

- the Irish retail business;
- the UK business, building on the partnership strategy;
- the Corporate and Treasury segments with greatest strategic and financial potential and continue to build on international diversification; and
- non-interest income businesses including New Ireland.

Increasing Group efficiency is a priority as it will enable the Group to achieve a cost income ratio of less than 50% in the medium-term. Maintaining margins while offering value for customers will help deliver sustainable returns to shareholders.

The Group expects to maintain a CET 1 ratio in excess of 13% on a regulatory basis, and on a fully loaded basis by the end of the O-SII buffer phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer. Sustaining the ongoing reduction of non-performing and impaired loans is a key lever to providing sustainable returns to shareholders.

The strategy and investments the Group is making will ensure the continuing development of profitable, long-term franchises and ensure customers are served brilliantly which delivers attractive sustainable returns to shareholders.

Distribution policy
As anticipated, the Group is re-commencing dividends in respect of the 2017 financial year; a dividend of 11.5 cents per share has been proposed. The Group expects that dividends will increase on a prudent and progressive basis and, over time, will build towards a payout ratio of around 50% of sustainable earnings.

The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	2017 €m	Restated[2] 2016 €m	Change %
Net interest income (before ELG fees)	1	2,248	2,298	(2%)
Eligible Liabilities Guarantee (ELG) fees[3]		-	(20)	n/m
Net other income	2	801	848	(6%)
Operating income (net of insurance claims)		**3,049**	**3,126**	**(2%)**
Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	3	(1,789)	(1,741)	(3%)
Core Banking Platforms Investment charge	3	(111)	(41)	n/m
Levies and regulatory charges	3	(99)	(109)	9%
Operating profit before impairment charges on financial assets		**1,050**	**1,235**	**(15%)**
Impairment charges on loans and advances to customers	4	(15)	(176)	91%
Impairment charges on available for sale financial assets		-	(2)	n/m
Share of results of associates and joint ventures (after tax)		43	41	5%
Underlying[1] profit before tax		**1,078**	**1,098**	**(2%)**
Non-core items	5	(226)	(63)	n/m
Profit before tax		**852**	**1,035**	**(18%)**
Tax charge		(160)	(236)	32%
Profit for the year		**692**	**799**	**(13%)**
Profit attributable to shareholders		664	799	(17%)
Profit attributable to non-controlling interests		28	-	100%
Profit for the year		**692**	**799**	**(13%)**
Key metrics				
Net interest margin[4] (%)		2.29%	2.20%	
Cost income ratio (excluding levies and regulatory charges) (%)		62%	57%	
Impairment charge on loans and advances to customers (bps)		2	21	

Profit before tax of €852 million in 2017, was €183 million or 18% lower than 2016.

Underlying profit before tax of €1,078 million in 2017, was €20 million or 2% lower than 2016 primarily due to:
- lower gains on sale of sovereign bonds / other assets of €74 million, compared to €171 million in 2016;
- lower gains on other valuation items of €68 million compared to €107 million in 2016;
- higher operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €1,789 million compared to €1,741 million in 2016; and
- higher investment in our core banking platforms - €111 million charge in 2017 compared to €41 million in 2016.

partially offset by:
- lower impairment charges - €161 million lower than in 2016;
- higher business income[5] - €47 million higher than in 2016; and
- absence of ELG Scheme fees in 2017 (2016: €20 million).

Operating income has decreased by €77 million compared to the previous year primarily due to:
- lower net interest income of €2,248 million compared to €2,298 million in 2016 primarily reflecting lower lending volumes, the impacts of the ongoing low interest rate environment and the translation effects of weaker sterling (c.€50 million), partially offset by lower funding costs; and
- lower net other income of €801 million compared to €848 million in 2016, a decrease of €47 million, primarily due to lower gains on sovereign bonds / other assets, partially offset by higher business income during 2017.

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €1,789 million in 2017 were €48 million or 3% higher than 2016, reflecting further investment in our people, compliance with the growing regulatory environment, investment in technology and business growth, partially offset by other efficiencies. Our Core Banking Platforms programme is making progress and we invested a further €195 million in this programme in 2017, with an income statement charge of €111 million (2016: €41 million).

The Group has incurred levies and regulatory charges of €99 million in 2017, a decrease of €10 million compared to the previous year, primarily due to a lower charge for the Irish bank levy.

[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 19 for further information.

[2] Comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations (see note 62 on page 229 for further detail) which on an underlying basis has resulted in an increase of €6 million in 2016 Other income (net) and a €3 million increase in the net charge from non-core items and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €15 million in 2016 Net interest income (before ELG fees) and a decrease of €6 million in 2016 Operating expenses (before Core Banking Platforms investment and levies and regulatory charges) with a corresponding increase of €21 million in the 2016 net charge from non-core items. These restatements have resulted in an increase of 1 basis point to the 2016 Net interest margin and a 1% reduction in the 2016 Cost income ratio.

[3] A fee was payable in respect of each liability guaranteed under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme) until the maturity of the guaranteed deposit or term funding. As the Group has had no eligible liabilities for the purpose of the ELG Scheme since October 2016, no ELG fees accrued in the current year.

[4] The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications.

[5] Business income is net other income after IFRS income classifications before other gains and other valuation items as set out in the table on page 17. This is a measure monitored by management as part of the review of divisional performance.

Summary consolidated income statement on an underlying basis (continued)

Net impairment charges on loans and advances to customers of €15 million were €161 million lower than 2016. This reduction reflects the strong performance of the Group's loan portfolios, the ongoing reductions in non-performing exposures and a continued positive economic environment during the year in the countries in which the Group operates.

Income from associates and joint ventures, which primarily relates to the Group's FX joint venture with the UK Post Office, was €43 million in 2017 (2016: €41 million).

Non-core items were a net charge of €226 million in 2017, primarily reflecting charges relating to the Central Bank of Ireland's Tracker Mortgage Examination of €170 million, costs associated with the Group's restructuring programme of €48 million and the Group's corporate reorganisation and establishment of a new holding company of €7 million. There was a net charge of €63 million for 2016, primarily relating to restructuring costs and Tracker Mortgage Examination charges.

The Group continues to closely monitor any Brexit related impacts from the UK decision to trigger Article 50 and leave the EU, including FX rates and interest rates. The risks and uncertainties arising from the UK decision to trigger Article 50 are included in the Principal Risks and Uncertainties section on page 43.

Principal rates of exchange used in the preparation of the consolidated financial statements are set out on page 147.

Net interest income

Table: 1

Net interest income / net interest margin	**2017 €m**	Restated[1] 2016 €m	Change %
Net interest income (before ELG fees)	2,248	2,298	(2%)
IFRS income classifications[2]	(3)	(45)	93%
Net interest income (before ELG fees) after IFRS income classifications	**2,245**	**2,253**	**-**
Average interest earning assets (€bn)			
Loans and advances to customers	77	81	(5%)
Other interest earning assets	21	21	-
Total average interest earning assets	**98**	**102**	**(4%)**
Net interest margin[3]	**2.29%**	**2.20%**	
Gross yield - customer lending[4]	3.24%	3.34%	
Gross yield - liquid assets[4]	0.60%	0.79%	
Average cost of funds - interest bearing liabilities and current accounts[4]	(0.42%)	(0.61%)	
ECB base rate (average)	0.00%	0.01%	
3 month Euribor rate (average)	(0.33%)	(0.26%)	
Bank of England base rate (average)	0.29%	0.40%	
3 month Libor rate (average)	0.36%	0.50%	

Notwithstanding increasing competition, the Group has maintained strong margin discipline while continuing to make progress on reducing funding costs.

The Group's average net interest margin in 2017 has increased by 9 basis points to 2.29%. This primarily reflects strong commercial discipline on pricing and the benefit of lower funding costs.

The Group's average cost of funds was 42 basis points in 2017 (2016: 61 basis points), primarily reflecting the maturity of the €1 billion 10% CCCN on 30 July 2016 and progress in reducing UK deposit costs. The Group's gross customer lending yield reduced by 10 basis points over the same period, primarily reflecting the impact of the low interest rate environment on certain portfolios.

The reduction in average interest earning assets is primarily due to the impact of the 7% weakening of sterling against the euro (using average rates).

Net interest income (before ELG fees), after IFRS income classifications, of €2,245 million was €8 million lower than 2016, primarily reflecting lower lending volumes, the impacts of the ongoing low interest rate environment and the translation effects of a weaker sterling (c.€50 million), partially offset by lower funding costs, reflecting the maturity of the Convertible Contingent Capital Note (CCCN) in July 2016 and lower UK deposit costs.

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the reclassification of the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*

[2] *The year on year changes in 'net interest income' and 'net other income' (see table 2) are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at FVTPL, the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting FX 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.*

[3] *The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications.*

[4] *Gross yield and Average cost of funds represents the interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. See page 278 for further information.*

Net other income

Table: 2 Net other income	2017 €m	Restated[1] 2016 €m	Change %
Net other income	801	848	(6%)
IFRS income classifications[2]	3	45	(93%)
Net other income after IFRS income classifications	**804**	**893**	**(10%)**
Analysed as:			
Business income[3]			
Retail Ireland	317	319	(1%)
Bank of Ireland Life	177	145	22%
Retail UK	1	2	(50%)
Corporate and Treasury	175	157	11%
Group Centre and other	(8)	(8)	-
Total business income	**662**	**615**	**8%**
Other gains			
Transfer from available for sale reserve on asset disposal	69	174	(60%)
- Sovereign and Bank bonds	*45*	*63*	*(29%)*
- Other financial instruments (incl. VISA share disposal)	*24*	*111*	*(78%)*
Gain / (loss) on disposal and revaluation of investment properties	2	(3)	n/m
Gain on disposal of share warrant	3	-	100%
Other valuation items			
Financial instrument valuation adjustments (CVA, DVA, FVA)[4] and other	37	59	(37%)
Fair value movement on CCCN embedded derivative	-	(3)	100%
Unit-linked investment variance - Bank of Ireland Life	9	10	(10%)
Interest rate movements - Bank of Ireland Life	22	41	(46%)
Net other income after IFRS income classifications	**804**	**893**	**(10%)**

Net other income after IFRS income classifications for 2017 was €804 million, a decrease of €89 million or 10% on 2016, primarily reflecting a lower level of other gains and lower income from other valuation items compared to the prior year, partially offset by higher business income.

Business income for 2017 has increased by €47 million or 8% compared to 2016:

- business income in Retail Ireland of €317 million, which includes personal and business current account fees, FX income, interchange income on credit and debit cards and insurance income is broadly in line with 2016;
- business income in Bank of Ireland Life of €177 million was €32 million higher than 2016, reflecting an increase in single premium and pension sale volumes during the year;
- business income in Retail UK, which includes transactional banking fees and interchange income on credit cards less commissions payable to strategic partners was €1 million; and
- business income in Corporate and Treasury of €175 million is €18 million higher than 2016 supported in part by equity distributions and derivative income.

Other gains included in net other income are as follows:

- a gain of €69 million in 2017 arising on asset disposals relating to sovereign bonds, equity interests received following the restructure of impaired loans and the Group's interest in a UK card business, Vocalink. The prior year gain mainly arose on the sale of sovereign bonds as part of a rebalancing of the Group's liquid asset portfolio and the sale of shares in VISA Europe;
- a gain of €2 million relating to the disposal and revaluation of investment properties; and
- a gain of €3 million relating to the disposal of share warrants received following the restructure of impaired loans.

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

- a gain of €37 million due to valuation adjustments on financial instruments (CVA, DVA, FVA) and other primarily relates to market movements during the year;
- a €9 million unit-linked investment variance in Bank of Ireland Life in 2017 reflecting growth in investment markets during the year; and
- a gain of €22 million relating to interest rate movements in Bank of Ireland Life, primarily due to the favourable impact of narrower credit spreads. The prior year benefited from the impact of declining interest rates, which was not repeated in 2017.

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations.*
[2] *The year on year changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. See page 16 for further information.*
[3] *Business income is net other income after IFRS income classifications before other gains and other valuation items. This is a measure monitored by management as part of the review of divisional performance.*
[4] *Credit Valuation Adjustment (CVA); Debit Valuation Adjustment (DVA); Funding Valuation Adjustment (FVA).*

Operating expenses

Table: 3 Operating expenses	2017 €m	Restated[1] 2016 €m	Change %
Staff costs (excluding pension costs)	752	742	1%
Pension costs	148	135	10%
- Retirement benefit costs (defined benefit plans)	*125*	*118*	*6%*
- Retirement benefit costs (defined contribution plans)	*23*	*17*	*35%*
Depreciation and amortisation	165	132	25%
Other costs	724	732	(1%)
Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	**1,789**	**1,741**	**3%**
Core Banking Platforms Investment charge	111	41	n/m
Levies and regulatory charges	99	109	9%
Operating expenses	**1,999**	**1,891**	**6%**

			Change
Staff numbers at year end	10,892	11,208	(316)
Average staff numbers during the year	11,196	11,228	(32)

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €1,789 million for 2017 were €48 million or 3% higher than 2016.

The Group has continued to focus on controlling its operational costs during the year, while maintaining its investment in regulatory compliance, technology and business growth. Foreign currency movements provided a €24 million translation benefit during the year.

Staff costs (excluding pension costs) of €752 million for 2017 are €10 million higher than in 2016. On a constant currency basis, staff costs have increased €19 million or 2.5%. The Group paid a salary increase averaging c.2.5% effective 1 January 2017. The average number of staff employed by the Group has fallen slightly to 11,196 in 2017 compared to 11,228 in 2016. Staff numbers at 31 December 2017 were 10,892, of which c.500 (2016: c.400) were on fixed term contracts.

Pension costs of €148 million for 2017 were €13 million or 10% higher than 2016. The increase in defined benefit (DB) costs of €7 million is due to a negative past service cost recognised in 2016, partially offset by lower service costs and lower interest cost. New joiners are added to the Group's defined contribution plans. The cost of defined contribution plans increased by €6 million.

Depreciation and amortisation of €165 million in 2017 was €33 million or 25% higher than 2016. The increase is a result of technology investments made in recent years.

Other costs including technology, property, outsourced services and other non-staff costs were €724 million for 2017, €8 million lower than in 2016. On a constant currency basis, other costs have increased by €5 million or 1%. The Group continues to generate cost savings and efficiencies across its businesses, whilst investing in strategic initiatives, technology and regulatory compliance.

Core Banking Platforms Investment charge
Our Core Banking Platforms programme is making progress and we invested a further €195 million in this programme in 2017, of which €91 million was capitalised on the balance sheet (2016: €64 million) and €104 million was charged directly to the income statement. The total income statement charge of €111 million (2016: €41 million) also includes €4 million of an amortisation charge relating to assets capitalised previously.

Levies and regulatory charges
The Group has incurred levies and regulatory charges of €99 million in 2017 (2016: €109 million). The lower charge is primarily due to a reduction in the Irish bank levy to €29 million in 2017 (2016: €38 million).

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the reclassification of the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*

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

Table: 4

Impairment charges / (reversals) on loans and advances to customers	2017 €m	2016 €m	Change %
Residential mortgages	(137)	(142)	4%
- Retail Ireland	*(131)*	*(141)*	*7%*
- Retail UK	*(6)*	*(1)*	*n/m*
Non-property SME and corporate	84	113	(26%)
- Republic of Ireland SME	*20*	*44*	*(55%)*
- UK SME	*24*	*2*	*n/m*
- Corporate	*40*	*67*	*(40%)*
Property and construction	60	213	(72%)
- Investment	*54*	*143*	*(62%)*
- Land and development	*6*	*70*	*(91%)*
Consumer	8	(8)	n/m
Total	15	176	**(91%)**

Impairment charges on loans and advances to customers of €15 million for the year ended 31 December 2017 were €161 million or 91% lower than the previous year. The significant reduction in impairment charges in 2017 reflects the strong performance of the Group's loan portfolios, ongoing reductions in non-performing exposures and impaired loans, and a positive economic environment (including stable or increasing property collateral values) in the countries in which the Group's portfolios are located.

The impairment reversal on **Residential mortgages** was €137 million in 2017 (2016: €142 million). The impairment reversal on the Retail Ireland mortgage portfolio was €131 million in 2017 (2016: €141 million), and reflects continued positive underlying book performance. Retail Ireland mortgage non-performing exposures and impaired loans reduced by 16% and 23% respectively during 2017, with reductions achieved in both the Owner occupied and Buy to let (BTL) market segments.

The impairment charge on the **Non-property SME and corporate** loan portfolio was €84 million in 2017, €29 million or 26% lower than 2016. Overall lower impairment charges reflect the Group's intensive management and appropriate support for business customers in financial difficulty, together with positive macroeconomic and trading conditions. The higher impairment charge in the UK SME portfolio reflected a small number of individual case specific events.

The impairment charge on the **Property and construction** loan portfolio was €60 million in 2017, €153 million or 72% lower than 2016, with significant reductions recorded in both the Investment and Land and development elements of the portfolio. The lower impairment charge was mainly driven by the recovery in Irish property markets, which enabled the Group to resolve non-performing exposures at, or within, provision levels. The net impairment charge for the year was largely attributable to the UK Investment portfolio due to a small number of larger cases, where revised resolution strategies involve shorter term exits such as asset sales.

The €8 million impairment charge on **Consumer** loans remained low in the year ended 31 December 2017, reflecting continued positive macroeconomic conditions, particularly in Ireland.

Non-core items

Table: 5

Non-core items	2017 €m	Restated[1] 2016 €m	Change %
Tracker Mortgage Examination charges	(170)	(21)	n/m
Cost of restructuring programme	(48)	(35)	(37%)
Gross-up for policyholder tax in the Life business	10	12	(17%)
Cost of corporate reorganisation and establishment of a new holding company	(7)	-	(100%)
(Charge) / gain arising on the movement in the Group's credit spreads	(5)	5	n/m
Loss on disposal / liquidation of business activities	(5)	(7)	29%
Investment return on treasury shares held for policyholders	(1)	2	n/m
Loss on liability management exercises	-	(19)	n/m
Total non-core items	**(226)**	**(63)**	**n/m**

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:

Charges relating to the Tracker Mortgage Examination
The Group continues to progress the work associated with the Tracker Mortgage Examination being undertaken by the Central Bank of Ireland. Under the examination, the Group has identified c.6,000 accounts where a right to, or the option of, a tracker rate was not

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life Assurance Operations and the reclassification of the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*

Non-core items (continued)

appropriately provided to the customer. The Group has also identified a small rate differential (average 0.15%) on c.3,300 tracker mortgages which was not the appropriate rate specified in the loan documentation. As a consequence, the Group has incurred a charge of €170 million during 2017 (€96 million in net interest income and €74 million in operating expenses) primarily in respect of redress and compensation associated with these accounts. During 2016, the Group incurred a charge of €21 million relating to this examination process (€15 million in net interest income and €6 million in operating expenses).

Cost of restructuring programme
In 2017, the Group recognised a charge of €48 million in relation to its restructuring programme, primarily related to changes in employee numbers (2016: €35 million).

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 shareholder tax. The tax gross-up relating to policyholder tax is included within non-core items.

Cost of corporate reorganisation and establishment of a new holding company
The Group has implemented a corporate reorganisation which resulted in BOIG plc being introduced as the listed holding company of the Group on 7 July 2017. In 2017, the Group recognised a charge of €7 million in relation to the reorganisation. See note 46 on page 203 for further details.

(Charge) / gain arising on the movement in the Group's credit spreads
A charge of €5 million was recognised in the year ended 31 December 2017 compared to a gain of €5 million for the previous year. This charge relates to Group liabilities (consisting of certain structured senior and covered debt and tracker deposits) that are accounted for at 'fair value through profit or loss'. The charge in 2017 arises primarily due to the tightening of the Group's credit spreads and is partly offset by the 'pull to par' effect of cumulative losses reversing over time on the Group's structured deposits. This charge does not impact the Group's regulatory capital.

Loss on disposal / liquidation of business activities
A loss of €5 million was recognised during the year relating to profit on disposal of business interests, offset by the recycling of cumulative unrealised FX gains and losses through the income statement following the liquidation of subsidiaries.

Investment return on treasury shares held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of BOIG plc shares held by Bank of Ireland Life for policyholders. In 2017, there was a loss of €1 million (2016: €2 million gain). At 31 December 2017 there were 4 million shares (2016: 0.9 million units of stock[1]) held by Bank of Ireland Life for policyholders.

Loss on liability management exercises
In 2016, a loss of €19 million on liability management exercises was recognised, primarily reflecting the repurchase of €0.6 billion nominal value of the Group's senior unsecured debt securities. There was no such gain or loss in 2017.

Taxation

The taxation charge for the Group was €160 million in 2017 with an effective taxation rate on a statutory basis of 19% (2016: €236 million and 23%, respectively).

On an underlying basis, the effective taxation rate in 2017 was 17% (2016: 21%).

The effective tax rate is influenced by changes in the geographic mix of profits and losses and the underlying effective tax rate for the year ended 31 December 2017 was lower than the previous year, due to the impact of the re-assessment of the value of tax losses carried forward and changes in the tax treatment of certain 2016 gains.

As set out in note 18 on page 174, the deferred tax asset (DTA) has reduced by €17 million in the year due to the utilisation of brought forward trading losses against current year taxable profits which reduces the amount of tax payable on those profits.

[1] *The 2016 figure has been restated to reflect the share consolidation implemented in July 2017.*

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	2017 €bn	Restated[1] 2016 €bn	Change %
Loans and advances to customers (after impairment provisions)	6	76	78	(3%)
Liquid assets	7	24	21	14%
Bank of Ireland Life assets		17	17	-
Other assets	10	6	7	(14%)
Total assets		**123**	**123**	**-**
Customer deposits	8	76	75	1%
Wholesale funding	9	13	14	(7%)
Bank of Ireland Life liabilities		17	17	-
Other liabilities	10	5	6	(17%)
Subordinated liabilities	11	2	1	100%
Total liabilities		**113**	**113**	**-**
Shareholders' equity	12	9	9	-
Non-controlling interests - Other equity instruments		1	1	-
Total liabilities and shareholders' equity		**123**	**123**	**-**
Liquidity coverage ratio[2]		136%	113%	
Net stable funding ratio[3]		127%	122%	
Loan to deposit ratio		100%	104%	
Common equity tier 1 ratio - fully loaded		13.8%	12.3%	
Common equity tier 1 ratio - regulatory		15.8%	14.2%	
Total capital ratio - regulatory		20.2%	18.5%	

Loans and advances to customers

Table: 6

Loans and advances to customers Composition	2017 €m	2017 %	2016 €m	2016 %
Residential mortgages	46,659	60%	48,207	59%
- Retail Ireland	*24,069*	*31%*	*24,329*	*30%*
- Retail UK	*22,590*	*29%*	*23,878*	*29%*
Non-property SME and corporate	18,763	24%	20,000	24%
- Republic of Ireland SME	*8,213*	*11%*	*8,808*	*11%*
- UK SME	*1,703*	*2%*	*1,909*	*2%*
- Corporate	*8,847*	*11%*	*9,283*	*11%*
Property and construction	8,747	11%	10,344	12%
- Investment	*8,277*	*10%*	*9,321*	*11%*
- Land and development	*470*	*1%*	*1,023*	*1%*
Consumer	4,318	5%	3,811	5%
Total loans and advances to customers	**78,487**	**100%**	**82,362**	**100%**
Less impairment provisions on loans and advances to customers	(2,359)		(3,885)	
Net loans and advances to customers	**76,128**		**78,477**	
Impaired loans[4]	4,043		6,236	
Non-performing exposures[4]	6,521		9,430	

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations which has resulted in an increase of €0.46 billion in 2016 Bank of Ireland Life assets and a corresponding increase of €0.46 billion in 2016 Bank of Ireland Life liabilities (see note 62 on page 229 for further detail).*

[2] *The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*

[3] *The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the BCBS October 2014 document.*

[4] *As set out on page 60, the Group has revised its asset quality reporting methodology and (i) now reports non-performing exposures and (ii) has modified its definition of impaired loans.*

Loans and advances to customers (continued)

The Group's **loans and advances to customers (after impairment provisions)** of €76.1 billion were €2.4 billion lower than in 2016, with currency translation accounting for €1.5 billion of this movement.

Gross new lending was €14.2 billion in 2017 (2016: €13.2 billion). New lending (excluding acquisitions) of €14.1 billion was €1.1 billion or 8% higher than 2016 on a reported basis, and 11% higher on a constant currency basis.

Redemptions and repayments of €15.0 billion were €0.9 billion higher than in 2016. The Group's success in reducing (through resolution or restructure / cure) impaired assets and redemptions as part of the run-down of the GB business banking / GB corporate banking book together accounted for €1.2 billion of this figure (2016: c.€1.6 billion).

The composition of the Group's loans and advances to customers by portfolio in 2017 was broadly consistent with 2016.

Our asset quality continues to improve and our impaired loans of €4.0 billion were €2.2 billion or 35% lower than 2016, with reductions across nearly all asset classes.

Non-performing exposures also reduced over the year by 31% to €6.5 billion. These reductions reflect the continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty along with the positive economic environment with stable or increasing collateral values. We anticipate further reductions in impaired loans and non-performing exposures in 2018, with the pace of such reductions being influenced by a range of factors.

The stock of impairment provisions on loans and advances to customers of €2.4 billion were €1.5 billion lower than 2016. The impaired loans provision coverage ratio[1] at 31 December 2017 was 49% (2016: 54%).

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section, see pages 56 to 68 and note 28.

Liquid assets

Table: 7

Liquid assets	**2017 €bn**	2016 €bn	*Average 01/01/17 - 31/12/17 €bn*
Cash at banks	3	3	3
Cash and balances at central banks	7	5	6
- Bank of England	*2*	*2*	*2*
- Central Bank of Ireland	*4*	*3*	*4*
- US Federal Reserve	*1*	*-*	*-*
Government bonds	8	7	6
- Available for sale	*8*	*5*	*6*
- Held to maturity	*-*	*2*	*-*
Covered bonds	3	3	3
Senior bank bonds, NAMA senior bonds and other	3	3	4
	24	**21**	**22**

The Group's portfolio of liquid assets at 31 December 2017 of €23.6 billion has increased by c.€3 billion since 31 December 2016, primarily reflecting higher cash balances and in anticipation of the full phase-in of LCR regulatory requirements from 1 January 2018. All outstanding NAMA senior bonds (2016: €0.5 billion) were redeemed during 2017.

During 2017, the Group changed its intention to hold the portfolio of Irish Government bonds to maturity and sold a portion of the assets. As a result the Group has reclassified all held to maturity financial assets as available for sale.

[1] *The impaired loans provision coverage ratio is calculated as 'specific impairment provisions' divided by 'impaired loans'.*

Customer deposits

Table: 8

Customer deposits	2017 €bn	2016 €bn
Retail Ireland	44	41
- Deposits	*22*	*22*
- Current account credit balances	*22*	*19*
Retail UK	22	23
Retail UK (Stg£bn equivalent)	19	20
- UK Post Office	*14*	*15*
- Other Retail UK	*5*	*5*
Corporate and Treasury	10	11
Total customer deposits	**76**	**75**
Loan to deposit ratio	**100%**	**104%**

At 31 December 2017, **Group customer deposits** (including current accounts with credit balances) have increased by €0.7 billion to €75.9 billion since 31 December 2016.

This comprises of an increase in Retail Ireland Division of €3.1 billion, offset by a decrease in Corporate and Treasury division of €1.0 billion (of which €0.4 billion relates to the translation effect of a weaker dollar) and a decrease in Retail UK Division of €1.4 billion (of which, €0.8 billion relates to the translation effect of a weaker sterling). On a constant currency basis, Group customer deposits increased by €1.9 billion.

In the Retail Ireland Division, customer deposits of €44.2 billion have increased by €3.1 billion since 31 December 2016 due to growth in current account credit balances, reflecting strong economic activity.

In the Retail UK Division, customer deposits of £19.0 billion have decreased by £0.5 billion since 31 December 2016, primarily due to the utilisation of Bank of England (BoE) cost efficient Term Funding Scheme (TFS).

In the Corporate and Treasury Division, customer deposits of €10.3 billion have decreased by €1.0 billion since 31 December 2016, due to the translation effect of a weaker dollar, €0.4 billion and pricing optimisation, including charging negative interest rates where appropriate.

The Group's Loan to Deposit Ratio (LDR) was 100% at 31 December 2017.

Wholesale funding

Table: 9

	2017		2016	
Wholesale funding sources	**€bn**	**%**	€bn	%
Secured funding	11	86%	10	73%
- Monetary Authority	*5*	*39%*	*3*	*24%*
- Covered bonds	*5*	*38%*	*6*	*41%*
- Securitisations	*1*	*9%*	*1*	*8%*
Unsecured funding	2	14%	4	27%
- Senior debt	*1*	*8%*	*2*	*15%*
- Bank deposits	*1*	*6%*	*2*	*12%*
Total wholesale funding	**13**	**100%**	**14**	**100%**
Wholesale market funding <1 year to maturity	2	19%	4	36%
Wholesale market funding >1 year to maturity	6	81%	7	64%
Monetary Authority funding <1 year to maturity	2	-	-	-
Monetary Authority funding >1 year to maturity	3	-	3	-
Liquidity metrics				
Liquidity Coverage Ratio[1]		136%		113%
Net Stable Funding Ratio[2]		127%		122%

The Group's wholesale funding of €12.7 billion at 31 December 2017 has decreased by €1.7 billion since 31 December 2016, primarily due to scheduled senior debt and covered bond redemptions (c.€2.3 billion) and lower bank deposits c.€0.9 billion, partially offset by an increase in Monetary Authority borrowings (c.€1.6 billion) consisting of drawings from the ECB and BoE of €1 billion and €0.6 billion respectively.

The Group's funding from Monetary Authorities of €5.0 billion consists of c.€3.3 billion of funding drawn under the ECB's Targeted Longer Term Refinancing Operation (TLTRO), €1.3 billion from the BoE TFS and €0.4 billion from the BoE Indexed Long-Term Repo (ILTR) operation.

[1] *The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*
[2] *The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the BCBS October 2014 document.*

Wholesale funding (continued)

At 31 December 2017, €6.2 billion or 81% of wholesale market funding had a term to maturity of greater than one year (2016: €7.0 billion or 64%).

Wholesale market funding with a maturity of less than one year was €1.5 billion (2016: €4.0 billion) of which €0.6 billion is secured.

The Group's Liquidity Coverage Ratio (LCR) was 136% in 2017 (2016: 113%). Based on the Group's interpretation of the final Basel standard, the Group's Net Stable Funding Ratio (NSFR) was 127% in 2017 (2016: 122%).

Other assets and other liabilities

Table: 10

Other assets and other liabilities	**2017 €bn**	2016 €bn
Other assets	5.7	6.8
- Derivative financial instruments	*2.3*	*3.7*
- Net deferred tax asset	*1.2*	*1.2*
- Other assets	*2.2*	*1.9*
Other liabilities	5.2	6.2
- Derivative financial instruments	*2.0*	*2.9*
- Pension deficit	*0.5*	*0.4*
- Notes in circulation	*1.2*	*1.2*
- Other liabilities	*1.5*	*1.7*

Other assets in 2017 include **derivative financial instruments** with a positive fair value of €2.3 billion (2016: €3.7 billion). Other liabilities in 2017 include derivative financial instruments with a negative fair value of €2.0 billion (2016: €2.9 billion). The movement in the value of derivative assets and derivative liabilities is due to the maturity of transactions during the year as well as changes in fair values caused by the impact of the movements in FX rates (particularly the euro / sterling exchange rate) and in interest rates during 2017.

In 2017, the Group's **net deferred tax asset** was substantially unchanged at €1.2 billion with the utilisation of the DTA against current year profits being offset by an increase in the DTA associated with movements in the pension deficit and the cash flow hedge reserve. The net DTA of €1.2 billion in 2017 includes an amount of €1.2 billion in respect of trading losses which are available to relieve future profits from tax. For further details on movements in the net DTA in the period see note 35 on page 189.

The IAS 19 DB **pension deficit** at 31 December 2017 of €0.5 billion, was €30 million higher than 2016. The main drivers of the increase were:

- a reduction in Euro AA Corporate Bond discount rates, from 2.20% to 2.10%, the net positive impact of higher interest rates offset by a decrease in credit spreads used by the Group to value liabilities;
- an increase in long term RoI inflation rate expectations, from 1.55% to 1.65%;

partially offset by:

- an increase in UK AA Corporate Bond discount rates, from 2.55% to 2.75%;
- a reduction in long term UK inflation rate expectations, from 3.40% to 3.20%;
- asset returns; and
- deficit reducing employer contributions of €0.1 billion.

The significant financial assumptions used in measuring the deficit are set out in note 44 on page 196, together with the sensitivity of the deficit to changes in those assumptions on page 199.

Subordinated liabilities

Table: 11

Subordinated liabilities	**2017 €m**	2016 €m
€750 million 4.25% Fixed Rate Notes 2024	759	764
US$500 million Fixed Rate Reset Notes 2027	406	-
Stg£300 million Fixed Rate Reset Notes 2027	332	-
€250 million 10% Fixed Rate Notes 2022	264	270
€1,002 million 10% Fixed Rate Notes 2020	222	229
Undated loan capital	122	159
Other dated capital	2	3
Total	**2,107**	**1,425**

On 19 September 2017, the Group completed a dual tranche issuance of Stg£300 million and US$500 million ten year (callable at the end of year five) Tier 2 capital instruments, issued by the new holding company, BOIG plc. The sterling bond has a coupon of 3.125% and the US dollar bond has a coupon of 4.125%.

In June 2017, the Group completed the redemption of the remaining €32 million of the undated 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities issued by Bank of Ireland UK Holdings plc, a wholly-owned subsidiary of the Group.

Shareholders' equity

Table: 12

Movements in shareholders' equity	2017 €m	Restated[1] 2016 €m
Shareholders' equity at beginning of year	**8,678**	**8,383**
Movements:		
Profit attributable to shareholders	664	799
Dividends on preference equity interests	(4)	(8)
Distribution on other equity instruments - Additional tier 1 coupon (net of tax)	(24)	(73)
Remeasurement of the net defined benefit pension liability	(113)	167
Available for sale reserve movements	(9)	(169)
Cash flow hedge reserve movement	(115)	(4)
Foreign exchange movements	(147)	(419)
Transfer to non-controlling interests - preference stock	(66)	-
Other movements	(5)	2
Shareholders' equity at end of year	**8,859**	**8,678**

Shareholders' equity increased from €8,678 million at 31 December 2016 to €8,859 million at 31 December 2017.

In 2017, the **profit attributable to shareholders** was €664 million (2016: €799 million).

The Group paid **dividends** of €2.1 million and £1.1 million on its other euro and sterling preference stock respectively, in February 2017.

In June 2017, the Group paid €27 million (after tax impact €24 million) relating to the **coupon on its Additional tier 1 (AT1) securities**.

As described in note 46, in July 2017, the Group undertook a corporate reorganisation whereby BOIG plc became the ultimate parent company of the Group. Instruments issued by The Governor and Company of the Bank of Ireland (the 'Bank') prior to this reorganisation, such as the preference stock and the AT1 securities are no longer attributable to the owners of the parent and have been reclassified to non- controlling interests. Therefore, preference dividends and coupons paid since then are reflected in profit attributable to shareholders and do not form part of the above movements. For further details on non-controlling interests see note 49.

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

The **AFS reserve** movement during 2017 is primarily due to transfers from the AFS reserve on asset disposals which were partially offset by the gain recognised in the AFS reserve on the reclassification of assets from the held to maturity portfolio.

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

Foreign exchange movements are driven by the translation of the Group's net investments in foreign operations. The movement in the year is due primarily to the strengthening of the euro against sterling (4%) and the US dollar (14%) in 2017. The movements in 2016 were due to a 17% strengthening of the euro against sterling.

The **transfer to non-controlling interests** of €66 million in 2017, represents the preference stock and associated share premium no longer attributable to the owners of the parent, being reclassified from shareholders' equity.

Non-controlling interests - Other equity instruments

In June 2015, the Group issued AT1 securities, with a par value of €750 million, for a net consideration of €740 million. The securities carry an initial coupon of 7.375% and were classified as other equity instruments.

As described in note 46, in July 2017, the Group undertook a corporate reorganisation whereby BOIG plc became the ultimate parent company of the Group. As the AT1 securities were issued by the Bank, they are no longer attributable to the owners of the parent and have been reclassified to non-controlling interests from other equity instruments.
In addition to the AT1 securities, preference stock and related stock premium previously classified as 'Stockholders' equity' have also been reclassified to non-controlling interests. For further details on non-controlling interests see note 49.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations which has resulted in an increase of €11 million in the 2016 shareholders' equity at beginning of year, an increase of €6 million in the 2016 profit attributable to shareholders and a corresponding increase in the 2016 shareholders' equity at end of year of €17 million. See note 62 on page 229 for further detail.*

Capital

CRD IV - 2016[1] Regulatory €m	CRD IV - 2016[1] Fully loaded €m		CRD IV - 2017 Regulatory €m	CRD IV - 2017 Fully loaded €m
		Capital Base		
9,402	9,402	Total equity	9,667	9,667
-	-	*- less proposed dividend[2]*	(124)	(124)
(750)	(750)	*- less Additional tier 1 capital*	(750)	(750)
8,652	**8,652**	**Total equity less proposed dividend and equity instruments not qualifying as CET 1**	**8,793**	**8,793**
(520)	**(1,458)**	**Regulatory adjustments being phased in / out under CRD IV**	**(614)**	**(1,479)**
(243)	*(1,215)*	*- Deferred tax assets[3]*	*(345)*	*(1,150)*
-	*(43)*	*- 10% / 15% threshold deduction[4]*	*-*	*(78)*
156	*-*	*- Retirement benefit obligations[5]*	*95*	*-*
(140)	*-*	*- Available for sale reserve[6]*	*(68)*	*-*
(20)	*-*	*- Pension supplementary contributions[5]*	*(10)*	*-*
(273)	*(200)*	*- Other adjustments[7]*	*(286)*	*(251)*
(915)	**(975)**	**Other regulatory adjustments**	**(1,057)**	**(1,119)**
(90)	*(150)*	*- Expected loss deduction[8]*	*(247)*	*(309)*
(625)	*(625)*	*- Intangible assets and goodwill*	*(723)*	*(723)*
(2)	*(2)*	*- Coupon expected on AT 1 instrument*	*(2)*	*(2)*
(156)	*(156)*	*- Cash flow hedge reserve*	*(41)*	*(41)*
12	*12*	*- Own credit spread adjustment (net of tax)*	*22*	*22*
(54)	*(54)*	*- Securitisation deduction*	*(66)*	*(66)*
7,217	**6,219**	**Common equity tier 1**	**7,122**	**6,195**
		Additional tier 1		
805	750	AT1 instruments (issued by parent entity[9])	-	-
-	-	Instruments issued by subsidiaries that are given recognition in AT1 Capital[10]	534	480
(30)	**-**	**Regulatory adjustments**	**(31)**	**-**
(30)	*-*	*- Expected loss deduction[8]*	*(31)*	*-*
7,992	**6,969**	**Total tier 1 capital**	**7,625**	**6,675**
		Tier 2		
1,240	1,276	Tier 2 instruments (issued by parent entity[9])	785	785
-	-	Instruments issued by subsidiaries that are given recognition in AT1 Capital[10]	799	699
(30)	**-**	**Regulatory adjustments**	**(31)**	**-**
(30)	*-*	*- Expected loss deduction[8]*	*(31)*	*-*
22	-	Standardised incurred but not reported (IBNR) provisions	9	-
150	150	Provisions in excess of expected losses on defaulted assets	-	-
10	(80)	Other adjustments	(106)	(160)
1,392	**1,346**	**Total tier 2 capital**	**1,456**	**1,324**
9,384	**8,315**	**Total capital**	**9,081**	**7,999**
50.7	**50.5**	**Total risk weighted assets (€bn)**	**45.0**	**44.8**
		Capital ratios		
14.2%	12.3%	Common equity tier 1	15.8%	13.8%
15.7%	13.7%	Tier 1[10]	17.0%	14.9%
18.5%	16.4%	Total capital[10]	20.2%	17.9%
7.3%	6.4%	Leverage ratio[10]	7.0.%	6.2%

[1] The comparative figures are as per the Group's regulatory submission to the ECB. Therefore the December 2016 equity figures have not been restated in respect of the voluntary change in the Group's accounting policy for Life assurance operations as outlined on page 148 and in note 62 on page 229.
[2] The Board has proposed an ordinary dividend of €124m in respect of 2017. This has been deducted as required under Article 2 of EU Regulation No. 241/2014.
[3] Deduction relates to DTA on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 30% in 2017, increasing annually at a rate of 10% thereafter.
[4] The 10% / 15% threshold deduction is phased in at 80% in 2017 and increasing to 100% in 2018, and is deducted in full from CET 1 under fully-loaded rules.
[5] Regulatory deductions applicable under CRD and phased out under CRD IV relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules.
[6] CRD IV transitional rules in 2017 require phasing in 80% of unrealised losses and 80% of unrealised gains. In 2018 unrealised losses and gains will be phased in at 100%. The reserve is recognised in capital under fully loaded CRD IV rules.
[7] Includes technical items such as other national filters and non-qualifying CET 1 items.
[8] Under CRD IV transitional rules, expected loss is phased in at 80% in 2017. Expected loss not deducted from CET 1 is deducted 50:50 from Tier 1 and Tier 2 capital. It is deducted in full from CET 1 under fully loaded rules.
[9] The parent entity for 2016 refers to the Bank and for 2017 refers to BOIG plc. Also includes instruments issued by subsidiaries not subject to restriction on recognition in consolidated own funds.
[10] The calculation of the Group's Tier 1, Total Capital and related ratios (including Leverage ratio) at December 2017 are stated after a prudent application of the requirements of Articles 85 and 87 of CRR. Further details are provided on page 28.

Capital (continued)

Risk weighted assets (RWA)[1,2]

CRD IV - 2016 Regulatory €bn	CRD IV - 2016 Fully loaded €bn		**CRD IV - 2017 Regulatory €bn**	**CRD IV - 2017 Fully loaded €bn**
44.0	43.8	Credit risk[3]	38.7	38.5
1.4	1.4	Counterparty credit risk	0.7	0.7
0.3	0.3	Securitisation	0.5	0.5
0.4	0.4	Market risk	0.5	0.5
4.6	4.6	Operational risk	4.6	4.6
50.7	**50.5**	**Total RWA**	**45.0**	**44.8**

CRD IV
The Capital Requirements Directive (CRD) IV legislation commenced implementation on a phased basis from 1 January 2014. The CRD IV transition rules resulted in a number of deductions from Common equity tier 1 (CET 1) capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until full implementation by 2018 (with the exception of the DTAs (dependent on future profitability) deduction which in the case of the Group is phased to 2024). The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including ECB regulation 2016/445 on the exercise of options and discretions.

CRD IV developments
CRD IV includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards. On 23 November 2016, the European Commission (EC) published a set of legislative proposals, including amendments of the existing CRD and the Capital Requirements Regulation (CRR), as well as the related EU Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation. The proposed changes are expected to start entering into force in 2019 at the earliest.

In December 2017, the Basel Committee announced revisions of the Basel Framework. The revisions focus on standardised and internal ratings based (IRB) approaches to measuring credit risk and the introduction of an aggregate output floor to ensure banks' RWAs calculated via internal models are no lower than 72.5% of RWAs calculated under the standardised approach. The revised standards will take effect from 1 January 2022, with a phase-in period of five years for the aggregate output floor. The Group is currently assessing the impact of these revisions although any impact will depend on the implementation at EU level.

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

IFRS 9 capital impact
The Group has estimated that quantitative impact from initial adoption of IFRS 9 on 1 January 2018 will reduce the Group's fully loaded CET 1 ratio by c.20 basis points.

The Group has elected to apply the transitional arrangement which, on a regulatory CET 1 basis, will result in minimal impact from initial adoption and partially mitigate future impacts in the period to 2022. This will involve a capital addback of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also any subsequent increase in the stage 1 and 2 loss allowances at future reporting dates. The transition period is for five years, with a 95% add-back allowed in 2018, decreasing to 85%, 70%, 50% and 25% in subsequent years.

Capital requirements / buffers
Following the 2017 Supervisory Review and Evaluation Process (SREP), the Group is required to maintain a CET 1 ratio of 8.625% on a regulatory basis from 1 January 2018. This includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2018 of 1.875% (reflecting a further years phase-in of 0.625%). Pillar II guidance (P2G) is not disclosed in accordance with regulatory preference.

The Central Bank of Ireland (CBI) has advised that the Group will be required to maintain an O-SII buffer, which will be phased in as follows: 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. Both the SREP requirement and the O-SII buffer are subject to annual review by the Single Supervisory Mechanism (SSM) and the CBI respectively.

The Financial Policy Committee (FPC) in the UK increased the countercyclical buffer (CCyB) to 0.5% from 0%, with binding effect from 27 June 2018 with a further increase to 1%, from 28 November 2018. The UK CCyB is expected to result in an increase in the Group's capital requirement of c.0.15% from June 2018 and a further c.0.15% from November 2018. The CBI has set the CCyBs for Ireland at 0% from 1 January 2018.

The Group expects to maintain a CET 1 ratio in excess of 13% on a regulatory basis, and on a fully loaded basis at the end of the O-SII (Other Systematically Important Institution) phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

Capital developments
Capital issuance:
On 19 September 2017, the Group successfully raised Stg£300 million and US$500 million of Tier 2 capital with a

[1] *RWA reflect the application of certain Central Bank of Ireland required Balance Sheet Assessment (BSA) adjustments and the updated treatments of expected loss.*
[2] *Further details on RWA as at 31 December 2017 can be found in the Group's Pillar III disclosures for the year ended 31 December 2017, available on the Group's website.*
[3] *Includes RWA relating to non-credit obligation assets / other assets, settlement risk and RWA arising from the 10% / 15% threshold deductions.*

Capital (continued)

maturity of ten years (callable after five years). The capital instruments carry an initial coupon of 3.125% and 4.125% respectively. See note 45 for further details.

Credit risk transfer transaction:
The Group announced a credit risk transfer (CRT) transaction in November 2017 which has increased the Group's regulatory CET 1 ratio by c.55 basis points and the Group's fully loaded CET 1 ratio by c.50 basis points. The transaction has reduced the Group's credit risk exposure, and consequently the risk weighted assets on the reference portfolio. The transaction resulted in a reduction in risk weighted assets of €1.6 billion. The Group also announced that it was continuing to engage with the ECB as part of the ECB's Targeted Review of Internal Models (TRIM) on Irish Mortgages. The Group noted that adjustments arising from this process could absorb the capital benefits of the CRT, in part or in full.

Group holding company and capital impacts
The Group implemented a corporate reorganisation resulting in Bank of Ireland Group plc (BOIG plc) being introduced as the listed holding company of the Group in July 2017. BOIG plc was established to facilitate the Single Resolution Board's (SRB's) preferred resolution strategy which consists of a single point of entry bail-in strategy. All future issuance of MREL eligible debt will be issued by BOIG plc and down-streamed to the Bank.

As a result of the establishment of BOIG plc, and due to the requirements of Articles 85 and 87 of the CRR, regulatory capital instruments issued by subsidiaries (i.e. The Governor and Company of Bank of Ireland) cannot be recognised in full in the prudential consolidation. The calculation of the Group's Tier 1,Total Capital and Leverage ratios are stated after a prudent application of the requirements of Articles 85 and 87. The impact of the restriction on recognition of subsidiary issued capital has resulted in a reduction of c.50 basis points in the Tier 1 ratio and c.140 basis points in the Total Capital ratio, on a regulatory basis, at 31 December 2017.

The requirements and guidance in relation to Articles 85 and 87 are under review by the ECB. Any clarifications from this review may change the Group's calculation, noting a prudent application has been applied by the Group.

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
The Group expects to receive an MREL target and details of transitional arrangements during the first half of 2018. The SRB published an updated MREL Policy in December 2017. The Group does not expect the policy to result in any material change in expected requirements from the previously indicated 27.25% 'Informative Target'. Based on the current regulatory total capital ratio of 20.2% and excluding the impact of the corporate reorganisation on those ratios (1.4%), a modest amount of new MREL issuance is expected.

Risk weighted assets
Risk weighted assets (RWA), on a regulatory basis, were €45.0 billion at 31 December 2017 (2016: €50.7 billion). The decrease of €5.7 billion in Credit RWA is primarily due to the impact of FX movements (€1.0 billion), changes in book size and quality (€1.8 billion), changes in methodology and policy (€1.2 billion), the execution of a CRT transaction (€1.6 billion) and other movements (€0.1 billion).

Regulatory ratio
The CET 1 ratio was 15.8% at 31 December 2017 (2016: 14.2%). The increase of c.160 basis points is primarily due to organic capital generation (c.+160 basis points), the impact of the CRT transaction (c.+55 basis points) and RWA methodology changes (c.+30 basis points), partially offset by an increase in CRD phasing for 2017 (c.-20 basis points), investment in the Group's Core Banking Platforms (c.-40 basis points) and an accrual for a proposed dividend (c.-25 basis points) in line with regulatory guidance.

Fully loaded ratio
The Group's fully loaded CET 1 ratio is estimated at 13.8% at 31 December 2017 (2016: 12.3%). The increase of c.150 basis points is primarily due to organic capital generation (c.+140 basis points), the impact of the CRT transaction (c.+50 basis points) and RWA methodology changes (c.+25 basis points), partially offset by investment in the Group's Core Banking Platforms (c.-40 basis points), and an accrual for a proposed dividend (c.-25 basis points) in line with regulatory guidance.

Leverage ratio
The leverage ratio at 31 December 2017 is 7.0% on a CRD IV regulatory basis (2016: 7.3%), 6.2% on a pro-forma fully loaded basis (2016: 6.4%).
The European Commission have proposed the introduction of a binding leverage requirement of 3% as part of the revised CRD proposals. It is anticipated that the binding leverage requirement will be applicable from 2019 at the earliest pending final agreement of the proposals at EU level. The Group expects to remain well in excess of this requirement.

Distribution policy
As anticipated, the Group is re-commencing dividends in respect of the 2017 financial year; a dividend of 11.5 cents per share has been proposed. The Group expects that dividends will increase on a prudent and progressive basis and, over time, will build towards a payout ratio of around 50% of sustainable earnings.

The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

Distributable items
In July 2017, following the corporate reorganisation described in note 46 on page 203, the High Court approved a capital reduction and the creation of €5.5 billion in distributable reserves in BOIG plc. Since that date, the Company has generated profits attributable to shareholders of €1.0 billion and therefore, as at 31 December 2017, the Company had reserves available for distribution of €6.5 billion. Further information on the Company's equity is provided on page 234.

Individual consolidation
The regulatory CET 1 ratio of the Bank calculated on an individual consolidated basis as referred to in Article 9 of the CRR is 15.3% at 31 December 2017 (2016: 16.2%).

Divisional performance

Divisional performance - on an underlying basis

Income statement - underlying profit before tax	Table	2017 €m	Restated[1] 2016 €m	Change %
Retail Ireland		712	636	12%
Bank of Ireland Life		106	127	(17%)
Retail UK		103	133	(23%)
Corporate and Treasury		553	531	4%
Group Centre		(405)	(361)	12%
Other reconciling items[2]		9	32	(72%)
Underlying profit before tax		**1,078**	**1,098**	**(2%)**
Non-core items	5	(226)	(63)	n/m
Profit before tax		**852**	**1,035**	**(18%)**

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

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations which has resulted in an increase of €3 million in the 2016 underlying profit before tax of Bank of Ireland Life and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €21 million in the 2016 underlying profit before tax of Retail Ireland with a corresponding increase of €21 million in the 2016 net charge from non-core items.*

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

Retail Ireland

Income statement	2017 €m	Restated[1] 2016 €m	Change %
Net interest income	1,065	1,047	2%
Net other income	317	407	(22%)
Operating income	**1,382**	**1,454**	**(5%)**
Operating expenses	(822)	(813)	1%
Operating profit before impairment charges on financial assets	**560**	**641**	**(13%)**
Impairment reversals / (charges) on loans and advances to customers	148	(2)	n/m
Share of results of associates and joint ventures (after tax)	4	(3)	n/m
Underlying profit before tax	**712**	**636**	**12%**
Loans and advances to customers (net) (€bn)			
At 31 December	34.7	35.3	
Average in year	34.9	35.6	
Customer deposits (€bn)			
At 31 December	44.2	41.1	
Average in year	42.5	40.2	
Staff numbers at period end	4,011	4,147	

Retail Ireland offers a broad range of financial products and services. Through the network of branches in over 250 locations across the Republic of Ireland, Bank of Ireland is one of the largest providers of financial services in the country, with c.1.8 million consumer banking customers and c.200,000 business banking customers.

Retail Ireland continues to focus on getting to know customers better as individuals, supporting them more in their communities and enterprises, and improving customer experience.

Knowing customers and demonstrating this knowledge through actions

- **Digital adoption programmes -** Retail Ireland continues to invest to transform how customers are served. In 2017, Retail Ireland has continued to develop digital propositions through innovative web and robotics technology and became the first Irish bank to offer a fully digital account opening experience, winning a global award for the 'Best Customer Facing Technology' at the 2017 International Retail Banking Awards in May 2017.
- **New services launched -** a number of new services were launched including web chat (human and automated) which was introduced for personal loans and graduate services. Retail Ireland has also invested heavily in SMS technology to offer self-service and proactive care for customers and to keep them informed of progress on their customer journeys.
- **Contactless payments -** contactless transactions have increased by more than 600% in the last year and there are now, for the first time, more contactless payments than personal cheques.
- **Meeting customers' needs -** Retail Ireland's market leading youth banking proposition continues to deliver significant year on year growth. Bank of Ireland has been the first Irish bank to use social influencers and engage via snapchat. Over 10,000 graduate 1:1 conversations, fashion, education and experience events have occurred during 2017.

Support for Local Communities

- **Encouraging enterprise in local communities -** In 2017, the Enterprise programme hosted over 130 Enterprise events reaching 160 communities, giving in excess of 5,000 businesses the opportunity to showcase their products and services.
- **Innovation programme -** Retail Ireland has hosted over 1,400 businesses across the six workbenches, three Startlabs and five co-working spaces enabling the Bank to help start-ups to 'start-scale-succeed' in addition to opening up avenues for co-creation and proposition development for the Group.

Improving customers' experience

- **Continuous focus on implementing digital solutions** across all channels to improve and enhance the customer journey.
- **Proactive customer updates via SMS** embedded in more customer journeys to provide updates throughout the product cycle.
- **Webchat** now includes more products and services such as personal loans and graduate services.

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the reclassification of the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*

Retail Ireland (continued)

Financial performance
Retail Ireland reported an **underlying profit before tax** of €712 million in 2017, 12% higher than 2016. The increase is mainly due to an improvement of €150 million in impairment charges and an increase of €18 million in net interest income. This is offset by lower net other income due to the non-recurrence of a gain of €89 million realised in 2016 following the sale of shares in Visa Europe.

Net interest income of €1,065 million in 2017 is 2% higher than 2016. The year on year increase in net interest income is primarily a function of lower funding costs[1]. Lending spreads remain stable and while the lending book has decreased, this has largely come through either lower yielding books e.g. tracker mortgages, or through the reduction in impaired loans. Deposit pay rates have reduced in line with the general market trend in deposit rates.

Net other income of €317 million in 2017 was 22% lower than 2016 primarily due to the non-recurrence of the gain on sale of VISA Europe shares. Business income of €317 million is broadly in line with the previous year.

Operating expenses of €822 million in 2017 were 1% higher than in 2016.

Impairment reversals on loans and advances to customers were €148 million in 2017 compared to a charge of €2 million in 2016. Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 56 to 68, note 28 and the supplementary asset quality and forbearance disclosures section on pages 242 to 277.

Loans and advances to customers (after impairment provisions) of €34.7 billion were €0.6 billion lower than 2016. This reflects a gross reduction of c.€1 billion in Retail Ireland's tracker mortgage book and a further reduction in Retail Ireland's impaired loans. Mortgage drawdowns of €2 billion during 2017 have increased by 41% on the prior year and the Group continues to retain a strong share of new mortgage lending, whilst the asset finance business has performed strongly with volumes up 16% year on year.

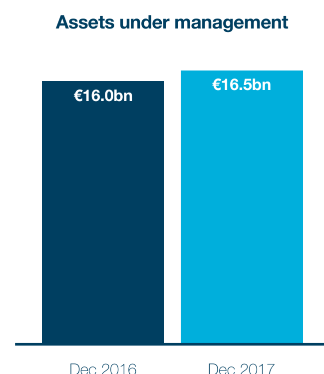
Customer deposits of €44.2 billion were €3.1 billion higher than 2016. Retail Ireland has a strong customer deposit franchise with 28% market share. Within deposits, current account credit balances have grown by €2.6 billion while other deposits have increased by €0.5 billion.

Impairment (reversals) / charges on loans and advances to customers	**2017 €m**	2016 €m	Change %
Residential mortgages	(131)	(141)	(7%)
Non-property SME and corporate	20	44	(55%)
Property and construction	(27)	113	n/m
Consumer	(10)	(14)	(29%)
Impairment (reversals) / charges on loans and advances to customers	**(148)**	**2**	**n/m**

[1] *During 2017, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net increase in net interest income for 2017 in the Retail Ireland division of €24 million, in the Retail UK division of €1 million, with a corresponding decrease in net interest income in the Corporate and Treasury division of €25 million, compared to the prior year. The impact of these changes, if applied to the prior year, would be to increase 2016 net interest income by €28 million in Retail Ireland, by €2 million in Retail UK with a corresponding decrease in Corporate & Treasury of €30 million.*

Bank of Ireland Life

Income statement (IFRS performance)	2017 €m	Restated[1] 2016 €m	Change %
Net interest income	12	31	(61%)
Net other income	177	145	22%
Operating income	**189**	**176**	**7%**
Operating expenses	(114)	(100)	(14%)
Operating profit	**75**	**76**	**(1%)**
Unit-linked investment variance	9	10	(10%)
Interest rate movements	22	41	(46%)
Underlying profit before tax	**106**	**127**	**(17%)**
Staff numbers at period end	880	908	



The Group, through Bank of Ireland Life, is a market leading life and pension provider in the Irish market and distributes across three core channels made up of the Bank's distribution channels, independent financial brokers and its own tied Financial Advisor network. It is the only bancassurer in the Irish market.

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

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

The growing labour market, changing demographics and reducing levels of State and employer-led pension provision mean that the underlying individual investment and protection needs of the working population will continue to grow. Bank of Ireland Life, with 19% market share and €16.5 billion in assets under management, is well positioned to benefit from the growing investment and pension market.

Of the €16.5 billion assets under management, €14.8 billion is in unit linked funds where investment risk is borne by policyholders, and where a change in the value of the underlying asset is accompanied by a corresponding change in the liability. The other €1.7 billion covers technical provisions (other than unit linked liabilities), the pension scheme deficit, solvency capital requirement and excess own funds.

Financial performance
Bank of Ireland Life reported an underlying profit before tax of €106 million in 2017 (2016: €127 million). The decrease in profits of €21 million or 17% reflects a gain the business made in 2016 from sharply falling interest rates, which was not repeated in 2017. Annual Premium Equivalent (APE) new business sales in 2017 consisted of €123 million of new lump sum business (2016: €115 million) and €140 million of new regular premium business (2016: €124 million). New business levels are 10% higher than 2016, benefiting from strong pension sales. Single premium life and protection sales are flat compared to 2016.

Operating profit of €75 million in 2017 was €1 million or 1% lower than in 2016 as the increase in operating income was offset by higher operating costs.

Operating income of €189 million in 2017 was €13 million or 7% higher than 2016 on the back of higher new business volumes and the benefit of assumption changes.

On the book of existing policies, mortality experience was strong and lapse experience continued to be favourable and in line with 2016.

Operating expenses of €114 million in 2017 were €14 million higher than in 2016 due to a non-recurring negative past service pension cost recognised in the prior year. Increased staff costs arising from Group-wide salary increases were offset by a reduction in the number of staff.

In 2017, the investment funds' performance was in excess of the unit growth assumptions leading to a positive **unit-linked investment variance** of €9 million (2016: €10 million).

Interest rates have increased in 2017, however credit spreads have narrowed. The overall impact of the change in yields, was positive, resulting in a €22 million gain in 2017 (2016: €41 million). The prior year benefited from the impact of falling interest rates, which was not repeated in 2017.

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations.*

Bank of Ireland Life (continued)

Bank of Ireland Life: income statement (Market Consistent Embedded Value performance)	**2017 €m**	Restated[1] 2016 €m	Change %
New business profits	17	17	-
Existing business profits	70	71	(1%)
- Expected return	*50*	*61*	*(18%)*
- Experience variance	*19*	*20*	*(5%)*
- Assumption changes	*1*	*(10)*	*n/m*
Intercompany payments	(9)	(12)	(25%)
Interest payments	(5)	(5)	-
Operating profit	**73**	**71**	**3%**
Unit-linked investment variance	21	14	50%
Interest rate movements	22	38	(42%)
Underlying profit before tax	**116**	**123**	**(6%)**

The table above outlines the Market Consistent Embedded Value (MCEV) performance using market consistent assumptions.

The MCEV principles are more closely aligned to the Solvency II principles and are consistent with the approach used for insurance contracts in the IFRS performance.

Operating profit for the year ended 31 December 2017 of €73 million was €2 million or 3% higher than the previous year.

New business profits of €17 million are in line with the prior year.

Existing business profits of €70 million are broadly the same as the prior year reflecting the benefit of assumption changes offset by lower expected return. The expected return in 2016 included the impact of a one off pension cost benefit.

The **underlying profit before tax**, on an MCEV basis, of €116 million for the year ended 31 December 2017 compares to €123 million in 2016.

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

	2017 €m	Restated[1] 2016 €m
Net assets	489	477
Value of in Force	644	619
Less Tier 2 subordinated capital / debt	(184)	(140)
Less pension scheme deficit	(94)	(96)
Total market consistent embedded value	**855**	**860**

This table summarises the overall balance sheet of Bank of Ireland Life on an MCEV basis at 31 December 2017 compared to the value at 31 December 2016.

The Value of in Force (ViF) asset represents the after tax value of future income from the existing book.

The value of net assets reflect the payment of a dividend of €135 million to the Group in 2017 (2016 €140 million).

[1] Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations as outlined in the Group Accounting Policies on page 148. The impact on the MCEV performance has resulted in an increase to the 2016 Underlying profit before tax by €8 million comprised of an increase in the Economic assumption changes by €10 million and Investment variance by €4 million partially offset by a decrease in Operating profit by €6 million. The impact to the overall balance sheet of Bank of Ireland Life on an MCEV basis has resulted in an increase in Net assets of €49 million and a decrease in the Value in Force asset by €47 million.

Retail UK (Sterling)

Income statement	2017 £m	2016 £m	Change %
Net interest income	507	496	2%
Net other income	8	(7)	n/m
Operating income	**515**	**489**	**5%**
Operating expenses	(358)	(336)	(7%)
Operating profit before impairment charges on financial assets	**157**	**153**	**3%**
Impairment charges on loans and advances to customers	(100)	(82)	(22%)
Share of results of associates and joint ventures (after tax)	34	35	(3%)
Underlying profit before tax	**91**	**106**	**(14%)**
Underlying profit before tax (€m equivalent)	**103**	**133**	
Loans and advances to customers (net) (£bn)			
At 31 December	24.8	25.6	
Average in year	25.2	25.9	
Customer deposits (£bn)			
At 31 December	19.0	19.5	
Average in year	19.2	20.9	
Staff numbers at period end	1,666	1,802	

The Retail UK division incorporates the financial services partnership and foreign exchange joint venture with the UK Post Office, the financial services partnership with the AA, the UK residential mortgage business, the Group's branch network in Northern Ireland (NI), the Group's business banking business in NI and the Northridge Finance motor and asset finance, vehicle leasing and fleet management business. The Group also has a business banking business in Great Britain (GB) which is being run-down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licenced banking subsidiary.

In November 2017, Northridge Finance acquired Marshall Leasing Limited (MLL). MLL is a car and commercial vehicle leasing and fleet management company.

Through our partnerships with the Post Office, AA and other intermediaries, we have a substantial UK consumer banking franchise with c.2.9 million customers. Our longstanding relationship with the Post Office is an important part of the UK strategy with shared plans for a sustainable business that creates long term value. Our FX joint venture with the Post Office, which provides retail and wholesale FX services, remains the largest provider of retail travel money in the UK. Through our financial services partnership with the AA, we have seen good volume growth via the AA brand across personal loans and savings products.

One of our key objectives for 2017 was to continue to develop our mortgage business while maintaining the progress we have made in recent years. In 2017, our new mortgage lending increased to £3.2 billion (2016: £2.8 billion).

Financial performance
Retail UK reported an **underlying profit before tax** of £91 million in 2017 (2016: £106 million). The decrease of £15 million is primarily driven by increases in impairment charges of £18 million and operating expenses of £22 million, partly offset by an increase in operating income of £26 million.

Net interest income[1] of £507 million in 2017 was £11 million or 2% higher than 2016. This is largely due to progress made in reducing UK deposit costs, partially offset by the impact of reduced interest income on lower net lending volumes.

Net other income in 2017 was a gain of £8 million (2016: £7 million charge). The net improvement of £15 million is primarily due to;
- a £11 million reduction in financial instruments valuation charges in 2017 compared to 2016; and
- a gain of £8 million on the disposal of share warrants (received following the restructure of impaired loans) and the Group's interest in a UK card business, Vocalink, compared to a gain of £5 million in 2016 from the sale of shares in VISA Europe.

Operating expenses of £358 million in 2017 are £22 million higher than 2016. This reflects further investment in developing the partnership with the AA and other product propositions and the impact of a weaker sterling as compared to euro when translating certain euro incurred costs.

The **share of results of associates and joint ventures (after tax)** of £34 million in 2017 relates to First Rate Exchange Services Limited (FRES), the FX joint venture with the UK Post Office, and is in line with the 2016 performance.

[1] *During 2017, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net increase in net interest income for 2017 in the Retail UK division of €1 million, in the Retail Ireland division of €24 million, with a corresponding decrease in net interest income in the Corporate and Treasury division of €25 million, compared to the prior year. The impact of these changes , if applied to the prior year, would be to increase 2016 net interest income by €2 million in Retail UK, by €28 million in Retail Ireland, with a corresponding decrease in Corporate & Treasury of €30 million.*

Retail UK (Sterling) (continued)

Impairment charges / (reversals) on loans and advances to customers	**2017 £m**	2016 £m	Change %
Residential mortgages	(5)	-	(100%)
Non-property SME and corporate	21	1	n/m
Property and construction	69	77	(10%)
Consumer	15	4	n/m
Impairment charges / (reversals) on loans and advances to customers	**100**	**82**	**22%**

Impairment charges / (reversals) on loans and advances to customers of £100 million in 2017 were £18 million or 22% higher than 2016.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 56 to 68, note 28 and the supplementary asset quality and forbearance disclosures section on pages 242 to 277.

Loans and advances to customers (after impairment provisions) of £24.8 billion at 31 December 2017 were £0.8 billion lower than 2016. This reflects repayments and redemptions in commercial lending portfolios including the ongoing reduction in the GB business banking portfolio, which is being run-down, and a modest reduction in net mortgage volumes, partially offset by an overall increase in consumer lending, which includes personal loans and the motor and asset finance business.

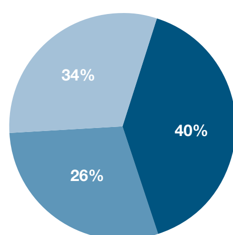
Customer deposits of £19.0 billion at 31 December 2017 were £0.5 billion lower than 2016 volumes. The Group continues to draw down on the BoE's TFS facility, with £1.2 billion being drawn at 31 December 2017, compared to £0.6 billion at 31 December 2016.

Corporate and Treasury

Income statement	2017 €m	2016 €m	Change %
Net interest income[1,2]	575	576	-
Net other income[1]	231	238	(3%)
Operating income	**806**	**814**	**(1%)**
- Business - net interest and other income	*745*	*705*	*6%*
- Financial Instruments valuation adjustments	*39*	*(25)*	*n/m*
- Euro liquid asset bond portfolio - net interest and other income	*2*	*117*	*(98%)*
- Other AFS gains	*20*	*17*	*18%*
Operating expenses	(205)	(206)	-
Operating profit before impairment charges on financial assets	**601**	**608**	**(1%)**
Impairment charges on loans and advances to customers	(48)	(75)	(36%)
Impairment charges on available for sale financial assets	-	(2)	100%
Underlying profit before tax	**553**	**531**	**4%**
Loans and advances to customers (net) (€bn)			
At 31 December	13.3	13.1	
Average in year	13.2	12.6	
Customer deposits (€bn)			
At 31 December	10.3	11.3	
Average in year	10.5	11.4	
Euro liquid asset bond portfolio (€bn)			
At 31 December	11.3	10.8	
Average in year	11.4	10.6	
Staff numbers at period end	628	648	

Corporate and Treasury incorporates the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business, across the Republic of Ireland, UK and internationally, with offices in the United Kingdom, the United States, Germany and France.

Customer lending portfolio composition



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

Corporate Banking

- Continuing strong new business.
- Retained position as Ireland's number one corporate bank and continued to win in excess of 65% of banking relationships arising from new foreign direct investment in Ireland.
- Supporting the ongoing recovery in the Irish economy while selectively growing our UK corporate business through a focused sector strategy.
- Acquisition finance business delivered strong fee income and important earnings diversification.
- Corporate Banking won four awards in the Finance Dublin Deals of the year awards in May 2017 ('M&A Deal of the year', 'Loans and Financing – Public Bodies', 'Loans and Financing - Large Corporate', and 'Debt Capital Markets - Refinancing').

Global Markets

- Supporting customers and the Bank of Ireland Group in evaluating and managing FX, interest rate hedging and other treasury needs, against the backdrop of uncertain market conditions.
- Continued investment in enhancing customers' experience and improving communications. There has also been increased customer adoption and usage of Bank of Ireland FXPay, our online FX payments platform.
- Global Markets saw strong customer activity across treasury product lines in 2017. This was underpinned by growth in the underlying Irish and UK economies and in international trade.

Corporate and Treasury manages the Group's euro liquid asset bond portfolio[2]. In relation to this portfolio, from 1 January 2017:

- Income, which was previously recognised in Corporate and Treasury, is allocated, through the funds transfer pricing process, across the Group.
- Gains on disposal of euro liquid asset bond portfolio are included in Group Centre income statement.
- Corporate and Treasury receives a fee for the management of this portfolio, which is included in 'Business - net interest and other income' above.

Financial performance

In 2017, underlying profit before tax for the division of €553 million was €22 million or 4% higher than 2016.

Business - net interest and other income of €745 million was €40 million higher than 2016 primarily due to:

- lower funding costs; and
- the impact of the change in treatment of the euro liquid asset bond portfolio.

Business income includes equity distributions received.

[1] *'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 16 and 17. The impact on Corporate and Treasury was to reduce 'net interest income' in 2017 by €22 million to €575 million (2016: by €49 million to €576 million) with fully offsetting changes to 'net other income' in both years.*

[2] *From 1 January 2017, income from the euro liquid asset bond portfolio, which was previously recognised in Corporate and Treasury, is allocated across the Group through the funds transfer pricing process. The impact of this change is that Corporate and Treasury net interest income is €24 million lower (€49 million lower in 'euro liquid asset bond portfolio - net interest and other income' and €25 million higher in 'Business - net interest and other income') compared to 2016. The impact of these changes if applied to the prior year would be to decrease 2016 net interest income by €30 million (€54 million lower in 'euro liquid asset bond portfolio - net interest and other income' and €24 million higher in 'Business - net interest and other income').*

Corporate and Treasury (continued)

Financial instruments valuation adjustments of €39 million were €64 million higher than 2016 primarily due to negative fair value movements in the prior year on derivatives which economically hedged the Group (which largely eliminated on consolidation).

Operating expenses of €205 million for 2017 were €1 million lower than 2016.

Impairment charges on financial assets (including AFS financial assets) of €48 million were €29 million or 36% lower than 2016. Impairment charges on AFS financial assets are €nil for 2017 (2016: €2 million). 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 56 to 68, note 28 and the supplementary asset quality and forbearance disclosures section on pages 242 to 277.

Loans and advances to customers (after impairment provisions) of €13.3 billion in 2017 were €0.2 billion higher than 2016, €0.5 billion on a constant currency basis.

Customer deposits of €10.3 billion in 2017 were €1.0 billion lower than 2016 due to translation effect of a weaker dollar €0.4 billion and planned optimisation of deposit pricing. The deposit book primarily comprises a mixture of corporate, State, SME and retail customer accounts.

The **euro liquid asset bond portfolio** of €11.3 billion in 2017 was €0.5 billion higher than 2016 due to increased holdings of sovereign bonds €0.9 billion, partially offset by repayments of NAMA senior bonds.

Group Centre

Income statement	2017 €m	2016 €m	Change %
ELG fees	-	(20)	100%
Other income	45	19	n/m
Net operating income / (expense)	45	(1)	n/m
Operating expenses (before core banking platforms investment and levies and regulatory charges)	(245)	(215)	(14%)
Core Banking Platforms Investment charge	(111)	(41)	n/m
Levies and regulatory charges	(94)	(104)	10%
Underlying loss before tax	**(405)**	**(361)**	**(12%)**
Staff numbers at period end	3,707	3,703	

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

Group Centre's income and costs comprises income from capital and other management activities, unallocated Group support costs and the costs associated with the Irish bank levy, the UK Financial Services Compensation Scheme (FSCS) and, historically, the ELG Scheme, along with contributions to the Single Resolution Fund (SRF) and Deposit Guarantee Scheme (DGS) fund.

Financial performance
Group Centre reported an underlying loss before tax of €405 million in 2017 (2016: €361 million).

Net operating income was a gain of €45 million for 2017 (2016: €1 million loss). The increase of €46 million in the year is driven primarily by a decrease in ELG fees of €20 million and gains on sales from the liquid asset portfolio of €41 million[1] in 2017 (2016: €nil).

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €245 million in 2017 were €30 million higher than in 2016. The increase is reflective of an average salary increase of c.2.5% awarded to staff in 2017, investment in strategic initiatives, including higher amortisation charges arising from technology and infrastructure, along with costs associated with compliance and meeting regulatory expectations.

Core Banking Platforms Investment charge
Our Core Banking Platforms programme is making progress and we invested a further €195 million in this programme in 2017, of which €91 million was capitalised on the balance sheet (2016: €64 million) and €104 million was charged directly to the income statement. The total income statement charge of €111 million (2016: €41 million) also includes €4 million of an amortisation charge relating to assets capitalised previously.

Levies and regulatory charges
Group Centre has incurred levies and regulatory charges of €94 million in 2017 (2016: €104 million). The reduction in the year is due to lower Irish bank levy and FSCS costs. The charge for 2017 primarily reflects the Group's contribution to the SRF and the DGS fund, along with charges for the FSCS and the Irish bank levy.

[1] *From 1 January 2017, the gains on sales from the euro liquid asset portfolio, which were previously recognised in Corporate and Treasury, are recognised within Group Centre. See note 3 on page 162 for further information.*

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Income statement - Operating segments

2017	Net interest income €m	Net insurance premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	**Operating profit / (loss) before impairment charges on financial assets €m**	Impairment (charge) / reversal on loans and advances to customers €m	Impairment charge on AFS financial assets €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	**Profit / (loss) before taxation €m**
Retail Ireland	1,065	-	317	1,382	-	1,382	(822)	560	148	-	4	-	712
BIL	12	1,338	513	1,863	(1,643)	220	(114)	106	-	-	-	-	106
Retail UK	579	-	9	588	-	588	(409)	179	(115)	-	39	-	103
Corporate and Treasury	575	-	231	806	-	806	(205)	601	(48)	-	-	-	553
Group Centre	20	6	21	47	(2)	45	(450)	(405)	-	-	-	-	(405)
Other reconciling items	(3)	-	11	8	-	8	1	9	-	-	-	-	9
Group - underlying[1]	**2,248**	**1,344**	**1,102**	**4,694**	**(1,645)**	**3,049**	**(1,999)**	**1,050**	**(15)**	**-**	**43**	**-**	**1,078**
Total non-core items													
- Tracker Mortgage Examination charges	(96)	-	-	(96)	-	(96)	(74)	(170)	-	-	-	-	(170)
- Cost of Restructuring Programme	-	-	-	-	-	-	(48)	(48)	-	-	-	-	(48)
- Gross-up for policyholder tax in the Life business	-	-	10	10	-	10	-	10	-	-	-	-	10
- Cost of corporate reorganisation and establishment of a new holding company	-	-	-	-	-	-	(7)	(7)	-	-	-	-	(7)
- Loss on disposal / liquidation of business activities	-	-	-	-	-	-	-	-	-	-	-	(5)	(5)
- Charge arising on movement in the Group's credit spreads	-	-	(4)	(4)	(1)	(5)	-	(5)	-	-	-	-	(5)
- Investment return on treasury shares held for policyholders	-	-	(1)	(1)	-	(1)	-	(1)	-	-	-	-	(1)
Group total	**2,152**	**1,344**	**1,107**	**4,603**	**(1,646)**	**2,957**	**(2,128)**	**829**	**(15)**	**-**	**43**	**(5)**	**852**

[1] *Underlying performance excludes the impact of non-core items (see page 19).*

Income statement - Operating segments (continued)

Restated[1] 2016	Net interest income €m	Net insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charge on loans and advances to customers €m	Impairment charge on AFS financial assets €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	Profit / (loss) before taxation €m
Retail Ireland	1,047	-	407	1,454	-	1,454	(813)	641	(2)	-	(3)	-	636
BIL	31	1,220	542	1,793	(1,566)	227	(100)	127	-	-	-	-	127
Retail UK	609	-	(9)	600	-	600	(412)	188	(99)	-	44	-	133
Corporate and Treasury	576	-	238	814	-	814	(206)	608	(75)	(2)	-	-	531
Group Centre	15	6	(9)	12	(13)	(1)	(360)	(361)	-	-	-	-	(361)
Other reconciling items	-	-	32	32	-	32	-	32	-	-	-	-	32
Group - underlying[2]	2,278	1,226	1,201	4,705	(1,579)	3,126	(1,891)	1,235	(176)	(2)	41	-	1,098
Total non-core items													
- Cost of Restructuring Programme	-	-	-	-	-	-	(35)	(35)	-	-	-	-	(35)
- Loss on liability management exercises	-	-	(19)	(19)	-	(19)	-	(19)	-	-	-	-	(19)
- Tracker Mortgage Examination charges	(15)	-	-	(15)	-	(15)	(6)	(21)	-	-	-	-	(21)
- Gross-up for policyholder tax in the Life business	-	-	12	12	-	12	-	12	-	-	-	-	12
- Loss on disposal / liquidation of business activities	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
- Gain arising on movement in the Group's credit spreads	-	-	3	3	2	5	-	5	-	-	-	-	5
- Investment return on treasury shares held for policyholders	-	-	2	2	-	2	-	2	-	-	-	-	2
Group total	2,263	1,226	1,199	4,688	(1,577)	3,111	(1,932)	1,179	(176)	(2)	41	(7)	1,035

[1] *As outlined on page 4 comparative figures have been restated to reflect the impact of (i) the voluntary change in the Group's accounting policy for Life assurance operations and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*

[2] *Underlying performance excludes the impact of non-core items (see page 19).*

Risk Management Report

Index		Page
1	**Principal Risks and Uncertainties**	43
2	**Risk management framework**	49
	2.1 Risk Governance	50
	2.2 Risk Culture	52
	2.3 Risk Strategy & Appetite	53
	2.4 Risk Identification & Materiality Assessment	53
	2.5 Risk Analysis & Measurement	54
	2.6 Risk Monitoring & Reporting	55
3	**Management of key Group risks**	56
	3.1 Credit risk	56
	3.2 Funding and liquidity risk	71
	3.3 Market risk	76
	3.4 Life Insurance risk	80
	3.5 Conduct risk	81
	3.6 Regulatory risk	82
	3.7 Operational risk	83
	3.8 Business and strategic risk	84
	3.9 Pension risk	85
	3.10 Reputation risk	86
4	**Capital management**	87

The information below in sections or paragraphs denoted as audited in sections 3.1, 3.2, 3.3, 3.4 and 4 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of preparation on page 147.

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

1 Principal Risks and Uncertainties

Key risks identified by the annual risk identification process, together with other significant and emerging risks facing the Group and key mitigating considerations are set out below. For many of the risks, the allocation of capital against potential loss is a key mitigant; other mitigating considerations include those outlined below.

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

Key risks	Key mitigating considerations
Credit risk (see page 56) Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes, but is not limited to, default risk, concentration risk, country risk, migration risk and collateral risk. Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions.	• Board approved Group Credit Policy and Risk Appetite limits, including credit category limits together with a framework cascading to businesses and portfolios. • Exposure limits for credit concentration risk. • Defined credit processes and controls, including credit policies, independent credit risk assessment and defined authority levels for sanctioning lending. • Processes to monitor compliance with policies and limits. • Dedicated workout structures focused on the management and reduction of non-performing exposures.
Funding and liquidity risk (see page 71) Funding and liquidity risk may arise from a sudden and significant withdrawal of customer deposits, disruption to the access of funding from wholesale markets, or a deterioration in either the Group's or the Irish sovereign credit ratings which could adversely impact the Group's funding and liquidity position. Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven by, amongst other things, the maturity structure of loans and investments held by the Group, while cash outflows are driven by items such as the term maturity of debt issued by the Group and outflows from customer deposit accounts.	• Board approved Risk Appetite limits. • Group funding and liquidity policies, systems and controls. • Comprehensive liquidity monitoring framework. • Annual forward looking Internal Liquidity Adequacy Assessment Process (ILAAP). • Strategic plan articulating and quantifying deposit projections, wholesale funding and lending capacity for all divisions. • Contingency Funding Plan and Recovery Plan. • Maintenance of liquid assets and contingent liquidity available for use with market counterparties and / or in liquidity operations offered by Monetary Authorities.
Market risk (see page 76) Market risk is the risk of loss arising from movements in interest rates, FX rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking. Market risk arises through the conduct of customer business, particularly in fixed-rate lending and the execution of derivatives and FX business. Within limits and policy, the Group seeks to generate income from leaving some customer-originated or intra-Group originated risk unhedged or through assuming risk proactively in the market. Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet, the multi-currency nature of the Group's balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk).	• Board approved Risk Appetite limits. • Group Market Risk Policy. • Comprehensive framework for monitoring compliance with the Board's market risk appetite limits, more granular market risk limits and other controls. • The Group substantially reduces its market risk through hedging in external markets. • Value at Risk (VaR) and extensive stress testing of market risks.

Business Review
Governance
Financial Statements
Other Information

1 Principal Risks and Uncertainties (continued)

Key risks	Key mitigating considerations
Life insurance risk (see page 80) Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behavioural characteristics, may be short or long term in nature. Life insurance risk arises from the Group's life insurance subsidiary (NIAC) selling life assurance products in the Irish market.	• Board approved Risk Appetite limits. • Underwriting standards and limits are in place and apply throughout the policy lifecycle from risk acceptance to claim settlement. • Reinsurance is used to manage the volatility from both individual claims and aggregate risk exposures. Coverage is placed with a diversified list of approved counterparties. • The sensitivity of the Group's exposure to life insurance risk is assessed regularly and appropriate levels of capital are held to meet ongoing capital adequacy requirements. • Management undertakes a rigorous analysis of claims and persistency experience on a regular basis and monitors these against the assumptions in its valuation and pricing bases so that these can be adjusted to reflect experience. Management undertakes pro-active operational initiatives in order to manage persistency risk.
Conduct risk (see page 81) Conduct risk is the risk that the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes. Examples of conduct risk include the risk of staff misconduct whether through corruption or negligence and risk of customer detriment due to improper / inappropriate advice. Conduct risk arises from day-to-day execution of business processes, provision of sales and services, management of key stakeholder expectations and the various activities performed by staff, contractors and third party suppliers.	• Board approved Risk Appetite limits. • A robust, structured and methodical approach for the management of conduct risk is in place across the Group including clearly defined expected standards of behaviour. • Guidance and training to assist the implementation and understanding of the Conduct Risk Management Framework (CRMF). • Customer-centered initiatives.
Regulatory risk (see page 82) Regulatory risk is the risk of failure by the Group to meet new or existing regulatory and / or legislative requirements and deadlines or to embed regulatory requirements into processes. The Group is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of its business, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions.	• Board approved Risk Appetite limits. • Policies and policy standards in place for regulatory compliance risk, regulatory change risk and financial crime risk. • Specific group-wide processes in place to identify, assess, plan, develop and implement key compliance requirements. • Regular status updates and monitoring at key levels in the Group including reporting to the Board Risk Committee (BRC) and Board. • Processes in place to identify, assess, manage, monitor and report financial crime risks as well as controls to mitigate those risks. • Processes in place to support the reporting, investigation, resolution and remediation of incidents of non-compliance. • Group-wide education and training in place.

1 Principal Risks and Uncertainties (continued)

Key risks	Key mitigating considerations
Operational risk (see page 83) Operational risks are risks which may result in financial loss, disruption of services to customers, and damage to our reputation and include the availability, resilience and security of our core IT systems and the potential for failings in our customer processes. Operational risk arises as a direct or indirect consequence of the Group's normal business activities through the day-to-day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and third party suppliers. This also includes the failure to deliver on the Group's multi-year investment programme to replace the Core Banking Platforms and associated risks. *Cyber* It also arises from the risk of cybersecurity attacks which target financial institutions and corporates as well as governments and other institutions. The risk of these attacks remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world.	• The Group RAS incorporates operational risk appetite statements and limits approved by the Board. • The Group utilises a number of strategies in controlling its exposure to operational risk, with the primary strategy being the maintenance of an effective control environment, coupled with appropriate management actions. • The Risk Management Framework (the 'Framework'), consisting of processes and policy standards, aims to embed adequate and effective risk management practices within business units throughout the Group. • Processes to identify, assess, manage, monitor and report operational risks as well as controls to mitigate those risks. • Processes to support the reporting, investigation, resolution and remediation of incidents. • An integrated long term IT strategy and plan developed and being implemented. • An integrated Programme Office with Group level risk governance in place to identify, monitor and report to executive management. • Clear contracts and accountability in place for third party partners for the 'Integrated Plan'. • Regular internal and external audits and testing carried out to ensure adequacy of controls.
Business and strategic risk (see page 84) Business and strategic risk assesses; (1) the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment and; (2) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns, based on its strategic plans and financial forecasts, and an assessment of the business environment. Business and strategic risk arises from changes in the competitive environment, new market entrants, new products, inflexibility in the cost base or failure to develop and execute an appropriate strategy or anticipate or mitigate a related risk.	• Business divisional strategy is developed within the boundaries of the Group's strategy as well as the Group's RAS. These strategies are developed within the divisions and challenged, endorsed, supported and monitored by Group functions. The Board receives regular deep dive presentations on key aspects of the Group's strategy. • The Board receives comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans, the monitoring of risks, updates on the economies in which the Group operates, together with developments in the Group's franchises, operations, people, and other business activities. • An independent Court Risk Report is produced quarterly and reviewed by the Group Risk Policy Committee (GRPC), the BRC and the Board. The content of the report includes an analysis of, and commentary on, the key existing and emerging risk types and also addresses governance, control issues and compliance with risk appetite.
Digital Banking models are evolving, for both consumers and businesses in Ireland and internationally, most notably with the rise of fintech and neo-banks. Rapidly shifting consumer behaviours and available technologies are changing how customers consume products and services. These developments affect the manner in which customers manage their day to day financial affairs and supporting products. Money transmission and data driven integrated services are also forecast to rapidly evolve in the coming years, underpinned by regulatory developments including the revised Directive on Payment Services (PSD2) and the General Data Protection Regulation (GDPR). These developments could restrict the Group's ability to realise its market strategies and financial plans, dilute customer propositions and cause reputational damage.	• In the context of the overall business strategy, the Group assesses and develops its complementary technology strategy to support and mitigate these risks. • Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching 'Integrated Plan', which includes the Core Banking Transformation Programme, is in place to ensure these demands are managed within risk, capacity and financial constraints. • The Group's policies, standards, governance and control models undergo ongoing review to reference the Group's digital strategy and solutions.

1 Principal Risks and Uncertainties (continued)

Key risks	Key mitigating considerations
Business and strategic risk (continued) (see page 84) *Brexit* Ongoing uncertainty following the UK vote to exit the EU, relating to the nature and impact of withdrawal, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity. Other effects may include changes in official interest rate policy in both the UK and Eurozone, which can impact the Group's revenues and also the Group's IAS 19 DB pension deficit, and FX rate volatility, which can impact the translation of the Group's UK net assets and profits.	• Bank of Ireland (UK) plc is a separately regulated, capitalised and self-funded business. • The Group's business in the UK is primarily conducted through key partnerships, which reduces the Group's investment in infrastructure and other items of a fixed cost nature. • The Group manages its exposure to interest rate risk, including sterling risk, through the hedging of its fixed-rate customer and wholesale portfolios, the investment of its non-interest bearing liabilities (free funds) and the setting of conservative limits on the assumption of discretionary interest rate risk. • To minimise the sensitivity of the Group's capital ratios to changes in FX rates, the Group maintains reserves in sterling, ensuring that the currency composition of capital is broadly similar to the currency composition of risk weighted assets.
People risk Includes the continuing impact of remuneration restrictions on the Group in a recovering labour market, which may be further exacerbated post Brexit with increasing competition for skilled resources and / or restricted mobility between jurisdictions. It also includes people management, recruitment and retention risks in relation to the Group's transformation and digitalisation of banking products and services, as the Group adapts to the changing needs and preferences of our customer base.	• The Group has a Board approved human resources strategy providing it with a range of strategies to enable the Group to retain appropriate numbers and / or calibre of staff having regard to remuneration restrictions imposed by government, tax or regulatory authorities. These include Board Talent Reviews including succession planning, the Group's Performance Management Framework, and the Career and Reward Framework as aligned to our purpose and values.
Pension risk (see page 85) The principal Group sponsored DB pension schemes are currently in deficit under the IAS 19 accounting definition, requiring the Group to set aside capital to mitigate these risks. The DB pension schemes are subject to market fluctuations and these movements impact on the Group's capital position, particularly the Group's CET 1 capital ratio, which amongst other things, could impact on the Group's dividend capacity. See note 44 Retirement benefit obligations on page 195.	• Board approved Risk Appetite limits. • To help manage pension risk, DB schemes were closed to new entrants in 2007 and a new hybrid scheme (which included elements of DB and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in 2014 and a new defined contribution scheme was introduced for new entrants to the Group from that date. • In addition, the Group implemented two Pension Review programmes in 2010 and 2013 resulting in significant restructuring of DB scheme benefits which were accepted by unions and by staff through individual staff member consent. • In return for the deficit reduction achieved through these programmes, the Group also agreed to increase its support for the schemes, above existing arrangements, so as to broadly match the IAS 19 deficit reduction arising from the benefit changes, and to facilitate a number of de-risking initiatives. • The Group monitors on an ongoing basis the opportunities at an appropriate cost to increase the correlation between the assets and liabilities of the scheme.

1 Principal Risks and Uncertainties (continued)

Key risks	Key mitigating considerations
Reputation risk (see page 86) Reputation risk is the risk to earnings or franchise value arising from an adverse perception of the Group’s image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners. Reputation risk arises as a direct or indirect consequence of the Group’s operations and business activities.	• Board approved Group Communications strategy. • Potential impact on reputation is considered in the decision making process. • All media, government, political and administrative stakeholder engagement is actively managed by Group Communications. • Print, broadcast and social media coverage is monitored on an ongoing basis. • Group CSR programme in place. • Group Responsible Business Report published annually. • Strong focus on internal communications to ensure that staff are kept informed on relevant issues and developments. • Staff are required to comply with the Group Code of Conduct. • Group purpose statement that is supported by four key values and communicated to all colleagues.
Capital adequacy (see page 87) Capital adequacy risk is the risk that the Group breaches or may breach regulatory capital ratios and internal targets. The Group’s business and financial condition would be negatively affected if the Group was, or was considered to be, insufficiently capitalised. While all material risks impact on the Group’s capital adequacy to some extent, capital adequacy is primarily impacted by significant increases in credit risk or risk weighted assets, materially worse than expected financial performance and changes to minimum regulatory requirements as part of the annual SREP review conducted by the SSM.	• The Group closely monitors capital and leverage ratios to ensure all regulatory requirements and internal targets are met. In addition, these metrics are monitored against the Board approved RAS and suite of Recovery Indicators. • Comprehensive stress tests / forward-looking Internal Capital Adequacy Assessment Process (ICAAP) financial projections are prepared, reviewed and challenged by the Board to assess the adequacy of the Group's capital, liquidity and leverage positions. • The Group has a contingency capital plan which sets out the framework and reporting process for identifying the emergence of capital concerns including potential options to remediate same.

Other significant and emerging risks	Key mitigating considerations
Macroeconomic conditions The Group’s businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in Ireland and the UK, unfavourable exchange rate movements, changes in interest rates, with a potential increase in global protectionism and changes in the international tax environment posing additional risks.	• The Group monitors the risks and impact of changing current and forecast macroeconomic conditions on the likely achievement of the Group’s strategy and objectives. • The Group manages its exposures in accordance with key risk policies including maximum single counterparty limits and defined country limits. • The Group has in place a comprehensive stress and scenario testing process.
Geopolitical uncertainty Geopolitical uncertainties could impact economic conditions in countries where the Group has exposures, market risk pricing and asset price valuations; potentially reducing returns.	• The Group ensures exposures are managed according to approved risk policies which include maximum single counterparty limits and country limits. • The Group is diversified in terms of asset class, industry and funding source.
Litigation and regulatory proceedings Uncertainty surrounding the outcome of disputes, legal proceedings and regulatory investigations (e.g. the Tracker Mortgage Examination), as well as potential adverse judgements in litigation or regulatory proceedings remains a risk.	• The Group has processes in place to seek to ensure the Group’s compliance with legal and regulatory obligations, together with clear controls in respect of the management and mitigation of such disputes, proceedings and investigations as may be instigated against the Group from time to time.

1 Principal Risks and Uncertainties (continued)

Other significant and emerging risks	Key mitigating considerations
Risk in relation to Irish Government Shareholding The risk that the Irish Government, which has a c.14% discretionary shareholding in the Group via the Ireland Strategic Investment Fund, uses its voting rights in a way that might not be in the best interests of the Group's private sector shareholders.	• The Minister for Finance and the Bank entered into a Relationship Framework Agreement dated 30 March 2012, the terms of which were prepared in the context of EU and Irish competition law and to accommodate considerations and commitments made in connection with the EU / IMF Programme for Financial Support for Ireland. • The Framework Agreement provides, inter-alia, that the Minister will ensure that the investment in the Group is managed on a commercial basis and will engage with the Group in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in the Group. In March 2017, as part of the corporate reorganisation, the Company agreed to be bound by and comply with certain provisions of the relationship framework in relation to the Ministerial consent, consultation process and the Group's business plan.
Resolution risk Arising from the implementation of the BRRD and SRM Regulation in Ireland and the UK, the relevant authorities have wide powers to impose resolution measures on the Group which could materially adversely affect the Group, as well as the shareholders and unsecured creditors of the Group. The SRB has the authority to exercise specific resolution powers pursuant to the SRM Regulation similar to those of the competent authorities under the BRRD, including in relation to resolution planning and the assessment of resolvability.	• The SRB advised the Group that its preferred resolution strategy consisted of a single point of entry bail-in strategy, through a group holding company. Pursuant to this strategy and following receipt of shareholder approval, the Group implemented a holding company, BOIG plc, during 2017, which became the parent company of the Group. The structure of the Group is otherwise unchanged. • The Group continues to engage constructively with its resolution authorities, including the SRB, in order to meet regulatory expectations in respect of resolvability. • Scenario planning and strategic planning tools are used to identify impacts.
Tax rates, legislation and practice The Group's financial position and outlook are exposed to the risks associated with a change in tax laws, tax rates, regulations or practice and the risks associated with non-compliance with existing requirements. The Group is also exposed to the risk that tax authorities may take a different view to the Group on the treatment of certain items. Furthermore, failure to demonstrate that it is probable that future taxable profits will be available, or changes in government policy or tax legislation (e.g. a restriction on the ability to use Irish tax losses carried forward against 100% of current year taxable profits) may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements.	• The Group has clearly defined tax compliance procedures to identify, assess, manage, monitor and report tax risks and to ensure controls mitigating those risks are in place and operate effectively. • The Group monitors the expected recovery period for DTAs. • The Group monitors potential changes to tax legislation or government policy and considers any appropriate remedial actions.
Impact of accounting standards (see page 159) IFRS 9 is an accounting standard which became effective on 1 January 2018. Its forward-looking expected credit losses (ECL) approach resulted in higher impairment provisions on transition to IFRS 9 and may lead to more volatile impairment charges with a consequent impact on earnings and capital ratios. The 2018 EU wide stress test is based on a specific methodology and macroeconomic scenarios which differ from those which will be used by the Group in measuring impairment loss allowances under IFRS 9. The Group's projected capital ratios under the stress test are not yet known and may result in regulatory requirements under the SREP process.	• The estimated initial impact of IFRS 9 on capital has been incorporated into the Group's financial planning. The Group retains sufficient buffers in excess of regulatory capital requirements. • The Group is availing of the transitional arrangements for mitigating the impact of IFRS 9 on regulatory capital. These arrangements include relief for a proportion of any increase in stage 1 and 2 impairment loss allowances between transition and the relevant reporting date, subject to certain adjustments. • Capital ratios under the stress test will be produced both including and excluding the transitional arrangements. • Further detail, including mitigants to credit risk factors, is set out in the credit risk section of the Risk Management Report on pages 68 to 70.

2 Risk Management Framework

Key points:

- Corporate reorganisation on 7 July 2017 resulted in a new company, BOIG plc being introduced as the listed holding company of the Group. Previous corporate governance requirements for the Bank now apply at BOIG plc level.
- Reorganisation of the risk management framework during 2017 included:
  - Creation of a new Group Risk function led by the Group Chief Risk Officer (GCRO) with oversight of all risks and direct responsibility for credit risk, market risk and operational risk;
  - Revised Group Governance & Regulatory function (with responsibility for regulatory risk and conduct risk), led by the Chief Governance & Regulatory Officer;
  - Consolidation of all credit risk teams within the Group Chief Credit Officer's responsibilities;
  - Development of a dedicated Enterprise Risk Management unit within the Group Risk function; and
  - Other functions continue to have responsibility for the Group's other key risk types.

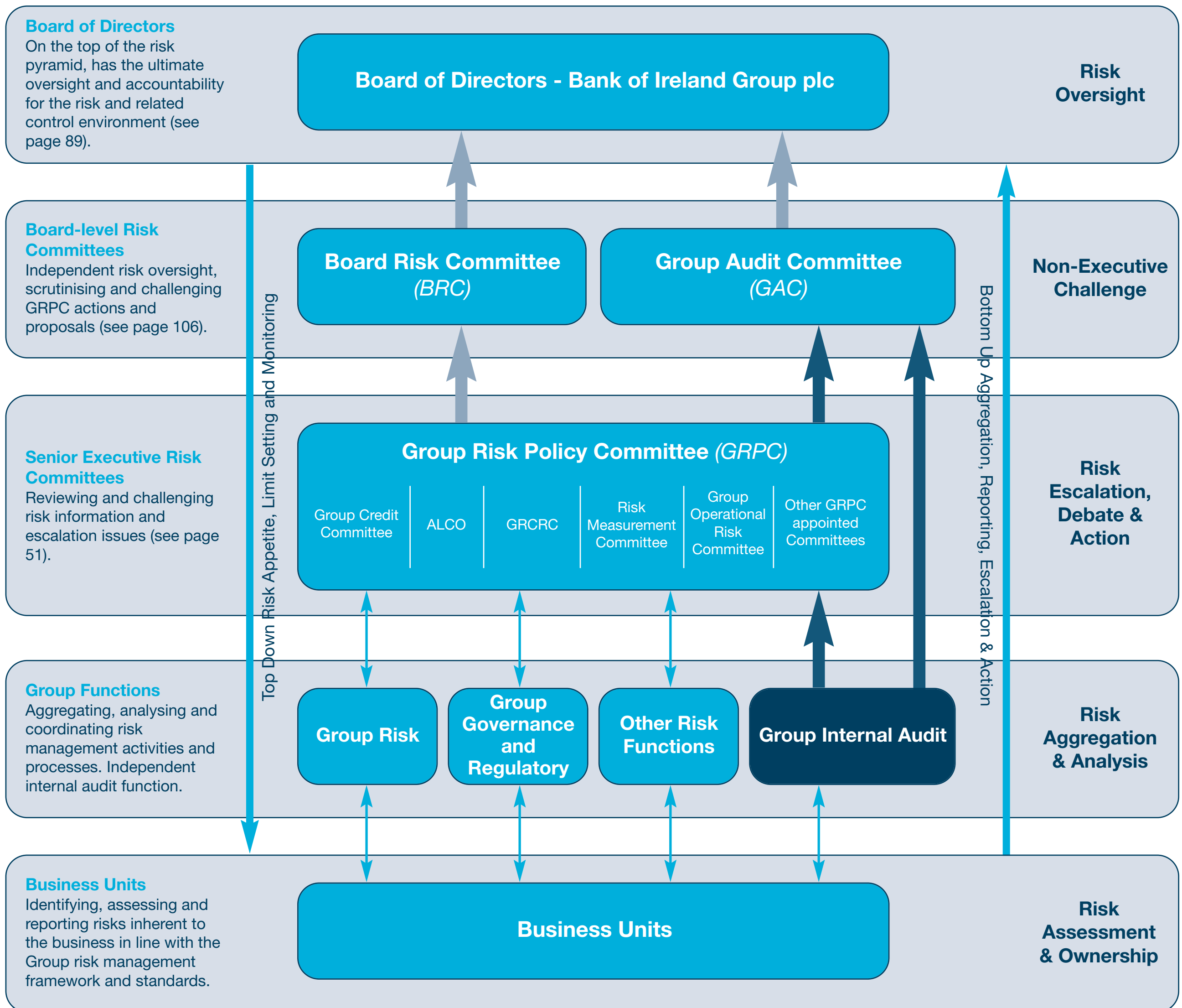
The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy and remuneration practices are aligned within its risk and capital management strategies. The Group's formal governance process to risk management is set out in the risk management framework, which has the objective of ensuring that risks are managed and reported in a consistent manner across the Group. The Framework outlines the approach for setting risk appetite, risk identification, assessment, measurement, monitoring and reporting. The review of the Framework takes into consideration any emerging factors, both internal (e.g. enhancements to capital allocation) and external (e.g. regulatory developments), as well as any lessons learnt. The Framework is reviewed, approved and cascaded by the GCRO annually to all relevant senior management in the Group, and is reviewed and approved by the Board of Directors (the 'Board') at minimum every three years. The key components of the Framework are detailed below:

Key components of Group Risk Framework

2.1 Risk governance

The identification, assessment and reporting of risk in the Group is controlled within the Risk Governance Framework which incorporates the Board, Risk Committees appointed by the Board (e.g. BRC and Group Audit Committee (GAC)), the Group Risk Policy Committee (GRPC) and its appointed committees (e.g. Group Regulatory & Conduct Risk Committee (GRCRC), Group Credit Committee (GCC), and Asset & Liability Committee (ALCO)).

The **Board** is responsible for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Each of the Risk Committees (including the **BRC** and **GAC**) has detailed terms of reference, approved by the Board or their parent committee, setting out their respective roles and responsibilities. Further detail outlining the key responsibilities of the Group's Board-level risk committees can be found on pages 106 to 111 of the Corporate Governance statement.



2.1 Risk governance (continued)

The **Group Risk Policy Committee (GRPC)** is the most senior management Risk Committee and reports to the BRC. It is chaired by the GCRO and its membership comprises members of the Group Executive team and control function executives. It met 28 times during 2017.

The GRPC is responsible for managing all risk types across the Group, including monitoring and reviewing the Group's risk profile and compliance with risk appetite and other approved policy limits, approving risk policies and actions within discretion delegated to it by the BRC. The GRPC reviews and makes recommendations on risk matters where the Board and the BRC has reserved authority. The BRC oversees the decisions of the GRPC through a review of the GRPC minutes and reports from the Committee Chairman. The GRPC delegates specific responsibility for oversight of the major classes of risk to committees that are accountable to it.

The relevant committees are set out in the following table.

Committee	Delegated responsibility
Asset & Liability Committee	Oversight of interest rate, market and liquidity risk, capital and funding
Group Credit Committee	Approval of all large credit transactions
Group Liquidity / Capital Committee	Management of the liquidity and funding positions of the Group. This committee is invoked during periods of market disruption
Group Operational Risk Committee	Governance of operational risk
Group Regulatory and Conduct Risk Committee	Governance of regulatory risk and conduct risk
Group Tax Committee	Approval of tax-based transactions and oversight of tax policy
Impairment Committee	Oversight of the impairment of financial instruments
Portfolio Review Committee	Assessment of the composition of the Group's loan portfolio including concentration risk, consideration of credit portfolio limits and risk-adjusted returns
Risk Measurement Committee	Approval and oversight of all aspects of credit risk measurement systems and may also oversee other risk model classes used for management purposes within the Group
Private Equity Governance Committee	Approval of equity underwriting transactions and private equity investments
US Advisory Risk Committee	Oversight of risk and compliance for the US operations (established in compliance with the Dodd-Frank Act)

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

First line of defence: Primary responsibility and accountability for risk management lies with line management in individual businesses and relevant Group functions. They are responsible for the identification and management of risk at business unit / Group function level including the implementation of appropriate controls and reporting to the Group in respect of all major risk events.

Second line of defence: Central risk management functions are responsible for maintaining independent risk oversight and ensuring that a risk control framework is in place. Nominated 'Risk Owners' are responsible for ensuring:
- formulation of risk strategy;
- that a policy or a process is in place for the risks assigned to them;
- exposure to the risk is correctly identified, assessed according to the Group's materiality criteria, and reported;
- identified risk events are appropriately managed or escalated; and
- independent oversight and analysis along with centralised risk reporting are provided.

Third line of defence: Group Internal Audit (GIA) provides independent, reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering Group businesses and functions (including outsourcing providers - subject to the right to audit), with ratings assigned as appropriate. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates. Group Credit Review (GCR), an independent function within GIA, is responsible for reviewing the quality and management of credit risk assets across the Group. A new Head of GIA was appointed during 2017.

Management oversight of risk
The Board, GRPC and their appointed committees are subject to annual effectiveness reviews which may result in further enhancement as endorsed by the Board. Areas of the reviews' specific focus include organisational design, governance structures and risk appetite design, articulation and implementation.

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

1. Group Risk is responsible for the Group's overall risk strategy and integrated risk reporting to the Board, the BRC and Group Executive team, in addition to oversight of all risks and direct responsibility for credit risk, market risk, and operational risks. The function is led by the GCRO who is a member of the Group Executive team and reports directly to the Group CEO, and may directly influence business decisions by:
    - emphasising a portfolio approach to risk management in addition to a transactional approach;
    - leading the discussion on the setting of risk appetite; and

2.1 Risk governance (continued)

- providing appropriate risk measurements to influence the assessment of business performance.

2. The Group Governance & Regulatory function includes the Group Compliance & Regulatory Risk unit, Group Legal Services and the Group Secretariat. The function, led by the Chief Governance & Regulatory Officer (CGRO), has responsibility for conduct risk and regulatory risk.

The GCRO and CGRO provide independent advice and constructive challenge to the Group Executive in the support of effective risk-informed business decisions. This involves acting as an enabler as well as a challenger of well-structured business growth opportunities that can be shown to fit within the Group's risk appetite.

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

An Enterprise Risk Management unit was established during 2017 to review and develop a comprehensive approach to the management of all key risk types. The unit is part of Group Risk and reports to the GCRO.

2.2 Risk culture

The Group's risk culture encompasses the general awareness, attitude and behaviour of employees to the taking of appropriate risk and the management of risk within the Group. The Board, the BRC, the GRPC, and senior management promote a strong risk culture in the Group.

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

All senior management and relevant staff are required to apply the Group risk management principles in day-to-day operations. Risk management is part of all relevant employees' goals and performance reviews. This helps drive risk-based recognition, incentives and initiatives. All employees are governed by the Group Code of Conduct which is an important expression of the Group's expected standards of behaviour. The Group has established channels and effectiveness reviews to communicate and enforce the Group's risk culture, in addition to procedures to treat violations or breaches of the Code of Conduct.

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

- ***articulation and communication of risk strategy and appetite:*** clear and consistent communication and cascade of the RAS and Board-approved limits. Businesses understand how these apply to their portfolios and translate these into changes in their daily operations and actions;
- ***development of structural control framework:*** a robust structural control framework including limits, policies, restrictions, rules, monitoring, and controls are integral to risk culture to ensure risk-taking remains within Board-approved risk appetite;
- ***enhance organisational structure and governance:*** the Group regularly reviews and updates, as required, the formal structures to support risk management. This includes reporting lines, committees, role descriptions, decision rights, delegated authority and key decision processes;
- ***policies, processes and training:*** policies and procedures are clear, comprehensive and consistent, communicated and accessible to relevant staff, including risk specialists and customer facing employees. Processes with clear roles, responsibilities and timelines are in place to enable the timely identification and escalation of issues; and
- ***employee development and retention:*** a strong risk-aware culture helps attract, develop and retain talented staff, reinforcing business success and risk awareness. Risk goals and priorities are embedded in key HR processes such as recruitment, on-boarding, training, succession planning, and annual performance review.

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

2.3 Risk strategy and appetite

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

The Group's risk strategy and risk appetite to pursue this risk identity are set by the Board.

Risk strategy
The Group's risk strategy is to ensure that the Group clearly defines its risk appetite as reflected in Group strategy and that it has appropriate risk governance, processes and controls in place as articulated in the Group Risk Framework to:
- address its target markets with confidence;
- protect its balance sheet; and
- deliver sustainable profitability.

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

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

Risk appetite is defined in qualitative terms as well as quantitatively through a series of high level limits and targets covering areas such as credit risk, market risk, funding and liquidity risk, and capital measures. These high level limits and targets are cascaded where appropriate into more granular limits and targets across portfolios and business units. Risk appetite guides the Group in its risk-taking and related business activities, having regard to managing financial volatility, ensuring solvency and protecting the Group's core franchises and growth platforms.

Measures, approved by the Group, are employed to track its profile against the most significant risks that it assumes. Each of these measures has a defined target level or limit, as appropriate, and actual performance is tracked against these target levels or limits.

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

2.4 Risk identification and materiality assessment

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

A risk owner is assigned to each key risk category and appropriate policies and / or processes put in place and a formalised measurement and management process defined and implemented. Risk appetite measures for each risk type are set by the Board.

In addition to, and separate from, the Group's risk identification process, a review of the top five risks facing the Group is carried out on a semi-annual basis. This review facilitates a senior management assessment of any new or emerging macro threats to the Group, independent of the risk management and reporting structures that apply to the key risk types below.

The ten key risk types are outlined in the following table:

Key risk types									
Business & Strategic Risk	Conduct Risk	Credit Risk	Funding & Liquidity Risk	Life Insurance Risk	Market Risk	Operational Risk	Pension Risk	Regulatory Risk	Reputation Risk

2.5 Risk analysis and measurement

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

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

At Group level, common measures and approaches for risk aggregation and measurement have also been adopted, in order to inform operational and strategic plans and to steer the business within the boundaries of its risk appetite. These include one-year or multi-year forecasting / stress testing and a capital allocation framework which incorporates economic capital modelling and risk adjusted return analysis. The Group uses a suite of risk measurement models and systems to support decision-making processes at transaction and portfolio levels, e.g. approving a loan facility to a borrower.

Return on Capital

The common measure of return on risk used by the Group is Risk Adjusted Return on Capital (RAROC). RAROC is used to objectively assess the return of individual loans, portfolios and businesses, and is a key performance metric for the Group in the context of allocation of capital.

Loan loss forecasting and solvency stress testing

Forecasting and stress testing are risk management tools used by the Group to alert management to adverse unexpected outcomes related to a variety of risks and inform risk appetite and contingent mitigating action.

The Group conducts:

- Loan loss forecasting which informs senior management about potential outcomes related to loan loss evolution under chosen macroeconomic scenarios (base or stress). This information is regularly used as an input into the Group's budget, strategic plan and ICAAP. Additionally, it can be used to forecast future provisioning needs and / or to understand, and therefore anticipate, earnings volatility and future capital utilisation, such as at portfolio / transaction level. Results of forecasting are used by the Group to make decisions around risk appetite and capital adequacy or to help prepare mitigating actions. They are also used to inform the forward looking point-in-time Probability of Default (PD) which inform the calibration and stress testing of the Group's Internal Rating Based (IRB) Models.
- Solvency stress tests evaluate the Group's financial position under a 'severe but plausible' scenario or shock and provide an indication of how much capital might be needed to absorb losses should such a shock occur. Scenarios for solvency stress testing are approved by GRPC but regulators can also request that a mandated stress scenario be run to assess capital needs across banks in a particular jurisdiction. The approved scenarios are applied to the Group's credit portfolios and financials as appropriate, in order to generate stressed loan loss forecasts and other impacts over the scenario period. The outputs of the solvency stress testing are reviewed and approved by the Board, and used by the Group to inform risk appetite, strategy and capital planning and are an integral component of the Group's ICAAP process. They are also used by regulators to assess the Group's ability to continue to meet its capital requirements under severe adverse conditions.
- Reverse stress testing evaluates the Group's ability to survive an unforeseen severe event or combination of events that would cause the Group's business model to become unviable. Reverse stress testing complements and builds on solvency stress testing by exploring more extreme scenarios / events beyond the likelihood thresholds looked at in solvency stress testing. This is achieved as reverse stress testing is developed in reverse, working back from an outcome of business failure to causal analysis, while the more typical solvency stress testing works towards defining a range of outcomes or probabilities given defined inputs.

The Group also runs more frequent and / or ad hoc stress tests for general risk management purposes. These cover:

Market risk

The following market risks are subject to stress testing as part of its normal risk measurement and management process:

- discretionary market risk, consisting of Trading Book positions and discretionary Interest Rate Risk in the Banking Book (IRRBB) risk;
- structural IRRBB consisting of balance sheet basis risk; and
- structural FX, the sensitivity of Group capital ratios to exchange rate movement.

Discretionary risk and basis risk are stressed using empirically-based scenario analyses. In the case of discretionary risk, the stress test results are potential changes in the economic value of positions; in the case of basis risk, the results are potential changes in one year-ahead net interest income.

Operational risk

Operational risk stresses are modelled based on a scenario-based approach. Severe, yet plausible operational risk loss scenarios are applied on a Group-basis and are used to inform the assessment of the Group's Pillar II capital requirement.

Life insurance risk

Life assurance regulations require each life company board to complete an annual Own Risk Solvency Assessment (ORSA). The ORSA process is intended to consider severe but plausible risks to the business, and the capital or mitigating actions required to withstand those risks within the context of its business plans. This assessment considers a range of sensitivities and scenario tests, including deterioration in the insurance risk experience.

Funding and liquidity risk

The Group stresses its exposure to liquidity risk through liquidity stress testing which provides senior management with the ability to assess the degree to which the Group is vulnerable to extreme but plausible adverse liquidity conditions. It is used to identify the potential impact of a

2.5 Risk analysis and measurement (continued)

range of adverse shocks, including the impacts of rating downgrades and the reduction / withdrawal of certain funding markets such as customer deposits or wholesale markets on the Group's ability to fund its outflows (asset financing and / or contractual obligations) at the required time and at a reasonable cost.

Recovery planning
In line with the BRRD for EU banks, the Group maintains a recovery plan which set out options to restore financial stability and viability in the event of the relevant circumstances arising. The Group's Recovery Plan is approved by the Board on the recommendation of BRC and GRPC. Under a separate but complementary process, the SRB in conjunction with other relevant resolution authorities, conducts resolution planning for all financial institutions that fall under the resolution regime, including the Group. This involves the resolution authority developing the set of actions that would be taken in the event that a firm within scope of the regime fails.

2.6 Risk monitoring and reporting

The GCRO reports on risk to the GRPC, the BRC and the Board on a regular basis. This allows Group management to be clear and consistent in communication with internal and external stakeholders, including markets, rating agencies and regulators. Additionally, it is a process which assists in discharging the regulatory responsibilities of the Group, which stipulates that management, understand the major risks facing the Group and the process in place for managing those risks.

The key risk types identified under the Group's risk identification process are assessed and their status is reported quarterly by the GCRO in the Court Risk Report which is reviewed by the GRPC, the BRC and the Board. The content of the report includes an analysis of and commentary on all key risk types as set out on pages 53 and 54. Updates on risk dashboards and risk appetite compliance are provided on a monthly basis. The Court Risk Report constitutes the highest point of the routine reporting hierarchy with more detailed risk information being considered by divisional level management.

As part of the Group's risk monitoring and review processes and in support of the Group's ICAAP, a suite of risk and capital reports are regularly reviewed by ALCO, the Portfolio Review Committee (PRC) and GRPC. In addition, the Group performs regular ongoing operational reporting and monitoring of credit quality, grade migration and other risk trends as well as the tracking of market risk and operational risk within the Group risk functions. Furthermore, the measurement and reporting process is subject to ongoing review and is enhanced where appropriate.

Breaches of the Group Risk Framework or breaches / exceptions to Board / Board appointed committee approved policies or limits are advised to the GRPC by the relevant risk owner and reported, as necessary by the chairman of GRPC, to the BRC and Board.

Material breaches to other GRPC approved policies are advised to the GRPC by the relevant risk owner at the earliest possible opportunity.

The BRC also receives risk information through its review of the GRPC minutes and through investigations carried out into specific risk matters. The GAC separately receives Internal Audit reports on a range of matters following completion of its independent, risk based assignments or ad hoc reviews.

3 Management of key Group risks

3.1 Credit risk

Key points:

- The macroeconomic environment and outlook in Ireland and the UK, which are the Group's key markets, continued to be favourable in 2017, acknowledging Brexit uncertainty continues, but has had no immediate impact on credit quality.
- Total loans and advances to customers (before impairment provisions) decreased to €78.5 billion in 2017 from €82.4 billion in 2016, with the key drivers being the translation effect of a weaker sterling together with reductions in non-core and non-performing portfolios. Asset quality trends have continued to improve during 2017.
- Non-performing exposures[1] have reduced by 31% to €6.5 billion in 2017, from €9.4 billion in 2016, with reductions across all asset classes.
- Total impairment charges on loans and advances to customers of €15 million have fallen significantly on the prior year (2016: €176 million). This reflects the strong performance of the Group's loan portfolios, the ongoing reductions in non-performing exposures, and a continued positive economic environment during the year in the countries in which the Group's portfolios are located. Provision cover on non-performing exposures was 36% in 2017 (2016: 41%).

Definition of credit risk

(audited except where denoted as unaudited)

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes but is not limited to default risk, concentration risk, country risk, migration risk and collateral risk. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration to inform the setting of appropriate risk mitigation and transfer mechanisms, and to assess risk capital requirements. Risk appetite measures for credit risk are set by the Board.

Credit risk arises from loans and advances to customers. It also arises from financial transactions the Group enters into with financial institutions, sovereigns and state institutions.

Credit facilities can be largely grouped into the following categories:

- cash advances (e.g. loans, overdrafts, revolving credit facilities (RCFs) and bonds), including commitments and letters of offer;
- credit related contingent facilities (issuing of guarantees / performance bonds / letters of credit);
- derivative instruments; and
- settlement lines.

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.

Default risk

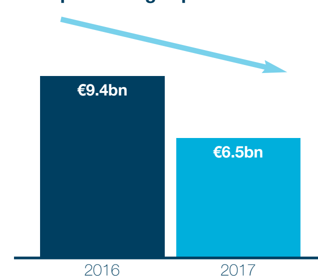
Default risk is the risk that financial institutions, sovereigns, state institutions, companies or individuals will be unable to meet the required payments on their debt obligations. Default may be as a result of one or a number of factors including, but not limited to:

- a deterioration in macroeconomic or general market conditions;
- a credit event (e.g. a corporate transaction);
- a natural or manmade disaster;
- regulatory change, or technological development that causes an abrupt downgrade in credit quality;
- a mismatch between the currency of a borrower's income and their borrowing / repayments; and
- environmental factors that impact on the credit quality of the counterparty.

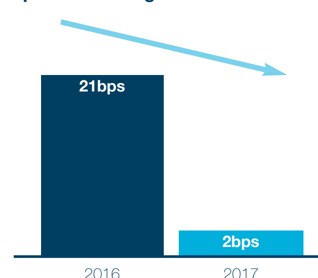
Credit concentration risk

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

Non-performing exposure[1] volumes



Impairment charges on customer loans



[1] As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

3.1 Credit risk (continued)

Definition of credit risk (continued)

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.

Migration risk
Migration risk is the potential for loss due to an internal / external ratings downgrade which signals a change in the credit quality of the loan exposure.

Collateral risk
Collateral risk is the risk of loss arising from a change in the value or enforceability of security held due to errors in the nature, quantity, pricing, or characteristics of collateral security held in respect of a transaction with credit risk.

Credit risk management *(audited)*

Credit risk statement
The Group actively seeks opportunities to provide appropriately remunerated credit facilities to borrowers who are assessed as having the capacity to service and discharge their obligations and to allow growth in the volume of loan assets in line with the Group's risk appetite and to provide a solid foundation for sustained growth in earnings and shareholder value.

The Group's credit strategy is to underwrite credit risk within a clearly defined Board-approved risk appetite and risk governance framework through the extension of credit to customers and financial counterparties in a manner that results in an appropriate return for the risks taken and on the capital deployed while operating within prudent Board-approved risk parameters, and to maximise recoveries on loans that become distressed.

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 Group Risk function has responsibility for the independent oversight of credit risks, and for overall risk reporting to the GRPC, the BRC and the Board on developments in these risks and compliance with specific risk limits. It is led by the GCRO 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 Board. Individual business unit credit policies (which include specific sectoral / product 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 RAS and applicable credit limits, the lessons learned from the Group's loss history, the markets in which the business units operate and the products which they provide.

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

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

The Group's RAS and regulatory requirements set out maximum exposure limits to a customer or a group of connected customers. Long term limits are defined by the Board for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Board.

The Board approves a framework of country maximum exposure guide points which are used as benchmarks for the setting of country limits. A maximum exposure limit framework for exposures to banks is also approved by the GRPC for each rating category. Limits are set and monitored for countries, sovereign obligors and banks in accordance with these frameworks.

3.1 Credit risk (continued)

Credit risk measurement *(audited) (continued)*

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

Loan loss provisioning

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. Where such evidence of impairment exists, the exposure is measured for an impairment provision.

Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working-out loans.

The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems. Details of these internal credit rating models are outlined in the section on credit risk methodologies on page 65. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. This may involve implementing forbearance solutions, entering into restructuring arrangements or action to enforce security.

Whilst provisioning is an ongoing process, all business units formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a half yearly basis. Their conclusions are reviewed by the Group Risk function and the GRPC.

Under delegated authority from the Board, the Group's provisioning methodology is approved by the GRPC on a half yearly basis. On an annual basis, the BRC provides observations on the Group's asset quality management and profile to the GAC as an input into the GAC's assessment of year end impairment provisions. The quantum of the Group's impairment charge, non-performing exposures and impairment provisions are also reviewed by the GRPC in advance of providing a recommendation to the GAC.

An analysis of the Group's impairment provisions at 31 December 2017 is set out in note 27.

Credit risk mitigation *(audited)*

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

Risk transfer and financing strategies

The objective of risk mitigation / transfer is to limit the risk impact to acceptable levels. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration. Where possible emergence of undue risk concentrations are identified, the risk capital implications are assessed and, where appropriate, risk transfer and mitigation options (e.g. securitisations, hedging strategies) are explored and recommended to the PRC.

Collateral

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed. Various types of collateral are accepted, including property, securities, cash, guarantees and insurance.

The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or PD.

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in the tables on pages 247 and 260.

Counterparty credit risk arising from derivatives

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

3.1 Credit risk (continued)

Credit risk reporting / monitoring *(audited)*

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

The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly in the Court Risk Report. This report is presented to and discussed by the GRPC and the Board. The quarterly Court Risk Report is also presented to and discussed by the BRC. A report on exceptions to credit policy is presented to and reviewed by the GRPC, BRC and the Board on a quarterly basis.

The PRC considers and recommends to the GRPC, on a quarterly basis, credit concentration reports which track changes in sectoral and single name concentrations measured under agreed parameters.

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

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

Management of challenged assets *(audited)*

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

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

Group forbearance strategies

Forbearance occurs when a borrower is granted a 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. The range of forbearance strategies used are set out in the supplementary asset quality and forbearance disclosures on pages 242 to 277.

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. Forbearance requests are assessed on a case by case basis, taking due consideration of the individual circumstances and risk profile of the borrower.

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

The Group Credit Policy and Group Credit Framework outlines the core principles and parameters underpinning the Group’s approach to forbearance with individual business unit policies and procedures defining in greater detail the forbearance strategies appropriate to each unit.

Borrower compliance with revised terms and conditions may not be achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continue to deteriorate, or fail to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met. In the event of non-compliance, a request for further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken - this could for example arise where the value of security held in respect of a loan diminishes over the period of a forbearance arrangement which ultimately proves unsustainable.

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

3.1 Credit risk (continued)

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

The Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications[1].

The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Previously the Group did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.

An exposure continues to be classified as forborne until such time as it satisfies conditions to exit forbearance in line with EBA guidance. Loans that have never been forborne or loans that no longer require to be reported as 'forborne' are classified as 'non-forborne loans'.

All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'.

The Group's definition of impaired loans has been modified to remove non-mortgage loans that are greater than 90 days in arrears but where a specific provision is not required, instead these loans are now classified as 'past due greater than 90 days but not impaired'.

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.

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

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

- High quality ratings apply to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group has an excellent repayment experience. For both forborne and non-forborne loans, high quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale. These ratings are broadly aligned to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies.
- Satisfactory quality ratings apply to good quality loans that are performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale and grade 3 on the seven point grade scale. These ratings are broadly equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings apply to certain mortgage forbearance arrangements where the customer is making full interest and capital repayments.
- Acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale and grade 4 within the seven point scale. These ratings are broadly equivalent to external ratings of B+. In addition, acceptable quality ratings apply to certain mortgage forbearance arrangements where the customer is making at least full interest payments.
- Lower quality ratings apply to those loans that are neither past due nor impaired 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, lower quality ratings apply to certain mortgage forbearance arrangements where the customer is making less than full interest payments.

'Non-performing exposures' (NPEs) consist of:

- impaired loans;
- loans past due greater than 90 days but not impaired;
- Forborne Collateral Realisation loans (FCRs); and
- other / probationary loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

'Impaired' loans are defined as exposures which carry a specific provision whether forborne or not. Specific provisions are as a result of either individual or collective assessment for impairment.

'Forborne collateral realisation' loans (FCRs) that are not greater than 90 days past due and / or impaired consist of loans (primarily residential mortgages) where forbearance is in place and where future reliance on the realisation of collateral is expected, for the repayment in full of the relevant borrower loan. Such arrangements include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

'Past due but not impaired' loans, whether forborne or not, are defined as loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

[1] *In particular the EBA's 'Implementing Technical Standards on supervisory reporting on forbearance and non-performing exposures'.*

3.1 Credit risk (continued)

Asset Quality - Loans & advances to customers (continued)

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposure note on page 180 in the consolidated financial statements.

Non-performing exposures

As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

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

2017 **Risk profile of loans and advances to customers - non-performing exposures**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Impaired	1,314	1,339	1,301	89	4,043
Past due greater than 90 days but not impaired	304	94	66	-	464
Neither impaired nor past due greater than 90 days	1,467	244	302	1	2,014
Total	**3,085**	**1,677**	**1,669**	**90**	**6,521**

2016 Risk profile of loans and advances to customers - non-performing exposures	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impaired	1,634	1,829	2,669	104	6,236
Past due greater than 90 days but not impaired	385	130	159	-	674
Neither impaired nor past due greater than 90 days	1,633	240	646	1	2,520
Total	3,652	2,199	3,474	105	9,430

Unaudited:

In addition to the non-performing exposures on loans and advances to customers shown above, the Group has total non-performing off-balance sheet exposures amounting to €0.1 billion (2016: €0.2 billion).

Non-performing exposures decreased to €6.5 billion in 2017 from €9.4 billion in 2016, with reductions evident across all of the Group's portfolios. Non-performing exposures in 2017 comprise impaired loans of €4.0 billion (2016: €6.2 billion), loans that were past due greater than 90 days but not impaired of €0.5 billion (2016: €0.7 billion), forborne collateral realisation loans of €1.4 billion (2016: €1.8 billion) and other non-performing exposures[1] of €0.6 billion (2016: €0.7 billion).

[1] *Other / probationary loans, including forborne loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.*

3.1 Credit risk (continued)

Asset Quality - Loans & advances to customers (continued)

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

2017 **Total loans and advances to customers Composition and impairment**	**Advances (pre-impairment) €m**	**Impaired loans €m**	**Impaired loans as % of advances €m**	**Specific impairment provisions €m**	**Specific provisions as % of impaired loans €m**
Residential mortgages	46,659	1,314	2.8%	492	37%
- Retail Ireland	*24,069*	*1,125*	*4.7%*	*471*	*42%*
- Retail UK	*22,590*	*189*	*0.8%*	*21*	*11%*
Non-property SME and corporate	18,763	1,339	7.1%	764	57%
- Republic of Ireland SME	*8,213*	*982*	*12.0%*	*553*	*56%*
- UK SME	*1,703*	*100*	*5.9%*	*52*	*52%*
- Corporate	*8,847*	*257*	*2.9%*	*159*	*62%*
Property and construction	8,747	1,301	14.9%	681	52%
- Investment	*8,277*	*1,135*	*13.7%*	*581*	*51%*
- Land and development	*470*	*166*	*35.3%*	*100*	*60%*
Consumer	4,318	89	2.1%	56	63%
Total	**78,487**	**4,043**	**5.2%**	**1,993**	**49%**

2016 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Impaired loans[1] €m	Impaired loans as % of advances €m	Specific impairment provisions €m	Specific provisions as % of impaired loans €m
Residential mortgages	48,207	1,634	3.4%	686	42%
- Retail Ireland	*24,329*	*1,458*	*6.0%*	*659*	*45%*
- Retail UK	*23,878*	*176*	*0.7%*	*27*	*15%*
Non-property SME and corporate	20,000	1,829	9.1%	1,004	55%
- Republic of Ireland SME	*8,808*	*1,381*	*15.7%*	*760*	*55%*
- UK SME	*1,909*	*121*	*6.3%*	*66*	*55%*
- Corporate	*9,283*	*327*	*3.5%*	*178*	*54%*
Property and construction	10,344	2,669	25.8%	1,632	61%
- Investment	*9,321*	*1,965*	*21.1%*	*1,118*	*57%*
- Land and development	*1,023*	*704*	*68.8%*	*514*	*73%*
Consumer	3,811	104	2.7%	69	66%
Total	82,362	6,236	7.6%	3,391	54%

Unaudited:
At 31 December 2017, **Loans and advances to customers** (pre-impairment) of €78.5 billion were €3.9 billion lower than 2016, with currency translation and reductions in impaired loans accounting for substantially all of the reduction.

Impaired loans of €4.0 billion were €2.2 billion lower than 2016. The reduction in impaired loans in the year reflects the Group's continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty along with the positive economic environment and stable or increasing collateral values. Resolution strategies include the realisation of cash proceeds from property asset sales activity, and, where appropriate, have given rise to the utilisation of provisions.

[1] *As described on page 60, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows; impaired 'Non-property SME and corporate' have reduced by €130 million (from €1,959 million to €1,829 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €126 million to €256 million) and impaired 'Property and construction' loans have reduced by €159 million (from €2,828 million to €2,669 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €213 million to €372 million).*

3.1 Credit risk (continued)

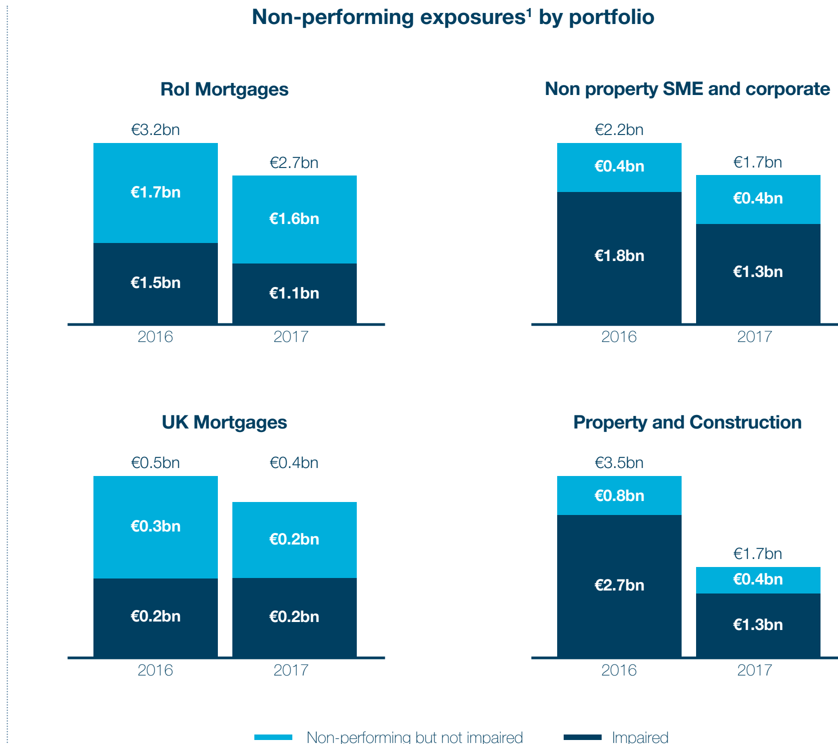
Asset Quality - Loans & advances to customers (continued)

At 31 December 2017, the stock of **impairment provisions** of €2.4 billion was €1.5 billion lower than 2016. Impairment provisions of €2.4 billion at 31 December 2017 are after provisions utilised in the year of €1.6 billion as set out in note 27 on page 180.

The Group's provision cover at 31 December 2017 reflects a combination of the significant reduction in the Group's impaired loans, impairment charges recognised during the year and provisions utilised. The Group's impaired loans **provision coverage ratio** was 49% at 31 December 2017 (2016: 54%). Provision cover was lower than 2016 given improvements in observed recovery values, the implementation of resolution strategies and, to a lesser extent, the evolution in the composition of impaired loans.

Included in the preceding table is €31.6 billion of UK customer exposure[2] at 31 December 2017. Of this, €22.6 billion relates to Retail UK mortgages, €4.0 billion non-property SME and corporate, €2.6 billion Property and construction, and €2.4 billion Consumer.

Of the €4.0 billion UK Non-property SME and corporate exposure (€1.7 billion SME and €2.3 billion corporate) at 31 December 2017, €0.1 billion was impaired, primarily related to UK SME. UK



Non-property SME and corporate impaired loans provision coverage ratio was 59% at 31 December 2017.

Of the €2.6 billion UK Property and construction exposure at 31 December 2017, €0.3 billion was impaired. At 31 December 2017, UK Property and construction impaired loans provision coverage ratio was 43%.

Of the €2.4 billion UK Consumer lending at 31 December 2017, €27 million was impaired, with an impaired loans provision coverage ratio of 67%. High provision cover reflects the unsecured nature of this lending.

[1] *As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

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

3.1 Credit risk (continued)

Asset Quality - Loans & advances to customers (continued)

The table below summarises the composition, non-performing exposures[1] and impairment provisions of the Group's loans and advances to customers.

2017 **Total loans and advances to customers Composition and impairment**	**Advances (pre-impairment) €m**	**Non-performing exposures €m**	**Non-performing exposures as % of advances €m**	**Impairment provisions €m**	**Impairment provisions as % of non-performing exposures €m**
Residential mortgages	46,659	3,085	6.6%	706	23%
- Retail Ireland	*24,069*	*2,650*	*11.0%*	*643*	*24%*
- Retail UK	*22,590*	*435*	*1.9%*	*63*	*14%*
Non-property SME and corporate	18,763	1,677	8.9%	826	49%
- Republic of Ireland SME	*8,213*	*1,263*	*15.4%*	*579*	*46%*
- UK SME	*1,703*	*147*	*8.6%*	*62*	*42%*
- Corporate	*8,847*	*267*	*3.0%*	*185*	*69%*
Property and construction	8,747	1,669	19.1%	739	44%
- Investment	*8,277*	*1,484*	*17.9%*	*637*	*43%*
- Land and development	*470*	*185*	*39.4%*	*102*	*55%*
Consumer	4,318	90	2.1%	88	98%
Total	**78,487**	**6,521**	**8.3%**	**2,359**	**36%**

2016 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Non-performing exposures €m	Non-performing exposures as % of advances €m	Impairment provisions €m	Impairment provisions as % of non-performing exposures €m
Residential mortgages	48,207	3,652	7.6%	988	27%
- Retail Ireland	*24,329*	*3,162*	*13.0%*	*911*	*29%*
- Retail UK	*23,878*	*490*	*2.1%*	*77*	*16%*
Non-property SME and corporate	20,000	2,199	11.0%	1,082	49%
- Republic of Ireland SME	*8,808*	*1,686*	*19.1%*	*797*	*47%*
- UK SME	*1,909*	*174*	*9.1%*	*78*	*45%*
- Corporate	*9,283*	*339*	*3.7%*	*207*	*61%*
Property and construction	10,344	3,474	33.6%	1,717	49%
- Investment	*9,321*	*2,742*	*29.4%*	*1,198*	*44%*
- Land and development	*1,023*	*732*	*71.6%*	*519*	*71%*
Consumer	3,811	105	2.8%	98	93%
Total	82,362	9,430	11.4%	3,885	41%

Unaudited:

The movements in non-performing exposures in the year are consistent with the movements in impaired loans as set out on page 62. At 31 December 2017, the Group's non-performing exposures provision coverage ratio was 36% (2016: 41%).

For an analysis of the composition of the impairment provision on forborne loans and advances, see page 277 in the supplementary asset quality and forbearance disclosures.

[1] *As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

3.1 Credit risk (continued)

Credit risk methodologies *(audited)*

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

The primary model measures used are:
- Probability of Default (PD): the probability of a given counterparty defaulting on any of its borrowings from the Group within the next twelve months;
- Exposure at Default (EAD): the exposure the Group has to a defaulting borrower at the time of default; and
- 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.

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 statements) together with a qualitative assessment of non-financial risk factors such as management quality and market / trading outlook. Lending to financial institutions is assigned an internal rating supported by external ratings of the major rating agencies.

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

Non-retail internal rating systems
The Group has adopted the Foundation IRB approach for certain of its non-retail exposures. Under this approach, the Group calculates its own estimates for PD and uses supervisory estimates of LGD and credit conversion factors.

Retail internal rating systems
The Group has adopted the Retail IRB approach for the majority of its retail exposures. Under this approach, the Group calculates its own estimates for PD, LGD and credit conversion factors. External ratings do not play a role within the Group's retail internal rating systems, however, external credit bureau data does play a significant role in assessing UK retail borrowers.

Other uses of internal estimates
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 RAROC;
- credit decisioning / automated credit decisioning;
- borrower credit approval; and
- internal capital allocation between businesses of the Group.

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

Control mechanisms for rating systems
The control mechanisms for rating systems are set out in the Group's Credit IRB Model Risk Policy and Standards. The Risk Measurement Committee (RMC) approves all risk rating models, model developments and all associated policies. The Group mitigates model risk for rating models as follows:
- model development standards: the Group adopts centralised standards and methodologies over the operation and development of models. This ensures a common approach to documentation, data quality and management, conservatism and model testing;
- model governance: the Group adopts a uniform approach to the governance of all risk rating model related activities. This ensures the appropriate involvement of stakeholders;
- model performance monitoring: all risk rating models are subject to testing on a quarterly basis. The findings are reported to RMC; and
- independent validation: all risk rating models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit (ICU)) which is independent of credit origination and management functions.

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

In addition, GIA 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.

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 2017, the following events require 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:
- loan asset has fallen 90 days past due;

3.1 Credit risk (continued)

Credit risk methodologies (continued)

- a forbearance measure has been requested by a borrower and formally assessed; and
- 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.

Portfolio specific events for Residential mortgages

- 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.

Portfolio specific events for larger SME / corporate and property loans

- 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;
- 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% (Property and construction only);
- 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).

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. Impaired loans have a specific provision attaching.

The Group's impairment provisioning methodologies are compliant with IFRS. 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 (DCF) 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 DCF 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.

An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on pages 173 and 180.

Methodology for collectively assessing impairment
Where exposures fall below the threshold for individual assessment of impairment, or exposures do not otherwise require individual lender assessment, such exposures are automatically included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics (e.g. portfolio of consumer personal loans) are pooled together and a provision is calculated by estimating the future cash flows of a group of exposures. In pooling exposures based on similar credit risk characteristics, consideration is given to features including: asset type; industry; past due status; collateral type; and forbearance classification. The provision estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which are based on historical experience (i.e. amount and timing of cash flows / LGD) are regularly compared against current experience in the loan book and current market conditions.

Some of the key parameters at 31 December 2017 used in the Retail Ireland Residential mortgage collective specific provisioning model include assumptions in relation to:

- indexed residential property valuation[1];
- forced sale discount (23% to 55%);
- workout costs (7%);
- weighted average cure rate (33.43% over three years, with cure assumptions segmented by: forbearance classification and region (for relevant cohorts));
- weighted average repayment rate (5.91% over three years); and
- time to sale (3.5 years from the reporting date).

[1] *Indexed value with reference to end September 2017 Central Statistics Office (CSO), Residential Property Price Index (RPPI) for 'Dublin - all residential properties' and 'National excluding Dublin - all residential properties' (hereafter 'Non-Dublin'). At that date, the Dublin index was 24% lower than its peak and the non-Dublin index was 29.8% lower than its peak. The end September CSO index was published on 8 November 2017 and was used in the updating of the Retail Ireland mortgage collective impairment provisioning parameters and assumptions, which were approved internally for year ended 31 December 2017.*

3.1 Credit risk (continued)

Credit risk methodologies (continued)

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

The Group's critical accounting estimates and judgements which are set out in note 2 to the consolidated financial statements, include sensitivity analysis disclosure on some of the key judgemental areas, including RoI 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 pages 173 and 180.

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

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

A key assumption used in the calculation of the IBNR impairment provisions for past due greater than 90 days but not impaired Retail Ireland Residential mortgages is the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions have been reviewed during the year informed by the Group's most recent observed experience (including updated residential property sales data). The resulting updates, particularly in relation to the residential property value assumptions, the forced sale discounts and work-out costs used in the IBNR provisioning model, are the same as those outlined above in respect of the Retail Ireland Residential mortgage collective specific provisioning methodology.

The past due greater than 90 days but not impaired IBNR model cure assumptions are segmented as appropriate and updated for recent observed experience. At 31 December 2017 the cure assumptions reflect a weighted average cure rate of 50.84% over a three year period. At 31 December 2017, the weighted average repayment rate applied to the past due greater than 90 days but not impaired IBNR model is 10.05% over a three year period.

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 2017 emergence periods are in the following ranges: 6 to 20 months for both forborne and non-forborne Retail Ireland Residential mortgages and three to four months for both forborne and non-forborne larger SME / corporate and property loans. Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling.

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

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 2016.

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

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

This assessment may result in a deterioration in the credit grade assigned to the loan, potentially increasing the frequency of the formal review process; where impairment is also deemed to have occurred, this will result in a specific provision.

Individually assessing impairment and forbearance
The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis).

Collectively assessing impairment and forbearance[1]
Forborne exposures are pooled together for collective impairment provisioning, including IBNR provision calculations. 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), 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

[1] *For collective provisioning purposes, the Group applies a definition of forbearance that is aligned with the Central Bank of Ireland's 'Impairment Provisioning & Disclosures Guidelines' 2013*

3.1 Credit risk (continued)

Credit risk methodologies (continued)

methodologies and provisioning model parameters and assumptions applied to forborne loan pools are reviewed regularly, and revised as necessary, to ensure that they remain reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This includes a comparison of actual experience to expected outcome.

Provisioning and forbearance
Exposures which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision book cover on forborne loans 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), an immediate review and assessment of the required impairment provision is undertaken.

An impaired loan is restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible.

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

Methodologies for valuation of property collateral
Retail Ireland mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the CSO RPPI. 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 Board approved policy which sets out the Group's approach to the valuation of commercial property collateral and the key principles applying in respect of the type and frequency of valuation required. This policy is consistent with the CBI regulatory guidance. In line with the policy, valuations may include formal written valuations from external professionals or internally assessed valuations.

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

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

These estimated valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Group 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.

IFRS 9 'Financial instruments' *(unaudited)*
IFRS 9 'Financial instruments' is effective for annual periods commencing on or after 1 January 2018. The Group's IFRS 9 Programme has been in existence since 2015 and extensive information on the progress of IFRS 9 implementation has been given in the Group's Annual and Interim Reports since then.

Overall implementation
Development work on the IFRS 9 technology infrastructure, operating model and governance, and the expected credit losses (ECL) or impairment model suite is largely completed. Successful completion of system integration testing and user acceptance testing of each component of the end-to-end technical solution in the last quarter of 2017 supported the Group's readiness for compliance with IFRS 9 from 1 January 2018. Further refinement of the technology infrastructure will continue during 2018.

Classification and measurement
The Group has completed its assessment of business models and the contractual cash flow characteristics of financial assets. There was no change in measurement basis for the vast majority of the Group's financial assets.

IFRS 9 business models have been defined based on:
- how groups of financial assets are managed together;
- how their performance is evaluated and reported to key management personnel;
- how risks are managed; and
- intentions about future sales.

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

3.1 Credit risk (continued)

Credit risk methodologies (continued)

Sales of financial assets close to maturity or due to an increase in credit risk, or infrequent sales of significant volumes of financial assets, are consistent with a hold-to-collect business model. Based on recent experience, the volume of sales of financial assets from the Group's hold-to-collect business models has been insignificant.

Under IFRS 9, the changes in the fair value of liabilities designated at fair value through profit and loss (FVTPL) arising from changes in own credit spread, are no longer recognised in the income statement but are instead recognised in other comprehensive income, unless this would create or enlarge an accounting mismatch in profit or loss.

The Group has decided not to avail, at transition, of the option to elect to measure certain equity investments at fair value through other comprehensive income. Likewise, the Group has decided not to avail of the 'overlay approach' available to issuers of insurance contracts under IFRS 4.

The Group expects to early adopt amendments to IFRS 9 related to prepayment features with negative compensation (awaiting EU endorsement). This has been assumed in estimating the quantitative impact on transition to IFRS 9.

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

Impairment
The Group Impairment Policy applicable under IFRS 9 was approved by the Board in October 2017 to support business readiness by its effective date of 1 January 2018. It outlines the Group's over-arching policies in respect of the impairment of financial instruments under IFRS 9 and is applicable to all business units within the Group.

Impairment models and forward looking information
Development of the Group's suite of IFRS 9 impairment models has concluded, and independent validation and testing is also complete. In the second half of 2017, the impairment models were approved for use by the RMC, which is responsible for approval and oversight of the Group's risk measurement systems, enabling the impairment models to be used in the measurement of the initial IFRS 9 impairment loss allowance and stage allocation at 1 January 2018.

Forward looking information (FLI) refers to probability-weighted future macroeconomic scenarios used in the assessment of significant increase in credit risk and in the measurement of impairment loss allowances under IFRS 9. Three FLI scenarios (a central, an upside and a downside scenario) and associated probability weightings have been approved by the GRPC, the Group's most senior management risk committee. These scenarios have been incorporated into the impairment models to calculate the initial IFRS 9 impairment loss allowance and stage allocation at 1 January 2018. The scenarios include forecasts of variables such as GDP, unemployment and property prices.

FLI scenarios and associated probability weightings will be updated and approved semi-annually by GRPC as part of each statutory financial reporting cycle.

Staging
The Group's standard staging criteria under IFRS 9 apply to the vast bulk of loans and advances to customers. A financial asset which is not credit-impaired and has not experienced a significant increase in credit risk since initial recognition is allocated to stage 1 and is subject to an impairment loss allowance equal to 12-month ECL. The Group's standard criteria to determine if there has been a significant increase in credit risk since initial recognition, leading to stage 2 (unless credit-impaired which is stage 3) and an impairment loss allowance equal to lifetime ECL, incorporate quantitative and qualitative factors. These factors include:

- more than a doubling of remaining lifetime PD;
- whether a financial instrument is forborne or is a non-performing exposure; and
- whether a financial instrument is greater than 30 days past due.

The Group's standard staging criteria are automatically applied as part of the monthly execution of the Group's impairment models, with each financial instrument allocated to a stage. The Group intends to assess the effectiveness of its staging criteria semi-annually and may revise the criteria if appropriate.

The Group applies the low credit risk expedient to most debt securities in scope for the impairment requirements of IFRS 9 and similarly to loans and advances to banks, central banks and investment firms. 'Low credit risk' encompasses PD grades 1 to 5 on the Group's internal PD rating system, which broadly aligns with ratings of AAA to BBB- for the external major rating agencies. Such financial instruments are allocated to stage 1.

From 1 January 2018, the manner in which the Group identifies financial assets as credit-impaired (stage 3, with an impairment loss allowance equal to lifetime ECL) under IFRS 9 results in the Group's population of credit-impaired financial assets being consistent with its population of financial assets in regulatory default. Therefore all financial assets in regulatory default within the scope of the impairment requirements of IFRS 9 are classified as credit-impaired.

In summary, an exposure is considered to be in default if: (a) the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security (including 'forborne collateral realisation' loans and loans which would have been considered impaired under IAS 39); and / or (b) the borrower is greater than 90 days past due and the arrears amount is material.

The population of credit-impaired financial assets that will be reported under IFRS 9 will be broader than the population of impaired loans reported under the definition used by the Group under IAS 39, which equates to loans with a specific provision. The population of non-performing exposures will be broader than the population of credit-impaired financial assets reported under IFRS 9, as it will include other loans meeting non-performing exposure criteria, in line with EBA guidance, such as probationary loans

3.1 Credit risk (continued)

Credit risk methodologies (continued)

that have yet to satisfy exit criteria to return to a performing classification. The quantum of non-performing exposures is unchanged on transition to IFRS 9.

Operating model and governance
Work has concluded on the IFRS 9 operating model and governance framework, leveraging existing arrangements where appropriate and ensuring consistency with the Group's three lines of defence approach to risk management. The impairment operating model is more centralised, driven by some of the key requirements of IFRS 9 such as generating FLI and stage allocation. A new Impairment Committee has been appointed by the GRPC and is responsible for impairment oversight. New and revised impairment business processes, including process controls, have been designed and put into operation.

Training and education briefings have been delivered to relevant internal stakeholders, ensuring business readiness for IFRS 9. This included the roll-out of web-based training for the Group Impairment Policy applicable under IFRS 9.

Practical expedients and policy choices
The Group has applied certain 'practical expedients' as allowed under IFRS 9 including:
- use of the low credit risk practical expedient (as outlined above);
- approximation of the 'credit risk at initial recognition' for in-scope financial instruments originated prior to certain dates in 2017;
- limiting certain information sets on the basis of undue cost or effort; and
- use of loss rates for certain smaller and / or lower risk portfolios.

In determining the appropriateness of practical expedients, the Group has been mindful of the requirement that ECL under IFRS 9 should reflect an unbiased amount and make use of reasonable and supportable information available without undue cost or effort.

The Group has decided not to make the accounting policy choice allowed under IFRS 9 to always measure the impairment loss allowance on lease receivables at an amount equal to lifetime ECL.

Quantitative impact and regulatory treatment

Quantitative impact
The estimated quantitative impact on initial adoption of IFRS 9 is a reduction in stockholders' equity of approximately €120 million after tax, substantially all of which relates to an increase in impairment loss allowance on loans and advances to customers.

The key drivers of the change in impairment loss allowance include but are not limited to:
- the concept of 'stage 2' under IFRS 9 whereby loans which have experienced a significant increase in credit risk since initial recognition are subject to an impairment loss allowance equal to lifetime ECL, which generally exceeds incurred but not reported (IBNR) provisions recognised under IAS 39;
- the incorporation of FLI in impairment calculations at 1 January 2018; and
- the requirement to recognise impairment on loan commitments from 1 January 2018.

The most adversely impacted portfolios are the Non-property SME and Corporate and Consumer portfolios reflecting impairment loss allowances equal to lifetime ECL on stage 2 assets (which generally exceed IBNR provisions recognised under IAS 39) and relatively large undrawn commitments within these portfolios. This adverse impact is partially offset by the RoI Mortgages portfolio where there has been a decrease in impairment loss allowance for non-defaulted (stage 1 and 2) loans.

The Group intends to provide the required detailed disclosures on the actual quantitative impact on the initial adoption of IFRS 9 (which may include refinement to the above estimate) by measurement category and financial asset class in the Group interim report for the six month period ended 30 June 2018. In accordance with the accounting policy choice allowed under IFRS 7 as amended by IFRS 9, comparative figures will not be restated.

Regulatory treatment
The Group has chosen to avail of the transitional arrangements for mitigating the impact of IFRS 9 on regulatory capital as outlined in the amended CRR. This allows the Group to add back to its regulatory CET 1 capital a proportion of the increase in impairment loss allowance on transition to IFRS 9 and also a proportion of any increase in stage 1 and 2 impairment loss allowance between transition and the relevant reporting date, subject to certain adjustments. The proportion to be added back is 95% in 2018 and 85%, 70%, 50% and 25% respectively in the subsequent 4 years with the relief ending on 31 December 2022. The estimated quantitative impact of IFRS 9 on the Group's capital ratios incorporating the transitional arrangements are set out in the capital section of the Operating and Financial review on page 27.

The transitional adjustment arising from the adoption of IFRS 9 is to be spread over 5 years for the purposes of Irish Corporation Tax and 10 years for UK Corporation Tax.

The EBA extended the overall timeline for the 2018 EU-wide stress test to take into account the challenges that implementation of IFRS 9 posed for availability of starting point data. The stress test exercise launched in January 2018. The stress test methodology requires banks to project impairment loss allowances for each of a single baseline and single adverse scenario and to apply a number of assumptions. These assumptions include:
- banks apply their own definition of stage 2 but must assume that stage 1 exposures which experience a threefold increase of lifetime PD become stage 2;
- for stage 3, banks must use the non-performing exposures definition for the projections period; and
- an instrument may be considered 'low credit risk' and allocated to stage 1 if 12 month PD is <0.30%.

Capital ratios under the stress test will be published on both a transitional and fully loaded basis with final results scheduled to be published by November 2018.

3.2 Funding and liquidity risk

Key points:

- Group customer deposits of €76 billion have increased by €0.7 billion since 31 December 2016. The Group's Loan to Deposit Ratio (LDR) reduced by 4% to 100% at 31 December 2017. The increase in Group customer deposits of €0.7 billion comprised of an increase in Retail Ireland division (€3.1 billion) offset by a decrease in Corporate and Treasury division (€1.0 billion) and Retail UK division (€1.4 billion). On a constant currency basis, Group customer deposits increased by €1.9 billion.
- The Group's LCR at 31 December 2017 was 136%. The Group's NSFR at 31 December 2017 was 127%.

Definition of funding and liquidity risk *(audited)*
Funding and liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity risk arises from differences in timing between cash inflows and outflows. 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 statement *(audited)*
Funding and liquidity risk arises from a fundamental part of the Group's business model; the maturity transformation of primarily short term deposits into longer term loans. The Group's funding and liquidity strategy is to maintain a stable funding base with loan portfolios substantially funded by retail originated customer deposit portfolios.

Liquidity risk framework *(audited)*
The Group has established a liquidity risk management framework which encompasses the liquidity policies, systems and controls in place to ensure that the Group is positioned to address its daily liquidity obligations and to withstand a period of liquidity stress. Principal components of this framework are the Group's RAS and associated limits and the Group's Funding and Liquidity Policy, both of which are approved by the Board on the recommendation of the GRPC and the BRC.

The Group Funding and Liquidity Policy outlines 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 ALCO.

These principal components are supported by further liquidity policies, systems and controls which the Group has to manage funding and liquidity risk.

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

The Group's treasury function provides top-down centralised control of the Group's funding and liquidity position including overall responsibility for the management of the Group's liquidity position.

Liquidity risk management consists of two main activities:

- structural liquidity management focuses on the balance sheet structure, the funding mix, the expected maturity profile of assets and liabilities and the Group's debt issuance strategy; and
- tactical liquidity management focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs can be met.

The Group is required to comply with the regulatory liquidity requirements of the SSM and the requirements of local regulators in those jurisdictions where such requirements apply to the Group. SSM requirements include compliance with CRR / CRD IV and associated Delegated Acts.

The Group has remained in full compliance with the regulatory liquidity requirements throughout 2017, and as at 31 December 2017 maintained a buffer significantly in excess of regulatory liquidity requirements.

Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority (PRA) and is subject to the regulatory liquidity regime of the PRA. Bank of Ireland (UK) plc has remained in full compliance with the regulatory liquidity regime in the UK throughout 2017, and as at 31 December 2017 maintained a buffer significantly in excess of regulatory liquidity requirements.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Board to assess the adequacy of the Group's funding and liquidity risk management framework, to assess the key liquidity and funding risks to which it is exposed; and details the Group's approach to determining the level of liquid assets and contingent liquidity that is required to be maintained under both BAU and severe stress scenarios.

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

The Group also monitors a suite of Recovery Indicators and Early Warning Signals in order to identify the potential emergence of a liquidity stress. As part of its contingency and recovery planning the Group has identified a suite of potential

3.2 Funding and liquidity risk (continued)

funding and liquidity options which could be exercised to help the Group to restore its liquidity position on the occurrence of a major stress event.

Liquidity risk reporting *(unaudited)*
The Group's liquidity risk appetite is defined by the Board to ensure that funding and liquidity are managed in a prudent manner. The Board monitors adherence to the liquidity risk appetite through the monthly Court Risk Report.

Management informs the Board in the monthly Court Risk Report of any significant changes in the Group's funding or liquidity position. The Court Risk Report includes the results of the Group's liquidity stress testing. This estimates the potential impact of a range of stress scenarios on the Group's liquidity position including its available liquid assets and contingent liquidity.

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

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

The tables below and on the following page summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2017 and 31 December 2016. These maturity profiles are based on the remaining contractual maturity period at the balance sheet date (discounted). The Group measures liquidity risk by adjusting the contractual cash flows on deposit books to reflect their behavioural stability.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,766 million and €10,878 million respectively (2016: €5,647 million and €10,458 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

Customer accounts include a number of term accounts that contain access features. These allow the customer to access a portion or all of their deposits notwithstanding that this withdrawal could result in a 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 following table.

2017 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	7,379	-	-	-	-	7,379
Trading securities	-	-	-	38	30	68
Derivative financial instruments	155	271	283	823	816	2,348
Other financial assets at fair value through profit or loss[1]	1,087	30	32	178	3,014	4,341
Loans and advances to banks	555	2,267	239	-	-	3,061
Available for sale financial assets[1]	-	682	1,511	6,281	4,732	13,206
Held to maturity financial assets	-	-	-	-	-	-
NAMA senior bonds[2]	-	-	-	-	-	-
Loans and advances to customers (before impairment provisions)	1,663	5,099	7,122	27,400	37,203	78,487
	10,839	**8,349**	**9,187**	**34,720**	**45,795**	**108,890**
Liabilities						
Deposits from banks	87	699	-	-	-	786
Drawings from Monetary Authorities (gross)	-	169	1,726	3,113	-	5,008
Customer accounts	60,993	7,586	4,871	2,379	40	75,869
Derivative financial instruments	160	45	54	578	1,150	1,987
Debt securities in issue	-	730	19	4,800	1,386	6,935
Subordinated liabilities	-	-	-	488	1,619	2,107
Short positions in trading securities	-	-	-	-	-	-
Total	**61,240**	**9,229**	**6,670**	**11,358**	**4,195**	**92,692**

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

3.2 Funding and liquidity risk (continued)

Restated 2016 Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	5,192	-	-	-	-	5,192
Trading securities	-	-	-	18	-	18
Derivative financial instruments	205	305	605	1,299	1,295	3,709
Other financial assets at fair value through profit or loss[1]	1,130	24	30	152	3,286	4,622
Loans and advances to banks	469	2,639	240	-	1	3,349
Available for sale financial assets[1]	-	723	1,381	5,161	3,505	10,770
Held to maturity financial assets	-	-	-	-	1,872	1,872
NAMA senior bonds[2]	-	-	-	451	-	451
Loans and advances to customers (before impairment provisions)	2,347	5,347	7,454	26,745	40,469	82,362
	9,343	9,038	9,710	33,826	50,428	112,345
Liabilities						
Deposits from banks	74	1,615	-	-	-	1,689
Drawings from Monetary Authorities (gross)	-	181	292	2,947	-	3,420
Customer accounts	55,492	9,359	6,849	3,198	269	75,167
Derivative financial instruments	207	76	114	762	1,714	2,873
Debt securities in issue[3]	-	398	1,751	4,288	2,813	9,250
Subordinated liabilities	-	-	1	248	1,176	1,425
Short positions in trading securities	47	-	-	-	-	47
Total	55,820	11,629	9,007	11,443	5,972	93,871

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

Customer deposits *(unaudited)*
The Group's customer deposit strategy is to:

- maintain and optimise its stable retail customer deposit base in Ireland and the UK, in line with balance sheet requirements;
- prudently manage deposit pricing and margins; and
- optimise stable funding levels in line with regulatory liquidity requirements.

Group customer deposits of €75.9 billion were €0.7 billion higher than 2016. This comprises an increase in Retail Ireland division of €3.1 billion, offset by a decrease in Corporate and Treasury division of €1.0 billion (of which €0.4 billion relates to the translation effect of a weaker dollar) and Retail UK division of €1.4 billion (of which €0.8 billion relates to the impact of a weaker sterling). On a constant currency basis, Group customer deposits increased by €1.9 billion.

In the Retail Ireland Division, customer deposits of €44.2 billion have increased by €3.1 billion since 31 December 2016 due to growth in current account credit balances, reflecting strong economic activity.

In the Retail UK Division, customer deposits of £19.0 billion have decreased by £0.5 billion since 31 December 2016, primarily due to the utilisation of BoE's cost efficient TFS.

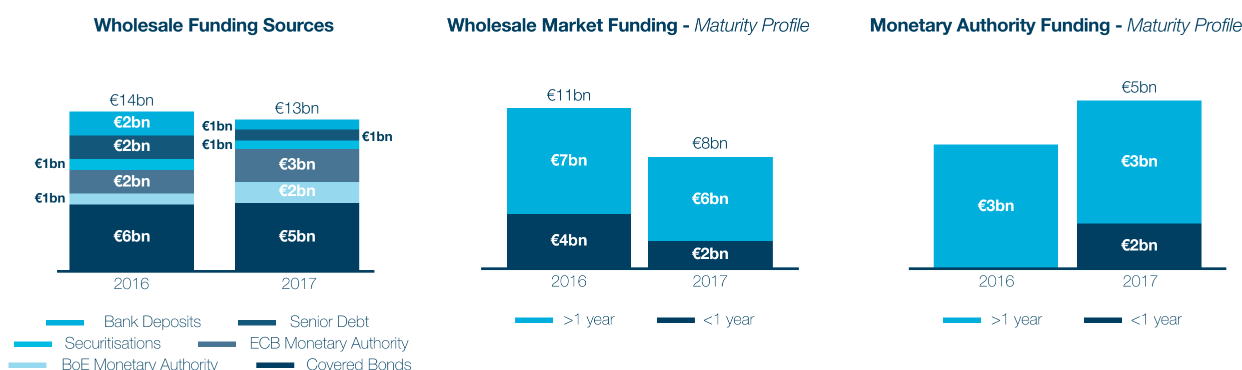
In the Corporate and Treasury Division, customer deposits of €10.3 billion have decreased by €1.0 billion since 31 December 2016, due to the translation effect of a weaker dollar, €0.4 billion and pricing optimisation, including charging negative interest rates where appropriate.

At 31 December 2017, customer deposits of €75.9 billion (2016: €75.2 billion) do not include €0.8 billion (2016: €1.4 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically five to seven years) and consequently are an additional source of stable funding for the Group.

Customer deposits	2017 €bn	2016 €bn
Retail Ireland	44	41
- Deposits	*22*	*22*
- Current account credit balances	*22*	*19*
Retail UK	22	23
Retail UK (Stg£bn equivalent)	19	20
- UK Post Office	*14*	*15*
- Other Retail UK	*5*	*5*
Corporate and Treasury	10	11
Total customer deposits	**76**	**75**
Loan to deposit ratio	**100%**	**104%**

[1] Excluding equity shares which have no contractual maturity.
[2] The maturity date of the NAMA senior bonds is based on their assessed behavioural maturity.
[3] Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain debt securities in issue. Debt securities in issue repayable: 1-5 years has been restated by €1.5 billion from €2.7 billion to €4.2 billion and over 5 years has been restated by €1.5 billion from €4.3 billion to €2.8 billion with no change to overall debt securities in issue.

3.2 Funding and liquidity risk (continued)



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

Following the establishment in July 2017 of the Group's holding company, BOIG plc, future issuance of MREL (Minimum Requirement for Own Funds and Eligible Liabilities) eligible senior debt will be issued by BOIG plc and down-streamed to the Bank subject to finalisation of down-streaming rules by the ECB.

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

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

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

At 31 December 2017, the Group's mismatch in sterling of £7.0 billion was £0.1 billion lower than 2016, primarily driven by amortisation of UK mortgage assets.

Liquidity metrics *(unaudited)*	**2017 %**	2016 %
Liquidity Coverage Ratio[1]	136%	113%
Net Stable Funding Ratio[2]	127%	122%
Loan to deposit ratio	100%	104%

Wholesale funding maturity analysis[3] *(unaudited)*	**2017 Unsecured funding €bn**	**2017 Secured funding from Monetary Authorities €bn**	**2017 Secured funding private sources €bn**	**2017 Total wholesale funding €bn**	2016 Unsecured funding €bn	2016 Secured funding from Monetary Authorities €bn	2016 Secured funding private sources €bn	2016 Total wholesale funding €bn
Less than three months	1	-	1	2	2	-	-	2
Three months to one year	-	2	-	2	1	-	1	2
One to five years	1	3	4	8	1	3	4	8
More than five years	-	-	1	1	-	-	2	2
Wholesale funding	**2**	**5**	**6**	**13**	**4**	**3**	**7**	**14**

[1] *The Group's Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*
[2] *The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the BCBS October 2014 document.*
[3] *The maturity analysis has been prepared using the expected maturity of the liabilities.*

3.2 Funding and liquidity risk (continued)

Ireland - Senior debt *(unaudited)*	**2017 €m**	2016 €m
Standard & Poor's	A+ (Stable)	A+ (Stable)
Moody's	A2 (Stable)	A3 (Positive)
Fitch	A+ (Stable)	A (Stable)
DBRS	A (High) (Stable trend)	A (High) (Stable trend)

BOIG plc - Senior debt *(unaudited)*	**2017 €m**
Standard & Poor's	BBB- (Positive)
Moody's	Baa3 (Positive)
Fitch	BBB (Stable)

The Governor and Company of the Bank of Ireland - Senior debt *(unaudited)*	**2017 €m**	2016 €m
Standard & Poor's	BBB (Positive)	BBB- (Positive)
Moody's	Baa1 (Positive)	Baa2 (Positive)
Fitch	BBB (Stable)	BBB- (Positive)
DBRS	A (Low) (Stable trend)	BBB (High) (Positive trend)

Funding and liquidity position *(unaudited)*
During 2017, the Bank's senior debt credit ratings were upgraded by Moody's, Standard & Poor's, Fitch and DBRS to Baa1, BBB, BBB and A (low) respectively. Fitch and DBRS revised the outlook on the Bank's senior debt credit ratings to Stable from Positive.

BOIG plc's senior debt investment grade credit ratings of Baa3, BBB- and BBB were assigned by Moody's, Standard & Poor's and Fitch during 2017. Fitch upgraded the BOIG plc senior debt credit rating from BBB- to BBB in November 2017. Moody's and S&P have assigned a Positive outlook to the BOIG plc senior debt credit ratings.

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

At 31 December 2017, the Group's overall encumbrance level was 18% (2016: 20%) with c.€19 billion of the Group's assets encumbered (2016: €22 billion). The decrease in encumbered assets is due to a reduction in the volume of assets in the Group's collateral programmes.

3.3 Market risk

Key points:

- The VaR arising from discretionary risk-taking remained at relatively low levels during 2017, this partly reflected the comparatively low levels of market volatility. The Group continues to take moderate interest rate positions in both Trading and Banking books in addition to positions in FX and traded credit markets.
- With the exception of basis risks, the Group manages its structural interest rate and FX positions according to passive conventions.

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

Risk management, measurement and reporting *(audited)*
The management of market risk in the Group is governed by the Group's RAS and by the Group Policy on Market Risk, both of which are approved by the Board. The Group has an established governance structure for market risk that involves the Board, the BRC, the GRPC and the ALCO, which has primary responsibility for the oversight of market risk in the Group. The relevant limits and other controls are set by ALCO.

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

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

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

Market risks that arise are centralised by way of internal hedging transactions with Bank of Ireland Global Markets (BoIGM), which is the treasury execution arm of the Group. These market risks are hedged by BoIGM as a matter of course with external markets or, in the case of a small quantum of the risks concerned, are run as short-term discretionary risk positions subject to policy and limits. Discretionary risk-taking is confined to interest rate, FX and traded credit risk.

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

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

- **Interest Rate Risk in the Banking Book (IRRBB):** This is risk that arises naturally through the conduct of retail and wholesale banking business. This is broken down into mismatch risk, yield curve risk, basis risk and optionality risk. To this can be added, earnings risk arising from non-interest, floored or perpetually fixed assets and liabilities.
- **Trading Book Risk:** This consists of risk positions that are pro-actively assumed which are booked in the Trading Book in compliance with the CRR.
- **Other market-related risks to earnings and / or capital:** Risks to earnings and / or capital that do not fall naturally within the regulatory-defined categories of Trading Book and IRRBB fall under this heading. For the most part, these risks reflect the application of mark-to-market accounting to particular portfolios or the impact of FX rate movements on what is de facto a dual-currency balance sheet. The most material risks arise from the fair valuation of credit risk in securities portfolios and derivative books.

Balance sheet linkage
The accompanying table (see page 77) classifies the balance sheet in terms of Banking Book, Trading Book (as defined above) and Insurance assets and liabilities. The principal risk factors which drive changes in earnings or value in relation to each line item are also set out. Trading Book assets and liabilities were a small proportion of the balance sheet at 31 December 2017 and this is representative of the position throughout the year. Interest rates are the most significant risk factor.

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

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

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

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

3.3 Market risk (continued)

Market risk linkage to the balance sheet *(unaudited)* **31 December 2017**	**Total €m**	**Trading €m**	**Non-trading €m**	**Insurance €m**	**Primary Risk Sensitivity**
Assets					
Cash and balances at central banks	7,379	-	7,379	-	Interest Rate
Derivative financial instruments	2,348	708	1,640	-	Interest Rate, FX, Credit Spread
Trading and other financial assets at fair value through profit or loss	14,489	68	15	14,406	Interest Rate, FX, Credit Spread
Loans and receivables:					Interest Rate
- Loans and advances to banks	3,061	-	2,552	509	Interest Rate
- Loans and advances to customers	76,128	-	76,128	-	Interest Rate
Available for sale financial assets	13,223	-	13,223	-	Interest Rate, FX, Credit Spread
Value of in Force business	565	-	-	565	Equity
Other assets	5,361	-	3,532	1,829	Interest Rate
Total assets	**122,554**	**776**	**104,469**	**17,309**	
Liabilities					
Deposits from banks	4,339	-	4,339	-	Interest Rate
Customer deposits	75,869	-	75,869	-	Interest Rate
Derivative financial instruments	1,987	680	1,307	-	Interest Rate, FX, Credit Spread
Debt securities in issue	8,390	-	8,390	-	Interest Rate
Liabilities arising from insurance and investment contracts	16,644	-	-	16,644	Interest Rate, FX, Credit Spread, Equity
Other liabilities	3,551	-	3,031	520	Credit Spread
Subordinated liabilities	2,107	-	2,107	-	Interest Rate
Total liabilities	**112,887**	**680**	**95,043**	**17,164**	

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

The Group employs a VaR approach to measure, and set limits on, discretionary market risk. This applies to risk taken in the Banking Book (naturally arising risk that is left unhedged) or risk that is pro-actively assumed in the Trading Book. The Group measures VaR for a one-day horizon at the 99% (two-tailed) level of statistical confidence. The volatilities and correlations which are used to generate VaR numbers are estimated using the exponentially weighted moving average (EWMA) approach which gives more weight to recent data and responds quickly to changes in market volatility. VaR is backtested on a daily basis with all exceptions subject to review and explanation.

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

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

The table below shows total VaR at 31 December 2017 was €0.8 million (€1.8 million in 2016). Total VaR is the sum of overall interest rate, foreign exchange and traded credit VaR. Overall Interest Rate VaR is a correlated measure of trading book interest rate and discretionary IRRBB.

The Group's peak, average and end-period VaR numbers for the Trading Book by risk class and discretionary IRRBB are shown in the 'Value at Risk' table (see page 78) for 31 December 2017 and 2016.

Total Value at Risk *(audited)*	**2017 €m**	2016 €m
Total	0.8	1.8

3.3 Market risk (continued)

Value at Risk *(unaudited)*	**2017 €m**	2016 €m
Discretionary IRRBB		
Peak	0.7	0.7
Average	0.2	0.3
End period	0.1	0.2
Trading book interest rate VaR		
Peak	2.4	1.8
Average	0.9	0.7
End period	0.5	0.8
Foreign exchange VaR		
Peak	1.0	1.6
Average	0.4	0.5
End period	0.2	0.6
Traded credit risk		
Peak	0.8	1.2
Average	0.4	0.4
End period	0.2	0.4

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

Structural interest rate risk (unaudited)
Structural interest rate risk is the exposure of Group earnings to the interest rate cycle arising from the existence of non-interest bearing or behaviourally fixed-rate assets and liabilities on the balance sheet. The principal non-interest bearing liabilities are equity and non-interest bearing current accounts. It is Group policy to invest its net non-interest bearing liabilities (or free funds) in a portfolio of swaps with an average life of 3.5 years and a maximum life of seven years. This has the effect of mitigating the impact of the interest rate changes on net interest margin.

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

Net interest income sensitivity analysis (unaudited)
The Group uses net interest income sensitivity analysis to measure the responsiveness of earnings to scenarios for short and long-term rates.

The table below shows the estimated sensitivity of the Group's income (before tax) to an instantaneous and sustained 1% parallel movement in interest rates. The estimates are based on management assumptions primarily related to the repricing of customer transactions; the relationship between key official interest rates set by Monetary Authorities and market determined interest rates; and the assumption of a static balance sheet by size and composition. In addition, changes in market interest rates could impact a range of other items including the valuation of the Group's IAS 19 DB pension schemes.

Basis risk (unaudited)
Basis risk is the exposure of the Group's earnings to sustained changes in the differentials between the floating rates to which the Group's assets, liabilities and

Estimated sensitivity of Group income (1 year horizon) *(unaudited)*	**2017 €m**	2016 €m
100bps higher	c.170	c.140
100bps lower	(c.200)	(c.170)

derivative hedges are linked. In the Group's case, the principal rates used for product and derivative repricing are one, three and six month Euribor and sterling Libor, the ECB refinancing rate and the BoE base rate. In addition, the requirement to fund the Group's sterling balance sheet in part from euro creates a structural exposure to the cost of this hedging.

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

Credit spread risk (unaudited)
Securities purchased as liquid assets and classified as AFS are held at fair value on the balance sheet. Movements in fair value of these holdings as a consequence of changes in the spread to Euribor or Libor are recognised in reserves. At 31 December 2017, the Group held €13.2 billion in securities classified as AFS financial assets (2016: €10.8 billion). A 1% point increase in the average spread to Euribor or Libor of the book in 2017 would have reduced its value by €516 million (2016: €401 million).

An analogous economic risk exists in relation to securities held by NIAC to match policyholder liabilities and to invest its capital. At 31 December 2017, NIAC's bond portfolio had a market value of €1.4 billion (2016: €1.4 billion). At 31 December 2017, a 1% point widening of all credit spreads (measured as bond yields minus the corresponding swap rate) would have had an impact on earnings of €140 million negative, while a 1% point tightening would have had a positive impact of €161 million (2016[1]: €145 million negative and €168 million positive respectively).

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

Interest rate risk in NIAC (unaudited)
In managing the interest rate risk in its business, NIAC has regard to the sensitivity of its capital position, as well as its IFRS earnings, to market movements. NIAC follows a policy of asset / liability matching to ensure that the exposure of

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations. The previously reported 2016 figures were €46 million negative and €24 million positive respectively.*

3.3 Market risk (continued)

its capital position to interest rate movements remains within tolerances, while also managing the impact on IFRS profits. At 31 December 2017, a 1% point fall in swap and yield rates would have reduced its excess own funds (own funds less solvency capital requirement) by €63 million and increased its IFRS profit by €20 million (2016: €65 million and €9 million respectively).

Equity risk *(unaudited)*
NIAC's earnings are also indirectly exposed to changes in equity markets. This arises because a management fee is charged on the value of €5 billion of equities held for policyholders in insurance contracts in its unit linked book. As equity markets move up and down, this gives rise to a change in current and discounted future streams of equity-related fees which is reflected in NIAC's earnings. Every 1% fall in equity markets applied to positions at 31 December 2017 would have reduced NIAC's earnings by €2 million (2016: €2 million reduction). Every 1% increase in equity markets would have had a broadly equal and opposite impact.

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

At 31 December 2017, the estimated sensitivity of the Group's fully loaded CET 1 ratio to a 10% depreciation of sterling and dollar combined against the euro was 6 basis points.

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

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

The structural FX positions at 31 December 2017 and the preceding year end were as follows:

Structural FX position	2017 €m	2016 €m
Sterling - net asset position	2,396	2,170
US dollar - net asset position	547	641
Total structural FX position	**2,943**	**2,811**

3.4 Life insurance risk

Key points:

- NIAC continues to concentrate on the Irish insurance market, selling a core suite of products across a range of distribution channels, including the Bank of Ireland customer base. The risk profile in respect of life insurance risk is largely stable. The process of appropriate underwriting at both the new business and claims stages, as well as reinsuring a proportion of the life insurance risk written, remain key risk management tools.
- NIAC regularly monitors its own experience of trends in life insurance risks and reflects this, where appropriate, in its pricing and reserving assumptions. Experience has been stable and positive in recent years relative to assumptions.
- The Solvency II regulatory framework for insurance undertakings, having been introduced in 2016, is now embedded within NIAC's processes. NIAC's first Solvency and Financial Condition Report, a public disclosure document detailing the approach taken to capital and risk management and governance, as well as other areas of information, was published in May 2017.
- As a relatively new regulatory framework, Solvency II is kept under review by the European Insurance and Occupational Pensions Authority (EIOPA). NIAC has assessed the suitability of the Solvency II regulatory framework to determine its risk capital and found it to be appropriate. NIAC doesn't expect the outcome of the current EIOPA review to materially change this result.
- NIAC's second formal ORSA process was completed with a presentation of the conclusions and recommendations to the NIAC board. This process considers both quantitative and qualitative risk assessments on a forward looking basis, and in the context of strategic objectives, to determine if any weaknesses exist within the risk management framework. While a number of recommendations were made to strengthen this framework, no significant weaknesses were identified. The process confirmed the robustness of NIAC's financial position in the face of extreme but plausible adverse scenarios.
- The compliance environment for the sale of life insurance business is evolving at pace and NIAC is planning for the introduction of several new pieces of regulation and legislation in 2018.

Definition *(audited)*
Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behaviour characteristics, may be short or long term in nature. Mortality risk is the risk of deviations in timing and amounts of cash flows due to the incidence of death being higher than expected. Longevity risk is the risk of deviations in timing and amount of cash flows due to life expectancy being longer than expected. Morbidity risk is the risk of deviations in timing and amount of cash flows due to the incidence of disability and sickness being higher than expected. Persistency or lapse risk is the risk to profitability if policies surrender early as the company will lose the future income streams on these contracts. Expense risk is the risk to profitability if expenses differ to expectation.

Risk management *(audited)*
Life insurance risk is controlled by the Group Risk Appetite and is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the board of NIAC as delegated through internal governance structures.

Reinsurance risk is managed within the NIAC risk management framework with responsibilities delegated through the Reinsurance Risk Policy as approved by the NIAC board. The responsibilities include completing a review of reinsurance arrangements at least annually. This includes a review of the panel of reinsurers that may be used and the structure of reinsurance arrangements. Senior members of the management team with actuarial and underwriting expertise contribute to the effective oversight of this risk.

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

Exposure to life insurance risk is measured by means of sensitivity and scenario testing. Risk capital is calculated for each individual risk type by stressing the best estimate assumptions of future experience by extreme, but plausible, factors. The stress factors are pre-defined by regulation and are set at a level with an expected frequency of occurrence of one year in every 200. NIAC also carries out an ORSA annually which is overseen by the NIAC board. Within the ORSA, NIAC's risk profile is considered, both quantitatively and qualitatively, in a holistic manner with potential areas of risk identified along with conclusions in respect of how those risks will be mitigated. Further details can be found in note 37 on page 191.

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

Risk reporting *(audited)*
An update on the status of life insurance risk is included in the Court Risk Report which is presented to the GRPC, the BRC, and the Board on a quarterly basis. NIAC's ORSA report in respect of the NIAC annual assessment is also presented to the GRPC on an annual basis.

3.5 Conduct risk

Key points:

- During 2017, the Group significantly enhanced the Conduct Risk Management Framework. The CRMF, which was approved by the BRC in July 2017, sets out the approach used by the Group in managing conduct risk to achieve a robust and effective conduct risk control environment.
- Throughout 2017, the Group also developed and implemented a number of Group-wide conduct risk policy standards, in addition to reviewing and revising existing policy standards to ensure that key conduct risks are managed in a consistent manner.
- During 2017, the Tracker Mortgage Examination programme continued to progress with a large number of the impacted customers receiving compensation payments by the end of December.
- Following a change in Group structure in April 2017, a dedicated Group Regulatory and Conduct Risk Committee was established.

Definition
Conduct risk is defined as the risk that the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes.

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

Customer-focused strategy: The delivery of fair outcomes for customers forms the principal consideration of the Group's customer-focused strategy. The Group has no appetite for systemic, unfair and adverse outcomes for customers. However, it is acknowledged that there may be a certain level of risk arising from the nature of the Group's operations e.g. staff and systems dependency, and that unintended, unfair or adverse outcomes may occur.

Product & Service Lifecycle Management: The risk that the design and development of products and services do not address customer needs over their lifetime, or fail to respond to changing customer needs is addressed via the Group's Product & Service Lifecycle Management. It is acknowledged that there may be a certain level of risk arising from the nature and complexity of the product and service lifecycle.

Governance, culture and people: The risk that staff do not meet set standards of behaviour which has a material negative outcome for stakeholders including customers, colleagues, shareholders, suppliers, the Government and regulators is addressed via the Group's Governance, Culture and People component. It is acknowledged that there may be a certain level of risk arising from people-dependent-processes within the Group e.g. where there is unintentional human error.

Risk management and measurement
The Group manages conduct risk under the Group CRMF.

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

The CRMF comprises the following risk management activities, namely:
- conduct risk management approach;
- conduct risk governance;
- key metrics and risk indicators;
- conduct risk policy development and policy compliance; and
- guidance and training.

While the structure of the CRMF is intended to remain relatively constant over time, specific initiatives are pursued in respect of risk management activities and the underlying enablers to ensure the CRMF:
- remains fit for purpose;
- is aligned with business and strategic objectives, and the Board's approved appetite; and
- is responsive to regulatory developments and relevant external events and changes.

In particular, the Group seeks to ensure that its conduct risk management practices comply with any specific conduct risk related obligations arising within the jurisdictions in which it operates. On an annual basis, the Board approves the Group RAS, which incorporates statements for all material risks, including conduct risk.

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

Risk reporting
The current status of conduct risk is reported to senior executives and Board members through the Court Risk Report on a monthly basis. The Group Head of Compliance and Regulatory Risk reports to the GRCRC on the status of conduct risk in the Group, including the progress of associated risk mitigation initiatives, issues and breaches, and significant regulatory interactions on a quarterly basis.

3.6 Regulatory risk

Key points:

- During 2017, supervisory bodies focused on the key areas of business model and profitability risk, credit risk, impairment provisioning (IFRS 9), credit risk modelling, capital adequacy, business continuity management and operational risk. In addition, new legislation came into effect including the Market Abuse Regulation, the Lending to SME Regulation, the Access to Payments Accounts Directive and, under the European Market Infrastructure Regulation, a new central clearing obligation for derivatives.
- Programmes continued / were established in the Group during the year to continue preparations for the significant regulatory change agenda over coming years, including the Markets in Financial Instruments Directive / Markets in Financial Instruments Regulation, the Regulation on the Collection of Granular Credit and Credit Risk Data (AnaCredit), the GDPR and the PSD2.
- The heavy regulatory and compliance agenda is expected to continue in 2018. The Group will maintain its focus on continuing compliance with the existing regulatory requirements of the jurisdictions in which it operates.
- Regulators conduct investigations and examinations on an industry wide basis from time to time.
- Engagement with the Group's regulators in 2017 included matters such as Targeted Review of Internal Models (TRIM), Tracker Mortgage Examination and Anti Money Laundering (AML).
- Following a change in Group structure in April 2017, a dedicated Group Regulatory and Conduct Risk Committee was established.

Definition

Regulatory risk is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. Underpinned by strong engagement with regulatory stakeholders, regulatory risk comprises regulatory compliance risk, corporate governance risk, regulatory change risk and financial crime risk.

Regulatory change risk is the risk that changes to existing or new laws / regulations / codes / guidance applicable to the Group are not effectively addressed and the risk that the Group fails to take timely and remedial actions.

Regulatory compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and / or the violating of contracts and can diminish an institution's reputation.

Corporate governance risk is the risk of loss arising from inappropriate corporate governance structures, authorities or activities leading to incorrect or improper business decisions, or regulatory / legal sanctions.

Financial crime risk is the risk that the measures adopted by the Group to prevent and detect money laundering, terrorist financing or sanctions evasion are not effective and / or do not meet regulatory expectations.

Risk management and measurement

The Group manages regulatory risk under the Group Risk Framework. The framework identifies the Group's formal governance process around risk, including its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives and monitored by the GRCRC, the GRPC, the BRC and Board in line with the overall Group risk governance structure outlined on pages 50 to 52. The effective management of regulatory risk is primarily the responsibility of business management and is supported by the Group Compliance and Regulatory Risk (GCRR) function.

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

Risk mitigation

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

Risk reporting

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

3.7 Operational risk

Key points:

- The cost of remediation arising from the Central Bank of Ireland Tracker Mortgage Examination impacted the operational risk losses of the Group resulting in these being significantly above the historical average.
- Throughout 2017, the Group focused on overseeing the development and embedding of operational risk standards and practices and maintained constructive engagements with supervisors. It continued to ensure it is in a position to meet its regulatory obligations including fulfilling specified risk mitigation requirements within expected timeframes.
- In 2018, the Group will continue to make substantial investment in its IT systems and given the risk attendant to any large transformation programme, there is continued focus to ensure the sustainability and integrity of the Group's operations.
- Following a change in Group structure in April 2017, a dedicated Group Operational Risk Committee (GORC) was established.

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes business continuity, information security, unauthorised trading, fraud, sourcing, cyber-crime, payments, and information technology risk.

Risk management

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

This framework outlines, inter alia the following:

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

Operational risk policy

The Group's exposure to operational risk is governed by policy formulated by the GORC in accordance with the Board's risk appetite and is approved by the BRC within the overall Group risk governance structure outlined on pages 50 to 52.

Risk assessment

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

Risk mitigation and transfer

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

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

Risk reporting

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

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

3.8 Business and strategic risk

Key points:

- On an annual basis, the Board reviews the Group's strategic objectives and key underlying assumptions to confirm that the strategic shape and focus of the Group remains appropriate.
- The Group continues to effectively manage a range of programmes including the Core Banking Transformation Programme and other ongoing investment in its infrastructure, complying with the evolving regulatory environment whilst continuing to invest in improving resilience, efficiencies and customer experience across channels.
- Ongoing impact of quantitative easing on bond yields, official interest rates and discount rates, together with the slow conversion of Irish economic activity into credit formation, causes challenges and risk.
- Economic growth in core markets of Ireland and UK remain positive, notwithstanding ongoing uncertainties related to Brexit.

Definition

Business and strategic risk assesses;

(i) the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment; and

(ii) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns based on its strategic plans and financial forecasts, and an assessment of the business environment.

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

Risk management, measurement and reporting

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

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

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

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

Risk mitigation

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

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

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

3.9 Pension risk

Key points:

- Defined benefit pension funds are subject to market fluctuations, and interest rate and inflation risks, thus a level of volatility is associated with DB pension funding.
- In order to further address this volatility, a review of the Group sponsored DB pension schemes was initiated and completed in 2013. The resulting proposals arising from the review were accepted by employee members of the main DB scheme, the Bank of Ireland Staff Pensions Fund (BSPF).
- These proposals have now been implemented for the BSPF. Similar proposals were implemented for two other Group DB schemes during 2014 and a third scheme in 2015.
- Further liability and risk management exercises have continued in 2017 and will be considered on an ongoing basis in 2018.

Definition

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

Risk management, measurement and reporting

The Group sponsors a number of DB pension schemes for past and current employees. At 31 December 2017, the Group's net IAS 19 pension deficit was €0.5 billion (2016: €0.4 billion) (see note 44). The investment policy pursued to meet the schemes' estimated future liabilities is a matter for the Trustees and the schemes' Investment Committees. The Group, as sponsor, has an opportunity to communicate its views on investment strategy to the Trustees and receives regular updates including scenario analysis of pension risk.

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

Risk mitigation

In order to mitigate pension risk, a new hybrid scheme was introduced in 2007 for all new entrants (see note 44) and the DB schemes were closed to new entrants. A defined contribution scheme was introduced during 2014 for all new employees and the hybrid scheme was closed to new entrants.

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

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

Volatility and interest rate exposure was further reduced in 2014 when the Group agreed with the Trustees to transfer 20% of the listed equity portfolio to bonds. Further liability and risk management exercises continued in 2017 and are considered on an ongoing basis. Nevertheless, a deficit still exists and as the pension funds are subject to market fluctuations, interest rate and inflation risks, a level of volatility associated with IAS 19 pension deficits (see note 44) and their impact on the Group's capital ratios remains.

3.10 Reputation risk

Key points:

- The Group's reputation continues to be influenced and shaped by a range of factors; macroeconomic and political environment, media and public commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and their interaction with the external environment will influence reputation.
- Within this context, actions and achievements of the Group over the past 12 months that have impacted positively on the Group's reputation, include:
  - continuing to be the largest lender to the Irish economy in 2017;
  - the Group's Enterprise & Innovation programme which supports enterprise development including support for start-ups and entrepreneurs; and
  - publication of the Group's Responsible Business Report.
- Some events in 2017 had a negative impact on the Group's reputation including the Central Bank of Ireland's Tracker Mortgage Examination, changes to services within the Bank's retail branch network, and a settlement agreement between the Central Bank of Ireland and Bank of Ireland in relation to AML contraventions. Reputational issues were carefully and intensively managed through the identification of potential risks and the deployment of communication strategies to mitigate these risks, as appropriate.

Definition

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

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

Risk management, measurement and reporting

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

These indicators are:

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

The Group reviews reputation risk as part of the annual risk identification process and has a Group Reputation Risk Policy in place.

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

Risk mitigation

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

4 Capital management

Key points:

- CET 1 ratio is 15.8% under regulatory rules at 31 December 2017.
- Following the 2017 SREP, the Group will be required to maintain a minimum CET 1 ratio of 8.625% on a regulatory basis from 1 January 2018.
  - Includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2018 of 1.875%
  - Pillar II guidance (P2G) is not disclosed in accordance with regulatory preference
- The Group expects to maintain a CET 1 ratio in excess of 13% on a regulatory basis and on a fully loaded basis at the end of the O-SII phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.
- Total capital ratio is 20.2% under regulatory rules at 31 December 2017.
- On a fully loaded basis, the CET 1 ratio is 13.8% at 31 December 2017.
- Leverage ratio is 7.0% on a regulatory basis and 6.2% on a fully loaded basis as at 31 December 2017.

Capital management objectives and policies *(audited)*

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

The current status of capital adequacy, including risk dashboards and risk appetite compliance, is reported to senior executives and the Board through the Court Risk Report on a monthly basis.

Capital resources

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

Group capital resources	2017 €m	Restated[1] 2016 €m
Shareholders' equity	8,859	8,678
Other equity instruments	-	740
Non-controlling interests - equity	808	1
Total equity	**9,667**	**9,419**
Undated subordinated loan capital	122	159
Dated subordinated loan capital	1,985	1,266
Total capital resources	**11,774**	**10,844**

At 31 December 2017, the Group's total capital resources of €11.8 billion were €1.0 billion higher than 2016 primarily due to:

- the issuance of Stg£300 million and US$500 million Tier 2 capital with a maturity of ten years; and
- attributable profit generated during the year and movements in other comprehensive income.

Further details of the Group's capital position and the management thereof can be found in the capital section of the Operating and financial review.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations which has resulted in an increase in the 2016 shareholders' equity of €17 million. See note 62 on page 229 for further detail.*

Governance

Corporate Governance Statement

Index	Page
The Board of Directors	89
Board and other Committees	93
Chairman’s introduction	94
Corporate Governance Report	95
Report of the Group Nomination and Governance Committee	103
Report of the Group Remuneration Committee	105
Report of the Group Audit Committee	106
Report of the Board Risk Committee	110
Attendance Table	112

The Board of Directors

Archie G Kane (65)
Chairman

Appointed:
June 2012 (5.5 years)

Independent:
On Appointment

Relevant skills, experience and expertise:
Archie retired from Lloyds Banking Group plc in May 2011, where he was Group Executive Director - Insurance and Scotland. Prior to that, he held a number of senior and general management positions with Lloyds Banking Group plc and TSB Bank plc. He was Chair of the Association of British Insurers and Chair of the Association of Payments and Clearing Services. He is a former member of the UK Takeover Panel, the Financial Services Global Competitiveness Group, the Insurance Industry Working Group, HM Treasury Financial Services Committee, the Financial Services Advisory Board - Government of Scotland and TheCityUK Advisory Council. Archie has extensive experience of the financial services industry, having spent more than twenty five years in various senior commercial, strategic and operational roles in Lloyds Banking Group plc and TSB Bank plc. He is a member of the Institute of Chartered Accountants Scotland (ICAS).

Committee Membership:
Chair of the Nomination and Governance Committee and member of the Remuneration Committee since June 2012 (5.5 years).

External Appointments:
Non-executive Director of Melrose Industries plc, where he is a member of the Audit Committee, the Remuneration Committee and the Nominations Committee. Trustee of the Stratford-Upon-Avon Literary Festival.

Kent Atkinson (72)
Non-executive Director

Appointed:
January 2012 (6 years)

Independent:
Yes

Relevant skills, experience and expertise:
Kent was Group Finance Director of Lloyds TSB Group between 1994 and 2002. Prior to that, he held a number of senior executive appointments in Retail Banking with Lloyds, including Regional Executive Director for their South East region, and worked for twenty two years in South America and the Middle East with the Group. In addition to his extensive commercial and financial executive experience in the financial services industry, Kent has significant experience as a Non-executive Director across a range of international companies. Previous board appointments include Coca-Cola HBC AG, Cookson Group plc, Gemalto N.V., Standard Life plc, Telent plc (formerly Marconi plc), UK Asset Resolution Limited and Millicom International Cellular S.A. Kent has significant experience in governance, risk management and financial oversight, including in the capacity of Senior Independent Director, Chair of the Audit Committee of a number of entities, and as a member of Risk, Strategy and Mergers and Acquisitions (M&A), Remuneration and Nomination Committees.

Committee Membership:
Member of the Audit Committee since January 2012 (6 years) and Chair since April 2012 (6 years). Member of the Risk Committee since January 2012 (6 years). Member of the Remuneration Committee since July 2016 (1.5 years).

External Appointments:
None.

Pat Butler (57)
Non-executive Director

Appointed:
December 2011 (6 years)
(Resigned: December 2017)

Independent:
Yes

Relevant skills, experience and expertise:
Pat is a partner of The Resolution Group, a financial services investment firm specialising in large scale restructuring. Prior to this he spent twenty five years with McKinsey & Co., where he was a senior Director and led the firm's UK Financial Services Practice and its EMEA Retail Banking Practice. At McKinsey & Co., he advised banks, insurance companies and asset managers in the UK, US, Australia, South Africa, Middle East and several European countries, as well as a range of companies outside financial services on issues of strategy, operations, performance improvement and organisation. He is a Fellow of Chartered Accountants Ireland. Pat has considerable strategic experience in a broad range of industries with an international profile, and an in-depth strategic and operational knowledge of the European and International Banking sector in particular. He was a Director of Bank of Ireland (UK) plc until his retirement.

Committee Membership:
Member of the Nomination and Governance Committee and of the Risk Committee from December 2011 to December 2017 (6 years). Member of the Remuneration Committee from October 2013 to December 2017 (4.5 years).

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

The Board of Directors (continued)

Tom Considine (73)
Non-executive Director

Appointed:
January 2009 (9 years)
(Resigned: December 2017)

Independent:
No

Relevant skills, experience and expertise:
Tom is a former Secretary General of the Department of Finance and a former member of the Advisory Committee of the National Treasury Management Agency. He was also formerly a board member of the Central Bank and Financial Services Authority of Ireland and a former member of the Council of the Economic & Social Research Institute. Tom was nominated as a Director of the Bank by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act, 2008 and was not required to stand for election or regular re-election by shareholders. Tom has extensive experience in the public service, including at the most senior level in the Department of Finance and representing Ireland at European Union level. He is a former President of the Institute of Public Administration. He has experience in finance at a strategic level, financial regulation, fiscal policy and risk management. As a former Secretary General of the Department of Finance and board member of the Central Bank and Financial Services Authority, he has broad experience of the wider macroeconomic environment and related policy issues. He is a Fellow of the Association of Chartered Certified Accountants.

Committee Membership:
Member of the Risk Committee from July 2009 to December 2017 (8.5 years) and Chair until July 2016 (7 years). Member of the Audit Committee from January 2009 to December 2017 (9 years).

External Appointments:
None.

Richard Goulding (58)
Non-executive Director

Appointed:
July 2017 (0.5 years)

Independent:
Yes

Relevant skills, experience and expertise:
Richard held the role of Group Chief Risk Officer and Director at Standard Chartered Bank, where he was a member of the Group Executive Committee, prior to which he held the role of Chief Operating Officer, Wholesale Banking Division. Before joining Standard Chartered in 2002, he held senior executive positions with Old Mutual Financial Services in the U.S., UBS Warburg / SBC Warburg, London and Switzerland, Astra Holding plc, Bankers Trust Company and the Midland Bank Group, London. Richard has extensive risk management and executive experience in a number of banks with an international profile, and brings a strong understanding of banking and banking risks, with a deep knowledge of operational risk. He is a qualified Chartered Accountant (South Africa), having previously obtained a Bachelor of Commerce degree and a postgraduate degree in finance from the University of Natal, South Africa.

Committee Membership:
Member of the Risk Committee and Remuneration Committee since July 2017 (0.5 years).

External Appointments:
Non-executive Director of Citigroup Global Markets Limited, where he is Chair of the Risk Committee and a member of the Audit and Remuneration & Nomination Committees. Non-executive Director of Zopa Group Limited, where he is Chair of the Risk Committee and a member of the Audit Committee.

Patrick Haren (67)
Senior Independent Director;
Non-executive Director

Appointed:
January 2012 (6 years)

Independent:
Yes

Relevant skills, experience and expertise:
Patrick is a former CEO of the Viridian Group, having joined Northern Ireland Electricity (NIE) in 1992 as Chief Executive. He previously worked with the ESB, including as Director - New Business Investment and also served as a board member of Invest Northern Ireland for a number of years. Patrick is an experienced CEO who has gained extensive strategic, corporate development and transactional experience, having led the privatisation of NIE by IPO and grown the business under the new holding company Viridian through to 2007, positioning the company as the market leader in independent electricity generation and supply in competitive markets in Ireland, North and South. He is a past director of Bank of Ireland (UK) plc where he also served as Chair of the Remuneration Committee and a member of the Nomination Committee. He was awarded a knighthood in 2008 for services to the electricity industry in Northern Ireland. He is a member of the Institute of Directors (UK).

Committee Membership:
Member of the Remuneration Committee since January 2012 (6 years) and Chair since May 2015 (2.5 years). Member of the Audit Committee since January 2012 (6 years) and member of the Nomination and Governance Committee since November 2015 (2 years).

External Appointments:
Advisory role to Green Sword Environmental Ltd.

The Board of Directors (continued)

Andrew Keating (47)
Group Chief Financial Officer; Executive Director

Appointed:
February 2012 (6 years)

Independent:
No

Relevant skills, experience and expertise:
Andrew joined the Group in 2004, prior to which he held a number of senior finance roles with Ulster Bank, having qualified as a Chartered Accountant with Arthur Andersen. Prior to his appointment as Group Chief Financial Officer, Andrew held the role of Director of Group Finance. Andrew is an experienced financial services professional who has held a number of senior finance roles in Bank of Ireland and Ulster Bank. He has in-depth knowledge of financial reporting and related regulatory and governance requirements. He is a Fellow of Chartered Accountants Ireland.

Committee Membership:
None.

External Appointments:
Non-executive Director of Irish Management Institute CLG.

Patrick Kennedy (48)
Deputy Chairman;
Non-executive Director

Appointed:
July 2010 (7.5 years)

Independent:
Yes

Relevant skills, experience and expertise:
Patrick was Chief Executive of Paddy Power plc from 2006 to 2014. He served as an Executive Director of Paddy Power plc since 2005 and a Non-executive Director since 2004, during which time he served as Chair of the Audit Committee. He was a member of the Risk Committee of Paddy Power plc from 2006 to 2014. Prior to joining Paddy Power plc, Patrick worked at Greencore Group plc for seven years where he was Chief Financial Officer and also held a number of senior strategic and corporate development roles. Patrick also worked with KPMG Corporate Finance in Ireland and the Netherlands and as a strategy consultant with McKinsey & Co. in London, Dublin and Amsterdam. He was previously a Non-executive Director of Elan Corporation plc. Patrick has in-depth knowledge of international business, management, finance, corporate transactions, strategic development and risk management through his involvement in Paddy Power plc, Elan Corporation plc, Greencore Group plc and McKinsey & Co. He is a Fellow of Chartered Accountants Ireland.

Committee Membership:
Member of the Risk Committee since January 2011 (7 years) and Chair since July 2016 (1.5 years). Member of the Nomination and Governance Committee since September 2014 (3.5 years). Member of the Audit Committee since July 2016 (1.5 years).

External Appointments:
Chair of Cartrawler, where he is a member of the Audit, Risk, Remuneration and Nomination Committees.

Davida Marston (64)
Non-executive Director

Appointed:
April 2013 (5 years)

Independent:
Yes

Relevant skills, experience and expertise:
Davida is a Non-executive Director of Liberbank S.A. and is a former Director of a number of companies, including CIT Bank Limited, ACE European Group Limited, Europe Arab Bank plc and Mears Group plc, where she was Chair of the Audit Committee. She was a member of the UK senior management team of Citigroup's UK Corporate Bank (1990-2003), which included a period as Regional Head UK and Ireland for the Banks and Securities business, and a senior manager at Bank of Montreal (1981-1990). Davida has considerable financial services experience, both as an Executive and Non-executive Director and as Chair of Audit and Risk Committees in financial services companies. She has extensive non-executive experience with banking, life assurance and non-financial services companies. She is a Fellow of the Institute of Directors.

Committee Membership:
Member of the Audit Committee since April 2013 (5 years). Member of the Risk Committee from April 2013 to May 2017.

External Appointments:
Non-executive Director of Liberbank S.A., where she is Chair of the Nomination Committee and a member of the Remuneration Committee.

The Board of Directors (continued)

Francesca McDonagh (42)
Group Chief Executive Officer; Executive Director

Appointed:
October 2017 (0.5 years)

Independent:
No

Relevant skills, experience and expertise:
Francesca was appointed Group CEO in October 2017. She joined the Group from HSBC Group, where she held a number of senior management roles over a twenty year period including Group General Manager and Regional Head of Retail Banking and Wealth Management, UK and Europe, Regional Head of Retail Banking and Wealth Management, Middle East and North Africa, and Head of Personal Financial Services, Hong Kong. Francesca is a very experienced global retail banker, with an exceptional track record, both in terms of financial performance and her leadership of transformation to drive future results in a range of increasingly senior banking roles, and in a range of countries and operating structures. She brings to the Board a leadership style characterised by strong commercial results orientation and a clear strategic vision, with significant customer empathy. Francesca is a member of the PRA Practitioner Panel. She has previously served on the Board of the British Bankers' Association (BBA), where she was Deputy Chair, and on the Board of the National Centre for Universities and Business in the UK. Francesca has a Bachelor of Arts Degree in Politics, Philosophy and Economics from Oxford University.

Committee Membership:
None.

External Appointments:
None.

Fiona Muldoon (50)
Non-executive Director

Appointed:
June 2015 (2.5 years)

Independent:
Yes

Relevant skills, experience and expertise:
Fiona is Group Chief Executive of FBD Holdings plc and FBD Insurance plc, one of Ireland's largest property and casualty insurers. Prior to this, Fiona served from 2011 to 2014 with the Central Bank of Ireland including as Director, Credit Institutions and Insurance Supervision. She also spent 17 years of her career with XL Group in Dublin, London and Bermuda, where she worked in various senior financial management positions including general insurance responsibilities, corporate treasury and strategic activities including capital management, rating agency engagement and corporate development. Fiona has significant experience in governance, regulatory compliance and financial oversight and is an experienced financial services professional. She has significant previous experience within a financial institution with an international focus. Fiona has a Bachelor of Arts Degree from University College Dublin and is a Fellow of Chartered Accountants Ireland.

Committee Membership:
Member of the Risk Committee since November 2015 (2.5 years).

External Appointments:
Group Chief Executive of FBD Holdings plc and Chief Executive of FBD Insurance plc. Director of Insurance Ireland (Member Association) CLG.

Patrick Mulvihill (55)
Non-executive Director

Appointed:
December 2011 (6 years)

Independent:
Yes

Relevant skills, experience and expertise:
Patrick spent much of his career at Goldman Sachs, retiring in 2006 as Global Head of Operations covering all aspects of Capital Markets Operations, Asset Management Operations and Payment Operations. He previously held the roles of Co-Controller, Co-Head of Global Controller's Department, covering financial / management reporting, regulatory reporting, product accounting and payment services. He was also a member of the firm's Risk, Finance and Credit Policy Committees. Patrick has over twenty years' experience of international financial services and has held a number of senior management roles based in London and New York with Goldman Sachs. As a result, he has an in-depth knowledge of financial and management reporting, regulatory compliance, operational, risk and credit matters within a significant financial institution with an international focus. Patrick is a Fellow of Chartered Accountants Ireland and Associate of the Institute of Directors.

Committee Membership:
Member of the Audit Committee since December 2011 (6 years). Member of the Risk Committee from December 2011 to May 2017 and from January 2018 to date.

External Appointments:
Non-executive Director of International Fund Services (Ireland) Limited. Director of Beachvista Limited. Director and Chair of Virtu Financial Transaction Services Limited.

Board and other committees

Senior Independent Director
Patrick Haren

Group Audit Committee (GAC)
Kent Atkinson (Chairman)
Tom Considine *(resigned December 2017)*
Patrick Haren
Patrick Kennedy
Davida Marston
Patrick Mulvihill

Group Remuneration Committee (GRC)
Patrick Haren (Chairman)
Kent Atkinson
Pat Butler *(resigned December 2017)*
Archie G Kane
Richard Goulding

Group Nomination and Governance Committee (N&G)
Archie G Kane (Chairman)
Pat Butler *(resigned December 2017)*
Patrick Haren
Patrick Kennedy

Board Risk Committee (BRC)
Patrick Kennedy (Chairman)
Kent Atkinson
Pat Butler *(resigned December 2017)*
Tom Considine *(resigned December 2017)*
Fiona Muldoon
Richard Goulding
Patrick Mulvihill

Directors who are Trustees of the Bank of Ireland Staff Pensions Fund (BSPF)
Patrick Kennedy
Patrick Mulvihill

Group Risk Policy Committee (GRPC)
Vincent Mulvey (Chairman)
Sean Crowe
Des Crowley
Tom Fee
Andrew Keating
Lewis Love
Francesca McDonagh
Liam McLoughlin *(resigned January 2018)*
Peter Morris
Declan Murray
Helen Nolan
Gabrielle Ryan
Michael Torpey

Group Executive

Francesca McDonagh	Group Chief Executive Officer
Donal Collins	Head of Group Strategy Development
Sean Crowe	Group Treasurer
Des Crowley	Chief Executive, Retail (UK) and Interim Chief Executive, Retail Ireland
Andrew Keating	Group Chief Financial Officer
Lewis Love	Chief Operating Officer
Liam McLoughlin *(resigned January 2018)*	Chief Executive, Retail (Ireland)
Peter Morris	Chief Governance Risk Officer
Vincent Mulvey	Chief Credit and Market Risk Officer
Amy Burke	Interim Head of Group Human Resources
Michael Torpey	Chief Executive, Corporate and Treasury Division

Chairman's introduction

Archie G Kane, Chairman

Dear Shareholder,

I am pleased to present our Corporate Governance Report for 2017. This report explains how the Group applies the principles of good governance.

Establishment of Bank of Ireland Group plc
The Group was reorganised in 2017, following notification to the Group by the Single Resolution Board that a single point of entry bail-in at group holding company level was the preferred resolution strategy for Bank of Ireland Group.

Pursuant to a Scheme of Arrangement, which was approved by shareholders in April 2017, BOIG plc, which was incorporated on 28 November 2016, became the holding company of the Bank on 7 July 2017. BOIG plc replaced the Bank as the main listed entity of the Group on 10 July 2017.

As part of these changes, the structure of governance which was in place for the Bank was replicated at BOIG plc level as follows:

BOIG plc:
- adopted a Board Governance Policy similar to that in place for the Bank;
- put in place a delegation of authority to management, with appropriate reservations of authority;
- delegated authority to the Group CEO as CEO of BOIG plc; and
- established committees mirroring those in place for the Bank.

The existing governance and committee structure of the Bank has remained in place throughout 2017, subject to such amendments as were required by the establishment of BOIG plc.

The Directors of the Bank, with the exception of Brad Martin, were appointed to the board of BOIG plc on 23 March 2017.

As a matter of policy, the Board and main Committees of BOIG plc and the Court of the Bank comprise the same Directors, with Board and Committee meetings for these companies being held concurrently. Agendas are split between the boards and committees of BOIG plc and the Bank, allowing decisions to be taken and scrutinised by the appropriate entity.

Unless a distinction is indicated, this Report describes the activities and governance practices of the parent entity of the Group for the financial year ended 31 December 2017 (i.e. the Bank from 1 January to 7 July 2017 and the Company from that date until 31 December 2017). Thus, references to attendance at, and matters considered by, board and committees reflect the activities at parent level for the entire financial year of 2017. For ease of reference, the term 'Board' includes 'Court', references to Group-level committees include the equivalent entity for the Bank, 'Chairman' includes 'Governor' and so forth.

The Board is accountable to shareholders for the overall direction and control of the Group. It is committed to high standards of governance designed to protect the long term interests of shareholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements.

Central Bank of Ireland Corporate Governance Requirements for Credit Institutions 2015 (the 'Irish Code')
The Irish Code imposes statutory minimum core standards upon all credit institutions licenced or authorised by the Central Bank of Ireland (CBI). The Company's primary banking subsidiary, the Bank, was subject to the Irish Code, (which is available on www.centralbank.ie) throughout 2017. The Bank is also subject to the additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively.

UK Corporate Governance Code
The Company is subject to the UK Corporate Governance Code 2016 published by the Financial Reporting Council in the UK (the 'UK Code' which is available on www.frc.org.uk) and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange (the 'Irish Annex' which is available on www.ise.ie). The UK Code and the Irish Annex applied to the Bank until 7 July 2017. Thereafter the Irish Annex and certain provisions of the UK Code ceased to apply to the Bank. The Bank has voluntarily applied the Irish Annex and those provisions of the UK Code which ceased to apply to the Bank.

Thank you
I would like to thank each of the Directors for their commitment and support during 2017. I would also like to express the Board's sincere appreciation to Richie Boucher for his contribution towards the success of the Group as CEO and to Tom Considine, Pat Butler and Brad Martin for their contributions to the Group as Non-executive Directors over the years. I wish them well in all their future ventures. I would also like to take this opportunity in wishing Francesca McDonagh well in leading the Group into the next phase of its development.

Looking ahead
I have also informed the Board of my intention to step down as Chairman during 2018 and, as this my last report to you in this role, I would like to take this opportunity to thank you for your support over the years. The Senior Independent Director, Mr Patrick Haren is leading the process to identify my successor.

Archie G Kane
Chairman
23 February 2018

Corporate Governance Report

The Directors believe that the Bank complied with the provisions of the Irish Code throughout 2017. The Directors also believe that the Bank and the Company complied with the provisions of the UK Code and the Irish Annex, during the respective periods in 2017 in which the UK Code applied to the Bank and the Company (the 'relevant periods'), other than in the following respects:

- As Tom Considine was nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and was not required to stand for election or regular re-election by shareholders, he was not classified as an independent Non-executive Director. In accordance with the Bye-Laws of the Bank and the Constitution of the Company, Directors nominated by the Minister for Finance may not serve as a Director of the Bank or the Company for a period of longer than nine years after his or her date of appointment.

  Tom Considine was a member of both the Group Audit Committee and BRC, which benefited from his judgement and the quality of his contributions during 2017. Both Committees comprise a minimum of three independent Non-executive Directors as per provision C.3.1 of the UK Code.

- Provision B.7.1 of the UK Code recommends annual election of directors by shareholders. In accordance with the Bye-Laws of the Bank and the Constitution of the Company, Government nominated Directors are not required to put themselves up for re-election on an annual basis and accordingly Tom Considine was not submitted for re-election at the Annual General Court (AGC) held in 2017. Government nominated Directors are subject to an annual review of their fitness and probity.

- Provision D.1.2 of the UK Code states that where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain earnings from that position and if so, what that remuneration is. For part of the period during which he was Executive Director and Group CEO (10 January 2017 to 1 October 2017), Richie Boucher held the position of Non-executive Director of Eurobank Ergasias S.A. ('Eurobank') and retained fees in respect of this position in accordance with the remuneration policy of Eurobank. In accordance with the applicable law governing Eurobank's remuneration disclosures, remuneration of all staff and directors is publically disclosed on an aggregate basis only and so the individual remuneration of directors is not disclosed.

Details of how the Bank and the Company applied the main and supporting principles of the UK Code throughout the year ended 31 December 2017 for the relevant periods are set out in this Corporate Governance Report and in the Remuneration Report. These reports also cover the disclosure requirements set out in the Irish Annex, which supplement the requirements of the UK Code with additional corporate governance provisions.

The Group believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed and appropriate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review.

Directors of the Bank are aware that, should they have any material concern about the overall corporate governance of the Group, it should be reported without delay to the Court and, should their concerns not be satisfactorily addressed within five business days, the Directors should report the concern to the Central Bank of Ireland.

The Board's oversight of risk and control is supported through delegation of certain responsibilities to Committees of the Board, the principal Committees being the Group Audit Committee, the BRC, the Group Nomination and Governance Committee and the Group Remuneration Committee. Details of these Committees are set out on pages 93 and 103 to 111.

The Chairman of each Committee formally reports on key aspects of Committee proceedings to the subsequent scheduled meeting of the Board and minutes of principal Committees are tabled at the Board as soon as possible for noting and / or discussion as necessary. The terms of reference of the Committees are reviewed annually by the relevant Committees and by the Board and are available on the Group's website (www.bankofireland.com) or by request to the Group Secretary. The Group's position on audit tendering is set out on page 109.

The Board of Directors

Role of the Board

The Board's role is to provide leadership of the Group within the boundaries of Risk Appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. The Board sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. The Board also reviews management performance. The Board has a schedule of matters specifically reserved for its decision which is reviewed and updated regularly. Matters requiring Board approval include:

1. ***Strategy and risk appetite***
   - Determination of risk appetite and approval of the Group's Risk Appetite Statement.
   - Determination of the Group's strategy.

2. ***Corporate and capital structure***
   - Approval of CET 1 capital investments of greater than €20 million in a regulated subsidiary and €40 million in any other subsidiary.
   - Approval of share issuances by any Group member to an entity outside of the Group.
   - Approval of equity underwriting of sums greater than €20 million.
   - Approval and payment of dividends, notwithstanding the existing legal requirement for same.

3. ***Management***
   - Approval of the Group's business plans and budgets.
   - Overseeing management of the business.

Corporate Governance Report (continued)

4. ***Financial and regulatory reporting, internal controls, risk and capital management***
   - Approval of half year report and Annual Report and Accounts.
   - Approval of the Group Risk Framework.
   - Approval of the Group ICAAP, ILAAP and Recovery Plan.
   - Overseeing the internal control and risk management systems of the Group.

Matters considered and action taken by the Board in 2017

Area of focus	Role of the Board
Business environment	• Reviewed economic, investor and stakeholder perspectives. • Reviewed Group communications and the external environment. • Reviewed the macroeconomic and regulatory environment, including the implications of Brexit, and the changing international corporate tax environment.
Group strategy and risk appetite	• Approved the Group Risk Appetite and Framework. • Approved capital strategy, capital optimisation and capital allocation, and funding and liquidity strategy and policy. Approved a credit risk transfer programme. • Reviewed divisional and business unit strategies, product strategies and customer propositions. • Approved Integrated Plan and Core Banking System updates. • Reviewed and approved Group culture programme. • Reviewed leadership development and engagement including employee engagement and succession planning including the approval of the appointment of a new CEO. • Considered and approved the Group Resolution Strategy, incorporating the establishment of a group holding company and reviewed operational continuity in resolution. • Approved non-performing exposures strategy. • Approved M&A transactions including the merger of the private banking business into the main bank, the divestment of IBI Corporate Finance, the acquisition of loan portfolios and the acquisition of a motor finance business in the UK.
Business performance	• Reviewed the performance of the Group's business divisions, its major subsidiaries and business units. • Reviewed and approved Group financial performance updates, forecasts, budgets, dividend policy, capital position, capital allocation and RAROC performance.
Risk management	• Approved the Group Risk Framework and the Group Contingency Funding and Contingency Capital Plan. • Approved key group risk policies, risk mitigation plans and the Group Recovery Plan.
Governance and regulatory	• Reviewed the Group tracker mortgage redress and compensation programme. • Approved the annual Board effectiveness reviews and Board succession proposals. • Approved governance documentation for the group holding company. • Assessed the fitness and probity and approved the appointment of pre-approval controlled functions (PCF) role holders. Approved the annual PCF reconfirmation. • Approved the appointment of KPMG as external auditors from 2018 following tender process. • Approved corporate governance matters including group policies and board / committee terms of reference.

5. ***Transactions***
   - Approval of acquisitions or divestments of the business or assets of any Group member involving a third party, except for credit management purposes.
   - Approval of guarantees, including those in respect of subsidiary companies, entered into by a member of the Group, other than in the normal course of business.
   - Approval of capital expenditure in excess of €40 million.
   - Approval of Class 1 or Class 2 transactions (each as defined by the Listing Rules).
   - Approval of related party transactions (as defined by the Listing Rules) giving rise to an obligation to issue a shareholder circular.

6. ***Corporate governance, Board and other appointments***
   - Promoting the appropriate culture, values and ethics of the Group.
   - Overseeing corporate governance and succession planning.
   - Approving specified senior management appointments.

7. ***Pension scheme***
   - Approval of all changes to the funding of pension schemes in the Group and / or benefits of same.

The Board is responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an ongoing basis their appropriateness for the role. The removal from office of the head of a 'control function', as defined in the Irish Code, is also subject to Board approval.

The Board is responsible for determining high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives.

The Board approves the Group Risk Framework on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through a Court Risk Report reviewed monthly for all risks. Further information on risk management and the Board's role in the risk governance of the Group is set out in the Risk Management Report on pages 49 to 55.

Corporate Governance Report (continued)

The work of the Board follows an agreed schedule of topics which evolves based on business need and is formally reviewed annually by the Board. The Board monitors and reviews the performance of the Group through a series of reports, receives updates from the Group's principal businesses on the execution of their business strategy and considers reports from each of the principal Board Committees. The strategy of the Group and performance against strategic goals continued to receive considerable focus throughout 2017. In addition the matters considered, and action taken by the Board during the year are set out in the table on page 96.

Board size and composition

At close of business on 31 December 2017, the Board comprised ten Directors: the Chairman, who was independent on appointment, two Executive Directors and seven Non-executive Directors, all of whom have been determined by the Board to be independent Non-executive Directors in accordance with the requirements of the UK Code and Irish Code. Brad Martin resigned from the Board on 28 April 2017, Richie Boucher resigned from the Board on 1 October 2017, and Pat Butler and Tom Considine resigned on 31 December 2017. Richard Goulding was appointed as Non-executive Director to the Board on 20 July 2017 and Francesca McDonagh was appointed as CEO and Executive Director on 2 October 2017. Biographical details, including each Director's background, experience and independence classification, are set out on pages 89 to 92.

The composition of the Board and its Committees is reviewed by the Group Nomination and Governance Committee and the Board, on an annual basis, to ensure that there is an appropriate mix of skills and experience. This includes a review of tenure, an assessment of the skills profile of the Board and consideration of succession for key roles to ensure the Board and Committees comprise Directors having a comprehensive understanding of the Group's activities and the risks associated with them. In addition, where any appointment or resignation will alter the overall size of the Board, a review is undertaken to ensure that the composition remains appropriate. The Board regards its current size and composition as appropriate to provide the broad range of skills and experience necessary to govern the business effectively, while enabling full and constructive participation by all Directors.

In 2017 the Group completed a review of the ongoing fitness and probity of persons in PCFs whereby Directors were asked to confirm any changes in circumstances in respect of their compliance with the Fitness and Probity Standards issued by the Central Bank of Ireland (the 'Standards'). Directors of the Bank are subject to the Standards. All changes in circumstances disclosed were assessed and their materiality determined. Time commitments of Directors were considered as part of this review process and Directors confirmed that they continue to have sufficient time to perform their roles. The Board concluded that each of the Directors of the Board has the requisite standard of fitness, probity and financial soundness to perform their functions with reference to the Standards and provided the required confirmation to that effect to the Central Bank of Ireland.

Board meetings

The Board held seventeen meetings during the year ended 31 December 2017, eleven of which were scheduled meetings. As part of its oversight of major subsidiaries, the Board visited the UK business including holding one board meeting in the UK. The Chairman and Members of the Board, together with their attendance at Court / Board meetings are shown below.

Board attendance in 2017:

Board meetings	Eligible to attend	Attended
Archie G Kane*	17	17
Kent Atkinson	17	14
Richie Boucher	13	10
Pat Butler	17	16
Tom Considine	17	17
Richard Goulding	7	6
Patrick Haren**	17	17
Andrew Keating	17	17
Patrick Kennedy***	17	17
Davida Marston	17	16
Francesca McDonagh	4	4
Bradley Martin	7	5
Fiona Muldoon	17	17
Patrick Mulvihill	17	17

*Chairman
**Senior Independent Director
***Deputy Chairman

Further details on the number of meetings of the Board, its Committees and attendance by individual Directors are set out on page 112.

Agendas and papers are circulated prior to each meeting to provide the Directors with relevant information to enable them to discharge fully their duties.

The Group Secretary provides dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal Board process. The Company has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors.

Term of appointment and re-election of Directors

Non-executive Directors are normally appointed for an initial three year term, with an expectation of a further term of three years, assuming satisfactory performance and subject to the needs of the business, shareholder re-election and continuing fitness and probity. On recommendation by the Nomination and Governance Committee, in order to maintain continuity and succession on the Board and its committees, the Board approved the proposal that Patrick Kennedy serve for a third term of three years, starting from the AGC held in April 2017, and that Patrick Haren and Patrick Mulvihill would be requested to serve for a third term of three years, starting from the AGM to be held in April 2018. A rigorous review of their skills, experience, independence and knowledge was carried out and the Board concluded that they continue to be effective and make a valuable contribution to the deliberations of the Board.

A Non-executive Director's term of office will not extend beyond nine years in total unless the Board, on the recommendation of the Nomination and Governance Committee, concludes that such extension is necessary due to exceptional circumstances. In respect of executive Directors, no service contract exists between the Company and any Director which provides for a notice period from the Group of greater than one year. None of the Non-executive Directors has a contract of service with the Group.

Corporate Governance Report (continued)

It is Group practice that, following evaluation, all Board Directors are subject to annual re-election by shareholders. All Directors retired at the AGC held on 28 April 2017, with the exception of Tom Considine, who was nominated as a Director by the Minister for Finance. The requirement to stand for election and regular re-election was dispensed with for a Government nominated Director.

The following Directors, being eligible, offered themselves for re-election and were re-elected at the AGC in 2017: Kent Atkinson, Richie Boucher, Pat Butler, Patrick Haren, Archie G Kane, Andrew Keating, Patrick Kennedy, Davida Marston, Fiona Muldoon and Patrick Mulvihill. Richard Goulding was co-opted to the Board on 20 July 2017 and Francesca McDonagh was co-opted to the Board on 2 October 2017, and will offer themselves for election at the forthcoming AGM.

The names of Directors submitted for election or re-election are accompanied by sufficient biographical details and any other relevant information in the AGM documentation to enable shareholders to take an informed decision on their election.

Conflicts of interest

The Board has an approved Conflicts of Interest Policy which sets out how actual, potential or perceived conflicts of interest are to be identified, reported and managed to ensure that Directors act at all times in the best interests of the Company. This policy is reviewed on an annual basis.

The Group Code of Conduct, which applies to all employees and Directors of the Group, clarifies the duty on all employees to avoid conflicts of interests. The Code of Conduct is reviewed on an annual basis and communicated throughout the Group.

Time commitment

The Group ensures that individual Board Directors have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships which may be held by any individual Director. The Company and the Bank have each been classified as ‘significant institutions’ under the European Union (Capital Requirements) Regulations 2014 (the ‘Regulations’). During the year ended 31 December 2017, all Directors were within the directorship limits set out for significant institutions under the Regulations.

Chairman, Deputy Chairman, Senior Independent Director and Group Chief Executive Officer

The respective roles of the Chairman and the Group CEO, which are separate, are set out in writing and have been agreed by the Board. The Chairman oversees the operation and effectiveness of the Board, including ensuring that agendas cover the key strategic items confronting the Group and encouraging all Directors to participate fully in the discussions and activities of the Board. He also ensures that there is effective communication with shareholders and promotes compliance with corporate governance standards. The Chairman commits a substantial amount of time to the Group and his role has priority over any other business commitment. The Chairman was appointed as a Non-Executive Director to Melrose Industries plc during the year ended 31 December 2017. During the year, the Chairman and Non-executive Directors met without the executive Directors present, to discuss a range of business matters.

The Deputy Chairman deputises for the Chairman as required and is a Trustee of the BSPF.

The ‘Senior Independent Director’ (SID) provides Board members, the Group Secretary, shareholders and customers with an additional channel, other than the Chairman or the Group CEO, through which to convey, should the need so arise, concerns affecting the Chairmanship or the Board, or any other issue.

The Group CEO is responsible for execution of approved strategy, holds delegated authority from the Board for the day to day management of the business and has ultimate executive responsibility for the Group’s operations, compliance and performance. Procedures are in place to review the Group Chief Executive’s contract at least every five years.

Balance and independence

The independence status of each Director on appointment is considered by the Board. In addition, the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence status remains appropriate. In 2017, the Board considered the principles relating to independence contained in the Irish Code and the UK Code and concluded that the previously determined independence status of each Director was appropriate. Specifically, the Board concluded that the Chairman was independent on appointment (as Governor of the Bank), and that each current Non-executive Director, is independent within the meaning of the Irish Code and the UK Code.

Each of the Chairman, Deputy Chairman and all of the Non-executive Directors bring independent challenge and judgement to the deliberations of the Board through their character, objectivity and integrity.

Appointments to the Board

The Board is committed to identifying the people best qualified and available to serve on the Board and is responsible for the appointment of Directors. The Board plans for its own renewal with the assistance of the Nomination and Governance Committee which regularly reviews Board composition tenure and succession planning. In accordance with the Director Assessment Policy and Board Diversity Policy, all appointments are made on merit against objective criteria (including the skills and experience the Board as a whole requires to be effective) with due regard for the benefits of diversity on the Board.

Prior to the appointment of a Director, the Nomination and Governance Committee approves a job specification, assesses the time commitment involved and identifies the skills and experience required for the role, having regard to the formal assessment of the skills profile of the Board and succession planning. The recruitment process for Non-executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews / meetings (including meetings with members of the Nomination and Governance Committee and the Board) and complete comprehensive due diligence. In accordance with the Director Assessment Policy of the Board, the assessment process and the due diligence completed is extensive and includes self-certification confirmations of probity

Corporate Governance Report (continued)

and financial soundness and external checks involving a review of various publicly available sources. The Nomination and Governance Committee makes a recommendation to the Board, with the Board satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity, and assessing and documenting its consideration of possible conflicts of interests. Appointments will not proceed where conflicts emerge which are significant to the overall work of the Board.

The processes described above were followed in the selection and appointment of Richard Goulding and Francesca McDonagh to the Board in 2017. Russell Reynolds and Egon Zehnder, two external search consultancy firms, which also assist with executive searches for the Group, were engaged, to assist with the appointments of Richard Goulding and Francesca McDonagh respectively.

Archie G Kane has signalled his intention to retire from the Board in 2018. The Board is also considering the appointment of two additional Non-executive Directors in 2018.

All newly-appointed Directors are provided with a comprehensive letter of appointment detailing their responsibilities as Directors, the terms of their appointment and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of Non-executive Directors can be inspected during normal business hours by contacting the Group Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, Non-executive Directors are normally required to sit on at least one Board Committee, which involves the commitment of additional time. Certain Non-executive Directors, such as the Deputy Chairman, Senior Independent Director and Committee Chairmen, are required to allocate additional time in fulfilling those roles.

Induction and professional development

On appointment, all new Directors receive a comprehensive induction programme designed to familiarise them with the Group's operations, management and governance structures, including the functioning of the Board and the role of the key committees. In addition, new Directors undertake significant induction in relation to risk and business matters, including visits to or presentations by Group businesses and briefings with senior management. Further meetings are arranged as required based on the particular circumstances of each Director.

On an ongoing basis, briefings appropriate to the business of the Group are provided to all Non-executive Directors. In order to ensure that the Directors continue to further their understanding of the issues facing the Group, Directors are provided with professional development sessions and briefings on a range of technical matters, tailored to their particular requirements. During the year ended 31 December 2017, the modules attended by Directors included 'deep dives' on specific business areas; International Corporate Tax Environment; Brexit; Business Reviews on Youth markets and People; Group Communications; IFRS 9; Cybercrime; the Operational Risk Management System; Retail Banking UK; Wealth Management; Global Markets Strategy and Markets: Group Culture; and RoI Mortgages. Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors.

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Board on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them to consider issues for decision and to discharge their oversight responsibilities. The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties.

Performance evaluation

There is a formal process in place for annual evaluation of the Board's own performance, and that of its principal Committees and of individual Directors (including the Chairman). An evaluation of the performance of the Board and its Committees is conducted every year, with an externally facilitated review conducted at least every third year. The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board / Committee as a whole is effective in discharging its responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

Board evaluation

Following an external evaluation in 2016 by Independent Audit Ltd, internal evaluations were conducted for 2017. This comprehensive self-evaluation process, which was led by the Chairman and supported by the Group Secretary, considered overall performance relative to the role of the Board and consisted of:

- completion of written evaluations by each Director;
- one to one discussions between the Chairman and each Director; and
- discussion by the Board of the assessment and recommendations for change or improvement.

The outcome of the Board evaluation was considered by the Nomination and Governance Committee and collectively discussed by the Board. The Board concluded that it continues to be effective.

Committee evaluations

The Chairman of each principal Board Committee led the self-evaluation process in respect of Committee performance. The process was supported by the completion of questionnaires tailored to each specific Committee. The results of this process were considered by each individual Committee with conclusions and any relevant recommendations reported to the Board. The Board concluded that each of its principal Committees continues to be effective.

Director evaluations

The annual individual Director performance evaluation was led by the Chairman and involved:

- the circulation of tailored questionnaires to Directors;
- one to one discussions between the Chairman and each Director;
- consideration of the findings by the Nomination and Governance Committee; and
- presentation of the overall findings to the Board for consideration.

Corporate Governance Report (continued)

The Board concluded that each individual Director continues to make a valuable contribution to the deliberations of the Board, continues to be effective and demonstrates continuing commitment to the role.

Chairman evaluation
The SID leads the process of evaluation of the Chairman's performance, based on written submissions and one to one discussions with each Director. The SID presents the results of these assessments to the Group Nomination and Governance Committee and the Board for discussion, without the Chairman being present. The SID then meets the Chairman to present him with the Board's conclusions on his effectiveness. The SID also meets individual Directors on such other occasions as are deemed appropriate.

The Board concluded that the Chairman continues to lead the Board effectively, continues to make a valued contribution and demonstrates continuing commitment to the role.

Directors' loans
The Companies Act, IAS 24 'Related party disclosures' and a condition imposed on the Bank's licence by the Central Bank of Ireland in August 2009 require the disclosure in the Annual Report of information on transactions between the Bank and its Directors and their connected persons. The amount of outstanding loans to Directors (and relevant loans to connected persons) is set out on pages 207 to 211.

A condition imposed on the Bank's licence by the Central Bank of Ireland in May 2010 requires the Bank to maintain a register of loans to Directors and relevant loans to their connected persons, which is updated quarterly and is available for inspection by shareholders on request for a period of one week following quarterly updates. The Group's process for ensuring compliance with the Central Bank of Ireland's Code of Practice on Lending to Related Parties as amended ('Related Party Lending Code') has been in place since 1 January 2011 and is subject to regular review. A Related Party Lending Committee of the Court is in place which is authorised to review and approve lending to Related Parties as more particularly defined in the Related Party Lending Code.

Accountability and audit
The Report of the Directors, including a going concern statement and a viability statement, is set out on page 114. This Corporate Governance Statement forms part of the Report of the Directors.

Internal controls
The Directors acknowledge their overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. Such systems are designed to ensure that there are thorough and regular evaluations of the nature and extent of risks and the ability of the Group to react accordingly. Such systems are designed to control, rather than eliminate, the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. Such losses could arise because of the nature of the Group's business in undertaking a wide range of financial services that inherently involves varying degrees of risk.

The Group's overall control systems include:
- a clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Board, which support the maintenance of a strong control environment;
- a three lines of defence approach to the management of risk across the Group: line management in individual businesses and relevant Group functions; central risk management functions; and Group Internal Audit;
- Board and Management Committees with responsibility for core policy areas;
- a set of policies and processes relating to key risks; business and strategic risk, conduct risk, credit risk, funding and liquidity risk, life insurance risk, market risk, operational risk, pension risk, regulatory risk and reputation risk (further details are given in the Risk Management Report on pages 42 to 87);
- monthly reporting by business units which enables progress against business objectives to be monitored, trends to be evaluated and variances to be acted upon by the Board and relevant subsidiary Boards;
- regular meetings of the senior management teams, where the executive Directors and other senior executives responsible for running the Group's businesses, amongst other matters, review performance and explore strategic and operational issues;
- reconciliation of data consolidated into the Group's financial statements to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the financial position and results of the Group are appropriately reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions; and
- a Code of Conduct setting out the standards expected of all Directors, officers and employees in driving an appropriate, transparent risk culture. This covers arrangements, should the need arise, for the independent investigation and follow up of any concerns raised by staff regarding matters of financial and non-financial reporting.

The Group operates a comprehensive internal control framework over financial reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements. The main features are as follows:
- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with International Financial Reporting Standards as adopted by the European Union;
- a Group Internal Audit function with responsibility for providing independent, reasonable assurance to key internal (Board, Group & Subsidiary Audit and Risk committees and Senior Management) and external (Regulators and External Auditors) stakeholders on the effectiveness of the Group's risk management and internal control framework;
- a compliance framework incorporating the design and testing of specific controls over key financial processes to confirm that the Group's key controls are appropriate to mitigate the financial reporting risks;
- a robust control process is followed as part of interim and annual financial statements preparation, involving the appropriate level of management review and attestation of the significant account line items, and

Corporate Governance Report (continued)

where judgements and estimates are made, they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the interim and annual financial statements is presented fairly and disclosed appropriately;

- the Annual Report and Interim Report are also subject to detailed review and approval through a structured governance process involving senior and executive finance personnel;
- summary and detailed papers are prepared for review and approval by the Group Audit Committee covering all significant judgemental and technical accounting issues, together with any significant presentation and disclosure matters; and
- user access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

The Directors confirm that the Board, through its Committees, has reviewed the effectiveness of the Group's systems of internal control for the year ended 31 December 2017. This review involved consideration of the reports of the internal audit and the risk management functions, (including regulatory compliance) and establishing that appropriate action is being taken by management to address issues highlighted. In addition, any reports of the external auditors which contain details of any material control issues identified arising from their work are reviewed by the Group Audit Committee, if they arise.

Following the year ended 31 December 2017, the Board reviewed the Group Audit Committee's conclusions in relation to the Group's systems of internal control and the appropriateness of the structures in place to manage and monitor them. This process involved a confirmation that a system of internal control in accordance with the Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014) was in place throughout the year and up to the date of the signing of these financial statements. It also involved an assessment of the ongoing process for the identification, evaluation and management of individual risks and of the roles of the various Committees and Group risk management functions and the extent to which various significant challenges facing the Group are understood and are being addressed. Further details of the risk management framework are included in the Risk Management Report on pages 49 to 55.

Group Code of Conduct and Speak Up Policy

The Group has a Code of Conduct in place which is applicable to all employees and Directors of the Group and which is reviewed annually. The Code of Conduct sets out the standards that are expected from all those who work for the Group and gives guidance on how these standards should be applied. Training on the Code of Conduct is mandatory across the Group.

The Group has a Speak Up policy in place for all staff, including Directors, which is in accordance with international practice. This policy is reviewed on an annual basis in line with the Group Code of Conduct. During 2017, the Group focused on increasing awareness efforts to improving the speak up culture, which included, the annual Policy Review, a module of mandatory web based training included in the Code of Conduct training, increased guidance notes to cover specific scenario events and a formal call to action to all employees on their Speak Up obligations. The Group will continue with a number of initiatives to further increase awareness in 2018. The Speak Up policy gives an assurance that it is safe and acceptable to raise a concern about malpractice, risk or potential wrongdoing and outlines how to speak up and raise a concern. The Board and Group Chief Executive are committed to this policy, which encourages staff to raise concerns openly and locally. Where this is not possible or the problem has not been resolved effectively at that level, there are clear alternative senior contacts within the Group to whom the concern may be addressed. In the case of concerns regarding fraudulent financial reporting, fraudulent accounting or irregularities in audit work, these can be raised directly with the Chairman of the Group Audit Committee. With reference to the Protected Disclosures Act 2014, a review of the Group Speak Up policy was conducted to ensure that the standards set out in this Act are being met.

Relations with shareholders

Communication with shareholders is given high priority. One of the responsibilities of the Chairman is to ensure effective communication with shareholders and to ensure that Directors develop an understanding of the views of major investors. The Group seeks to provide through its Annual Report a fair, balanced and understandable assessment of the Group's performance and prospects. The Group uses its website (www.bankofireland.com) to provide shareholders and potential investors with recent and relevant financial information, including annual and interim reports. Copies of presentations to analysts and investors are also made available on the Group website, so that information is available to all shareholders. Annual and interim results presentations are webcast live so that all shareholders can receive the same information at the same time.

The Investor Relations section on the Group's website is updated with presentations and all stock exchange releases as they are made. It also contains investor relations contact details. The Group has an active and well developed Investor Relations programme, which involves regular meetings by Executive Directors, selected senior executives and the Director of Group Investor Relations and other authorised speakers with the Group's principal institutional shareholders, other investors, financial analysts and brokers. All meetings with shareholders are conducted in such a way as to ensure that price sensitive information is not divulged. A dedicated Debt Investor section of the Group website provides access to relevant information, including presentations, publications and bond tables.

Directors receive an investor relations update from management at all scheduled Board meetings. The content of this update is varied, based on recent investor activities, but typically includes market updates, details of recent equity and debt investor interactions, share price and valuation analysis, analyst updates, and share register analysis. All Directors are encouraged and facilitated to hear the views of investors and analysts at first hand. The Chairman met with a number of major shareholders to discuss governance and remuneration matters in 2017 and the Board was updated on the outcome of these discussions. The Chairman and / or the Senior Independent Director are available to all shareholders if they have concerns that cannot be resolved through the normal channels.

Corporate Governance Report (continued)

Annual General Meeting
The aim of the Board is to make constructive use of the AGM and all shareholders are encouraged to participate in the proceedings. Questions are invited from shareholders in advance of the AGM, and a dedicated email address is provided for this purpose. A substantial part of the agenda of the AGM is dedicated to responding to shareholder questions. A 'Help Desk' facility is provided by the Group's registrar to assist shareholders to resolve any specific queries that they may have in relation to their shareholding. The AGC of the Bank was held on 28 April 2017 in the Aviva Stadium, Lansdowne Road, Dublin 4 ('2017 AGC').

In line with the Group's policy to issue notice of the AGC at least 20 working days before the meeting, notice of the 2017 AGC was circulated to stockholders on 15 March 2017. The Governor of the Bank (who is also Chairman of the Nomination and Governance Committee) and the Chairmen of the Audit Committee, Risk Committee and Remuneration Committee were in attendance to hear the views of shareholders and answer questions. It is usual for all Directors of the Court / Board at the time of the AGC / AGM to attend and all members of the Court attended the 2017 AGC, with the exception of Brad Martin.

At the 2017 AGC, separate resolutions were proposed on each substantially separate issue and voting was conducted by way of poll. The results of every general meeting of the Company, including details of votes cast for, against and withheld on each resolution, are posted on the Group's website and released to the Irish and London Stock Exchanges.

The AGM of the Company in 2018 is scheduled to be held on Friday 20 April 2018. Shareholders who will be unable to attend on this date are encouraged to submit queries and vote in advance to ensure continued participation.

Report of the Group Nomination and Governance Committee

Archie G Kane, Chairman

Dear Shareholder,

On behalf of the Group Nomination and Governance Committee ('N&G Committee'), I am pleased to present our report on the N&G Committee's activity during the financial year ended 31 December 2017.

Membership and meetings

At close of business on 31 December 2017, the N&G Committee comprised three Non-executive Directors and its composition is fully compliant with the Irish Code, the UK Code and CRD IV. Pat Butler resigned from the N&G Committee on 31 December 2017. I chair the Committee, as Board Chairman, other than when the N&G Committee is dealing with the appointment of a successor to the role of Board Chairman. Biographical details, including each member's background and experience, are set out on pages 89 to 92.

The N&G Committee met eight times in 2017, six of which were scheduled meetings. The Chairman and Members of the N&G Committee, together with their attendance at meetings, are shown below. The Group Chief Executive is invited to attend meetings. The N&G Committee meets annually with no management present.

Member attendance in 2017:

N&G committee meetings	Eligible to attend	Attended
Archie G Kane	8	8
Pat Butler	8	7
Patrick Haren	8	8
Patrick Kennedy	8	8

Matters considered by the N&G Committee

In addition the matters considered, and action taken by the N&G Committee during the year are set out below.

Role and responsibilities

The key responsibilities of the N&G Committee are set out in its terms of reference and include:

- leading the process for appointments and renewals for the Board and Board Committees;
- overseeing the process for appointments and renewals of the Boards of substantial regulated subsidiaries;
- with the support of the Group Secretary, keeping Board governance arrangements under review and making appropriate recommendations to the Board to ensure corporate governance practices are consistent with good practice corporate governance standards;

Matters considered and action taken by the N&G Committee in 2017

Area of focus	Role of the N&G Committee
Board and committee size and composition including succession planning	• Reviewed Board and Board Committee composition, skills and succession plans including approving the appointment of the new CEO and succession planning for key roles on the Board, taking into account the skills profile of the Board. • Reviewed the annual effectiveness evaluation of the Board and its Committees including individual directors and approved follow-up actions from the externally conducted review in 2016 by Independent Audit Limited. Reviewed the annual effectiveness evaluation of the N&G Committee. • Assessed the fitness and probity and approved the appointment of PCF role holders. Approved the annual PCF reconfirmation.
Governance	• Reviewed and recommended the Group Culture Programme. • Approved and recommended to the Board for approval updated corporate governance documents, including the Group Corporate Governance Statement and Annual Compliance Statement. • Reviewed and approved key governance policies including: the Code of Conduct, the Speak Up Policy, Board Conflicts of Interest Policies and reviewed the Subsidiary Governance Policy. • Reviewed developments in corporate governance, including the revised EBA Guidelines on Internal Governance. • Recommended appointments to the Group's Pension Schemes.
Executive succession planning and performance review	• Reviewed the performance of senior executives. • Approved the Group Executive Committee Terms of Reference.
Subsidiary governance	• Reviewed board composition and succession planning for substantial regulated subsidiaries and reviewed key subsidiary board appointments. • Reviewed the effectiveness evaluations of the boards of substantial regulated subsidiaries. • Reviewed subsidiary nomination committee minutes. • Provided oversight on the Individual Accountability Regime.
Corporate responsibility	• Reviewed the Corporate Responsibility Programme and Responsible Business Report. • Reviewed the Group Modern Slavery Statement.
Corporate reorganisation	• Reviewed key governance documentation for the new Group holding company, BOIG plc.

Report of the Group Nomination and Governance Committee (continued)

- overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries; and
- overseeing the Group's Corporate Responsibility Programme.

Board composition and diversity
The Board benefits from the diverse range of skills, knowledge and experience acquired by the Non-executive Directors as directors of other companies, both national and international, or as leaders in the public and private sectors. The effectiveness of the Board depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience. Following review in 2017, the N&G Committee approved a Board skills matrix and determined that the skills profile of the Board was appropriate to the business of the Group including:

- Major Business Lines (including retail, corporate & treasury and insurance).
- Geographies (including Ireland, UK, Europe and the US).
- Significant Subsidiaries.
- Products (including retail banking, corporate banking, Insurance and treasury services).
- Group wide risks (including business and strategic, conduct, credit, life insurance, funding and liquidity, market, operational, pension, regulatory and reputational risks);
- Governance.
- Risk management, compliance and audit (including strategy, capital, funding & liquidity, regulation, whistleblowing transformation and change, customer engagement, business environment and engagement with investors / capital markets).
- Management strategy and decision-making (including strategy, culture, management oversight, ethics and values, business sustainability, stakeholders and corporate governance).

Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group.

The Group recognises the benefits of having a diverse board and workforce. In reviewing Board composition and identifying suitable candidates, the N&G Committee considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, regional and industry experience, background, nationality, gender, age and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

During 2017 the N&G Committee reviewed the Board Diversity Policy (the latest version of which is available on the Group's website) and the measurable objectives set out thereunder. The Board has set a target of achieving a minimum of 33% female representation on the Board for the year ending 31 December 2020. As at 31 December 2017 there was 30% female representation on the Board. The Group is also addressing diversity in the Group's workforce through an Inclusion and Diversity Programme, which recognises that developing and utilising the skills and perspectives of all of our employees is critical to the Group's ongoing business success.

As Chairman of the N&G Committee, I reported to the Board after each meeting to ensure all Directors were fully informed of the N&G Committee's activities. I would like to thank the N&G Committee members and attendees for their contribution and support in steering the work of the N&G Committee throughout 2017.

Archie G Kane
Chairman of the Group Nomination & Governance Committee
23 February 2018

Report of the Group Remuneration Committee

Patrick Haren, Chairman

Dear Shareholder,

On behalf of the Group Remuneration Committee (GRC), I am pleased to present our report on the GRC's activities during the financial year ended 31 December 2017.

Membership and meetings
At close of business on 31 December 2017, the GRC comprised four independent Non-executive Directors from diverse backgrounds to provide a balanced and independent view on remuneration matters. The GRC is chaired by the Senior Independent Director and its composition is compliant with the requirements of the Irish Code and CRD IV, and with the recommendations of the UK Code.

Richard Goulding was appointed to the GRC on 20 July 2017 and Pat Butler resigned from the GRC on 31 December 2017. In order to ensure that remuneration policies and procedures are consistent with effective risk management, there is common membership between the GRC and the BRC. Kent Atkinson, Pat Butler and Richard Goulding have been members of both committees in 2017. Biographical details, including each member's background and experience, are set out on pages 89 to 92.

The GRC met six times in 2017, five of which were scheduled meetings. The Chairman and Members of the GRC, together with their attendance at meetings, are shown above. The Group CEO, Head of Group HR and the Head of Group Performance and Reward are invited to attend meetings as appropriate.

Role and responsibilities
The GRC holds delegated responsibility from the Board for the oversight of Group-wide remuneration policy with specific reference to the Chairman, Directors and senior management across

Member attendance in 2017:

GRC meetings	Eligible to attend	Attended
Patrick Haren	6	6
Kent Atkinson	6	5
Pat Butler	6	6
Richard Goulding	2	1
Archie G Kane	6	6

the Group, and those employees whose activities have a material impact on the Group's risk profile.

The GRC is responsible for overseeing the annual review of the Group Remuneration policy with input from the Court Remuneration Committee, relevant risk management functions and the BRC.

The remuneration of Non-executive Directors is determined and approved by the Board. Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The Group is currently operating under a number of remuneration restrictions which cover all Directors, senior management, employees and certain service providers across the Group. For further information, please see page 118 of the Remuneration Report.

Deloitte are the current advisors to the Group Remuneration Committee. In addition to the provision of remuneration services to the Remuneration Committee of Bank of Ireland UK plc, Deloitte provided the following services to the Group in 2017:

- Programme Management and support for Change Projects.
- Programme Management for Regulatory projects.
- Digital Capability.
- Data Analytics.
- Support for Insurance Broker tender.
- Risk Advisory Support.

Matters considered by the GRC
The matters considered, and action taken by the GRC during the year are set out in the table below.

As Chairman of the GRC, I reported to the Board after each meeting to ensure all Directors were fully informed of the GRC's activities. I would like to thank the GRC members and attendees for their contributions and support in steering the work of the GRC throughout 2017.

Matters considered and action taken by the GRC in 2017

Area of focus	Role of the GRC
Annual Remuneration Review	• Considered the external Remuneration Policy review with input from the relevant risk management functions and the BRC and adopted the Group Remuneration Policy. Approved changes to the Group Remuneration Policy as a result of the implementation of MiFID II. • Approved the performance and remuneration of the Group CEO, and the GEC. • Reviewed the remuneration of the Chairman of the Board. • Approved the remuneration terms for senior management appointments. • Approved the performance and remuneration for senior management . • Reviewed and approved the Group's Code Role policy, process and procedures.
Risk and conduct	• Reviewed the Group Risk profile and its relationship to Remuneration. • Approved the Group Code Role Holder List.
Disclosures and governance	• Recommended the draft Remuneration Reports in the Annual Report. • Recommended the remuneration element of the Pillar III disclosures. • Approved governance documentation in respect of remuneration matters for BOIG plc and approved appropriate changes to Non-executive Directors and Executive contracts. • Reviewed the evaluation of the GRC's effectiveness and approved the process for the internal evaluation of the GRC's performance. • Reviewed and approved the GRC's Annual Schedule of Topics and reviewed its Terms of Reference.

Patrick Haren
Chairman of the Group Remuneration Committee
23 February 2018

Report of the Group Audit Committee

Kent Atkinson, Chairman

Dear Shareholder,

On behalf of the Group Audit Committee (GAC), I am pleased to present our report on the GAC's activity during the financial year ended 31 December 2017.

Membership and meetings

At close of business on 31 December 2017, the GAC comprised five Non-executive Directors. Tom Considine resigned from the GAC on 31 December 2017. The Board believes that I am considered independent and I may be regarded as an Audit Committee financial expert and that the GAC as a whole has an appropriate mix of skills, experience, professional qualifications, knowledge and relevant financial / banking experience. Patrick Kennedy is the Chairman of the BRC and I am also a member of the BRC. Patrick Mulvihill and Davida Marston were also members of the BRC during 2017. Patrick Haren is Chairman of the GRC and I am also a member of the GRC. This common membership helps facilitate effective governance across all finance and risk issues, and ensures that agendas are aligned and overlap of responsibilities is avoided where possible. Biographical details, including each member's background and experience, are set out on pages 89 to 92.

The Chairman and members of the GAC, together with their attendance at meetings are shown below.

Member attendance in 2017:

GAC meetings	Eligible to attend	Attended
Kent Atkinson	13	13
Tom Considine	13	13
Patrick Haren	13	13
Patrick Kennedy	13	13
Davida Marston	13	10
Patrick Mulvihill	13	13

The GAC's performance during 2017 was assessed as part of Board / Committee performance evaluation process and is set out on page 99 of this report.

Matters considered by the GAC

The GAC met 13 times in 2017, ten of which were scheduled and matters considered / action taken by the GAC during the year are set out below.

Role and responsibilities

The key responsibilities of the GAC are set out in its terms of reference, which are available on the Group's website (www.bankofireland.com) and are reviewed annually and approved by the Board.

Matters considered and action taken by the GAC in 2017

Area of focus	Role of the GAC
Internal controls and risk management	• Reviewed the effectiveness of the Group's internal controls, including financial reporting controls review, IT@BOI review, reports from Group Internal Audit, Group Compliance and Regulatory Risk and the Group Anti-Money Laundering Officer. • Reviewed the Group's fraud protection and prevention programme. • Reviewed the Group's BCBS 239 Programme. • Reviewed reports from the Group Investment Committee - post implementation reviews for individual capital expenditure of over €20 million. • Recommended the Group's ICAAP and ILAAP processes. • Reviewed the internal governance arrangements with respect to Liquidity Coverage Ratio (LCR) Regulatory Reporting.
External reporting	• Reviewed and recommended annual and interim reporting including the significant accounting and judgemental matters. • Recommended the Group Impairment Policy and impairment provisions. • Approved the Going Concern assessment and the Group's Viability Statement. • Approved the Group's existing accounting policies, and new and significant changes in existing policies, prior to implementation. • Reviewed the Group's preparations for IFRS 9 and GDPR. • Approved the Group's Pillar III Disclosure Policy; disclosures and non-disclosures (due to immateriality) and Country by Country Reporting disclosures.
Internal auditors	• Approved the Internal Audit plan. • Reviewed Group Internal Audit (GIA) findings and management's response to GIA audits. • Approved annual review of GIA's Charter.
External auditors	• Reviewed the external auditors plan, report, external audit findings and the external auditor's engagement letter. • Reviewed the Group's audit tender plans, provided oversight for a competitive tender process and reviewed the audit transition process. • Considered the effectiveness of the External Auditor. • Approved the Non-audit Services Policy and non-audit fees for the External Auditor.
Governance and talent	• Recommended the governance documentation including the prospectus and processes for the establishment of BOIG plc. • Reviewed and recommended the 2017 Annual Compliance Statement. • Recommended the GAC's Terms of Reference and approved the GAC's Annual Schedule of Topics. • Reviewed the evaluation of GAC effectiveness. • Reviewed talent development and succession planning for the finance function in the Group.

Report of the Group Audit Committee (continued)

One of the key responsibilities of the GAC is to assist the Board in monitoring the integrity of the financial statements and to recommend to the Board that it believes that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. To achieve this for the current reporting period, the GAC reviewed the Annual Report and considered whether the financial statements were consistent with the operating and financial reviews elsewhere in the Annual Report. The GAC also reviewed the governance and approval processes in place in the Group relating to the financial statements and the GAC Report within the Corporate Governance Statement. These governance and approval processes include the completion by management of disclosure checklists to ensure all required disclosures from applicable company law, listing requirements and accounting standards are included and review of the draft Annual Report by the Disclosure Committee. In considering whether the Annual Report was fair, balanced and understandable, the GAC also considered the treatment and disclosure of key events as presented in the financial statements.

Significant issues
The GAC considered, inter alia, the following significant issues in its review of the financial statements for the year ended 31 December 2017. In addressing these issues, the GAC considered the appropriateness of management's judgements and estimates and, where apposite, discussed those judgements and estimates with the External Auditor.

Loan impairment
The GRPC approves the Group's provisioning methodology on a half yearly basis. The BRC, on an annual basis, provides observations on the Group's asset quality management and profile to the GAC as an input into the GAC's assessment of year end impairment provisions.

The GAC considered the methodology for loan loss provisioning, including the specific trigger events which are considered as an indicator of impairment, as set out on pages 65 to 68 and an asset quality report from the BRC. The GAC also discussed and challenged management's assumptions used in determining the overall level of impairments recognised in the financial year and the total impairment allowance at the year end with management noting the requirements of IAS 39 in respect of the timing of recognition of impairments (the incurred loss methodology) and the requirements of the relevant regulatory authorities.

The GAC reviewed management papers and was satisfied that the level of loans classified as impaired and non-performing at year end was consistent with the Group's methodology, and that the calculation and resulting provision recognised and disclosures were appropriate, based on the relevant accounting and disclosure standards including, among others, IAS 39 and IFRS 7.

Deferred tax assets
The GAC considered the extent of DTAs to be recognised in respect of unutilised tax losses, and in particular the projections for future taxable profits against which those losses may be utilised. In order for the Group to recognise these assets, it must be probable that sufficient future taxable profits will be available against which the losses can be utilised.

The Group has prepared financial projections which are being used to support the Group's Internal Capital Adequacy Assessment Process (ICAAP). The projections for future taxable profits incorporate economic factors (e.g. economic activity including projected growth levels, unemployment levels, interest rates, etc.) and projected operating performance for each division within the Group (e.g. projected new business, margins, costs, loan losses, etc.). As part of this process, the Group prepares impairment projections, involving a review of projection models for loan loss provisions and challenge of key assumptions and scenarios.

The financial projections are prepared for the purpose of the Group's assessment of its capital adequacy. They are subjected to considerable internal governance at a divisional and Group level and are reviewed and approved by executive management and the Board. Management's assessment of the projections determined that it was probable that there would be sufficient taxable profits in the future to recover the DTA arising from unused tax losses.

The GAC discussed with management its assessment of the recoverability of the DTA and the related disclosures. The GAC and the Board concluded that it was probable that there would be sufficient taxable profits in the future to recover the DTA arising from unused tax losses, and that the related disclosures were as required under IAS 12.

Retirement benefit obligations
The GAC considered management's key assumptions and judgements used in determining the actuarial values of the liabilities of each of the Group's sponsored DB pension schemes under IAS 19. Management considered advice from independent actuaries, Willis Towers Watson, for the determination of significant actuarial assumptions including discount rates and inflation. The key assumptions proposed by management and considered by the GAC were assumptions relating to inflation rates, demographic assumptions and discount rates in Ireland and the UK which are used in determining liabilities at the balance sheet date.

During 2017, the Group refined its approach to the determination of the discount rate used to value sterling denominated liabilities under IAS 19 by adopting an alternative model produced by the independent actuary and available to all its clients. The GAC considered this refinement and its appropriateness for the determination of the discount rate applied to the Group's sterling schemes.

The GAC was satisfied that the inflation rates, discount rates and other significant assumptions were appropriate and that the accounting for the Group's sponsored DB pension schemes and related disclosures was in accordance with IAS 19.

Further detail on the inflation rates, discount rates and other significant assumptions related to retirement benefit obligations are set out in note 44 to the consolidated financial statements.

Tracker Mortgage Examination
The GAC considered management's assessment of the impact of the Central Bank of Ireland's Tracker Mortgage Examination, including the level of provisioning and the presentation of the charge as a non-core item, excluded from underlying profit before tax. The GAC was satisfied that the level of provisioning, related disclosures and presentation were appropriate.

Report of the Group Audit Committee (continued)

Life assurance operations
During 2017, the Group changed its accounting policy for the valuation of insurance contract liabilities and ViF business, as set out on page 148. The GAC considered management's rationale for the change, and was satisfied that the revised policy was more relevant and no less reliable than the previous policy, and was consistent with current market practice and requirements.

The GAC considered management's key assumptions and judgements used in determining the ViF business and insurance contract liabilities. The key assumptions in projecting future surpluses and other net cash flows attributable to the shareholder arising from business written were the interest rate and unit growth rate, lapse rates, mortality, morbidity and expenses.

The GAC was satisfied that the significant assumptions are appropriately applied and that the accounting for the Group's ViF business and insurance contract liabilities is appropriate.

IFRS 9 transition
The GAC considered the estimated impact on shareholders' equity of transition to IFRS 9 on 1 January 2018. The GAC reviewed management papers and discussed and challenged management judgements used in determining the correct classification and measurement of financial assets and the opening stock of impairment loss allowance based on IFRS 9 requirements. The GAC considered the associated disclosures and concluded that they were appropriate based on the relevant accounting and disclosure standards, principally IAS 8.

Further information on the impact of this new accounting standard is set out on page 159 in note 1 to the consolidated financial statements.

BOIG plc's investment in the Bank
In relation to the financial statements of the Company, the GAC considered management's assessment of the recoverability of the Company's investment in the Bank, which arose from the corporate reorganisation of 7 July 2017.

The GAC considered management's assessment of both the fair value of the investment, based on the share price of the Company with appropriate adjustments, and its value in use, based on the financial projections set out in the Group's business plan. The GAC was satisfied that the higher of fair value and value in use was in excess of the carrying value of the investment, and that no impairment charge was required.

For further information see note a on page 135 in the Company financial statements.

Going concern
The GAC considered management's assessment of the appropriateness of preparing the financial statements of the Group for the year ended 31 December 2017 on a going concern basis. In making this assessment, matters considered include the performance of the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios. The considerations assessed by the GAC are set out on page 148 in the Going Concern disclosure within the Accounting Policies in note 1 to the consolidated financial statements.

On the basis of the review performed and the discussions with management, the GAC was satisfied that there were no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment. This assessment together with the Going Concern disclosure (as set out on page 148) was subsequently approved by the Board.

IT operational risk
The GAC considered and discussed management's assessment of IT risks and the ongoing risk management programme to identify, rate, mitigate and report on IT risks, including GIA's review of the internal control considerations related to the Group's IT investment programme. On the basis of the review performed, discussions with management, and the continued operation of the comprehensive internal control framework over financial reporting, the GAC was satisfied that these risks do not impact financial reporting.

Further information on these significant items is set out in the Critical Accounting Estimates and Judgements on pages 160 to 162.

Other responsibilities
The GAC is responsible for the appropriateness and completeness of the system of internal control. In close liaison with the BRC, it reviews the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintains an effective system of internal control.

In addition, the GAC has responsibility for:
- assisting the Board in meeting obligations under relevant Stock Exchange listing rules and other applicable laws and regulations;
- monitoring and reviewing the effectiveness of the Group's Internal Audit function and its operations; and
- discharging the statutory responsibility of the Company under relevant statutes or regulations.

The GAC is also responsible for overseeing all matters relating to the relationship between the Group and its External Auditors, including the external audit plan, terms of engagement, audit and non-audit fee arrangements, interim findings and audit finding reports. The GAC also meets annually with the External Auditors without management present. PricewaterhouseCoopers (PwC) have acted as sole auditors to the Group since 1990. The External Auditors are required to rotate the Group audit engagement partner every five years and this process occurred in 2015. Kevin Egan of PwC has been the Group's senior audit partner with effect from the audit for the 2015 financial year.

The Group is committed to ensuring the independence and objectivity of the External Auditor and on an annual basis the GAC formally reviews the effectiveness, independence and performance of the External Auditor. This process is supported by tailored questionnaires completed by GAC members and relevant senior management personnel. The responses received in 2017 were collated and presented to the GAC for discussion. Based on the results and assessment of the review process and the GAC's own interactions with the External Auditors, the GAC concluded that they were satisfied with the performance of PwC as External Auditor.

As an additional check on independence, the GAC has developed and implemented a Group Policy on the Provision of Non-Audit Services by the Group's Statutory Auditor. The Group policy ensures, among other things, that auditor objectivity and independence are not

Report of the Group Audit Committee (continued)

compromised. Under this policy, a key procedural control requires that any engagement of the external auditors to provide non-audit services must be approved in advance by the GAC. It is the Group's policy to engage the Statutory Auditor to provide non-audit services only where they are required by legislation, regulation or where this is required by an underwriter in a capital markets transaction. The GAC monitors compliance with the Group policy on the provision of non-audit services and receives reports on the performance of such services.

The fees paid to PwC for the year ended 31 December 2017 amounted to €6.0 million (2016: €4.9 million), of which €2.4 million (2016: €1.3 million) was payable in respect of non-audit services. Non-audit services represented 66% of the statutory audit fee (2016: 36%). Further information on fees paid in respect of audit and non-audit services, along with details of non-audit services provided during the year are set out in note 14 on page 172 of the consolidated financial statements 'Auditors' remuneration'.

Having considered the impact of the updated EU regulatory framework on statutory audits and the relevant recommendation of the UK Code, and to ensure the continuing quality and effectiveness of the external audit service, the Group had previously announced its intention to conduct an external audit tender in 2017. Following a transparent and competitive tender process, including presentations from all candidate firms and discussions with management, the GAC recommended to the Board that KPMG be appointed to replace PwC as the external auditor of the Group commencing with the 2018 financial year. This appointment will be the subject of advisory resolution at the Company's 2018 AGM.

The GAC was provided with a technical training session on relevant accounting matters during the year. The GAC also meets annually with the Group Chief Internal Auditor and with the PwC Group Audit Partner without any other management present and with senior management.

As Chairman of the GAC, I reported to the Board after each meeting to ensure all Directors were fully informed of the GAC's activities. I wish to thank the GAC members and attendees for their contributions and support in steering the work of the GAC throughout 2017.

I would also like to take this opportunity to thank PwC for their significant contribution as the Group External Auditor since their appointment as sole auditors to the Group in 1990.

Kent Atkinson
Chairman of the Group Audit Committee
23 February 2018

Report of the Board Risk Committee

Patrick Kennedy, Chairman

Dear Shareholder,

On behalf of the Board Risk Committee (BRC), I am pleased to present our report on the BRC's activity during the financial year ended 31 December 2017.

The BRC is established to monitor risk governance and to assist the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed; that risks are properly controlled; and that strategy is informed by and aligned with the Group's risk appetite.

Membership and meetings

At close of business on 31 December 2017, the BRC comprised four Non-executive Directors. Patrick Mulvihill and Davida Marston resigned as members of the BRC on 19 May 2017, and Tom Considine and Pat Butler resigned as members of the BRC on 31 December 2017. Richard Goulding was appointed to the BRC on 20 July 2017. Patrick Mulvihill was re-appointed to the BRC on 1 January 2018. Kent Atkinson and Richard Goulding are members of the GRC and Pat Butler was a member of both committees during 2017. Kent Atkinson is Chairman of the GAC and I am also a member of the GAC.

Member attendance in 2017:

BRC meetings	Eligible to attend	Attended
Patrick Kennedy	11	11
Kent Atkinson	11	10
Pat Butler	11	9
Tom Considine	11	11
Richard Goulding	5	5
Davida Marston	5	4
Fiona Muldoon	11	11
Patrick Mulvihill	5	5

This common membership helps facilitate effective governance across all finance and risk issues, including remuneration decisions, ensures that agendas are aligned and overlap of responsibilities is avoided where possible.

Biographical details, including each member's background and experience, are set out on pages 89 to 92.
The BRC met eleven times in 2017. The Chairman and Members of the BRC, together with their attendance at meetings, are shown below.

Matters considered and action taken by the BRC in 2017

Area of focus	Role of the BRC
Risk Strategy and management	• Recommended the RAS and approved the Group Risk Framework and Policy, and the Group Risk Identification Process. • Reviewed the top five risks facing the Group and considered the impact of rising bond yields on the Group and the impact of Brexit. • Reviewed quarterly risk reports, the Group Recovery Plan and the quality of risk disclosures by the Group.
Operational risk	• Approved the operational risk framework, including the RADAR system. • Reviewed IT risk and cybercrime and model risk. • Considered on an ongoing basis business continuity, technology, information security, cyber security and payments risk profiles.
Credit risk	• Reviewed the Group's asset quality. The observations of this asset quality review were brought to the attention of the GAC in the context of its assessment of impairment provisions. • Recommended the non-performing loans strategy and operating plan. • Recommended the Group Credit Policy. • Reviewed the Group Country Risk Policy and limits including the UK limit post Brexit and the Group's Brexit Credit Risk Monitoring Programme. • Reviewed credit risk transfer transaction.
Market risk	• Recommended the Group Market Risk Policy and reviewed controls on discretionary risk and stress testing and approved the Group Policy on Derivatives.
Liquidity Risk	• Recommended the Group Funding and Liquidity Policy and management strategy including the Contingency Funding Plan and the Group Liquidity Stress Testing Position.
Other risk	• Approved the regulatory risk framework including ongoing monitoring of the regulatory change programmes. • Approved Group Conduct Risk Framework and Policy, Group Property Collateral Valuation Policy, Anti-Money Laundering Policy, Group Sanctions and Countering the Financing of Terrorism Policy, and the Group Reputation Risk Policy. • Reviewed reports from the Head of Group Governance and Regulatory Risk and risk updates from significant subsidiaries. • Reviewed the Risk Mitigation Programme, material regulatory interactions and terms of reference for the Tracker Mortgage Examination Review. • Reviewed and considered Pension Risk, including the Group pension position.
Governance	• Reviewed the BRC effectiveness evaluation and the discharge of its duties. Approved the BRC Terms of Reference and its Annual Schedule of topics. • Reviewed the minutes of risk committee meetings of material subsidiaries. • Provided the GRC with risk input into the Group Remuneration Policy.

Report of the Board Risk Committee (continued)

Matters considered by the BRC
The matters considered, and action taken by the BRC during the year are set out on page 110.

Role and responsibilities
The BRC makes recommendations to the Board on risk issues where the Board has reserved authority, maintains oversight of the Group's risk profile, including adherence to Group risk principles, policies and standards, and approves material risk policies within delegated discretion. Further information on the Group risk management framework and the risk governance of the Group is set out in the Risk Management Report on pages 49 to 55.

The BRC also provides advice to the GRC to inform remuneration decisions from a risk perspective, monitors the risk elements of any due diligence appraisal of any acquisition or divestment activity reserved for Board decision, as required, and considers the findings of Group Internal Audit and Group Credit Review in respect of risk management.

The Boston Consulting Group undertook a review of the effectiveness of the Court Risk Committee covering the areas of agenda, role, attendance and membership. The overall conclusion was that Committee was effective with a number of opportunities to improve efficiency. An action plan was agreed and significantly implemented during 2017.

The GRPC is the most senior management risk committee and reports to the BRC. During 2017, the BRC reviewed the terms of reference of the GRPC.

On an ongoing basis, the BRC reviews decisions of the GRPC through its minutes as presented to the BRC and receives reports from the committee chairman. Further details on the role of the GRPC in the risk governance of the Group are set out in the Risk Management Report on page 51.

As Chairman of the BRC, I reported to the Board after each meeting to ensure all Directors were fully informed of the BRC's activities. I would like to thank all of the BRC members and attendees for their contributions and support in steering the work of the BRC throughout 2017.

Patrick Kennedy
Chairman of the Board Risk Committee
23 February 2018

Attendance table

Attendance at scheduled and unscheduled meetings of the Board and its Committees during the year ended 31 December 2017.

Name	Board scheduled		Board unscheduled		Group Audit Committee scheduled		Group Audit Committee unscheduled		Group Nomination and Governance Committee scheduled		Group Nomination and Governance Committee unscheduled		Group Remuneration Committee scheduled		Group Remuneration Committee unscheduled		Board Risk Committee scheduled		Board Risk Committee unscheduled	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Kent Atkinson	11	10	6	4	10	10	3	3	-	-	-	-	5	4	1	1	11	10	-	-
Richie Boucher[1]	8	6	5	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pat Butler[2]	11	10	6	6	-	-	-	-	6	5	2	2	5	5	1	1	11	9	-	-
Tom Considine[3]	11	11	6	6	10	10	3	3	-	-	-	-	-	-	-	-	11	11	-	-
Richard Goulding[4]	5	4	2	2	-	-	-	-	-	-	-	-	1	1	1	-	5	5	-	-
Patrick Haren	11	11	6	6	10	10	3	3	6	6	2	2	5	5	1	1	-	-	-	-
Archie G Kane	11	11	6	6	-	-	-	-	6	6	2	2	5	5	1	1	-	-	-	-
Andrew Keating	11	11	6	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Patrick Kennedy	11	11	6	6	10	10	3	3	6	6	2	2	-	-	-	-	11	11	-	-
Davida Marston[5]	11	11	6	5	10	9	3	1	-	-	-	-	-	-	-	-	5	4	-	-
Bradley Martin[6]	4	3	3	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Francesca McDonagh[7]	3	3	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fiona Muldoon	11	11	6	6	-	-	-	-	-	-	-	-	-	-	-	-	11	11	-	-
Patrick Mulvihill[8]	11	11	6	6	10	10	3	3	-	-	-	-	-	-	-	-	5	5	-	-

Column A: *Indicates the number of meetings held during the period the Director was a member of the Board and / or the Committee and was eligible to attend.* **Column B:** *Indicates the number of meetings attended.*

1 *Resigned from the Board on 1 October 2017.*
2 *Resigned from the Board, Risk, Nomination and Remuneration Committees on 31 December 2017.*
3 *Resigned from the Board, Audit and Risk Committees on 31 December 2017.*
4 *Appointed to the Board, Risk and Remuneration Committees on 20 July 2017.*
5 *Resigned from the Risk Committee on 19 May 2017.*
6 *Resigned from the Board on 28 April 2017.*
7 *Appointed to the Board on 2 October 2017.*
8 *Resigned from the Risk Committee on 19 May 2017.*

Further to a scheme of arrangement approved by stockholders, Bank of Ireland Group plc (BoIG plc) became the ultimate parent company of the Group on 7 July 2017, when The Governor and Company of the Bank of Ireland (the Bank) became its sole direct subsidiary. In preparation for the scheme of arrangement, the Board of BoIG plc (the Board) was appointed on 23 March 2017 and, from the effective date of the scheme of arrangement, the composition of the Board and the Court of the Bank (the Court) have been identical. Meetings of the Board and the Court are run concurrently. Attendance at meetings of the Court prior to 23 March 2017 are counted as an attendance for the purposes of the table above. Concurrent meetings of the Board and the Court are counted as a single attendance in the table above.

Report of the Directors

Results
In 2017, the Group made a profit before tax of €852 million and an after tax profit of €692 million. Profit of €28 million is attributable to non-controlling interests, and €664 million of profit is attributable to ordinary shareholders.

Dividends
A dividend of 11.5 cents per share on ordinary shares will be paid on 24 May 2018 to those ordinary shareholders who appear on the Company's register on 20 April 2018, the record date for the dividend, subject to ordinary shareholder approval.

Group activities
The Group provides a range of banking and other financial services. The Chairman's Review, Group Chief Executive's Review and the Operating and Financial Review (pages 6 to 41) contain a review of the results and operations of the Group, of most recent events, and of likely future developments.

In relation to the Group's business, no contracts of significance to the Group within the meaning of LR 6.8.1(10) of the Irish Stock Exchange (ISE) Listing Rules existed at any time during the year ended 31 December 2017.

Principal Risks and Uncertainties
Information concerning the Principal Risks and Uncertainties facing the Group is set out on pages 43 to 48 in the Risk Management Report.

Financial risk management objectives and policies
Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is set out in the Risk Management Report on pages 56 to 87.

Share capital
As at 31 December 2017, the Group had 1,078,822,872 ordinary shares of €1.00 each in issue, of which 4,203,581 were treasury shares. Further detail on the structure of the Group's capital is set out in note g of the Company financial statements.

Takeover Bids Regulations
The disclosures required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on pages 115 to 117.

Directors
The names of the members of the Board of Directors of the Company as at 31 December 2017, together with a short biographical note on each Director appear on pages 89 to 92.

The names of the persons who were Directors or Company Secretary of the Company at any time during the period from 28 November 2016 to 31 December 2017 and up to the date of the approval of the financial statements are set out in note j in the Company financial statements.

Remuneration
See Remuneration Report on pages 118 to 123.

Directors' and Secretary's interests
The interests of the Directors and Secretary in office as at 31 December 2017 in the shares issued by the Company as disclosed to the Company are shown in the Remuneration Report on page 123.

Listing rules disclosures
Information required under UK Listing Rule LR 9.8.4C can be found on page 121 for Directors' Emoluments and above under 'Group activities' for Contracts of Significance.

Substantial shareholdings
There were 102,365 registered holders of ordinary shares of the Company at 31 December 2017. An analysis of these holdings is shown on page 279. In accordance with LR 6.8.3(2) of the ISE Listing Rules, details of notifications received by the Company in respect of substantial interests in its ordinary shares are provided in Table 1 below as at 31 December 2017 and 16 February 2018. Other than the Directors' interests set out on page 123 there were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2017 to 16 February 2018.

For information on acquisition or disposal of own shares, refer to note 47.

Corporate governance
Statements by the Directors in relation to the Bank's compliance with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015, (the 'Irish Code') and additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively, are set out on pages 95 to 112. The Company is also subject to the UK Corporate Governance Code 2016 published by Financial Reporting Council in the UK (the 'UK Code') and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange. The Corporate Governance Statement forms part of the Report of the Directors.

Directors' Compliance Statement
As required by section 225 of the Companies Act 2014 as amended, the Directors acknowledge that they are responsible for securing the Company's compliance with its 'relevant obligations' (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

Environment
The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the Group's 'Responsible Business Report' which is available on the Group's website.

Table: 1	31 December 2017 %	16 February 2018 %
Ireland Strategic Investment Fund (ISIF) / Minister for Finance	13.95	13.95
The Capital Group Companies, Inc.	7.05	7.05
EuroPacific Growth Fund[1]	*4.34*	*4.34*
Blackrock, Inc.	4.99	5.03
Baillie Gifford & Co.	4.53	4.53

[1] *EuroPacific Growth Fund has granted proxy voting authority to The Capital Research and Management Company, its investment adviser, and consequently holds no voting rights. Notifications submitted in respect of the voting rights held by The Capital Group Companies, Inc. include EuroPacific Growth Fund's holdings.*

Report of the Directors (continued)

Political donations
Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2017.

Branches outside the State
The Bank has established branches in the UK, France, Germany and the US.

Going concern
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for 2017 on page 148 which forms part of the Report of the Directors and on page 108 in the Corporate Governance Statement.

Viability statement
In accordance with the requirements of the UK Code, the Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the principal risks facing the Group.

The Directors have selected a three-year period for this assessment, reflecting the time horizon that they consider fits with the various risk and planning frameworks taken into account in arriving at the viability statement.

The Directors have assessed the prospects of the Group through a number of frameworks, including the ICAAP, the ILAAP, the monitoring of key risks identified under the Group's risk identification process by the GRPC, the BRC and the Board (see page 53 of the Risk Management Report), and the assessment of Principal Risks and Uncertainties (see pages 43 to 48). Within those Principal Risks and Uncertainties, the Directors consider Credit risk, Funding and Liquidity risk and Capital adequacy to be the most relevant to the viability assessment.

The ICAAP process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. ICAAP is subject to review by the Group's prudential regulator, the ECB SSM. Underpinning the ICAAP process, the Group prepares detailed financial projections under both a base case and a stress case. Base case projections are prepared using consensus macroeconomic forecasts together with Group-specific assumptions, and the stress case is prepared based on a severe but plausible stress economic scenario. The ICAAP process demonstrates that the Group has sufficient capital under both the base and stress case scenarios to support its business and achieve its objectives having regard to Board approved Risk Appetite and Strategy, and to meet its CRD IV regulatory capital, leverage and liquidity requirements.

The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both business as usual and severe but plausible stress scenarios and to meet regulatory requirements including the Liquidity Coverage and Net Stable Funding Ratios.

The Directors confirm that their assessment of the principal risks facing the Group, through the processes set out above, was robust. Based upon this assessment, and their assessment of the Group's prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

Accounting records
The Directors ensure that adequate accounting records are kept at the Company's registered office, through the appointment of suitably qualified competent personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

Auditors
Having considered the impact of the updated EU regulatory framework on statutory audits and the relevant recommendation of the UK Code, and to ensure the continuing quality and effectiveness of the external audit service, the Group had previously announced its intention to conduct an external audit tender in 2017. Following a transparent and competitive tender process, including presentations from candidate firms and discussions with management, the GAC recommended to the Board that KPMG be appointed to replace PwC as the external auditor of the Group commencing with the 2018 financial year. On 20 February 2018, the Board appointed KPMG as statutory auditor to the Company for financial year end 2018. This appointment will be the subject of an advisory shareholder resolution at the Company's 2018 AGM.

As resigning auditor, PwC has confirmed an intention to resign on completion of the 2017 audit.

Relevant audit information
The Directors in office at the date of this report have each confirmed that as far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Post balance sheet events
These are described in note 63 to the financial statements.

Archie G Kane
Chairman

Patrick Kennedy
Deputy Chairman

Bank of Ireland Group plc
Registered Office
40 Mespil Road,
Dublin 4

23 February 2018

Schedule to the Report of the Directors

Information required under the European Communities (Takeover Bids (Directive 2004/ 25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position as at 31 December 2017.

1. Structure of the Company's capital

The capital of the Company is divided into ordinary shares and preference shares.

As at 31 December 2017, there were 1,078,822,872 ordinary shares in issue. As at 31 December 2017, there were no preference shares in issue.

Further detail on the structure of the Company's capital is set out in note 47 to the consolidated financial statements.

(i) Rights and Obligations attaching to the classes of shares

Ordinary shares

Dividend rights

Under Irish law, dividends are payable on the ordinary shares of the Company only out of profits available for distribution. Subject to the provisions of the Companies Act 2014 (the 'Companies Act'), holders of the ordinary shares of the Company are entitled to receive such dividends as may be declared by the Company by ordinary resolution, provided that the dividend cannot exceed the amount recommended by the Directors. The Company may pay shareholders interim dividends if it appears to the Directors that they are justified by the profits of the Company available for distribution. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Company.

Voting rights

Voting at any general meeting is by a show of hands or by poll. On a show of hands, every shareholder who is present in person or by proxy has one vote regardless of the number of ordinary shares held by him or her. On a poll, every shareholder who is present in person or by proxy has one vote for every ordinary share of €1.00 each.

A poll may be demanded by:

(i) the Chairman of the meeting;

(ii) at least three members of the Company present in person or by proxy having the right to vote at the meeting;

(iii) any member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or by proxy holding shares in the Company conferring the right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The necessary quorum for a general meeting is ten persons present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Meeting (EGM) as is all business transacted at an AGM other than the declaration of a dividend, the consideration of the Company's statutory financial statements and reports of the Directors and Auditors on those statements, the review by the members of the Company's affairs, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors (subject to Sections 380 and 382 to 385 of the Companies Act), the fixing of the remuneration of the Auditors and the consideration of a special resolution for the purpose of Section 1102(2)(b) of the Companies Act. Any business that is required to be dealt with by way of special resolution must be passed by not less than 75 per cent of the votes cast by such members as, being entitled so to do, vote in person or by proxy at a general meeting at which not less than twenty one clear days' notice specifying the text or substance of the proposed resolution has been duly given.

Any business that is required to be dealt with by way of ordinary resolution must be passed by a simple majority of the votes cast by the members as, being entitled to do so, vote in person or by proxy at a general meeting. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is not entitled to a second or casting vote.

An EGM (other than an EGM called for the passing of a special resolution) may be called on at least 14 days' notice where:

(i) the Company offers the facility for members to vote by electronic means accessible to all members who hold shares that carry rights to vote at general meetings; and

(ii) a special resolution reducing the period of notice to fourteen days has been passed at the immediately preceding AGM or at an Extraordinary General Meeting held since the immediately preceding AGM.

Liquidation rights

In the event of any surplus arising on the occasion of the liquidation of the Company, the ordinary shareholders would be entitled to a share in that surplus in proportion to the capital at the commencement of the liquidation paid up or credited as paid up on the ordinary shares held by them respectively.

Preference shares

As at 31 December 2017, there were no preference shares in issue. Where authorised to issue authorised but unissued shares in the capital of the Company (including where relevant, by shareholder approval under Section 1021 of the Companies Act), and subject to the scope of any such authority, in accordance with the Company's articles of association (the 'Articles'), the Directors are authorised to issue all or any of the authorised but unissued preference shares from time to time in one or more classes or series, and to fix for each such class or series such voting power, full or limited or no voting power, and such designations, preferences or special rights and qualifications, limitations or restrictions thereof in any resolution adopted by the Directors providing for the issuance of such class or series of preference shares.

Schedule to the Report of the Directors (continued)

(ii) Variation of class rights
Whenever the share capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class, either while the Company is a going concern or during or in contemplation of a winding-up.

(iii) Percentage of the Company's capital represented by class of share
The ordinary shares represent 99.9% of the authorised share capital and 100% of the issued share capital. The preference shares represent 0.1% of the authorised share capital and 0% of the issued share capital.

2. Restrictions on the transfer of shares in the Company
There are no restrictions imposed by the Company on the transfer of shares, nor are there any requirements to obtain the approval of the Company or other shareholders for a transfer of shares, save in certain limited circumstances set out in the Articles. A copy of the Articles may be found on www.bankofireland.com or may be obtained on request from the Group Secretary.

3. Persons with a significant direct or indirect holding of stock in the Company.
Details of significant shareholdings may be found on page 113.

4. Special rights with regard to the control of the Company
There are no special rights with regard to control of the Company.

5. Shares relating to an employee share scheme that carry rights with regards to the control of the Company that are not exercisable directly by employees.
The Bank of Ireland Inland Revenue Approved UK Stock Incentive Plan ('the SIP') provides that in respect of resolutions proposed at general meetings of the Company, voting rights in respect of shares held in trust for employees who are participants in the SIP are to be exercised in accordance with the employees' written instructions to the trustees of the SIP. In the case of 'any other business' at an AGM of the Company, the SIP trustees are entitled to vote (or refrain from voting) as they think fit.

6. Restrictions on voting rights
There are no unusual restrictions on voting rights.

7. Agreements between shareholders that are known to the Company and may result in restrictions on the transfer of securities or voting rights.
There are no arrangements between shareholders, known to the Company, which may result in restrictions on the transfer of securities or voting rights.

8. Rules of the Company concerning the:

(a) appointment and replacement of Directors
With the exception of any Director(s) nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act 2008, all Directors nominated between AGMs are submitted to shareholders for election at the first AGM following their co-option. In accordance with the UK Code, all Directors other than those nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Any Director(s) nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a Director of the Company for a period longer than nine years after the date of their appointment. In proposing the election or re-election of any individual Director to the AGM, the reasons why the Board believes that the individual should be elected or re-elected are provided in the Chairman's Letter to shareholders.

(b) amendment of the Company's Constitution
The Company's Constitution may be amended by special resolution passed at an AGM or EGM. An AGM and a Meeting called for the passing of a special resolution shall be called by at least twenty one clear days' notice. Special resolutions must be approved by not less than 75 per cent of the votes cast by such members as, being entitled so to do, vote in person or by proxy. No business may be transacted at any General Meeting unless a quorum of members is present at the time when the Meeting proceeds to business. Ten persons present in person or by proxy and entitled to vote shall constitute a quorum.

9. Powers of the Company's Directors, including powers in relation to issuing or buying back by the Company of its shares
Under its Articles, the business of the Company is managed by the Directors, who exercise all powers of the Company as are not, by the Articles, required to be exercised by the Company in General Meeting. The Directors may exercise all the borrowing powers of the Company and may give security in connection therewith. These borrowing powers may be amended or restricted only by the shareholders in General Meeting. The members of the Company in General Meeting may at any time and from time to time by resolution increase the share capital of the Company by such amount as they think proper. Whenever the share capital of the Company is so increased, the Directors may, subject to various provisions of the Articles, issue shares to such amount not exceeding the amount of such enlargement as they think proper. All ordinary shares so issued shall rank in equal priority with existing ordinary shares.

Subject to provisions of the Companies Act, to any rights conferred on any class of shares in the Company and to the Articles, the

Schedule to the Report of the Directors (continued)

Company may purchase any of its shares of any class and may cancel any shares so purchased or hold such shares as treasury shares (the 'treasury shares') with liberty to re-issue any such treasury shares in accordance with Section 109 of the Companies Act 2014. The Company shall not make market purchases of its own shares unless such purchases shall have been authorised by a special resolution of the Company and by a special resolution passed at a separate general meeting of the holders of each class of shares.

10. Significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a bid and the effects of any such agreements.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a bid, however, certain Group agreements may be altered or terminated upon a change of control of the Bank following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between the Bank and Post Office Limited in the UK (in respect of FX and Post Office branded retail financial service products) and the agreement between Bank of Ireland (UK) plc, AA plc and AA Financial Services Limited in the UK (in respect of AA branded financial services products).

11. Agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a bid.

There are no agreements between the Company and its Executive Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a bid.

The service contracts for Non-executive Directors do not make provision for benefits on termination in the event of a bid.

Remuneration Report

Remuneration Restrictions

The Group[1] is currently operating under significant Remuneration Restrictions which cover all Directors, senior management, employees and certain service providers across the Group.

The Remuneration Restrictions were contained within the Covered Institutions Financial Support Scheme 2008 and the 'Minister's Letter' (July 2011), under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister's Letter was a further condition of the Transaction and Underwriting Agreement entered into with the Irish Government (July 2011) during the 2011 Recapitalisation of the Group.

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

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

In addition, in the absence of Remuneration Restrictions, the Excess Bank Remuneration Charge on RoI tax residents in Covered Institutions[2], which results in a maximum tax charge of 89% where variable pay equals or exceeds €20,000, would also impact the application of the Group Remuneration Policy.

Remuneration Report

The Group's objective of attracting, retaining and motivating high calibre people is deemed fundamental to the delivery of our business strategy. Subject to the Remuneration Restrictions, we want to ensure we have the right people in the right roles and we recognise the importance that our shareholders place in the management of our remuneration strategy, frameworks, policies and practices. To reflect this, we operate strong governance across the organisation on the management of remuneration frameworks, policies and practices that support our strategy.

Governance Structures

Subject to the Remuneration Restrictions, it is the Group Remuneration Committee's responsibility to consider, agree and approve a remuneration strategy that supports the Group's objectives of long term sustainability and success, sound and effective risk management and good corporate governance.

During 2017, independent advice was received by the Group from a number of external advisers on a range of issues relating to remuneration including evolving pay regulations, market pay practices, international mobility and benefits.

European Banking Authority Remuneration Guidelines (the 'EBA Guidelines')

The objective of these guidelines is to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. They apply to all institutions which are currently covered by the CRD including the Group.

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

Code Role Holders

In accordance with EBA Guidelines for the identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these employees, known as Code Role Holders.

Disclosure

During 2017, the Group continued to comply with its annual requirements to provide disclosures relating to:

- Remuneration at Bank of Ireland;
- Decision-making processes related to the remuneration policy;
- Code Role Holders assessment and reporting;
- Remuneration Restrictions;
- Link between pay and performance;
- Group Remuneration Strategy;
- Remuneration Expenditure; and
- All Staff Reporting.

These disclosures were made as part of the Group's 2016 Pillar III disclosure in February 2017. The Group's 2017 Pillar III disclosures were made in February 2018. Both are available on the Group's website.

As a significant institution in an Irish banking context, the Group is required to submit additional disclosures under the EBA Remuneration data collection exercises. The Group continued to comply with its annual reporting requirements in 2017, submitting the following reports via the Central Bank of Ireland (the Central Bank) to the Single Supervisory Mechanism:

- 2016 European Benchmarking exercise; and
- 2016 High Earners report.

Alignment of performance and reward with risk

The Group's Risk Appetite Statement as set out on page 53 forms an integral element of remuneration structures, practices and frameworks. The Group's Risk Appetite Statement has been cascaded, as appropriate, throughout the Group.

Involvement of Risk Function

The Chairman of the BRC and the Court Risk Committee and the Group Chief Risk Officer attended the Group Remuneration Committee meeting in November 2017. At this meeting, the Group Chief Risk Officer, reported on the Group's risk profile and its relationship to remuneration.

Attraction, Motivation and Retention

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

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

1 References to 'Group' are to The Governor and Company of the Bank of Ireland from 1 January 2017 to 7 July 2017 and to Bank of Ireland Group plc from 7 July 2017 onwards.
2 Covered Institutions are defined as institutions that have executed a guarantee acceptance deed and have been designated in an order by the Minister for Finance under the Credit Institutions (Financial Support) Scheme 2008. The Group's covered institutions are The Governor and Company of the Bank of Ireland and Bank of Ireland Mortgage Bank.

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

Group Remuneration Policy

Subject to the Remuneration Restrictions, the Group's Remuneration Policy, which aims to support the Group's objectives of long term sustainability and success, sound and effective risk management and good corporate governance, was reviewed in 2017.

The application of this policy is consistent with the Group's Risk Appetite Statement and regulations that govern remuneration in the jurisdictions where the Group operates.

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

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

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

Performance Management

A robust performance management system and process, incorporating performance planning and review, remains critical and is a key pillar of the Group's compliance with remuneration guidelines.

The performance management framework enables the Group to align individual, business unit and divisional performance to the Group's strategic objectives through an ongoing dialogue between managers and their direct team members ensuring a strong alignment to risk. Managers have mandatory risk goals which reflect the nature of their role and their seniority within the Group and have an appropriate weighting attached to them.

However, the Remuneration Restrictions impact the effectiveness of the Group's performance management system as it prevents a strong link between performance and reward. In addition, the lack of variable pay impacts the Group's ability to incentivise and reinforce cultural change and the Group's values of:

- Customer Centricity;
- One Group, One Team;
- Accountability; and
- Agility.

The Balanced Scorecard and Key Result Areas

The Balanced Scorecard approach incorporated within the Group's Performance Planning and Review Process is consistent with the EBA Guidelines.

It ensures that:

- organisational performance is continually enhanced by measuring staff against the four Key Result Areas in the balanced scorecard;
- all key deliverables and accountabilities of a role are taken into account when performance is assessed. For example, financial results, risk management, impact on customers, leadership and development of people, regulatory and compliance requirements; and
- a comprehensive view of an individual's performance is taken, rather than focusing on one or two key areas to the detriment of others.

Each of the Key Result Areas that apply to all employees in the Group has a minimum weighting of 10%, dependent on the type of role the individual is performing. All weightings must add up to 100%. The Key Result Areas are:

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

Goals set within these Key Result Areas are linked to overall Divisional and Group Strategy, support the achievement of business unit objectives and are aligned to the Group's Risk Appetite Statement.

Key deliverables are agreed for each employee with his / her line manager at the beginning of the performance cycle. Regular informal reviews take place at times during the performance cycle. A formal end of year review occurs at the end of the performance cycle.

Remuneration packages for Executive Directors

Ms Francesca McDonagh was appointed as Group CEO with effect from 2 October 2017 and her remuneration was approved by the Department of Finance.

For the year ended 31 December 2017, the remuneration packages for Executive Directors were governed by the Remuneration Restrictions.

The key elements of the remuneration package in respect of the year ended 31 December 2017 were as follows (further detail is available in table 1 on page 121):

Salary
Executive Director Salaries are paid monthly and reviewed annually by the Group Remuneration Committee; and

Retirement Benefits (Executive Directors)
- Mr Richie Boucher, CEO until 1 October 2017, has pension rights as a member of the BSPF which is a contributory DB scheme.
- Mr Andrew Keating, CFO, is a member of the BSPF which is a contributory DB scheme and also a member of the supplementary section of the contributory RetireWell defined contribution (DC) arrangement.
- Ms Francesca McDonagh, appointed CEO on 2 October 2017, does not participate in a Bank of Ireland employee pension scheme.

Another potential element of the remuneration package for Executive Directors is:

Performance-related bonus scheme
Bonuses for Executive Directors are not permitted under the Remuneration Restrictions and none have been paid to an Executive Director since 2008.

Directors' remuneration

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 147.

Directors' remuneration for the year ended 31 December 2017 (all figures in €000s)

Table: 1	Gross salary[1,2]	Fees[3]	Performance bonus[4]	Other remuneration[5]	Pension funding contributions[6]	Total 2017[7]
Governor						
A Kane	394	59	-	37	-	490
Deputy Governor						
P Kennedy	126	-	-	-	-	126
Executive Directors						
F McDonagh *(appointed 2 October 2017)*	238	-	-	8	-	246
R Boucher *(resigned 1 October 2017)*	690	-	-	34	240	964
A Keating	468	-	-	31	53	552
Non-executive Directors						
K Atkinson	-	110	-	-	-	110
P Butler *(resigned 31 December 2017)*	-	154	-	-	-	154
T Considine *(resigned 31 December 2017)*	-	87	-	-	-	87
R Goulding *(appointed 20 July 2017)*	-	35	-	-	-	35
P Haren	-	117	-	-	-	117
D Marston	-	74	-	-	-	74
B Martin[8] *(resigned 28 April 2017)*	-	21	-	-	-	21
F Muldoon	-	71	-	-	-	71
P Mulvihill	-	74	-	-	-	74
Totals	**1,916**	**802**	**-**	**110**	**293**	**3,121**
Ex-gratia payments paid to former Directors / dependents of The Governor and Company of the Bank of Ireland						**178**

Directors' remuneration post corporate reorganisation
The Group has implemented a corporate reorganisation which resulted in Bank of Ireland Group plc ('BOIG plc') being introduced as the listed holding company of the Group on 7 July 2017, see note 46 on page 203 for further details. Since 29 April 2017, the Board and main Committees of BOIG plc and the Court of the Bank comprise the same Directors and the Directors have not received any additional remuneration as a result of their appointment to the Board of BOIG plc. Since 7 July 2017, the aggregate amount of emoluments paid to or receivable by Directors for the current financial period was €2,080,622; this includes salaries, any amount of expenses (insofar as chargeable to tax) that were paid to or receivable by Directors, cash equivalent of annual leave that was due but not taken by the Directors at the year-end date, together with any other benefits.

1 *The Governor and Deputy Governor, as Non-executive Officers of the Company, are remunerated by way of non-pensionable salary. A Kane receives an annual non-pensionable salary of €394,000 for his role as Governor. In addition he has a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he receives an annual fee of €59,000. He also receives an accommodation, utilities and car allowance of €37,000 per annum.*

2 *The Group Chief Financial Officer, A Keating, receives an annual salary of €468,000. His annual salary for pension purposes is €240,000 and the balance of his salary (€228,000) is excluded for pension purposes.*

3 *Fees are paid to Non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees are paid to the Senior Independent Director, Committee Chairmen and for Committee membership. On 1 February 2009, all Non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2017. The basic fee of €63,000 is the reduced fee. In addition to the above, P Butler was appointed as Non-executive Director and committee member of Bank of Ireland (UK) plc with effect from 10 January 2017 and received separate fees for these roles (Stg£58,750, equivalent €67,140 for the year ended 31 December 2017).*

4 *No bonuses were awarded in respect of 2017.*

5 *The figures include car allowances and, where applicable, benefits in kind.*

6 *The amounts shown for R Boucher and A Keating relate to the Group's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2017. There were no changes to Executive Directors' contractual pension benefit entitlements in the year. The pension funding cost to the Group, in relation to the Group's sponsored DB schemes, is updated following triennial pension scheme valuations to reflect changing market conditions and actuarial assumptions. The pension funding cost also reflects the increased actuarial cost of each year's accrual as each Executive Director's term to normal retirement age reduces. All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the Group Remuneration Committee.*

7 *In addition to the amounts shown, the Group bears the total costs of Directors' travel and subsistence to and from Board and Committee meetings or while on the business of the Group.*

8 *The amounts shown for B Martin relate to his role as Non-executive Director of The Governor and Company of the Bank of Ireland until 28 April 2017, his date of resignation.*

Directors' remuneration (continued)

Directors' remuneration for the year ended 31 December 2016 (all figures in €000s)

	Gross salary[1,2]	Fees[3]	Performance bonus[4]	Other remuneration[5]	Pension funding contributions[6]	Total 2016[7]
Governor						
A Kane	394	59	-	37	-	490
Deputy Governor						
P Kennedy	126	-	-	-	-	126
Executive Directors						
R Boucher	690	-	-	34	234	958
A Keating	468	-	-	31	53	552
Non-executive Directors						
K Atkinson	-	106	-	-	-	106
P Butler	-	87	-	-	-	87
T Considine	-	93	-	-	-	93
P Haren	-	165	-	-	-	165
D Marston	-	79	-	-	-	79
B Martin	-	65	-	-	-	65
F Muldoon	-	71	-	-	-	71
P Mulvihill	-	79	-	-	-	79
Totals	1,678	804	-	102	287	2,871
Ex-gratia payments paid to former Directors / dependents						199

Executive share options held by Directors and Secretary

No share options were granted or exercised during 2017 and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Secretary as at 31 December 2017.

External appointments held by Executive Directors

For part of the period during which he was Executive Director and Group CEO (10 January 2017 to 1 October 2017), R Boucher held the position of non-executive director of Eurobank Ergasias S.A. ('Eurobank'), for which he received fees in accordance with the remuneration policy of Eurobank. See page 95 for further details.

1 The Governor and Deputy Governor, as Non-executive Officers of the Bank, are remunerated by way of non-pensionable salary. A Kane receives an annual non-pensionable salary of €394,000 for his role as Governor. In addition he has a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he receives an annual fee of €59,000. He also receives an accommodation, utilities and car allowance of €37,000 per annum.

2 The Group Chief Financial Officer, A Keating, receives an annual salary of €468,000. His annual salary for pension purposes is €240,000 and the balance of his salary (€228,000) is excluded for pension purposes.

3 Fees are paid to Non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees are paid to the Senior Independent Director, Committee Chairmen and for Committee membership. On 1 February 2009, all Non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2016. The basic fee of €63,000 is the reduced fee. In addition to the above, P Haren served as Non-executive Director and committee member of Bank of Ireland (UK) plc until 15 September 2016 and received separate fees for these roles (Stg£38,958, equivalent €48,831 for the year ended 31 December 2016).

4 No bonuses were awarded in respect of the year ended 31 December 2016.

5 The figures include car allowances and, where applicable, benefits in kind.

6 The amounts shown for R Boucher and A Keating relate to the Group's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2016. There were no changes to Executive Directors' contractual pension benefit entitlements in the year. The pension funding cost to the Group, in relation to the Group's sponsored DB schemes, is updated following triennial pension scheme valuations to reflect changing market conditions and actuarial assumptions. The pension funding cost also reflects the increased actuarial cost of each year's accrual as each Executive Director's term to normal retirement age reduces. All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the Group Remuneration Committee.

7 In addition to the amounts shown, the Group bears the total costs of Directors' travel and subsistence to and from Court and committee meetings or while on the business of the Group.

Directors' pension benefits

Set out below are details of the change in accrued pension benefits for the Directors during 2017.

Table: 2	(a) Additional inflation-adjusted accrued DB pension in the year €	(b) Increase in DB transfer value €	(c) Accrued DB pension benefits at 31 December 2017 €	(d) Group DC contributions €
Executive Directors				
R Boucher	11,949	287,924	369,549	-
A Keating	3,211	30,281	44,104	8,000

Column (a) represents the inflation-adjusted increase in each individual's accrued DB pension during the year. Increases are shown after the opening position has been adjusted for known statutory revaluation, and comprise allowance for additional pensionable service, any increases in pensionable earnings and any agreed adjustment in the individual's pension accrual. This is in line with the requirements of the Listing Rules and the related actuarial professional guidance.

Column (b) is the additional capital value, less each Director's contributions, of Column (a) which could arise if the DB pension were to be transferred to another pension plan on the Director leaving the Group and is calculated using factors supplied by the actuary in accordance with actuarial guidance notes ASP PEN-2, and is based on leaving service pension benefits becoming payable at normal retirement date, age 60.

Column (c) is the aggregate DB pension benefit payable at normal retirement age based on each Director's pensionable service with the Group at 31 December 2017.

Column (d) is the Group's contributions to the supplementary section of its RetireWell defined contribution (DC) arrangement.

Directors' and Secretary's interests in shares

The beneficial interests of the Directors and Secretary in shares issued by the Group as disclosed to the Group are detailed below in accordance with Irish Listing Rule LR 6.8.3(1).

Table: 3	Number of €1.00 ordinary shares in BOIG plc at 31 December 2017	Number of €1.00 ordinary shares in BOIG plc at 7 July 2017[1] or at date of appointment	Units of €0.05 ordinary stock in the Bank at 7 July 2017[1]	Units of €0.05 ordinary stock in the Bank at 1 January 2017
Directors				
K Atkinson	67	67	2,000	2,000
P Butler	3,084	3,084	92,519	92,519
T Considine	1,917	1,917	57,500	57,500
R Goulding	2,000	-	-	-
P Haren	1,334	1,334	40,000	40,000
A G Kane	7,036	7,036	211,074	211,074
A Keating	10,961	10,961	328,805	328,805
P Kennedy	75,156	75,156	2,254,642	2,254,642
D Marston	3,333	3,333	100,000	100,000
F McDonagh	2,000	-	-	-
F Muldoon	2,866	2,866	85,979	85,979
P Mulvihill	167	167	5,000	5,000
Secretary				
H Nolan	2,669	2,669	80,043	80,043

Apart from the interests set out above, the Directors and Secretary had no other interests in the shares / securities of the Company or its Group undertakings at 31 December 2017. There has been no change in the interests of each Director disclosed to the Company under the provisions of article 19 of the Market Abuse Regulation occurring between the end of the period under review and 16 February 2018.

[1] *As part of the corporate reorganisation described in note 46, on 7 July 2017 holders of ordinary stock in the Bank were issued with BOIG plc shares on the basis of the exchange ratio of one BOIG plc share for each individual holding of 30 units of ordinary stock in the Bank.*

Financial Statements

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out on pages 125 to 136, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and, in respect of the consolidated financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for preparing the Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 '*Reduced disclosure framework*', and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

Under Irish law the Directors shall not approve the Group's and Company's financial statements unless they are satisfied that they give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at the end of the financial period and of the profit or loss of the Group for the financial year.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with IFRS adopted by the EU, and the Company financial statements have been prepared in accordance with FRS 101, and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:
- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the Companies Act 2014, and as regards the Group financial statements, Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish and London Stock Exchanges, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and corporate governance. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the Principal Risks and Uncertainties facing the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:
- they have complied with the above requirements in preparing the financial statements;
- the consolidated financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Group and of the profit of the Group;
- the Company financial statements, prepared in accordance with FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company;
- the management report contained in the Business Review includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the Principal Risks and Uncertainties that they face; and
- the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board by
23 February 2018

Archie G Kane	***Patrick Kennedy***	***Francesca McDonagh***
Chairman	*Deputy Chairman*	*Group Chief Executive*

Independent Auditors' Report
to the members of Bank of Ireland Group plc

Report on the audit of the financial statements

Opinion
In our opinion:
- Bank of Ireland Group plc's Consolidated financial statements and Company financial statements (the 'financial statements') give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at 31 December 2017 and of the Group's profit and cash flows for the year then ended;
- the Consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements for the period from 28 November 2016, date of incorporation, to 31 December 2017 (the 'period') have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 'Reduced Disclosure Framework' and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise:
- the Consolidated balance sheet as at 31 December 2017;
- the Company balance sheet as at 31 December 2017;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the Company statement of changes in equity for the period then ended; and
- the notes to the Consolidated and Company financial statements, which include a description of the significant accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our opinion is consistent with our reporting to the Group Audit Committee.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (Ireland) ('ISAs (Ireland)') and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Bank of Ireland Group (the 'Group') in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes the Irish Auditing and Accounting Standards Authority's ('IAASA') Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

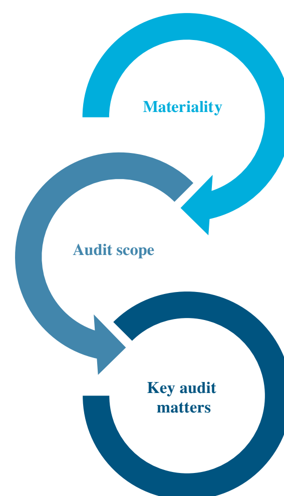
To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 14, to the Consolidated financial statements and note i to the Company financial statements, we have provided no non-audit services to the Group in the year ended 31 December 2017 and in respect of the Company in the period from 28 November 2016 to 31 December 2017.

Our audit approach

Overview

Materiality
- Overall Group materiality: €45 million which represents 5% of the weighted average of the Group's profit before tax for the years ended 31 December 2017, 31 December 2016 and 31 December 2015. (2016: €50 million).
- Overall Company materiality: €80 million which represents 1% of net assets.



Audit scope
- Our audit work addressed each of the Group's five operating segments which are headquartered in Ireland and the UK: Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre.
- We performed full scope audits of the complete financial information of the Bank of Ireland Life and Retail UK operating segments and of the two individually financially significant business units within the Retail Ireland and Corporate and Treasury operating segments.
- Audits of or specified audit procedures on selected account balances, classes of transactions or disclosures were performed at other business units within the Retail Ireland, Corporate and Treasury and Group Centre operating segments.
- Audit coverage for individual line items within the Consolidated income statement and Consolidated balance sheet falls in the range 60% to 100%; most line items have audit coverage above 90%.
- See pages 132 and 133 for further details.

Key audit matters
- Impairment provision on loans and advances to customers including IFRS 9 transition.
- Recoverability of deferred tax assets.
- Retirement benefit obligation - determination of the pension liability.
- Provision for Tracker Mortgage Examination.
- Valuation of the insurance contract liabilities and the Value of In Force business (ViF) asset.
- IT risk.
- Recoverability of the carrying value of the investment by Bank of Ireland Group plc in The Governor and Company of the Bank of Ireland.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment provision on loans and advances to customers including IFRS 9 transition	

Impairment provision on loans and advances to customers including IFRS 9 transition

Refer to page 107 (Corporate Governance Statement), pages 153, 154 and 159 (Group accounting policies), pages 160 and 161 (Critical accounting estimates and judgements), page 56 to 70 (credit risk section of the Risk Management Report), pages 172 and 173 (note 15 of the Notes to the Consolidated Financial Statements), pages 180 to 184 (notes 27 and 28 of the Consolidated financial statements) and pages 243 to 277 (Supplementary asset quality and forbearance disclosures).

The determination of impairment provisions requires a significant amount of management judgement and the calculations are reliant upon available reliable data, particularly the impairment provisions for certain secured lending portfolios.

We focused in particular on the assumptions underlying the calculation of modelled provisions relating to Residential mortgages (Ireland & UK) and the discounted cash flow assessments in the secured lending portfolios of the Business Banking Ireland, Business Banking UK and Corporate Banking business units as these assumptions are often complex. Given the scale of these portfolios, these assumptions create a risk of material misstatement in the financial statements.

IAS 8 requires the Group to disclose the impact of the adoption of IFRS 9 (which is effective for accounting periods beginning on or after 1 January 2018). We consider this to be a key audit matter because new models have been developed to calculate IFRS 9 impairment losses (see pages 68 to 70) and judgement is required in a number of significant areas especially in relation to the calculation of Expected Credit Loss.

How our audit addressed the key audit matter

Provisions for Residential mortgages (Ireland & UK) are determined using internally generated models. Historical experience and management judgement are incorporated into the model assumptions. We assessed and tested the design and operating effectiveness of the controls over source data and calculations. This included controls over the identification of loans and advances classified as impaired and the calculation of the resulting impairment provision. We also tested the completeness and accuracy of underlying data from the Group's source systems. Where changes were made to the model parameters and assumptions, we understood the rationale and considered the appropriateness of such changes. We used specialists from our Data Services team and Actuarial practice in the evaluation of the operation of the models. We also challenged key assumptions by comparison to externally available information.

Provisions for loans identified as impaired in the secured lending portfolios are determined by means of discounted cash flows. We assessed and tested the design and operating effectiveness of the controls over lending, including those relating to the appropriateness of loan grading and the robustness of internal reviews of loan grading. Our testing incorporated the selection of samples of individual loans. We critically assessed, by reference to the underlying documentation and through discussion with management, whether the trigger for an impairment had occurred. We challenged the reasonableness of management's judgement in this regard. For impaired loans, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision. We challenged the assumptions and compared estimates to external support where available. Where appropriate, this work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and / or externally prepared reports to determine whether appropriate valuation methodologies were employed.

We critically assessed the Group's rationalisation of the overall provision levels to consider in particular whether all relevant risks are reflected in the provisions. We also assessed the reasonableness of the total provisions having regard to available external data.

Based on the procedures performed and evidence obtained, we concluded that:

- we could place reliance for the purposes of our audit on the key controls over the Group's processes for determining impairment provisions; and that
- management's assumptions, models and methodologies produced impairment provisions which fall within a range of reasonable best estimates.

In respect of the disclosure of the impact of IFRS 9, we obtained an understanding of and evaluated management's process for the calculation of the transition adjustment including governance over the determination of key judgements. These included probability weighted macroeconomic scenarios, staging criteria and forward looking information. We read key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation.

We tested the controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment provision on loans and advances to customers including IFRS 9 transition (continued)	With the assistance of PwC actuarial and risk specialists, we tested key IFRS 9 models developed by management where these were relevant to the calculation of the transition adjustment. We challenged the reasonableness and appropriateness of key assumptions and judgements made by management, We also considered the output of management's Classification & Measurement workstream for consistency with our understanding of the Group's business models. Finally, we considered management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018. We concluded that the Group's process for estimating the transition adjustment including the selection of assumptions and evaluation of model outputs was reasonable. We consider that the disclosures reflect the circumstances of the Group and the requirements of IAS 8.
Recoverability of deferred tax assets Refer to page 107 (Corporate Governance Statement), page 156 (Group accounting policies), page 161 (Critical accounting estimates and judgements) and pages 189 and 190 (note 35 to the Consolidated financial statements). The Group has deferred tax assets (net of offsettable deferred tax liabilities) of €1,184 million as at 31 December 2017. Tax losses carried forward from prior years account for the major part of the gross deferred tax asset. The Group has been profitable for a number of years. As set out in note 2 to the Consolidated financial statements 'Critical accounting estimates and judgements', a deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance and legislation governing the use of historical trading losses carried forward. Under UK and Irish tax legislation, there is no time limit on the utilisation of the Group's tax losses. However, in the UK the amount of a bank's annual profits that can be sheltered with trading losses carried forward is restricted to 25%. We regard this area as a key audit matter because of the judgements required as to the probability of the availability of taxable profits for many years into the future.	As set out on page 107 of the Corporate Governance Statement, detailed projections of future taxable profits for a five year period are prepared by the Group. The projections for the final year are then extrapolated at estimated annual long term growth rates for the Irish and UK economies for the purposes of projecting future taxable profits beyond five years. We evaluated and tested key controls over the determination and approval of the forecast taxable profits used to support the recognition of the deferred tax assets. We also assessed management's basis for allocating forecast profits between legal entities by testing the allocation methodology, challenging significant assumptions and using our experience of the Group's activities. We considered whether the combination of the Group's current profitability and the Directors' projections provide appropriate evidence that sufficient taxable profits will be available to utilise unused tax losses. As part of our audit work, we evaluated the relevant macroeconomic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts. We assessed the basis for management's conclusion that the recovery period for trading losses carried forward in the Bank's UK branch should be restricted to ten years being the period over which the Directors can conclude that it is probable that future taxable profits will be available in the UK branch. On the basis of the work performed, we concluded that the Group's net deferred tax asset met the criteria for recognition under IAS 12 and that its carrying value was therefore reasonable.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Retirement benefit obligation - determination of the pension liability Refer to page 107 (Corporate Governance Statement), pages 155 and 156 (Group accounting policies), pages 161 and 162 (Critical accounting estimates and judgements), and pages 195 to 201 (note 44 to the Consolidated financial statements). The Group operates a number of defined benefit pension schemes and has an aggregate IAS 19 defined benefit pension deficit of €477 million. As disclosed on page 196, during 2017, the Group, with the support of its external actuarial advisers, refined its approach to the determination of the discount rate used to value Sterling denominated liabilities on an IAS 19 basis. The effect of the refinement was to reduce the Group's IAS 19 pension deficit by €110 million. We regard the determination of the Group's defined benefit pension liability as a key audit matter because its valuation is complex and requires judgement in choosing appropriate actuarial assumptions. These assumptions can have a material impact on the calculation of the liability.	We considered the reasonableness of the key actuarial assumptions (principally the discount rates, inflation rates and demographic assumptions) used to determine the pension liability. We used PwC actuarial experts to assist the audit team to challenge management in relation to the assumptions and methodology applied including benchmarking to external data as appropriate. With the assistance of our actuarial experts, we considered the changes which the Group made to its approach to the determination of the discount rate for its Sterling schemes and we assessed their reasonableness in the circumstances of those Sterling pension schemes and their consistency with the requirements of IAS 19. Because the changes relied to a significant extent on the advice of the Group's external actuarial experts, we considered their independence, read reports prepared by them for management and subsequently, met with them to discuss and challenge their work. We concluded that the assumptions and methodologies adopted by management to calculate the Group's defined benefit pension liabilities were reasonable. We read and assessed the disclosures made by management in the financial statements including those explaining and quantifying the effect of the changes made to the determination of the discount rate for the Sterling schemes and found them to be appropriate and consistent with the requirements of IFRS.
Provision for Tracker Mortgage Examination Refer to page 107 (Corporate Governance Statement), page 155 (Group accounting policies), page 162 (Critical accounting estimates and judgements) and pages 194 and 195 (note 43 to the Consolidated financial statements). In December 2015, the Central Bank of Ireland requested that the Group conduct an examination of its Irish mortgage loan book to assess compliance with both the Group's legal obligations and the applicable regulatory frameworks. Prior years' financial statements included provisions and contingent liabilities arising from the output of the examination at the time. In November 2017 and following intervention by the Central Bank and internal review, the Group announced that it had decided to include 5,400 additional accounts within the scope of its examination. The financial statements reflect an incremental charge of €170 million which includes the impact of the additional accounts and other matters. We consider this to be a key audit matter because of its materiality to the financial statements and the significant uncertainties and judgements inherent in its estimation.	We understood and tested the key controls and management's processes for the calculation and review of the Tracker Mortgage Examination charge and provision including governance processes and approvals of model assumptions and outputs. We found that the key controls were implemented and operated effectively and therefore, we determined that we could place reliance on these key controls for the purposes of our audit. In addition: • We read the 2017 correspondence between the Central Bank of Ireland and the Group in relation to the Tracker Mortgage Examination and discussed the principal matters arising with senior management and, where necessary, with those charged with governance. • We read the minutes of key governance meetings including those of the Board, and of various management committees, as well as attending Group and subsidiary Audit Committee meetings. • We updated our understanding and challenged the provisioning methodologies and underlying assumptions used by management. For example, we challenged the basis that management used for forecasting the number of appeals that will be received in the future. We also independently performed sensitivity analysis on the key assumptions. In discussions with management, we challenged the judgements made in the calculation of the charge and provision for other matters.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for Tracker Mortgage Examination (continued)	Given the inherent uncertainty in the calculation, we considered the residual risks and uncertainties relating to the determination of management's estimate of the total ultimate cost of the examination and the adequacy of disclosures within the financial statements. We concluded that: • the estimate of the additional charge recognised in the 2017 financial statements was reasonable given the information currently available. • the related disclosures in the financial statements including the description of the residual risks and uncertainties were reasonable.
Valuation of the insurance contract liabilities and the Value of in Force business (ViF) asset Refer to page 108 (Corporate Governance Statement), pages 148 and 157 (Group accounting policies), page 162 (Critical accounting estimates and judgements), and pages 191, 193 and 194 (notes 37 and 41 to the Consolidated financial statements). As described on page 148, the Group voluntarily changed its accounting policy for the valuation of its life assurance operations during the year to align it to the new basis for determining the valuation of liabilities on a regulatory (Solvency II) basis and ViF on a market consistent basis. The change in accounting policy has been accounted for retrospectively as required by IAS 8 and comparative periods have been restated to reflect this change. Further information of the impact of the restatement is provided at page 230. We consider the calculation of insurance contract liabilities and the ViF asset to be a key audit matter because the estimation of the insurance contracts liabilities and the valuation of the ViF asset (being the discounted future margins on insurance contracts are complex calculations and involve the use of detailed methodologies, multiple assumptions and significant judgements. The voluntary change in accounting policy has resulted in some changes in methodologies and assumptions.	We considered the appropriateness of the change in methodology as a change in accounting policy (rather than a change in estimate) and the appropriateness of the change of policy as being more relevant and no less reliable than the previous policy as required by IFRS. In addition, we assessed the appropriateness of the related disclosure in the financial statements. No matters arose from our audit procedures. We evaluated, with the assistance of our actuarial specialists, the processes and controls surrounding the selection and determination of the methodologies applied, assumptions used and judgements reached. We assessed and challenged the bases used to set the underlying assumptions (the key assumptions being the discount rate, unit growth rate, persistency, mortality, morbidity and expenses) by reference to guidance issued by the European Insurance and Occupational Pensions Authority, Group experience, published mortality tables and wider market practice. We assessed the design and operating effectiveness of controls operated by management to ensure that authorised changes to the actuarial models used to value insurance contract liabilities and the ViF asset (to reflect in particular the voluntary change in accounting policy) had been properly applied to them and that other than these changes, the models were consistent with those used in prior years. We assessed the calculations underpinning the insurance contract liabilities and ViF asset which are performed on management's actuarial models by: • checking that the data and the assumptions input into the actuarial model were in agreement with those that we had evaluated; • assessing management's controls over the output of the calculations including comparison and understanding of how that output compares to management's detailed estimations of the sources of profit within the principal classes of insurance and investment products; and • reading the report of the Group's external actuarial experts retained to undertake an independent examination of management's methodologies, judgements and assumptions. We concluded that the insurance contract liabilities and the ViF asset were appropriately calculated. No matters arose from our assessment and testing of the underlying processes, controls and models.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
IT risk Refer to page 108 (Corporate Governance Statement). The Group has a complex IT environment and operates a large number of IT applications to support its business activities. A significant number of these applications (whether developed by management or purchased from third party vendors) have been in place for many years. There is a mix of automated and manual interfaces between applications. The Group's IT control framework over financial reporting includes standardised IT general controls most of which relate to a number of applications, designed to prevent or detect material misstatements in the Group's recording, processing and reporting of financial information. The Group is executing a multi-year investment programme to replace its core banking IT platform and to upgrade its payments applications. This programme operates alongside existing initiatives to maintain the operating effectiveness of the Group's IT systems as well as managing other matters including increased expectations from regulators and customers. Each of these elements has been brought together in an Integrated IT Plan which, inter alia, establishes priorities and identifies resource needs. Group Internal Audit (GIA) examines and reports on IT internal control and operational risk matters. Management has an ongoing risk management programme in place to identify, rate, mitigate and report on risk including IT and Operational risk considerations. We regard this area as a key audit matter because the Group's business is highly IT dependent, the IT environment is complex and the design and operating effectiveness of IT controls and of IT risk mitigants supports the financial reporting process.	Using IT audit specialists, we updated our understanding of the Group's IT environment and identified changes made to it during 2017. In particular, we considered the progress of management's Integrated IT Plan, the outputs from management's IT risk management process and the findings of internal audit examinations conducted by GIA. We assessed the impact of these matters on the assessed risks of material misstatement to the financial statements in determining our audit approach. We considered those IT risks and significant GIA IT audit findings that management and we assessed as relevant to financial reporting and tested and challenged management's documented assessment of the mitigation of these risks relevant to financial reporting. We also considered management's documentation and testing of the design and operating effectiveness of the IT controls within the Group's Internal Control Framework over financial reporting and tested the design and operating effectiveness of those controls upon which we wished to rely. Where relevant, we considered whether compensating controls acted as effective mitigants of design or operating deficiencies identified by management or us. In the absence of sufficient compensating controls, we examined, tested and challenged management's documented assessments of the risk which control deficiencies posed to the financial reporting process We concluded following completion of our audit procedures that management's assessments of the impact of IT risk matters on the financial reporting process were reasonable and that we could place reliance on the operation of in-scope IT systems and reports generated from them.

Our audit approach (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of the carrying value of the investment by Bank of Ireland Group plc in The Governor and Company of the Bank of Ireland Refer to page 108 (Corporate Governance Statement), page 235 (Company accounting policies and Critical accounting estimates and judgements) and page 236 (note c to the Company financial statements) - Company financial statements only. The Group completed a corporate reorganisation during 2017 which included the creation of a new Group holding company, Bank of Ireland Group plc (the 'Company'). Its balance sheet at 31 December 2017 includes an investment in The Governor and Company of the Bank of Ireland (GovCo) with a carrying value of €7 billion. On 26 October 2017, GovCo declared and approved a €1 billion dividend payment to the Company. This dividend payment was approved by the European Central Bank on 11 December 2017 and recognised by the Company in its income statement for the period from 28 November 2016 to 31 December 2017. The dividend is a potential impairment indicator because the Group's market capitalisation in the period since the corporate reorganisation has not been significantly in excess of its tangible net asset value. As a result, the Company is required to estimate the recoverable amount of its investment in GovCo at 31 December 2017. In accordance with IAS 36 the recoverable amount of the investment is defined as the higher of (i) its fair value less costs of disposal and (ii) its value in use. We consider this a key audit matter given the materiality of the investment and the judgement associated with the assessment of its recoverability.	We evaluated management's assessment of the fair value less costs of disposal of the investment in GovCo which they based on the Group's market capitalisation both before and after the accounting year end and on external broker reports. As set out on page 107 of the Corporate Governance Statement, detailed projections of future profits for a five year period are prepared by the Group. The projections for the final year are then extrapolated at estimated annual long term growth rates for the Irish and UK economies for the purposes of projecting future taxable profits beyond five years. The projections are used to support management's value in use calculation. We evaluated and tested key controls over the production and approval of the projections of future profits. We assessed and challenged the assumptions underlying the projections and considered other potential scenarios. Where available, we relied on external benchmarks to validate the Board's assumptions. We tested and challenged management's identification of the Group's key cash generating units and process for selecting discount rates. We concluded that management's assertion that the carrying value of the Company's investment in GovCo is not impaired, is reasonable and that disclosure of management's consideration of the matter in the financial statements is appropriate in the context of the requirements of IFRS.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along five operating segments being Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre. Each operating segment comprises a number of business units. The Group financial statements are a consolidation of the business units.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each operating segment and business unit by us, as the Group engagement team, or by component PwC auditors operating under our instructions ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Consolidated financial statements as a whole.

We performed a full scope audit of the complete financial information of the Bank of Ireland Life and Retail UK operating segments due to their size, location and risk characteristics. We also performed full scope audits of the complete financial information of the two individually financially significant business units within the Retail Ireland and Corporate and Treasury operating segments.

In order to achieve the desired level of audit evidence on each account balance in the Consolidated and Company financial statements, audits of or specified audit procedures on selected account balances, classes of transactions or disclosures were performed at other business units within the Retail Ireland, Corporate and Treasury and Group Centre operating segments. The nature and extent of audit procedures was determined by our risk assessment.

Together with additional procedures performed at the Group level, this gave us the evidence we needed for our opinion on the financial statements as a whole.

Our audit approach (continued)

Audit coverage for individual line items within the Consolidated income statement and Consolidated balance sheet falls in the range of 60% to 100%; most line items have coverage above 90%.

The overwhelming majority of Group activity outside Ireland is in the UK and PwC UK was engaged to perform full scope audit procedures on the Retail UK operating segment. No other PwC network firm was engaged for the Group audit. In relation to audit procedures that were performed by PwC UK, we arranged joint planning meetings, regular physical and telephone meetings throughout the audit and reviewed extracts from PwC UK's audit file to corroborate that our audit plan was appropriately executed. In addition, the Group Engagement Leader attended the Bank of Ireland UK plc Audit Committee meeting in November 2017.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group financial statements	Company financial statements
Overall materiality €45 million (2016: €50 million). *How we determined it* 5% of weighted average three year profit before tax *Rationale for benchmark applied* The Group is profit oriented and profit before tax is one of the key metrics used to assess its performance. Given the profitability of the Group in recent years, this benchmark continues to be appropriate. A weighted three year average has been used for 2017 to remove the distortion caused by the 2017 Mortgage Tracker Examination charge of €170 million. The weighting reflects the greater significance of more recent years.	*Overall materiality* €80 million *How we determined it* 1% of total net assets *Rationale for benchmark applied* The Company is the ultimate holding company of the Group and its activities to date have been limited to its investment in The Governor and Company of the Bank of Ireland and the issue of subordinated liabilities. Hence a benchmark based on net assets reflects the focus of the users of the financial statements.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was €10 million to €36 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €2.25 million (Group audit) (2016: €2.5 million) and €4 million (Company audit) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (Ireland) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's or the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Company's ability to continue as a going concern.
We are required to report if the directors' statement, set out on pages 114 and 148, relating to going concern in accordance with Rule 6.8.3(3) of the Listing Rules for the Main Securities Market of the Irish Stock Exchange is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland), the Companies Act 2014 (CA14) and the Listing Rules applicable to the Company (Listing Rules) require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

Report of the Directors
- In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Directors. (CA14)

Corporate governance statement
- In our opinion, based on the work undertaken in the course of the audit of the financial statements,
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014;

  included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014. (CA14)
- Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement. (CA14)
- In our opinion, based on the work undertaken during the course of the audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Corporate Governance Statement. (CA14).

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
We have nothing material to add or to draw attention to regarding:
- The directors' confirmation on page 114 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 114 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit. (Listing Rules).

Reporting on other information (continued)

Other Code provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors on page 124 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and that it provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 106 to 109 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code and the Irish Corporate Governance Annex does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on page 124, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf
This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the Company financial statements to be readily and properly audited.
- The Company balance sheet is in agreement with the accounting records.

Companies Act 2014 exception reporting

Directors' remuneration and transactions
Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members on 23 March 2017 to audit the financial statements for the period ended 31 December 2017. The period of total uninterrupted engagement is therefore one year.

Kevin Egan
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

23 February 2018

Consolidated financial statements

Consolidated income statement *(for the year ended 31 December 2017)*

	Note	2017 €m	Restated[1] 2016 €m
Interest income	4	2,546	2,861
Interest expense	5	(394)	(598)
Net interest income		**2,152**	**2,263**
Net insurance premium income	6	1,344	1,226
Fee and commission income	7	543	559
Fee and commission expense	7	(217)	(222)
Net trading income	8	161	113
Life assurance investment income, gains and losses	9	450	446
Other operating income	10	170	303
Total operating income		**4,603**	**4,688**
Insurance contract liabilities and claims paid	11	(1,646)	(1,577)
Total operating income, net of insurance claims		**2,957**	**3,111**
Other operating expenses	12	(2,080)	(1,897)
Cost of restructuring programme	13	(48)	(35)
Operating profit before impairment charges on financial assets		**829**	**1,179**
Impairment charges on financial assets	15	(15)	(178)
Operating profit		**814**	**1,001**
Share of results of associates and joint ventures (after tax)	16	43	41
Loss on disposal / liquidation of business activities	17	(5)	(7)
Profit before tax		**852**	**1,035**
Taxation charge	18	(160)	(236)
Profit for the year		**692**	**799**
Attributable to shareholders		664	799
Attributable to non-controlling interests	49	28	-
Profit for the year		**692**	**799**
Earnings per ordinary share[2]	19	59.1c	66.6c
Diluted earnings per ordinary share[2]	19	59.1c	66.6c

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

[2] *The basic and the diluted earnings per share for 2016 have been adjusted for the share consolidation as outlined in note 46.*

Consolidated statement of comprehensive income *(for the year ended 31 December 2017)*

	Note	**2017 €m**	Restated[1] 2016 €m
Profit for the year		**692**	**799**
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:			
Gain on reclassification from held to maturity portfolio		45	-
Changes in fair value		22	(20)
Transfer to income statement			
- Asset disposal		(60)	(134)
- Amortisation		(16)	(15)
Net change in available for sale reserve		**(9)**	**(169)**
Cash flow hedge reserve, net of tax:			
Changes in fair value		179	1,337
Transfer to income statement		(294)	(1,341)
Net change in cash flow hedge reserve		**(115)**	**(4)**
Foreign exchange reserve:			
Foreign exchange translation losses		(158)	(423)
Transfer to income statement on liquidation of non-trading entities	17	11	4
Net change in foreign exchange reserve		**(147)**	**(419)**
Total items that may be reclassified to profit or loss in subsequent years		**(271)**	**(592)**
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement of the net defined benefit pension liability, net of tax		(113)	167
Revaluation of property, net of tax		15	3
Total items that will not be reclassified to profit or loss in subsequent years		**(98)**	**170**
Other comprehensive expense for the year, net of tax		**(369)**	**(422)**
Total comprehensive income for the year, net of tax		**323**	**377**
Total comprehensive income attributable to equity shareholders		295	377
Total comprehensive income attributable to non-controlling interests		28	-
Total comprehensive income for the year, net of tax		**323**	**377**

The effect of tax on these items is shown in note 18.

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

Consolidated balance sheet *(as at 31 December 2017)*

	Note	31 December 2017 €m	Restated[1] 31 December 2016 €m	Restated[1] 1 January 2016[2] €m
Assets				
Cash and balances at central banks		7,379	5,192	6,603
Items in the course of collection from other banks		307	242	294
Trading securities		68	18	3
Derivative financial instruments	20	2,348	3,709	3,064
Other financial assets at fair value through profit or loss	21	14,421	13,249	12,280
Loans and advances to banks	22	3,061	3,349	4,578
Available for sale financial assets	23	13,223	10,794	10,128
Held to maturity financial assets	24	-	1,872	1,922
NAMA senior bonds	25	-	451	1,414
Loans and advances to customers	26	76,128	78,477	84,689
Interest in associates	29	59	56	56
Interest in joint ventures	30	69	71	83
Intangible assets and goodwill	32	779	635	526
Investment properties	33	912	864	841
Property, plant and equipment	34	434	353	334
Assets classified as held for sale		28	-	20
Current tax assets		50	4	13
Deferred tax assets	35	1,237	1,298	1,453
Other assets	36	1,993	2,025	2,081
Retirement benefit assets	44	58	8	19
Total assets		**122,554**	**122,667**	**130,401**
Equity and liabilities				
Deposits from banks	38	4,339	3,662	952
Customer accounts	39	75,869	75,167	80,164
Items in the course of transmission to other banks		263	223	239
Derivative financial instruments	20	1,987	2,873	3,619
Debt securities in issue	40	8,390	10,697	13,243
Liabilities to customers under investment contracts	41	5,766	5,647	5,729
Insurance contract liabilities	41	10,878	10,458	9,833
Other liabilities	42	2,482	2,465	4,103
Current tax liabilities		12	19	35
Provisions	43	205	96	97
Deferred tax liabilities	35	53	62	68
Retirement benefit obligations	44	536	454	755
Subordinated liabilities	45	2,107	1,425	2,440
Total liabilities		**112,887**	**113,248**	**121,277**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*
[2] *Opening balance sheet as at 1 January 2016 reflects the Group's restated closing balance at 31 December 2015.*

Consolidated balance sheet *(as at 31 December 2017) (continued)*

	Note	31 December 2017 €m	Restated[1] 31 December 2016 €m	Restated[1] 1 January 2016[2] €m
Equity				
Share capital	47	1,079	2,545	2,558
Share premium account		456	571	1,135
Retained earnings		7,333	5,214	4,950
Other reserves		24	359	(249)
Own shares held for the benefit of life assurance policyholders		(33)	(11)	(11)
Shareholders' equity		**8,859**	**8,678**	**8,383**
Other equity instruments	48	-	740	740
Total equity excluding non-controlling interests		**8,859**	**9,418**	**9,123**
Non-controlling interests	49	808	1	1
Total equity		**9,667**	**9,419**	**9,124**
Total equity and liabilities		**122,554**	**122,667**	**130,401**

Archie G Kane	***Patrick Kennedy***	***Francesca McDonagh***	***Helen Nolan***
Chairman	*Deputy Chairman*	*Group Chief Executive*	*Group Secretary*

[1] As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.
[2] Opening balance sheet as at 1 January 2016 reflects the Group's restated closing balance at 31 December 2015.

Consolidated statement of changes in equity *(for the year ended 31 December 2017)*

	Note	2017 €m	Restated[1] 2016 €m
Share capital			
Balance at the beginning of the year		2,545	2,558
Impact of corporate reorganisation and capital reduction	46	(1,466)	-
- Redemption and cancellation of Bank deferred stock		*(920)*	-
- Cancellation of Bank treasury stock		*(2)*	-
- Cancellation of Bank capital stock		*(1,616)*	-
- Issue of share capital of Bank of Ireland Group plc		*6,473*	-
- Transfer to capital reserve on renominalisation of share capital		*(5,394)*	-
- Transfer of preference stock to non-controlling interest		*(7)*	-
Redemption of 2009 Preference Stock		-	(13)
Balance at the end of the year	47	**1,079**	**2,545**
Share premium account			
Balance at the beginning of the year		571	1,135
Impact of corporate reorganisation and capital reduction	46	(115)	-
- Stock premium cancelled on Bank capital stock		*(512)*	-
- Transfer of premium on preference stock to non-controlling interest		*(59)*	-
- Capitalisation of merger reserve		*562*	-
- Transfer to retained earnings		*(106)*	-
Redemption of 2009 Preference Stock		-	(564)
Balance at the end of the year		**456**	**571**
Retained earnings			
Balance at the beginning of the year		5,214	4,950
Profit retained		636	718
- Profit for year attributable to shareholders		*664*	*799*
- Dividends on preference equity interests paid in cash		*(4)*	*(8)*
- Distribution on other equity instruments - Additional tier 1 coupon, net of tax	49	*(24)*	*(73)*
Impact of corporate reorganisation and capital reduction	46	1,553	-
- Reserve of the Bank at date of corporate reorganisation		*(3,947)*	-
- Transfer from capital reserve		*5,394*	-
- Transfer from share premium		*106*	-
Redemption of 2009 Preference Stock		-	(727)
Transfer from capital contribution		-	116
Transfer from / (to) capital reserve		41	(9)
Remeasurement of the net defined benefit pension liability	18	(113)	167
Other movements		2	(1)
Balance at the end of the year		**7,333**	**5,214**
Other reserves:			
Available for sale reserve			
Balance at the beginning of the year		350	519
Gain on reclassification from held to maturity portfolio		52	-
Net changes in fair value		24	(19)
Transfer to income statement (pre tax)			
- Asset disposal	10	(69)	(174)
- Amortisation	4	(18)	(17)
Deferred tax on reserve movements		2	41
Balance at the end of the year		**341**	**350**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

Consolidated statement of changes in equity *(for the year ended 31 December 2017) (continued)*

	Note	2017 €m	Restated[1] 2016 €m
Cash flow hedge reserve			
Balance at the beginning of the year		156	160
Changes in fair value		203	1,525
Transfer to income statement (pre tax)			
- Net trading expense (foreign exchange and amortisations)		(336)	(1,517)
- Net interest income	4	2	(9)
Deferred tax on reserve movements		16	(3)
Balance at the end of the year		**41**	**156**
Foreign exchange reserve			
Balance at the beginning of the year		(696)	(277)
Exchange adjustments during the year		(158)	(423)
Transfer to income statement on liquidation of non-trading entities	17	11	4
Balance at the end of the year		**(843)**	**(696)**
Capital contribution			
Balance at the beginning of the year		-	116
Transfer to retained earnings		-	(116)
Balance at the end of the year		**-**	**-**
Capital reserve			
Balance at the beginning of the year (prior to restatement)		512	502
Effect of change in accounting policy[1]	62	17	11
Balance at the beginning of the year (restated)		529	513
Transfer (to) / from retained earnings		(41)	9
Impact of corporate reorganisation and capital reduction	46	(55)	-
- Redemption and cancellation of Bank deferred stock for nil consideration		*920*	-
- Cancellation of Bank treasury stock		*2*	-
- Reserve of the Bank at date of corporate reorganisation		*(977)*	-
- Transfer from share capital - renominalisation of share capital		*5,394*	-
- Transfer to retained earnings		*(5,394)*	-
Redemption of 2009 Preference Stock		-	7
Balance at the end of the year		**433**	**529**
Merger reserve			
Balance at the beginning of the year		-	-
Impact of corporate reorganisation and capital reduction	46	17	-
- Creation of merger reserve arising from issue of ordinary shares		*562*	-
- Capitalisation of merger reserve to share premium		*(562)*	-
- Reserves of the Bank at date of corporate reorganisation		*17*	-
Balance at the end of the year		**17**	**-**
Revaluation reserve			
Balance at the beginning of the year		20	17
Revaluation of property		16	4
Deferred tax on reserve movements		(1)	(1)
Balance at the end of the year		**35**	**20**
Reserve for 2009 Preference Stock to be redeemed			
Balance at the beginning of the year		-	(1,297)
Redemption of 2009 Preference Stock		-	1,297
Balance at the end of the year		**-**	**-**
Total other reserves		**24**	**359**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

Consolidated statement of changes in equity *(for the year ended 31 December 2017) (continued)*

	Note	2017 €m	Restated[1] 2016 €m
Own shares held for the benefit of life assurance policyholders			
Balance at the beginning of the year		(11)	(11)
Changes in value and amount of shares held		(22)	-
Balance at the end of the year		**(33)**	**(11)**
Total shareholders' equity excluding other equity instruments and non-controlling interests		**8,859**	**8,678**
Other equity instruments			
Balance at the beginning of the year		740	740
Transfer to non-controlling interests on date of corporate reorganisation	46	(740)	-
Balance at the end of the year		**-**	**740**
Non-controlling interests			
Balance at the beginning of the year		1	1
Impact of corporate reorganisation and capital reduction	46	806	-
- Transfer of preference stock from share capital		*7*	-
- Transfer from share premium		*59*	-
- Transfer from other equity instruments		*740*	-
Share of net profit		28	-
Dividends paid to non-controlling interests - preference stock		(3)	-
Distribution to non-controlling interests - Additional tier 1 coupon, net of tax		(24)	-
Balance at the end of the year	49	**808**	**1**
Total equity		**9,667**	**9,419**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

Consolidated cash flow statement *(for the year ended 31 December 2017)*

	Note	2017 €m	Restated[1] 2016 €m
Cash flows from operating activities			
Profit before tax		852	1,035
Share of results of associates and joint ventures	16	(43)	(41)
Loss on disposal / liquidation of business activities	17	5	7
Depreciation and amortisation	12	169	132
Impairment charges on financial assets	15	15	178
Reversal of impairment on property	12	(4)	(5)
Revaluation of investment property	33	(40)	(14)
Interest expense on subordinated liabilities	51	98	169
Charge for pension and similar obligations	44	122	114
Loss on liability management exercises	10	-	19
Charges / (gains) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	8	5	(5)
Net change in accruals and interest payable		(43)	(118)
Net change in prepayments and interest receivable		51	25
Charge for provisions	43	224	73
Non-cash and other items		43	(56)
Cash flows from operating activities before changes in operating assets and liabilities		**1,454**	**1,513**
Net change in items in the course of collection from other banks		(28)	35
Net change in trading securities		(50)	(15)
Net change in derivative financial instruments		494	(1,346)
Net change in other financial assets at fair value through profit or loss		(1,194)	(969)
Net change in loans and advances to banks		5	(36)
Net change in loans and advances to customers		1,035	623
Net change in NAMA senior bonds		454	967
Net change in other assets		(23)	5
Net change in deposits from banks		658	2,732
Net change in customer accounts		1,570	(708)
Net change in debt securities in issue		(2,292)	(1,782)
Net change in liabilities to customers under investment contracts		119	(82)
Net change in insurance contract liabilities		420	625
Net change in other operating liabilities		(258)	(148)
Net cash flow from operating assets and liabilities		**910**	**(99)**
Net cash flow from operating activities before tax		**2,364**	**1,414**
Tax paid		(105)	(98)
Net cash flow from operating activities		**2,259**	**1,316**
Investing activities (section a below)		(1,054)	(1,167)
Financing activities (section b below)		568	(3,329)
Effect of exchange translation and other adjustments		129	504
Net change in cash and cash equivalents		**1,902**	**(2,676)**
Opening cash and cash equivalents		8,299	10,975
Closing cash and cash equivalents	50	**10,201**	**8,299**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

Consolidated cash flow statement *(for the year ended 31 December 2017) (continued)*

	Note	2017 €m	Restated[1] 2016 €m
(a) Investing activities			
Additions to available for sale financial assets	23	(4,763)	(4,082)
Disposal / redemption of available for sale financial assets	23	4,001	3,194
Additions to property, plant and equipment	34	(44)	(61)
Disposal of property, plant and equipment	34	4	1
Additions to intangible assets	32	(235)	(219)
Acquisition of subsidiary (net of cash acquired)	31	(48)	-
Additions to investment property	33	(74)	(65)
Disposal of investment property	33	57	13
Disposal of assets held for sale		3	17
Dividends received from joint ventures	30	39	40
Net change in interest in associates	29	-	(2)
Net proceeds / (cost) from disposal of business activity	17	6	(3)
Cash flows from investing activities		**(1,054)**	**(1,167)**
(b) Financing activities			
Proceeds from issue of subordinated liabilities	45	750	-
Repayment of subordinated liabilities	45	(32)	(1,000)
Interest paid on subordinated liabilities	51	(88)	(190)
Dividend paid on 2009 Preference Stock and other preference equity interests		(4)	(124)
Consideration paid in respect of liability management exercises		-	(632)
Distributions paid on other equity instruments - Additional tier 1 coupon	49	(27)	(83)
Distribution to non-controlling interests - Additional tier 1 coupon	49	(28)	-
Dividend paid to non-controlling interests - preference stock	49	(3)	-
Redemption of 2009 Preference Stock		-	(1,300)
Cash flows from financing activities		**568**	**(3,329)**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

Notes to the consolidated financial statements

Index		Page
1	Group accounting policies	147
2	Critical accounting estimates and judgements	160
3	Operating segments	162
4	Interest income	168
5	Interest expense	169
6	Net insurance premium income	169
7	Fee and commission income and expense	169
8	Net trading income	170
9	Life assurance investment income, gains and losses	170
10	Other operating income	170
11	Insurance contract liabilities and claims paid	171
12	Other operating expenses	171
13	Cost of restructuring programme	172
14	Auditors’ remuneration (excluding VAT)	172
15	Impairment charges on financial assets	172
16	Share of results of associates and joint ventures (after tax)	173
17	Loss on disposal / liquidation of business activities	173
18	Taxation	174
19	Earnings per share	175
20	Derivative financial instruments	176
21	Other financial assets at fair value through profit or loss	177
22	Loans and advances to banks	178
23	Available for sale financial assets	178
24	Held to maturity financial assets	179
25	NAMA senior bonds	179
26	Loans and advances to customers	179
27	Impairment provisions	180
28	Credit risk exposures	180
29	Interest in associates	185
30	Interest in joint ventures	185
31	Business combinations	185
32	Intangible assets and goodwill	186

Index		Page
33	Investment properties	186
34	Property, plant and equipment	187
35	Deferred tax	189
36	Other assets	190
37	Life assurance business	191
38	Deposits from banks	191
39	Customer accounts	192
40	Debt securities in issue	193
41	Liabilities to customers under investment and insurance contracts	193
42	Other liabilities	194
43	Provisions	194
44	Retirement benefit obligations	195
45	Subordinated liabilities	201
46	Corporate reorganisation and capital reduction	203
47	Share capital	204
48	Other equity instruments - Additional tier 1	205
49	Non-controlling interests	205
50	Cash and cash equivalents	206
51	Changes in liabilities arising from financing activities	207
52	Related party transactions	207
53	Summary of relations with the State	212
54	Principal undertakings	213
55	Interests in other entities	213
56	Liquidity risk and profile	215
57	Measurement basis of financial assets and financial liabilities	217
58	Fair values of assets and liabilities	219
59	Transferred financial assets	227
60	Offsetting financial assets and liabilities	227
61	Contingent liabilities and commitments	228
62	Impact of change in life assurance operations policy	229
63	Post balance sheet events	231
64	Approval of financial statements	231

1 Group accounting policies

Basis of preparation

These consolidated financial statements are financial statements of the Bank of Ireland Group plc ('BOIG plc' or the 'Company') and its subsidiaries (collectively the 'BOIG plc Group' or the 'Group').

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated cash flow statement, the notes to the consolidated financial statements on pages 146 to 231 and the notes to the Company financial statements on pages 235 to 239.

The financial statements include the information that is described as being an integral part of the audited financial statements contained in:

(i) Sections 3.1, 3.2, 3.3, 3.4 and 4 of the Risk Management Report as described further on the bottom of page 42;
(ii) the Remuneration Report as described further on page 121; and
(iii) Other Information - Group exposures to selected countries as described further on the top of page 240.

The financial statements also include the tables in Other Information - Supplementary asset quality disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 243.

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations, 2015.

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

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

The accounting policies and critical accounting estimates applied by the Company are included in note a to the Company financial statements on page 235.

Impact of corporate reorganisation

On 28 April 2017, the ordinary stockholders of The Governor and Company of the Bank of Ireland (the 'Bank') approved the resolutions necessary to implement a corporate reorganisation. The reorganisation was implemented by a scheme of arrangement under the Companies Act 2014 (the 'Scheme'), approved by the High Court on 23 June 2017.

The Scheme became effective on 7 July 2017 and, as a result, BOIG plc became the new parent entity of the Bank on that date.

This transaction falls outside the scope of IFRS 3 'Business Combinations'. Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided by International Accounting Standard (IAS) 8 'Accounting policies, changes in accounting estimates and errors', the transaction has been accounted for as a corporate reorganisation that did not change the substance of the pre-existing group, of which the Bank was the parent. The new group, of which BOIG plc is the parent, is considered to be a continuation of the pre-existing group.

Predecessor accounting has been applied to the Scheme, such that the consolidated financial statements of the BOIG plc Group incorporate the assets and liabilities of the pre-existing group at their existing consolidated carrying values as at the date of the Scheme, and include the full year's results of the pre-existing group, including comparatives. The net assets of the BOIG plc Group immediately after implementation of the Scheme did not differ from the net assets of the pre-existing group immediately before the Scheme.

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

Foreign exchange rates used during the year are as follows:

	2017		2016	
	Average	**Closing**	Average	Closing
€ / Stg£	0.8767	0.8872	0.8195	0.8562
€ / US$	1.1297	1.1993	1.1069	1.0541

1 Group accounting policies (continued)

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for 2017 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, together with a range of other factors such as the outlook for the Irish economy, along with ongoing developments in EU economies.

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

Capital

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

Funding and liquidity

The Directors have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment.

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.

Adoption of new accounting standards and voluntary changes in accounting policies

The following amendments to standards have been adopted by the Group during the year ended 31 December 2017:

- IAS 7 'Statement of cash flows': Disclosure Initiative narrow-scope amendments; and
- IAS 12 'Income taxes': Recognition of Deferred Tax Assets for Unrealised Losses narrow-scope amendments.

These amendments have had no significant impact on the financial position of the Group.

Life assurance operations

The Group has voluntarily changed its accounting policy for the valuation of insurance contract liabilities and Value of in Force (ViF) asset.

Previously insurance contract liabilities were calculated in accordance with the guidelines as laid down in the European Communities (Life Assurance) Framework Regulations,1994 (the 'Insurance Regulations') and the ViF asset was calculated in accordance with the embedded value achieved profit methodology in the Statement of Recommended Practice issued by the Association of British Insurers.

The 2017 Group financial statements measure insurance contract liabilities using either a gross premium or net premium method of valuation, made on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

The ViF asset is measured by projecting expected future profits using best estimate and market consistent assumptions and a risk free interest rate curve. Further details are outlined in the Life assurance operations accounting policy on page 157.

The change in accounting policy has been driven by changes in the regulatory reporting requirements and to align the accounting policy more closely with these requirements.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The effect of this change is explained further in note 62.

Asset quality reporting

As part of the revision of its asset quality reporting methodology as set out in more detail on page 60, the Group's definition of impaired loans has been modified to remove non-mortgage loans that are greater than 90 days in arrears but where a specific provision is not required, instead these loans are classified as 'past due greater than 90 days but not impaired'. In addition, all exposures that are subject to forbearance and have a specific provision are now reported as both 'forborne' and 'impaired' whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'. These changes do not impact any of the line items in the primary financial statements for the current or prior period, nor do they impact the calculation of basic or diluted earnings per share. The Group's revised policy on forbearance is set out on page 154.

Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period. Any adjustments to comparatives are disclosed in the relevant note or supplementary asset quality disclosures as appropriate.

Group accounts

1 Subsidiaries

Subsidiary undertakings are investees controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control. The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as: the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

1 Group accounting policies (continued)

Business combinations
Except for where predecessor accounting applies, subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. In addition, foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

2 Associates and Joint Ventures
Associates are all entities over which the Group has significant influence, but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost.

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

3 Non-controlling interests
Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity is settled through equity.

4 Securitisations
Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:
- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

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

Foreign currency translation
Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group and the financial statements of the Company are presented in euro.

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities classified as available for sale (AFS), are recognised in other comprehensive income. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in other comprehensive income.

1 Group accounting policies (continued)

Assets, liabilities and equity of all the Group entities that have a functional currency different from the presentation currency ('foreign operations') are translated at the closing rate at the balance sheet date and items of income and expense are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation the amount accumulated in the separate component of equity is reclassified from equity to profit or loss. The Group may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, abandonment or through loss of control or significant influence.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss. Where the Group revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying amount of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised as the related services are provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn.

Operating profit / loss

Operating profit / loss includes the Group's earnings from ongoing activities after impairment charges on financial assets, and before share of profit or loss on associates and joint ventures (after tax) and profit / loss on disposal / liquidation of business activities.

Leases

1 **A Group company is the lessee**
The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 **A Group company is the lessor**
When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

Financial assets

1 **Classification, Recognition and Measurement**
The Group categorises its financial assets as: financial assets at fair value through profit or loss; loans and receivables; held to maturity or AFS financial assets. The Group determines the classification of its financial assets at initial recognition.

(a) ***Financial assets at fair value through profit or loss***
Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short-term, or designated at fair value through profit or loss at inception.
The principal category of assets

1 Group accounting policies (continued)

designated at fair value through profit or loss are those held by the Group's life assurance business, which are managed on a fair value basis.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

*(b) **Loans and receivables***
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

*(c) **Held to Maturity***
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value though profit or loss;
- those that the Group designates as available for sale; and
- those that meet the definition of loans and receivables.

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

A sale or reclassification of a more than insignificant amount of held to maturity investments results in the reclassification of all held to maturity investments to available for sale financial assets. On such reclassification, the difference between their carrying amount and fair value is recognised in other comprehensive income.

*(d) **Available for sale***
Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in other comprehensive income. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Available for sale financial assets that would have met the definition of loans and receivables may be reclassified to loans and receivables if the Group has the intention and ability to hold the asset for the foreseeable future or until maturity.

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

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

2 Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group designates certain financial liabilities at fair value through profit or loss, to eliminate or significantly reduce an accounting mismatch that would otherwise arise or as a result of embedded derivatives contained in the contract that would otherwise require separation. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Valuation of financial instruments

The Group recognises trading securities, other financial assets and liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value

1 Group accounting policies (continued)

using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow (DCF) analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

Sale and repurchase agreements and lending of assets

Assets sold subject to repurchase agreements ('repos') are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:

(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where a hedging instrument is novated to a clearing counterparty, the Group does not discontinue hedge accounting where the following criteria are met:

- the novation arises due to laws or regulations, or the introduction of laws and regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original

1 Group accounting policies (continued)

instrument except for those changes necessary to effect the change in counterparty.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate commercial loan or an AFS bond. If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial instruments: recognition and measurement' as adopted by the EU. Under these provisions the Group applies portfolio fair value hedge accounting of interest rate risk to its demand deposit book.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers

1 Group accounting policies (continued)

asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is deemed uncollectable, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

Forbearance

Forbearance occurs when a borrower is granted a concession or an agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forborne classifications.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition is recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

Non-forbearance renegotiation

Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. However, where cash flows on the original asset have been considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

Available for sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that an AFS financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an AFS equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Property, plant and equipment

Freehold land and buildings are initially recognised at cost, and subsequently are revalued annually to fair value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the balance sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings, are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

1 Group accounting policies (continued)

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:

- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use (VIU).

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified directly to retained earnings on disposal rather than the income statement.

Investment property

Property held for long-term rental yields and capital appreciation is classified as investment property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between three and ten years.

(b) Other intangible assets

Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives, which range from five years to twenty years.

Computer software and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its VIU.

(c) Goodwill

Goodwill represents the excess of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the CGU.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

The Group operates both defined contribution and defined benefit (DB) plans. A DB plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.
The asset or liability recognised in the balance sheet in respect of DB pension plans is the present value of the DB obligation at the balance sheet date minus the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of

1 Group accounting policies (continued)

the DB obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Service cost and net interest on the net DB liability / (asset) are recognised in profit or loss, within operating expenses.

Remeasurements of the net DB liability / (asset) that are recognised in other comprehensive income include:
- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net DB liability / (asset).

A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a DB plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

For defined contribution plans, contributions are recognised as employee benefit expense when they are due.

(b) Short-term employee benefits
Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

(c) Termination payments
Termination payments are recognised as an expense at the earlier of:
- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:
- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Income taxes

(a) Current income tax
Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Tax provisions are provided on a transaction by transaction basis using a best estimate approach. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as deferred tax assets (DTAs) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. DTAs and deferred tax liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items taken to other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity.

Share capital and reserves

1 Equity transaction costs
Incremental external costs directly attributable to equity transactions, including the issue of new equity shares or options, are shown as a deduction from equity, net of tax.

2 Dividends on ordinary shares
Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders on the recommendation of the Board of Directors, or approved by the Board of Directors, as appropriate. Interim dividends are recognised in equity in the period in which they are paid.

3 Treasury shares
Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Any changes in the value of treasury shares held are recognised in equity at the time of the disposal and dividends are not recognised as income or distributions.

1 Group accounting policies (continued)

4 ***Capital reserve***
The capital reserve represents transfers from share capital, retained earnings and other reserves in accordance with relevant legislation. The capital reserve is not distributable.

5 ***Foreign exchange reserve***
The foreign exchange reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations since 1 April 2004. Gains and losses accumulated in this reserve are reclassified to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

6 ***Revaluation reserve***
The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Group businesses, included within property, plant and equipment and non-financial assets classified as held for sale. The revaluation reserve is not distributable.

7 ***Available for sale reserve***
The AFS reserve represents the cumulative change in fair value of AFS financial assets together with the impact of any fair value hedge accounting adjustments.

8 ***Cash flow hedge reserve***
The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group’s profit or loss.

9 ***Share premium account***
Where, pursuant to Section 84 of the Companies Act 2014, there has been a reduction of the Company’s share capital by the cancellation of share premium, the resulting profits available for distribution, as defined by Section 117 of the Companies Act 2014, are reclassified from the share premium account to retained earnings.

10 ***Merger reserve***
In the Company balance sheet, the merger reserve represents the difference between the carrying value of the Company’s initial investment in the Bank arising from the corporate reorganisation detailed on page 203, and the nominal value of the shares issued as part of that reorganisation, less amounts capitalised as share premium. In the Consolidated balance sheet, the merger reserve also includes an adjustment to eliminate the capital stock, share premium, capital reserve and retained earnings of the Bank at the date of corporate reorganisation, which do not carry forward to the balance sheet of the Group.

Life assurance operations

In accordance with IFRS 4, the Group classifies all life assurance products as either insurance or investment contracts for accounting purposes.

Insurance contracts are those contracts that transfer significant insurance risk. These contracts are accounted for using an embedded value basis.

Investment contracts are accounted for in accordance with IAS 39. All of the Group’s investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders’ unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

The Group recognises an asset for deferred acquisition costs relating to investment contracts. Upfront fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

Non-unit linked insurance liabilities are calculated using either a gross premium or net premium method of valuation. The computation is made on the basis of recognised actuarial methods annually by an actuary, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. This represents the present value of expected future cash flows, using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and discounting using the risk free interest rate curve. Thus, the use of best estimate assumptions in the valuation of the ViF asset ensures that the net carrying amount of insurance liabilities less the ViF asset is adequate.

The ViF asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both shareholders and policyholders for the period.

Premiums and claims
Premiums receivable in respect of non-unit linked insurance contracts are recognised as revenue when due from policyholders.

Premiums received in respect of unit linked insurance contracts are recognised in the same period in which the related policyholder liabilities are created. Claims are recorded as an expense when they are incurred.

Reinsurance
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1 Group accounting policies (continued)

Collateral
The Group enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customers' assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

Financial guarantees
Financial guarantees issued are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, they are measured at the higher of the initial measurement, less cumulative amortisation, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement and recognised on the balance sheet within provisions for undrawn contractually committed facilities and guarantees.

Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

Operating segments
The Group's reportable operating segments have been identified on the basis that the chief operating decision maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

1 Group accounting policies (continued)

Impact of new accounting standards

The following standards and amendments to standards will be relevant to the Group but were not effective at 31 December 2017 and have not been applied in preparing these financial statements. The Group's current view of the impact of these accounting changes is outlined as follows:

Pronouncement
IFRS 9 'Financial instruments'

Nature of change
IFRS 9 'Financial instruments' has been endorsed by the EU as a replacement for IAS 39. It sets out requirements relating to recognition and derecognition, classification, measurement and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. Impairment under IFRS 9 is forward-looking and is based on expected rather than incurred losses. For financial liabilities, there is no change to classification and measurement except for recognition of changes in own credit risk in other comprehensive income for certain liabilities designated at fair value through profit or loss. The Group is making the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

Effective date
Financial periods beginning on or after 1 January 2018.

Impact
The estimated quantitative impact on initial adoption of IFRS 9 is a reduction in shareholders' equity of approximately €120 million after tax, substantially all of which relates to an increase in the impairment loss allowance on loans and advances to customers.

Pronouncement
IFRS 15 'Revenue from contracts with customers'

Nature of change
IFRS 15 specifies how and when revenue will be recognised as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

The revised standard was endorsed by the EU on 22 September 2016.

Effective date
Financial periods beginning on or after 1 January 2018.

Impact
The Group has assessed the nature and extent of the impact of the standard which is not expected to be significant to the financial statements of the Group.

Pronouncement
IFRS 16 'Leases'

Nature of change
IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases will be accounted for on-balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations.

The revised standard was endorsed by the EU on 31 October 2017.

Effective date
Financial periods beginning on or after 1 January 2019 and earlier application is permitted if IFRS 15 'Revenue from contracts with customers' is applied at the same time.

Impact
The Group is currently assessing the nature and extent of the impact of the standard, which is not yet known or reasonably estimable. The Group does not expect to early adopt the standard.

Pronouncement
IFRS 17 'Insurance contracts'

Nature of change
IFRS 17 replaces IFRS 4 'Insurance contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance contract liabilities, ensuring an entity provides relevant information that faithfully represents those contracts.

The standard is still subject to EU endorsement.

Effective date
Financial periods beginning on or after 1 January 2021 with earlier application of the standard permissible.

Impact
The Group intends to conduct a business and financial assessment of the impacts of IFRS 17 in 2018. The Group expects that IFRS 17 is likely to have a significant impact on the recognition, measurement and presentation of the insurance business in the financial statements.

2 Critical accounting estimates and judgements

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

(a) *Impairment charges on financial assets*

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of impairment losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience. The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the credit risk methodologies section on pages 65 to 68 of the Risk Management Report.

At 31 December 2017, the Retail Ireland Residential mortgage portfolio before impairment provisions was €24 billion (2016: €24 billion), against which the Group held provisions for impairment of €0.6 billion (2016: €0.9 billion), which comprised of collectively assessed provisions of €0.3 billion and individually assessed provisions of €0.3 billion. A key assumption used in the calculation of the impairment charge for Retail Ireland Residential mortgages is the value of the underlying residential properties securing the loans (i.e. the 'assumed value' for collective provisioning purposes).

As set out on page 66, during 2017, 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 of the property, using the Residential Property Price Index (RPPI) published by the Central Statistics Office (CSO), adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The 'Forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Group's most recent property sales experience. The disposal costs assumptions reflect the estimated costs associated with selling the underlying residential properties.

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

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

- A 1% absolute increase in the 'forced sale discount' assumptions would increase collective impairment provisions by c.€5 million.
- A 1% absolute increase in the 'disposal costs' assumption would increase collective impairment provisions by c.€4 million.
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would increase collective impairment provisions by c.€3 million.
- A 1% absolute increase in the 'weighted average cure rate' assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would reduce collective impairment provisions by c.€1 million.

2 Critical accounting estimates and judgements (continued)

- A 1% absolute increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would reduce collective impairment provisions by c.€2 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. At 31 December 2017, Property and construction loans before impairment provisions were €8.7 billion (2016: €10.3 billion) including non-performing exposures of €1.7 billion (2016: €3.5 billion), against which the Group held provisions for impairment of €0.7 billion (2016: €1.7 billion).

In the case of the Property and construction portfolio, a collective impairment provision is made for IBNR impairment charges. A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. At 31 December 2017, emergence periods for Property and construction loans range from three to four months. An increase of one month in this emergence period beyond the assumed level would increase impairment provisions by c.€16 million.

In the case of the Non-property SME and corporate portfolio, a collective impairment provision is made for IBNR impairment charges. A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. At 31 December 2017, emergence periods for Non-property SME and corporate loans range from three to four months. An increase of one month in this emergence period beyond the assumed level would increase impairment provisions by c.€12 million.

(b) *Taxation*

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates, based on a judgement of the application of law and practice in certain cases, to determine the quantification of any liabilities arising. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

At 31 December 2017, the net DTA was €1,184 million (2016: €1,236 million), of which €1,253 million (2016: €1,270 million) related to trading losses. See note 35.

At 31 December 2017, the total DTA relating to trading losses was c.€1.2 billion, of which c.€1.1 billion related to Irish trading losses and c.€0.1 billion related to the UK trading losses.

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

A DTA 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 be probable that future taxable profits will be available against which the losses can be utilised. The recognition of a DTA 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 DTA 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.

Irish tax legislation does not currently contain any restriction on the use of carried forward tax losses. However, there was previously a restriction, between 2009 and 2013, which limited to 50% the amount of current year Irish taxable profits that could be offset by carried forward Irish tax losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses to 25% from 1 April 2016. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the DTA at 31 December 2017.

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

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

Based on the Group's projections, the DTA in respect of tax losses is estimated to be recovered in full by the end of 2036 (2016: 2038).

(c) *Retirement benefits*

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

2 Critical accounting estimates and judgements (continued)

in the key assumptions is set out in note 44.

(d) Life assurance operations
The Group accounts for the value of the shareholders' interest in its long-term assurance business using Market Consistent Embedded Value (MCEV) Principles and Guidelines. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the ViF business. The ViF asset represents the expected future profits on insurance contracts and this is calculated using an embedded value approach with market consistent assumptions.

The ViF asset is measured by projecting expected future surpluses using best estimate and market consistent assumptions and a risk free interest rate curve.

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

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the balance sheet date and could significantly affect the value attributed to the in force business. The ViF business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period. A quantitative analysis of the sensitivity of profit to changes in the key life assurance assumptions is set out in note 37.

(e) Tracker Mortgage Examination
At 31 December 2017, the Group has recognised a provision of €158 million in connection with the ongoing industry wide examination of tracker mortgages. The provision represents the Group's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Group in connection with the examination.

The Central Bank of Ireland examination is still ongoing. There are still a number of uncertainties as to the eventual total cost of the examination. Management has therefore exercised judgement to determine appropriate provision assumptions which include estimates of the level of appeals, appeal success rates and the level of administrative costs to be incurred by the Group in concluding the examination.

Given the uncertainties outlined above, it is possible that the eventual outcome may differ from the current estimate with a corresponding impact on profit or loss in future periods.

3 Operating segments

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

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

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 financial brokers, its own tied Financial Advisor network and the Group's distribution channels.

Retail UK
The Retail UK division incorporates the financial services partnership and foreign exchange joint venture with the UK Post Office, the financial services partnership with the AA, the UK residential mortgage business, the Group's branch network in Northern Ireland (NI), the Group's business banking business in NI and the Northridge Finance motor and asset finance, vehicle leasing and fleet management business. The Group also has a business banking business in Great Britain (GB) which is being run-down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licenced banking subsidiary.

In November 2017, Northridge Finance acquired Marshall Leasing Limited (MLL). MLL is a car and commercial vehicle leasing and fleet management company.

Corporate and Treasury
The Corporate and Treasury Division comprises Corporate Banking and Global Markets. It also manages the Group's euro area liquid asset bond portfolio.

Group Centre
Group Centre comprises Group Manufacturing, Group Finance, Group Risk, Group Governance and Regulatory and Group Human Resources. These Group central functions establish and oversee policies and provide and manage certain processes and delivery platforms for the divisions.

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

Basis of preparation of segmental information
The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are considered to be the chief operating

3 Operating segments (continued)

decision maker for the Group. The Group's operating segments reflect its organisational and management structures. The CEO and CFO review the Group's internal reporting based around these segments to assess performance and allocate resources. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

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

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

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. During 2017, the Group amended the basis of allocating liquid asset income across the divisions which resulted in an increase in net interest income for 2017 in the Retail Ireland division of €24 million and in the Retail UK division of €1 million with a corresponding decrease in net interest income in the Corporate and Treasury division of €25 million, compared to the former basis. In addition, in 2017 €41 million gains on sales from the euro liquid asset portfolio, which were previously recognised in Corporate and Treasury division (2016: €63 million), are recognised within Group Centre 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 excludes:

- Tracker Mortgage Examination charges;
- cost of restructuring programme;
- gross-up for policyholder tax in the Life business;
- cost of corporate reorganisation and establishment of a new holding company;
- charge arising on the movement in the Group's credit spreads;
- gain / loss on disposal / liquidation of business activities;
- investment return on treasury stock held for policyholders; and
- gains / losses on liability management exercises.

3 Operating segments (continued)

2017	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	**1,065**	**12**	**579**	**575**	**20**	**(3)**	**2,248**
Other income, net of insurance claims	317	208	9	231	25	11	801
Total operating income, net of insurance claims	**1,382**	**220**	**588**	**806**	**45**	**8**	**3,049**
Other operating expenses	(761)	(109)	(382)	(194)	(389)	1	(1,834)
- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	*(760)*	*(109)*	*(378)*	*(194)*	*(184)*	*1*	*(1,624)*
- Core Banking Platforms Investment charge	*-*	*-*	*-*	*-*	*(111)*	*-*	*(111)*
- Levies and regulatory charges	*(1)*	*-*	*(4)*	*-*	*(94)*	*-*	*(99)*
Depreciation and amortisation	(61)	(5)	(27)	(11)	(61)	-	(165)
Total operating expenses	**(822)**	**(114)**	**(409)**	**(205)**	**(450)**	**1**	**(1,999)**
Underlying operating profit / (loss) before impairment charges on financial assets	**560**	**106**	**179**	**601**	**(405)**	**9**	**1,050**
Impairment (charges) / reversals on financial assets	148	-	(115)	(48)	-	-	(15)
Share of results of associates and joint ventures	4	-	39	-	-	-	43
Underlying profit / (loss) before tax	**712**	**106**	**103**	**553**	**(405)**	**9**	**1,078**

Reconciliation of underlying profit before tax to profit before tax	**Group €m**
Underlying profit before tax	1,078
Tracker Mortgage Examination charges	(170)
Cost of restructuring programme	(48)
Gross-up for policyholder tax in the Life business	10
Cost of corporate reorganisation and establishment of a new holding company	(7)
Charge arising on the movement in the Group's credit spreads	(5)
Loss on disposal / liquidation of business activities	(5)
Investment return on treasury shares held for policyholders	(1)
Profit before tax	**852**

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

3 Operating segments (continued)

Restated[1] 2016	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[2] €m	Group €m
Net interest income	1,047	31	609	576	15	-	2,278
Other income, net of insurance claims	407	196	(9)	238	(16)	32	848
Total operating income, net of insurance claims	1,454	227	600	814	(1)	32	3,126
Other operating expenses	(758)	(95)	(387)	(196)	(323)	-	(1,759)
- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	*(757)*	*(94)*	*(384)*	*(196)*	*(178)*	-	*(1,609)*
- Core Banking Platforms Investment charge	-	-	-	-	*(41)*	-	*(41)*
- Levies and regulatory charges	*(1)*	*(1)*	*(3)*	-	*(104)*	-	*(109)*
Depreciation and amortisation	(55)	(5)	(25)	(10)	(37)	-	(132)
Total operating expenses	(813)	(100)	(412)	(206)	(360)	-	(1,891)
Underlying operating profit / (loss) before impairment charges on financial assets	641	127	188	608	(361)	32	1,235
Impairment (charges) / reversals on financial assets	(2)	-	(99)	(77)	-	-	(178)
Share of results of associates and joint ventures	(3)	-	44	-	-	-	41
Underlying profit / (loss) before tax	636	127	133	531	(361)	32	1,098

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	1,098
Tracker Mortgage Examination charges	(21)
Cost of restructuring programme	(35)
Loss on liability management exercises	(19)
Gross-up for policyholder tax in the Life business	12
Loss on disposal / liquidation of business activities	(7)
Gain arising on the movement in the Group's credit spreads	5
Investment return on treasury shares held for policyholders	2
Profit before tax	1,035

[1] *Comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations (see note 62 on page 229 for further detail). On an underlying basis, this has resulted in an increase of €6 million in 2016 Other income (net) and a €3 million increase in the net charge from non-core items and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €15 million in 2016 Net interest income (before ELG fees) and a decrease of €6 million in 2016 Operating expenses (before Core Banking Platforms investment and levies and regulatory charges) with a corresponding increase of €21 million in the 2016 net charge from non-core items.*

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

3 Operating segments (continued)

2017 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	**59**	**-**	**69**	**-**	**-**	**-**	**128**
External assets	36,082	17,307	33,884	28,530	6,754	(3)	122,554
Inter segment assets	60,188	824	3,034	82,723	26,503	(173,272)	-
Total assets	**96,270**	**18,131**	**36,918**	**111,253**	**33,257**	**(173,275)**	**122,554**
External liabilities	51,639	17,164	25,701	14,947	3,431	5	112,887
Inter segment liabilities	42,641	265	9,162	95,160	26,031	(173,259)	-
Total liabilities	**94,280**	**17,429**	**34,863**	**110,107**	**29,462**	**(173,254)**	**112,887**

Restated[1] 2016 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	56	-	71	-	-	-	127
External assets	36,739	15,984	35,317	28,901	5,715	11	122,667
Inter segment assets	56,530	1,555	8,717	81,500	16,245	(164,547)	-
Total assets	93,269	17,539	44,034	110,401	21,960	(164,536)	122,667
External liabilities	48,884	16,582	26,557	18,598	2,617	10	113,248
Inter segment liabilities	42,750	184	14,852	90,578	16,154	(164,518)	-
Total liabilities	91,634	16,766	41,409	109,176	18,771	(164,508)	113,248

2017 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	**1,359**	**1,880**	**1,072**	**880**	**78**	**(12)**	**5,257**
Inter segment revenues	569	59	41	451	148	(1,268)	-
Gross revenue before claims paid	**1,928**	**1,939**	**1,113**	**1,331**	**226**	**(1,280)**	**5,257**
Insurance contract liabilities and claims paid	-	(1,643)	-	-	(3)	-	(1,646)
Gross revenue	**1,928**	**296**	**1,113**	**1,331**	**223**	**(1,280)**	**3,611**
Interest expense	**(109)**	**(1)**	**(178)**	**7**	**(127)**	**14**	**(394)**
Capital expenditure	**22**	**4**	**49**	**11**	**193**	**-**	**279**

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

3 Operating segments (continued)

Restated[1] 2016 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,489	1,803	1,311	898	75	(27)	5,549
Inter segment revenues	689	66	30	600	291	(1,676)	-
Gross revenue	2,178	1,869	1,341	1,498	366	(1,703)	5,549
Insurance contract liabilities and claims paid	-	(1,566)	-	-	(11)	-	(1,577)
Gross revenue after claims paid	2,178	303	1,341	1,498	355	(1,703)	3,972
Interest expense	(138)	(1)	(287)	(4)	(182)	14	(598)
Capital expenditure	45	7	24	6	198	-	280

2017 Geographical analysis	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
Gross external revenue	3,946	1,214	109	(12)	5,257
Inter segment revenues	141	69	16	(226)	-
Gross revenue before claims paid	**4,087**	**1,283**	**125**	**(238)**	**5,257**
Insurance contract liabilities and claims paid	(1,643)	-	(3)	-	(1,646)
Gross revenue	**2,444**	**1,283**	**122**	**(238)**	**3,611**
Capital expenditure	**230**	**49**	**-**	**-**	**279**
External assets	84,566	36,009	1,979	-	122,554
Inter segment assets	12,555	4,718	568	(17,841)	-
Total assets	**97,121**	**40,727**	**2,547**	**(17,841)**	**122,554**
External liabilities	86,261	26,503	123	-	112,887
Inter segment liabilities	3,435	12,160	2,250	(17,845)	-
Total liabilities	**89,696**	**38,663**	**2,373**	**(17,845)**	**112,887**

Restated[1] 2016 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
Gross external revenue	4,071	1,399	106	(27)	5,549
Inter segment revenues	192	74	15	(281)	-
Gross revenue before claims paid	4,263	1,473	121	(308)	5,549
Insurance contract liabilities and claims paid	(1,566)	-	(11)	-	(1,577)
Gross revenue	2,697	1,473	110	(308)	3,972
Capital expenditure	253	24	3	-	280
External assets	82,883	38,011	1,773	-	122,667
Inter segment assets	18,171	9,830	1,161	(29,162)	-
Total assets	101,054	47,841	2,934	(29,162)	122,667
External liabilities	85,019	27,938	291	-	113,248
Inter segment liabilities	9,515	17,335	2,316	(29,166)	-
Total liabilities	94,534	45,273	2,607	(29,166)	113,248

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

4 Interest income

	2017 €m	2016 €m
Loans and advances to customers	2,241	2,532
Finance leases and hire purchase receivables	152	146
Available for sale financial assets	95	121
Held to maturity financial assets[1]	29	31
Loans and advances to banks	15	22
NAMA senior bonds	3	4
	2,535	**2,856**
Negative interest on financial liabilities	11	5
Interest income	**2,546**	**2,861**

Interest income on loans and advances to customers is shown net of a charge of €96 million (2016: €15 million charge) related to redress arising from the Central Bank of Ireland Tracker Mortgage Examination. This principally represents interest refunds to customers.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as an offset against interest expense.

Interest income recognised on loans and advances to customers[2]

- €74 million (2016: €103 million) of interest was recognised on impaired loans and advances to customers. Of this amount €54 million (2016: €77 million) relates to loans on which specific provisions have been individually assessed and €20 million (2016: €26 million) relates to loans on which specific provisions have been collectively assessed;
- €63 million (2016: €84 million) of interest was recognised on loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end; and
- €74 million (2016: €106 million) of interest was recognised on loans and advances to customers classified as forborne and which are considered performing at the year end.

In 2017, interest recognised on total forborne loans and advances to customers was €154 million (2016: €225 million).

Interest income received on loans and advances to customers[2]

- €78 million (2016: €109 million) of interest income was received on impaired loans and advances to customers;
- €61 million (2016: €81 million) of interest income was received on loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end; and
- €69 million (2016: €100 million) of interest income was received on loans and advances to customers classified as forborne and which are considered performing at the year end.

In 2017, interest income received on total forborne loans and advances to customers was €178 million (2016: €259 million).

Interest income recognised on available for sale financial assets

Interest income on AFS assets is recognised net of interest expense of €86 million (2016: €89 million) on derivatives which are in a hedge relationship with the relevant asset.

Transferred from cash flow hedge reserve

Net interest income also includes a charge of €2 million (2016: €9 million gain) transferred from the cash flow hedge reserve (see page 142).

[1] *Includes €18 million (2016: €17 million) of amortisation transferred from the AFS reserve in relation to the assets reclassified from AFS to held to maturity.*

[2] *As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. As a result, the 2016 interest income recognised has been restated as follows:*

- *Loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end restated from €51 million to €84 million;*
- *Loans and advances to customers classified as forborne and which are considered performing at the year end restated from €226 million to €106 million;*
- *Loans and advances to customers classified as forborne restated from €261 million to €225 million.*

In addition the 2016 interest income received has been restated as follows:

- *Loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end restated from €51 million to €81 million;*
- *Loans and advances to customers classified as forborne and which are considered performing at the year end restated from €224 million to €100 million;*
- *Loans and advances to customers classified as forborne restated from €257 million to €259 million.*

5 Interest expense

	2017 €m	2016 €m
Customer accounts	201	365
Debt securities in issue	82	80
Subordinated liabilities	77	139
Deposits from banks	20	6
	380	**590**
Negative interest on financial assets	14	8
Interest expense	**394**	**598**

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as an offset against interest income.

Included within interest expense is an amount of €nil (2016: €20 million) relating to the cost of the Eligible Liabilities Guarantee (ELG) Scheme.

Interest expense recognised on subordinated liabilities

Interest expense on subordinated liabilities is recognised net of interest income of €21 million (2016: €30 million) on derivatives which are in a hedge relationship with the relevant liability.

Interest expense recognised on debt securities in issue

Interest expense on debt securities in issue is recognised net of interest income of €57 million (2016: €68 million) on derivatives which are in a hedge relationship with the relevant liability.

6 Net insurance premium income

	2017 €m	2016 €m
Gross premiums written	1,431	1,306
Ceded reinsurance premiums	(87)	(80)
Net insurance premium income	**1,344**	**1,226**

7 Fee and commission income and expense

Income	2017 €m	2016 €m
Retail banking customer fees	431	442
Credit related fees	46	46
Insurance commissions	15	19
Asset management fees	4	3
Brokerage fees	2	2
Other	45	47
Fee and commission income	**543**	**559**

Expense

Fee and commission expense of €217 million (2016: €222 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

8 Net trading income

	2017 €m	2016 €m
Financial assets designated at fair value	14	3
Financial liabilities designated at fair value	(79)	(105)
Related derivatives held for trading	49	66
	(16)	**(36)**
Other financial instruments held for trading	177	149
Net fair value hedge ineffectiveness	-	-
Net trading income	**161**	**113**

The impact on the Group's income statement of the gains arising on the movement in credit spreads on the Group's own debt and deposits

	2017 €m	2016 €m
Recognised in		
- Net trading income	(4)	3
- Insurance contract liabilities and claims paid	(1)	2
	(5)	**5**
Cumulative charges arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss	(27)	(22)

Net trading income includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €28 million (2016: €15 million) in relation to net gains arising from foreign exchange.

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €9 million (2016: net charge of €87 million) offsetting a net charge from hedged items of €9 million (2016: net gain of €87 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement in 2017 amounted to €nil (2016: €nil).

9 Life assurance investment income, gains and losses

	2017 €m	2016 €m
Gross life assurance investment income, gains and losses	450	446
Life assurance investment income, gains and losses	**450**	**446**

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

10 Other operating income

	2017 €m	Restated[1] 2016 €m
Transfer from available for sale reserve on asset disposal (note 23)	69	174
Other insurance income	56	121
Movement in Value of in Force asset (note 37)	25	9
Dividend income	20	14
Loss on liability management exercises	-	(19)
Other income	-	4
Other operating income	**170**	**303**

Other income includes a loss on investment property disposals and revaluations of €2 million (2016: loss €3 million).

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

11 Insurance contract liabilities and claims paid

	2017 €m	Restated[1] 2016 €m
Claims paid		
Policy surrenders	1,001	741
Death and critical illness claims	152	152
Annuity payments	76	77
Other claims	65	59
Policy maturities	-	1
Gross claims paid	**1,294**	**1,030**
Recovered from reinsurers	(93)	(90)
Net claims paid	**1,201**	**940**
Change in insurance contract liabilities		
Change in gross liabilities	421	625
Change in reinsured liabilities	24	12
Net change in insurance contract liabilities	**445**	**637**
Insurance contract liabilities and claims paid	**1,646**	**1,577**

12 Other operating expenses

Administrative expenses and staff costs	2017 €m	2016 €m
Staff costs excluding restructuring and Core Banking Platform Investment staff costs	904	881
Levies and regulatory charges	99	109
- Irish bank levy	*29*	*38*
- Other	*70*	*71*
Amortisation of intangible assets (note 32)	130	98
Core Banking Platforms Investment charge	111	41
Depreciation of property, plant and equipment (note 34)	35	34
Reversal of impairment on property	(4)	(5)
Other administrative expenses excluding cost of restructuring programme	805	739
Total	**2,080**	**1,897**
Total staff costs are analysed as follows:		
Wages and salaries	685	664
Retirement benefit costs (defined benefit plans) (note 44)	125	118
Social security costs	76	73
Retirement benefit costs (defined contribution plans)	23	17
Other staff expenses	8	12
	917	**884**
Staff costs capitalised	(13)	(3)
Staff costs excluding restructuring and platforms investment staff costs	**904**	**881**
Additional restructuring and platforms investment staff costs:		
Included in Core Banking Platforms Investment charge	13	6
Included in cost of restructuring programme (note 13)	48	38
Total staff costs recognised in the income statement	**965**	**925**

The Group has incurred levies and regulatory charges of €99 million (2016: €109 million). The charge for 2017 primarily reflects the Group's contribution to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund, along with the charges for the FSCS levy and the Irish bank levy.

In 2017, DB retirement costs were €125 million (2016: €118 million, including a negative past service cost of €20 million). Further details are included in note 44.

Core Banking Platforms Investment charge includes €4 million (2016: €nil) amortisation charge relating to intangible assets capitalised previously.

Other administrative expenses include an amount of €59 million (2016: €54 million) relating to operating lease payments.

The Group has incurred a charge of €74 million (2016: €6 million) in other administrative expenses relating to the Central Bank of Ireland Tracker Mortgage Examination, which primarily relates to redress, compensation and costs.

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

12 Other operating expenses (continued)

Average number of staff (full time equivalents)	2017 €m	2016 €m
Retail Ireland	4,185	4,251
Retail UK	1,707	1,830
Bank of Ireland Life	900	940
Corporate and Treasury	652	646
Group Centre	3,752	3,561
Total	**11,196**	**11,228**

Staff numbers
At 31 December 2017, the number of staff (full time equivalents) was 10,892 (2016: 11,208).

13 Cost of restructuring programme

	2017 €m	2016 €m
Staff costs (note 12)	48	38
Property and other	-	(3)
Total	**48**	**35**

14 Auditors' remuneration (excluding VAT)

	Note	RoI (i) €m	Overseas (ii) €m	2017 €m	2016 €m
Audit and assurance services					
Statutory audit		2.7	0.9	3.6	3.6
Assurance services	(iii)	2.1	-	2.1	1.0
		4.8	**0.9**	**5.7**	**4.6**
Other services					
Taxation services		0.1	-	0.1	0.1
Other non-audit services	(iv)	0.1	0.1	0.2	0.2
Total auditors' remuneration		**5.0**	**1.0**	**6.0**	**4.9**

The figures in the above table relate to fees payable to PricewaterhouseCoopers (PwC). The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

(i) Fees paid to the Statutory Auditor, PwC Ireland;
(ii) Fees to overseas auditors principally consist of fees to PwC LLP in the UK;
(iii) Assurance services consist primarily of fees in connection with the corporate reorganisation undertaken during the year, reporting to regulators including the Central Bank of Ireland, review of the interim financial statements, letters of comfort, review of compliance with the Government Guarantee Schemes, reporting accountants' work and other accounting matters; and
(iv) Other non-audit services consist primarily of fees for translation services and other assignments.

15 Impairment charges on financial assets

	2017 €m	2016 €m
Loans and advances to customers (note 27)	15	176
Available for sale financial assets (note 23)	-	2
Impairment charges on financial assets	**15**	**178**

15 Impairment charges on financial assets (continued)

Impairment charges / (reversals) on loans and advances to customers	**2017 €m**	2016 €m
Residential mortgages	(137)	(142)
- Retail Ireland	*(131)*	*(141)*
- Retail UK	*(6)*	*(1)*
Non-property SME and corporate	84	113
- Republic of Ireland SME	*20*	*44*
- UK SME	*24*	*2*
- Corporate	*40*	*67*
Property and construction	60	213
- Investment	*54*	*143*
- Land and development	*6*	*70*
Consumer	8	(8)
Total	**15**	**176**

This table provides analysis of impairment charges / reversals on loans and advances to customers by portfolio.

Impairment charges / (reversals) on loans and advances to customers by nature of impairment provision	**2017 €m**	2016 €m
Specific charge individually assessed	181	376
Specific charge collectively assessed	(43)	(106)
Incurred but not reported	(123)	(94)
Total impairment charge	**15**	**176**

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

	2017 €m	2016 €m
First Rate Exchange Services (note 30)	40	43
Associates (note 29)	3	(2)
Share of results of associates and joint ventures (after tax)	**43**	**41**

17 Loss on disposal / liquidation of business activities

	2017 €m	2016 €m
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	(11)	(4)
Other disposals	6	(3)
Loss on disposal / liquidation of business activities	**(5)**	**(7)**

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 2017, the Group voluntarily appointed a liquidator to manage the winding up of a number of foreign operations. Upon appointment of the liquidator, the Group is considered to have lost control of the foreign operations 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 €11 million relating to these foreign operations from the foreign exchange reserve to the income statement during 2017 (2016: losses of €4 million) (see page 142).

18 Taxation

	2017 €m	Restated[1] 2016 €m
Current tax		
Irish Corporation Tax		
- Current year	16	53
- Adjustment in respect of prior year	(19)	(2)
Double taxation relief	(2)	(1)
Foreign tax		
- Current year	75	68
- Adjustments in respect of prior year	-	(3)
	70	**115**
Deferred tax		
Origination and reversal of temporary differences	53	8
Current year profits	17	84
Adjustments in respect of prior year	12	7
Impact of Corporation Tax rate change (note 35)	10	8
Reassessment of the value of tax losses carried forward	(2)	14
Taxation charge	**160**	**236**

Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge	2017 €m	Restated[1] 2016 €m
Current tax		
Profit before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2016: 12.5%)	107	129
Effects of:		
Foreign earnings subject to different rates of tax	34	37
Bank of Ireland Life companies - different basis of accounting	21	17
Impact of corporation tax rate change on deferred tax	10	8
Adjustments in respect of prior year	(7)	2
Share of results of associates and joint ventures shown post tax in the income statement	(5)	(5)
Other adjustments for tax purposes	2	34
Reassessment of the value of tax losses carried forward	(2)	14
Taxation charge	**160**	**236**

The effective taxation rate on a statutory profit basis for 2017 is 19% (2016: 23%).

Between 2009 and 2011, the Group conducted a series of liability management exercises in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HM Revenue & Customs (HMRC), over the last number of years as it considers these transactions. HMRC has concurred with the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. HMRC has now challenged the tax treatment of gains in the amount of £168 million (€189 million) arising in respect of one transaction. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made.

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

18 Taxation (continued)

	2017			2016		
	Pre-tax €m	**Tax €m**	**Net of Tax €m**	Pre-tax €m	Tax €m	Net of Tax €m
Available for sale reserve						
Gain on reclassification for held to maturity portfolio	52	(7)	45	-	-	-
Changes in fair value	24	(2)	22	(19)	(1)	(20)
Transfer to income statement						
- On asset disposal	(69)	9	(60)	(174)	40	(134)
- Amortisation	(18)	2	(16)	(17)	2	(15)
Net change in reserve	**(11)**	**2**	**(9)**	**(210)**	**41**	**(169)**
Remeasurement of the net defined benefit pension liability	**(127)**	**14**	**(113)**	**184**	**(17)**	**167**
Cash flow hedge reserve						
Changes in fair value	203	(24)	179	1,525	(188)	1,337
Transfer to income statement	(334)	40	(294)	(1,526)	185	(1,341)
Net change in cash flow hedge reserve	**(131)**	**16**	**(115)**	**(1)**	**(3)**	**(4)**
Net change in foreign exchange reserve	**(147)**	**-**	**(147)**	**(419)**	**-**	**(419)**
Net change in revaluation reserve	**16**	**(1)**	**15**	**4**	**(1)**	**3**
Other comprehensive income for the year	**(400)**	**31**	**(369)**	**(442)**	**20**	**(422)**

19 Earnings per share

	2017 €m	Restated[1] 2016 €m
Basic and diluted earnings per share		
Profit attributable to shareholders	664	799
Distributions on other equity instruments -		
Additional tier 1 coupon, net of tax	(24)	(73)
Dividend on other preference equity interests	(4)	(8)
Profit attributable to ordinary shareholders	**636**	**718**
	Shares (millions)	Shares (millions)
Weighted average number of shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders[2]	1,076	1,078
Basic and diluted earnings per share (cent)	**59.1c**	**66.6c[3]**

The calculation of basic earnings per ordinary share[4] is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders, adjusted for the share consolidation outlined in note 46.

Additional tier 1 (AT1) coupons and dividends on other preference equity interests totalling €28 million paid after the date of the corporate reorganisation of 7 July 2017 have been deducted in arriving at profit attributable to shareholders of €664 million, as those components of equity were reclassified to non-controlling interests on that date.

Diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary shares and for the share consolidation outlined in note 46.

For 2017 and 2016, there was no difference in the weighted average number of units of share used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive.

1 *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*
2 *The weighted average number of own shares held for the benefit of life assurance policyholders as adjusted for the share consolidation outlined in note 46 amounted to 2.6 million (2016: 0.7 million shares). The number of units of treasury stock outstanding at 31 December 2016 was 22 million units. This stock was not subject to share consolidation and was cancelled on 7 July 2017.*
3 *The basic and diluted earnings per share for 2016 have been adjusted for the share consolidation outlined in note 46.*
4 *The par value of an ordinary share following the share consolidation as outlined in note 46 is €1.00 (prior to consolidation the par value of each unit of ordinary share was €0.05).*

20 Derivative financial instruments

The Group's use of, objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Risk Management Report on pages 76 to 79. The notional amounts of certain types of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Group are set out in the table below.

Derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting. Derivatives classified as held for hedging in the table below comprise only those derivatives to which the Group applies hedge accounting.

The Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €2.3 billion at 31 December 2017 (2016: €3.7 billion):

- €1.4 billion (2016: €1.9 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €0.9 billion (2016: €1.8 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2017, cash collateral of €0.6 billion (2016: €1.1 billion) was held against these assets and is reported within deposits from banks (note 38).

	2017			2016		
	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held for trading						
Foreign exchange derivatives						
Currency swaps	4,954	45	38	4,419	100	57
Currency forwards	1,426	16	14	1,583	27	49
Over the counter currency options	593	6	6	432	6	6
Total foreign exchange derivatives held for trading	**6,973**	**67**	**58**	**6,434**	**133**	**112**
Interest rate derivatives						
Interest rate swaps	117,575	1,161	1,432	110,819	1,625	1,978
Cross currency interest rate swaps	1,145	125	122	2,079	275	270
Over the counter interest rate options	8,594	16	31	6,368	15	30
Interest rate futures	3,598	3	1	6,504	4	3
Exchange traded interest rate options	5	-	-	1,771	-	-
Forward rate agreements	3,759	2	1	-	-	-
Total interest rate derivatives held for trading	**134,676**	**1,307**	**1,587**	**127,541**	**1,919**	**2,281**
Equity contracts, commodity contracts and credit derivatives						
Equity index-linked contracts held	2,112	206	6	3,332	203	7
Commodity contracts	68	6	6	98	4	4
Credit derivatives	162	1	2	124	-	-
Total equity contracts and credit derivatives	**2,342**	**213**	**14**	**3,554**	**207**	**11**
Total derivative assets / liabilities held for trading	**143,991**	**1,587**	**1,659**	**137,529**	**2,259**	**2,404**
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Interest rate swaps	31,291	234	300	23,128	294	405
Cross currency interest rate swaps	11	-	-	13	1	-
Total designated as fair value hedges	**31,302**	**234**	**300**	**23,141**	**295**	**405**
Derivatives designated as cash flow hedges						
Cross currency interest rate swaps	7,474	393	1	8,220	853	-
Interest rate swaps	9,385	134	27	12,500	302	64
Total designated as cash flow hedges	**16,859**	**527**	**28**	**20,720**	**1,155**	**64**
Total derivative assets / liabilities held for hedging	**48,161**	**761**	**328**	**43,861**	**1,450**	**469**
Total derivative assets / liabilities	**192,152**	**2,348**	**1,987**	**181,390**	**3,709**	**2,873**

20 Derivative financial instruments (continued)

At 31 December 2017, placements with other banks and loans and advances to customers include cash collateral of €0.5 billion (2016: €0.8 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.5 billion (2016: €0.8 billion) and is reported within loans and advances to banks (note 22) and loans and advances to customers (note 26).

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

Fair value hedges
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and foreign exchange exposure on the Group's fixed rate debt held, fixed rate mortgages and debt issued portfolios.

Cash flow hedges
The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (page 142).

The hedged cash flows are expected to occur in the following years:

	2017					2016				
	Up to 1 year €m	**1 to 2 years €m**	**2 to 5 years €m**	**Over 5 years €m**	**Total €m**	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Forecast receivable cash flows	5,319	1,808	63	28	7,218	5,037	2,374	60	46	7,517
Forecast payable cash flows	(16)	(11)	-	(2)	(29)	(35)	(26)	(31)	(22)	(114)

The hedged cash flows are expected to impact the income statement in the following years:

	2017					2016				
	Up to 1 year €m	**1 to 2 years €m**	**2 to 5 years €m**	**Over 5 years €m**	**Total €m**	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Forecast receivable cash flows	7,114	18	64	22	7,218	7,402	15	62	38	7,517
Forecast payable cash flows	(19)	(8)	-	(2)	(29)	(38)	(27)	(29)	(20)	(114)

In 2017, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur.

21 Other financial assets at fair value through profit or loss

	2017 €m	2016 €m
Assets linked to policyholder liabilities		
Equity securities	10,024	8,596
Unit trusts	1,072	1,074
Debt securities	915	735
Government bonds	803	1,191
	12,814	**11,596**
Other financial assets		
Government bonds	1,178	1,209
Other	429	444
	1,607	**1,653**
Other financial assets at fair value through profit or loss	**14,421**	**13,249**

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 2017, such assets were €12,814 million (2016: €11,596 million).

Other financial assets of €1,607 million (2016: €1,653 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

22 Loans and advances to banks

	2017 €m	2016 €m
Placements with banks	1,473	1,899
Mandatory deposits with central banks	1,369	1,378
Securities purchased with agreement to resell	200	47
Funds placed with the Central Bank of Ireland not on demand	19	25
Loans and advances to banks	**3,061**	**3,349**

Placements with other banks includes cash collateral of €0.4 billion (2016: €0.7 billion) placed with derivative counterparties in relation to net derivative liability positions (note 20).

Mandatory deposits with central banks includes €1,340 million relating to collateral in respect of the Group's issued bank notes in Northern Ireland (2016: €1,334 million).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2017, the fair value of this collateral was €200 million (2016: €48 million).

Loans and advances to banks includes €446 million (2016: €368 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 are included within other financial instruments of €24.0 billion (2016: €25.8 billion) in note 28 on page 184.

23 Available for sale financial assets

	2017 €m	2016 €m
Government bonds	7,491	5,141
Other debt securities		
- listed	5,394	5,322
- unlisted	313	294
Equity securities		
- unlisted	25	37
Available for sale financial assets	**13,223**	**10,794**

Analysis of movement on available for sale financial assets	2017 €m	2016 €m
At beginning of year	10,794	10,128
Additions	4,763	4,082
Redemptions	(2,530)	(1,030)
Reclassification from held to maturity financial assets (note 24)	1,833	-
Disposals	(1,471)	(2,164)
Revaluation, exchange and other adjustments	(166)	(220)
Impairment	-	(2)
At end of year	**13,223**	**10,794**

Included within unlisted debt securities are subordinated bonds issued by NAMA with a nominal value of €281 million (2016: €281 million) and a fair value of €293 million (2016: €274 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State and the payment of interest and repayment of capital is dependent on the performance of NAMA.

At 31 December 2017, AFS financial assets with a fair value of €0.1 billion (2016: €0.1 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements.

At 31 December 2017, AFS financial assets included €0.2 billion (2016: €0.6 billion) pledged as collateral in respect of customer deposits and debt securities in issue (excluding Monetary Authority secured funding).

In 2017, the Group sold other AFS financial assets of €1.5 billion (2016: €2.2 billion) which resulted in a transfer of €69 million from the AFS reserve to the income statement (2016: €174 million) (note 10).

At 31 December 2017, available for sale financial assets included €1.7 billion placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required (2016: €2.0 billion, including certain held to maturity financial assets).

24 Held to maturity financial assets

	2017 €m	2016 €m
Irish Government bonds	-	1,872
Held to maturity financial assets	**-**	**1,872**

During 2017, the Group changed its intention to hold the portfolio of Irish Government bonds to maturity and sold a portion of the assets. As a result the Group has reclassified all held to maturity financial assets as AFS which has resulted in a gain of €45 million (net of tax) in other comprehensive income.

25 NAMA senior bonds

	2017 €m	2016 €m
NAMA senior bonds	**-**	**451**

The NAMA senior bonds were repaid in full during the year.

26 Loans and advances to customers

	2017 €m	2016 €m
Loans and advances to customers	75,556	79,772
Finance leases and hire purchase receivables (see below)	2,931	2,590
	78,487	82,362
Less allowance for impairment charges on loans and advances to customers (note 27)	(2,359)	(3,885)
Loans and advances to customers	**76,128**	**78,477**
Amounts include		
Due from joint ventures and associates	98	151

	2017 €m	2016 €m
Gross investment in finance leases:		
Not later than 1 year	1,045	989
Later than 1 year and not later than 5 years	2,099	1,819
Later than 5 years	14	9
	3,158	2,817
Unearned future finance income on finance leases	(227)	(227)
Net investment in finance leases	**2,931**	**2,590**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	970	913
Later than 1 year and not later than 5 years	1,948	1,669
Later than 5 years	13	8
	2,931	**2,590**

Loans and advances to customers includes cash collateral of €0.1 billion (2016: €0.1 billion) placed with derivative counterparties in relation to net derivative liability positions (note 20).

Finance leases and hire purchase receivables

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed in the table below.

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

At 31 December 2017, the accumulated allowance for minimum lease payments receivable was €nil (2016: €nil).

Securitisations

Loans and advances to customers include balances that have been securitised but not derecognised, comprising both residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to structured entities, which then issue securities to third party investors or to other entities within the Group. All of the Group's securitisation structured entities are consolidated. See note 55 for further details.

27 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers during 2017 and 2016.

2017	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total impairment provisions €m**
Provision at 1 January 2017	988	1,082	1,717	98	3,885
Exchange adjustments	(3)	(15)	(12)	(1)	(31)
Charge / (reversal) in income statement	(137)	84	60	8	15
Provisions utilised	(160)	(465)	(952)	(37)	(1,614)
Other movements	18	140	(74)	20	104
Provision at 31 December 2017	**706**	**826**	**739**	**88**	**2,359**

2016	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2016	1,297	1,445	3,001	143	5,886
Exchange adjustments	(12)	(15)	(108)	(7)	(142)
Charge / (reversal) in income statement	(142)	113	213	(8)	176
Provisions utilised	(173)	(433)	(1,477)	(54)	(2,137)
Other movements	18	(28)	88	24	102
Provision at 31 December 2016	988	1,082	1,717	98	3,885

Impairment provision by nature of impairment provision	**2017 €m**	2016 €m
Specific provisions individually assessed	1,661	2,967
Specific provisions collectively assessed	332	424
Incurred but not reported	366	494
Total impairment provision	**2,359**	**3,885**

Impairment provisions include specific and IBNR provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not, of itself, alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

28 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 65 to 68. Information about the Group's exposure to credit risk, credit risk management, measurement and mitigation can be found on pages 56 to 59.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: funding and liquidity risk, market risk and life insurance risk. As required by IFRS 7, the Group's approach to the management of these risks, together with its approach to Capital management, are set out in sections 3.1 (credit risk), 3.2 (funding and liquidity risk), 3.3 (market risk), 3.4 (life insurance risk) and 4 (capital management) of the Risk Management Report.

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.

28 Credit risk exposures (continued)

2017 **Risk profile of loans and advances to customers (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
Total loans and advances to customers						
High quality	41,823	6,157	3,829	3,921	55,730	71%
Satisfactory quality	789	8,627	1,617	230	11,263	14%
Acceptable quality	1,380	1,712	1,238	14	4,344	6%
Lower quality but neither past due nor impaired	78	735	620	-	1,433	2%
Neither past due nor impaired	**44,070**	**17,231**	**7,304**	**4,165**	**72,770**	**93%**
Past due but not impaired	1,275	193	142	64	1,674	2%
Impaired	1,314	1,339	1,301	89	4,043	5%
Total	**46,659**	**18,763**	**8,747**	**4,318**	**78,487**	**100%**

2016 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages[1] €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Total loans and advances to customers						
High quality	42,414	5,821	2,847	3,402	54,484	66%
Satisfactory quality	1,025	9,294	1,863	224	12,406	15%
Acceptable quality	1,607	1,820	1,412	22	4,861	6%
Lower quality but neither past due nor impaired	82	980	1,181	-	2,243	3%
Neither past due nor impaired	45,128	17,915	7,303	3,648	73,994	90%
Past due but not impaired[2]	1,445	256	372	59	2,132	3%
Impaired[2]	1,634	1,829	2,669	104	6,236	7%
Total	48,207	20,000	10,344	3,811	82,362	100%

'Past due and / or impaired'

The tables on the following page 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.

[1] As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. As a result, the Group has amended the risk profile of Residential mortgages which are 'neither past due nor impaired' to reflect this change in classification and comparative figures have been restated resulting in an increase in the 'high quality' by €611 million from €41,803 million and 'acceptable quality' by €302 million from €1,305 million with offsetting decreases in 'satisfactory quality' by €587 million from €1,612 million and lower quality by €326 million from €408 million, with no change to the overall total of 'neither past due nor impaired' loans.

[2] As described on page 60, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows: impaired 'Non-property SME and corporate' have reduced by €130 million (from €1,959 million to €1,829 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €126 million to €256 million) and impaired 'Property and construction' loans have reduced by €159 million (from €2,828 million to €2,669 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €213 million to €372 million).

28 Credit risk exposures (continued)

2017 **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	469	61	32	38	600
Past due 31 - 60 days	389	27	37	20	473
Past due 61 - 90 days	113	11	7	6	137
Past due greater than 90 days but not impaired	304	94	66	-	464
Past due but not impaired	**1,275**	**193**	**142**	**64**	**1,674**
Impaired	1,314	1,339	1,301	89	4,043
Total	**2,589**	**1,532**	**1,443**	**153**	**5,717**

2016 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	453	90	29	35	607
Past due 31 - 60 days	455	15	95	18	583
Past due 61 - 90 days	152	21	89	6	268
Past due greater than 90 days but not impaired[1]	385	130	159	-	674
Past due but not impaired	1,445	256	372	59	2,132
Impaired[1]	1,634	1,829	2,669	104	6,236
Total	3,079	2,085	3,041	163	8,368

Segmental analysis

The table below provides an analysis of the Group's loans and advances to customers over the following the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by division.

	2017				2016			
Risk profile of loans and advances to customers (before impairment provisions)	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**	Retail Ireland[2] €m	Retail UK[2] €m	Corporate and Treasury €m	Total Group €m
High quality	24,049	24,534	7,147	55,730	23,139	25,512	5,833	54,484
Satisfactory quality	5,501	1,054	4,708	11,263	5,963	1,169	5,274	12,406
Acceptable quality	2,700	942	702	4,344	2,999	947	915	4,861
Lower quality but neither past due nor impaired	864	261	308	1,433	1,008	823	412	2,243
Neither past due nor impaired	**33,114**	**26,791**	**12,865**	**72,770**	**33,109**	**28,451**	**12,434**	**73,994**
Past due but not impaired[3]	802	864	8	1,674	940	1,095	97	2,132
Impaired[3]	3,089	675	279	4,043	4,876	997	363	6,236
Total	**37,005**	**28,330**	**13,152**	**78,487**	**38,925**	**30,543**	**12,894**	**82,362**

[1] Comparative figures have been restated as set out on page 181.

[2] As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. As a result, the Group has amended the risk profile of Residential mortgages which are 'neither past due nor impaired' to reflect this change in classification and comparative figures have been restated resulting in changes to the segmental disclosures as follows: for Retail Ireland, an increase in 'high quality' by €476 million from €22,663 million and 'acceptable quality' by €386 million from €2,613 million with offsetting decreases in 'satisfactory quality' by €576 million from €6,539 million and lower quality by €286 million from €1,294 million, for Retail UK an increase in 'high quality' by €135 million from €25,377 million with offsetting decreases in 'satisfactory quality' by €11 million from €1,180 million, 'acceptable quality' by €84 million from €1,031 million and lower quality by €40 million from €863 million. These has been no change to the overall total of 'neither past due nor impaired' loans.

[3] As described on page 60, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows: impaired Retail Ireland loans have reduced by €177 million (from €5,053 million to €4,876 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €763 million to €940 million) and impaired Retail UK loans have reduced by €112 million (from €1,109 million to €997 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €983 million to €1,095 million).

28 Credit risk exposures (continued)

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

Loans and advances to customers - past due and / or impaired (before impairment provisions)	2017 Retail Ireland €m	2017 Retail UK €m	2017 Corporate and Treasury €m	2017 Total Group €m	2016 Retail Ireland €m	2016 Retail UK €m	2016 Corporate and Treasury €m	2016 Total Group €m
Past due up to 30 days	326	272	2	600	336	260	11	607
Past due 31 - 60 days	114	353	6	473	135	430	18	583
Past due 61 - 90 days	63	74	-	137	73	127	68	268
Past due greater than 90 days but not impaired[1]	299	165	-	464	396	278	-	674
Past due but not impaired	**802**	**864**	**8**	**1,674**	**940**	**1,095**	**97**	**2,132**
Impaired[1]	3,089	675	279	4,043	4,876	997	363	6,236
Total	**3,891**	**1,539**	**287**	**5,717**	**5,816**	**2,092**	**460**	**8,368**

The table below provides an analysis of non-performing exposures by division:

Risk profile of loans and advances to customers - non-performing exposures[2]	2017 Retail Ireland €m	2017 Retail UK €m	2017 Corporate and Treasury €m	2017 Total Group €m	2016 Retail Ireland €m	2016 Retail UK €m	2016 Corporate and Treasury €m	2016 Total Group €m
Impaired	3,089	675	279	4,043	4,876	997	363	6,236
Past due greater than 90 days but not impaired	299	165	-	464	396	278	-	674
Neither impaired nor past due greater than 90 days	1,761	242	11	2,014	1,861	601	58	2,520
Total	**5,149**	**1,082**	**290**	**6,521**	**7,133**	**1,876**	**421**	**9,430**

[1] *As described on page 60, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows: impaired Retail Ireland loans have reduced by €177 million (from €5,053 million to €4,876 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €763 million to €940 million) and impaired Retail UK loans have reduced by €112 million (from €1,109 million to €997 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €983 million to €1,095 million).*

[2] *As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

28 Credit risk exposures (continued)

Geographical and industry analysis of loans and advances to customers
The following table provides a geographical and industry breakdown of total loans (before impairment provisions).

Geographical / industry analysis[1]	2017 RoI €m	2017 UK €m	2017 RoW €m	2017 Total €m	2016 RoI €m	2016 UK €m	2016 RoW €m	2016 Total €m
Personal	26,036	24,941	-	50,977	26,144	25,874	-	52,018
- Residential mortgages	*24,069*	*22,590*	-	*46,659*	*24,329*	*23,878*	-	*48,207*
- Other consumer lending	*1,967*	*2,351*	-	*4,318*	*1,815*	*1,996*	-	*3,811*
Property and construction	6,593	2,154	-	8,747	7,076	3,268	-	10,344
- Investment	*6,220*	*2,057*	-	*8,277*	*6,335*	*2,986*	-	*9,321*
- Land and development	*373*	*97*	-	*470*	*741*	*282*	-	*1,023*
Business and other services	5,964	1,628	484	8,076	6,069	2,031	544	8,644
Manufacturing	2,804	625	547	3,976	2,785	567	589	3,941
Distribution	2,190	153	27	2,370	2,501	172	65	2,738
Agriculture	1,581	293	-	1,874	1,536	320	-	1,856
Transport	997	125	66	1,188	1,264	141	72	1,477
Financial	617	39	50	706	707	67	30	804
Energy	499	59	15	573	463	60	17	540
Total	**47,281**	**30,017**	**1,189**	**78,487**	**48,545**	**32,500**	**1,317**	**82,362**

Repossessed collateral
At 31 December 2017, the Group had collateral held as security, as follows:

Repossessed collateral	2017 €m	2016 €m
Residential properties		
Ireland	20	20
UK and other	8	9
	28	**29**
Other	1	-
Total	**29**	**29**

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

Other financial instruments with ratings equivalent to:	2017 €m	2017 %	Restated[2] 2016 €m	Restated[2] 2016 %
AAA to AA-	12,459	52%	13,548	52%
A+ to A-	9,119	38%	9,293	36%
BBB+ to BBB-	1,769	7%	1,977	8%
BB+ to BB-	281	1%	565	2%
B+ to B-	87	1%	185	1%
Lower than B-	320	1%	277	1%
Total	**24,035**	**100%**	**25,845**	**100%**

Asset quality: Other financial instruments
Other financial instruments include trading securities, derivative financial instruments, other financial instruments at fair value through profit or loss (excluding equity instruments), loans and advances to banks, held to maturity financial assets, AFS 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.

[1] The geographical breakdown is primarily based on the location of the business unit where the asset is booked.
[2] Comparative figures have been restated to reflect (i) the impact of the voluntary change in the Life assurance operations policy (see note 62) and (ii) to reflect a change in assessment in the current year of the credit rating of certain AFS assets. As a result AAA to AA- has been restated by €1,817 million from €11,731 million to €13,548 million; A+ to A- has been restated by €1,734 million from €11,027 million to €9,293 million; BBB+ to BBB- has been restated by €616 million from €2,593 million to €1,977 million; BB+ to BB- has been restated by €38 million from €527 million to €565 million; B+ to B- has been restated by €31 million from €154 million to €185 million and; lower than B- has been restated by €1 million from €278 million to €277 million.

29 Interest in associates

	2017 €m	2016 €m
At beginning of year	56	56
Increase in investments	11	13
Decrease in investments	(11)	(11)
Share of results after tax (note 16)	3	(2)
At end of year	**59**	**56**

The Group has availed of the venture capital exemption in accounting for its interests in associates. In line with the accounting policy set out on page 149, these interests have been designated at initial recognition at fair value through profit or loss. Changes in the fair value of these interests are included in the share of results of associates (after tax) line on the income statement.

In presenting details of the associates of the Group, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

30 Interest in joint ventures

	2017 €m	2016 €m
At beginning of year	71	83
Exchange adjustments	(3)	(15)
Share of results after tax (note 16)	40	43
- First Rate Exchange Services	*40*	*43*
Dividends received	(39)	(40)
At end of year	**69**	**71**

For further information on joint ventures refer to note 55 Interests in other entities.

31 Business combinations

Marshall Leasing Limited	**24 November 2017 €m**
Fair value of consideration transferred	48
Recognised amounts of identifiable net assets	
Property, plant and equipment	90
Intangible assets	15
Loans and advances to banks	2
Other assets	3
Deferred tax assets	2
Deposits from banks	(79)
Other liabilities	(15)
Current tax	(1)
Net identifiable assets and liabilities	**17**
Goodwill	**31**

On 24 November 2017, the Group acquired 100% of the ordinary share capital of Marshall Leasing Limited (MLL), a car and commercial vehicle leasing and fleet management company based in the UK.

Consideration transferred
The acquisition was settled in cash of €48 million to purchase 100% of the ordinary share capital of MLL.

Goodwill
Goodwill recognised on the acquisition date relates to the expected growth, cost synergies and the value of MLL's workforce which cannot be separately recognised as an intangible asset. The goodwill has been allocated to the Group's Retail UK segment and is not expected to be deductible for tax purposes.

MLL's contribution to the Group results
The acquisition of MLL has had no material impact on the Group's total operating income and operating profit respectively, from the acquisition date to 31 December 2017. For the full year ended 31 December 2017, MLL had total revenue of €24 million (net of depreciation on rental vehicles of €22 million) and operating profit of €5 million.

32 Intangible assets and goodwill

	2017					2016				
	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost										
At 1 January	**-**	**101**	**1,379**	**201**	**1,681**	**-**	**114**	**1,233**	**219**	**1,566**
Additions	-	-	233	2	235	-	1	206	12	219
Acquisitions	31	-	-	15	46	-	-	-	-	-
Disposals / write-offs	-	(29)	(46)	(5)	(80)	-	(11)	(31)	(10)	(52)
Exchange adjustments	-	(1)	(6)	(5)	(12)	-	(3)	(29)	(20)	(52)
At 31 December	**31**	**71**	**1,560**	**208**	**1,870**	**-**	**101**	**1,379**	**201**	**1,681**
Accumulated amortisation										
At 1 January	**-**	**(99)**	**(829)**	**(118)**	**(1,046)**	**-**	**(113)**	**(803)**	**(124)**	**(1,040)**
Disposals / write-offs	-	29	46	5	80	-	11	31	10	52
Amortisation charge for the year (note 12)	-	-	(115)	(19)	(134)	-	-	(80)	(18)	(98)
Exchange adjustments	-	-	5	4	9	-	3	23	14	40
At 31 December	**-**	**(70)**	**(893)**	**(128)**	**(1,091)**	**-**	**(99)**	**(829)**	**(118)**	**(1,046)**
Net book value	**31**	**1**	**667**	**80**	**779**	**-**	**2**	**550**	**83**	**635**

The category computer software internally generated includes the Core Banking Platform (CBP) asset with a carrying value of €163 million (2016: €77 million).

Goodwill
As described in note 31, in 2017 the Group acquired 100% of the ordinary share capital of MLL and recognised €31 million of goodwill on the acquisition date.

The goodwill has been tested for impairment and no impairment has been identified as at 31 December 2017.

Impairment review - intangible assets
Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount.

There was no impairment identified in the year ended 31 December 2017 (2016: €nil).

33 Investment properties

	2017 €m	2016 €m
At beginning of year	864	841
Exchange adjustment	(9)	(43)
Additions	74	65
Revaluation	40	14
Disposals	(57)	(13)
At end of year	**912**	**864**

In 2017, rental income from investment property amounted to €43 million (2016: €44 million). Expenses directly attributable to investment property generating rental income was €8 million (2016: €8 million). There were no expenses directly attributable to investment properties which are not generating rental income for 2017 or 2016.

At 31 December 2017, the Group held investment property of €912 million (2016: €864 million) on behalf of Bank of Ireland Life policyholders.

34 Property, plant and equipment

2017	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2017	**167**	**187**	**301**	**25**	**14**	**694**
Exchange adjustments	(2)	(1)	(4)	-	-	(7)
Acquisitions	-	-	90	-	-	90
Additions	-	-	7	6	31	44
Disposals / write-offs	-	(40)	(32)	(16)	-	(88)
Reversal of impairment (note 12)	4	-	-	-	-	4
Revaluation recognised in other comprehensive income	16	-	-	-	-	16
Reclassifications	(30)	10	23	-	(34)	(31)
At 31 December 2017	**155**	**156**	**385**	**15**	**11**	**722**
Accumulated depreciation						
At 1 January 2017	**-**	**(118)**	**(202)**	**(21)**	**-**	**(341)**
Exchange adjustments	-	1	3	-	-	4
Disposals / write-offs	-	38	30	16	-	84
Charge for the year (note 12)	-	(9)	(23)	(3)	-	(35)
At 31 December 2017	**-**	**(88)**	**(192)**	**(8)**	**-**	**(288)**
Net book value at 31 December 2017	**155**	**68**	**193**	**7**	**11**	**434**

At 31 December 2017, property, plant and equipment held at fair value was €155 million (2016: €167 million). The historical cost of property, plant and equipment held at fair value was €76 million (2016: €97 million). The net book value of property, plant and equipment held at cost less accumulated depreciation and impairment was €279 million (2016: €186 million).

As outlined in note 31, the Group acquired assets to the value of €90 million through its acquisition of MLL in 2017.

The Group is in the process of disposing of an office building in Dublin. This asset has been reclassified from property, plant and equipment to assets classified as held for sale. This asset is held at fair value less costs to sell and the disposal is expected to be completed in 2018.

34 Property, plant and equipment (continued)

2016	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2016	167	189	478	21	5	860
Exchange adjustments	(8)	(5)	(20)	-	-	(33)
Acquisitions	-	-	-	-	-	-
Additions	-	-	8	4	49	61
Disposals / write-offs	-	(16)	(187)	-	-	(203)
Reversal of impairment (note 12)	5	-	-	-	-	5
Revaluation recognised in other comprehensive income	4	-	-	-	-	4
Reclassifications	(1)	19	22	-	(40)	-
At 31 December 2016	167	187	301	25	14	694
Accumulated depreciation						
At 1 January 2016	-	(127)	(381)	(18)	-	(526)
Exchange adjustments	-	3	14	-	-	17
Disposals / write-offs	-	16	186	-	-	202
Charge for the year (note 12)	-	(10)	(21)	(3)	-	(34)
At 31 December 2016	-	(118)	(202)	(21)	-	(341)
Net book value at 31 December 2016	167	69	99	4	14	353

Property

A revaluation of Group property was carried out as at 31 December 2017.

Future capital expenditure	2017 €m	2016 €m
Contracted but not provided for in the financial statements	31	20
Authorised by the Directors but not contracted	161	179

Future capital expenditure

This table shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

Operating leases

The Group leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with five-yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group also holds a number of short-term leases for less than ten years and a number of long-term leases at market rent with less than 135 years unexpired. Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Group has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

	2017		2016	
	Payable €m	**Receivable €m**	Payable €m	Receivable €m
Not later than 1 year	64	26	63	3
Later than 1 year (not later than 5 years)	236	33	236	9
Later than 5 years	441	2	494	4

Minimum future rentals under non-cancellable operating leases

Included in this table, for 2017, is an amount of €10 million in relation to sub-lease rental (2016: €12 million).

Included in receivable for 2017 is €48 million for future income receivable from existing car rental contracts relating to the newly acquired company Marshall Leasing Limited.

34 Property, plant and equipment (continued)

Finance leases
The Group leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

	2017			2016		
	Total minimum future payments €m	**Future finance charges €m**	**Present value of finance lease commitments €m**	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	4	-	4	2	-	2
Later than 1 year not later than 5 years	3	-	3	3	-	3

At 31 December 2017, the net carrying amount of the assets held under finance leases was €7 million (2016: €5 million).

35 Deferred tax

	2017 €m	Restated[1] 2016 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,236	1,385
Income statement charge (note 18)	(90)	(121)
Cash flow hedges credit / (charge) to other comprehensive income	16	(3)
Pensions and other retirement benefits	14	(17)
Additional tier 1 - credit to equity (note 49)	7	10
Available for sale financial assets - credit to other comprehensive income	2	41
Revaluation of property	(1)	(1)
Other movements (including foreign exchange)	-	(58)
At end of year	**1,184**	**1,236**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	1,253	1,270
Pensions and other post retirement benefits	70	65
Provision for loan impairment	15	12
Accelerated capital allowances on equipment used by the Group	14	14
Cashflow hedge reserve	5	-
Other temporary differences	17	27
Deferred tax assets	**1,374**	**1,388**
Deferred tax liabilities		
Life companies	(57)	(64)
Available for sale reserve	(49)	(51)
Property revaluation surplus	(13)	(12)
Cash flow hedge reserve	-	(11)
Other temporary differences	(71)	(14)
Deferred tax liabilities	**(190)**	**(152)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,237	1,298
Deferred tax liabilities	(53)	(62)
	1,184	**1,236**

In accordance with IAS 12, in presenting the deferred tax balances, the Group offsets DTAs and deferred tax liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the DTAs 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 €432 million (2016: €479 million).

The DTA of €1,237 million (2016: €1,298 million) shown on the balance sheet is after netting by jurisdiction (€1,374 million before netting by jurisdiction (2016: €1,388 million)). This includes an amount of €1,253 million at 31 December 2017 (2016: €1,270 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses.

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

35 Deferred tax (continued)

The UK corporation tax rate reduced to 19% for years beginning on or after 1 April 2017 and will reduce to 17% for years beginning on or after 1 April 2020.

The US corporation tax rate will reduce to 21% for years beginning on or after 1 January 2018. This reduction was enacted at the balance sheet date and the effect of this change has been to reduce the DTA at 31 December 2017 by €10 million.

The recognition of a DTA requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the DTAs can be utilised to the extent they have not already reversed.

The Group's projections of future taxable profits incorporate estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes, margins, costs and impairment losses. The Group projections are based on the current business plan. The Group assumes long-term growth in profitability thereafter.

Based on the Group's projections, the DTA, in respect of tax losses, is estimated to be recovered in full by the end of 2036 (2016: 2038).

The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's DTAs, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by two percentage points, the Group estimates that this would respectively decrease the recovery period by one year or increase the recovery period by two years.

The amount of the DTA expected to be recovered after more than one year is c.€1.2 billion (2016: c.€1.2 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.1 billion (2016: c.€0.1 billion).

The Group has US tax losses carried forward which are subject to a twenty year life, and are scheduled to expire in the period 2025 to 2029. A DTA of €44 million (2016: €91 million) has not been recognised in respect of these losses as an annual limitation on use will result in their expiring unused.

36 Other assets

	2017 €m	Restated[1] 2016 €m
Reinsurance asset	740	765
Value of in Force asset (note 37)	565	540
Sundry and other debtors	289	271
Interest receivable	254	314
Accounts receivable and prepayments	145	135
Other assets	**1,993**	**2,025**
Other assets are analysed as follows:		
Within 1 year	634	652
After 1 year	1,359	1,373
	1,993	**2,025**
The movement in the reinsurance asset is noted below:		
At beginning of year	765	776
New business	10	11
Changes in business	(35)	(22)
At end of year	**740**	**765**

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €24.0 billion (2016: €25.8 billion) in note 28 on page 184.

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

37 Life assurance business

Value of in Force asset	2017 €m	Restated[1] 2016 €m
At beginning of year	540	531
Income statement movement in Value of in Force asset (gross of tax)	25	9
At end of year	**565**	**540**

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The ViF asset, which is presented gross of attributable tax, represents the present value of future profits, less an allowance for the cost of required capital, expected to arise from insurance contracts written by the balance sheet date. It is determined by projecting the future surpluses and other cashflows attributable to the shareholder arising from these contracts and discounting using risk free interest rates as specified under the Solvency II directive.

The process used in determining the key economic and experience assumptions is as follows:

Interest rates and unit growth rate
Interest rates and unit-growth rates are based on a range of duration specific rates determined by a risk free yield curve. This yield curve is provided by the European Insurance and Occupational Pensions Authority (EIOPA).

Shareholder tax rate
The current rate of corporation tax is assumed to be maintained over the term of the business. Deferred tax has been allowed for on future surpluses attributable to shareholders estimated to arise from insurance contracts.

Mortality and morbidity
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant market data.

Persistency rate
Persistency rates refer to the rate of policy termination for insurance policies. Best estimate policy lapse rate assumptions are set with regard to the Group's actual experience and other relevant market data.

Maintenance expenses
Allowance is made for future policy costs and expense inflation explicitly.

Sensitivities
This table indicates the standalone impact of changes in the key assumptions on profit.

While this table shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Sensitivities: Impact on annual profit before tax	2017 €m	Restated[1] 2016 €m
1% increase in interest rates and unit growth rates	(27)	(29)
1% decrease in interest rates and unit growth rates	20	19
10% improvement in mortality	19	19
10% improvement in longevity	(30)	(37)
10% improvement in morbidity	9	9
10% deterioration in persistency	(21)	(20)
10% increase in equity and property markets	38	36
5% improvement in maintenance expenses	17	16
0.5% widening in bond spreads	(70)	(75)

38 Deposits from banks

	2017 €m	2016 €m
Monetary Authority secured funding	3,553	1,973
Deposits from banks	786	1,676
Securities sold under agreement to repurchase - private market repos	-	13
Deposits from banks	**4,339**	**3,662**

Deposits from banks include cash collateral of €0.6 billion (2016: €1.1 billion) received from derivative counterparties in relation to net derivative asset positions (note 20).

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

38 Deposits from banks (continued)

Monetary Authority secured funding	2017 TLTRO €m	2017 TFS €m	2017 ILTR €m	2017 Total €m	2016 TLTRO €m	2016 TFS €m	2016 ILTR €m	2016 Total €m
Deposits from banks	1,806	1,353	394	3,553	799	701	473	1,973
Debt securities in issue (note 40)	1,455	-	-	1,455	1,447	-	-	1,447
Total	**3,261**	**1,353**	**394**	**5,008**	**2,246**	**701**	**473**	**3,420**

The Group's secured funding from the ECB comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). The Group's TLTRO borrowings will be repaid between June 2018 and March 2021, in line with the terms and conditions of the TLTRO facility.

Drawings under the Term Funding Scheme (TFS) from the BoE will be repaid between October 2020 and November 2021.

Index Long Term Repo (ILTR) funding from the BoE has a maturity of less than one year.

The Group's Monetary Authority funding is secured by AFS financial assets and loans and advances to customers.

39 Customer accounts

	2017 €m	2016 €m
Current accounts	30,518	26,199
Demand deposits	26,034	23,486
Term deposits and other products	19,317	25,482
Customer accounts	**75,869**	**75,167**
Amounts include:		
Due to associates and joint ventures	43	39

At 31 December 2017, the Group's largest 20 customer deposits amounted to 4% (2016: 3%) of customer accounts. Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. Information on the contractual maturities of customer accounts is set out on page 72 in the Risk Management Report.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk and profile note (see page 216).

Term deposits and other products include €91 million (2016: €63 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Schemes) Regulations 2015, eligible deposits of up to €100,000 per depositor per credit institution are covered. Eligible deposits includes credit balances in current accounts, demand deposit accounts and term deposit accounts. The scheme is administered by the Central Bank of Ireland and is funded by the credit institutions covered by the scheme.

On 24 November 2015, the European Commission released a proposal, European Deposit Insurance Scheme (EDIS), designed to achieve a common European deposit protection scheme by 2024.

The European Union (Bank Recovery and Resolution) Regulations 2015, which transposed the Bank Recovery and Resolution Directive (BRRD) into Irish Law, provides that covered deposits (i.e. eligible deposits up to €100,000) are excluded from the scope of the bail-in tool. The bail-in tool enables a resolution authority to write down the value of certain liabilities or convert them into equity, to the extent necessary to absorb losses and recapitalise an institution. It also introduces 'depositor preference', where shareholders' equity and other unsecured creditors (including senior bondholders) will have to be fully written down before losses are imposed on preferred depositors. The bail-in rules allow in exceptional circumstances for the exclusion or partial exclusion of certain liabilities (with a key focus being eligible deposits) from the application of the write down or conversion powers.

In addition to the deposits covered by these Regulations, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of eligible deposits with Bank of Ireland (UK) plc).

40 Debt securities in issue

	2017 €m	2016 €m
Bonds and medium term notes	5,794	7,859
Monetary Authorities secured funding (note 38)	1,455	1,447
Other debt securities in issue	1,141	1,391
Debt securities in issue	**8,390**	**10,697**

The movement on debt securities in issue is analysed as follows:

	2017 €m	2016 €m
Opening balance	10,697	13,243
Issued during the year	172	3,939
Redemptions	(2,184)	(5,474)
Repurchases	(183)	(941)
Other movements	(112)	(70)
Closing balance	**8,390**	**10,697**

41 Liabilities to customers under investment and insurance contracts

Investment contract liabilities	2017 €m	2016 €m
Liabilities to customers under investment contracts, at fair value	**5,766**	**5,647**

The movement in gross life insurance contract liabilities can be analysed as follows:

Insurance contract liabilities	2017 €m	Restated[1] 2016 €m
At beginning of year	10,458	9,833
New business	1,338	1,220
Changes in existing business	(918)	(595)
At end of year	**10,878**	**10,458**

Bank of Ireland Life writes the following life assurance contracts that contain insurance risk:

Non-unit linked life assurance contracts
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

Non-unit linked annuity contracts
These contracts provide the policyholder with an income until death (principally longevity and market risk).

Unit linked insurance contracts
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated based on recognised actuarial methods with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using either a gross premium or net premium method of valuation.

The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate:
The interest rates used are based on risk free rates published by EIOPA in line with the Solvency II Directive.

Mortality and morbidity:
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.

Maintenance expenses:
Allowance is made for future policy costs and expense inflation explicitly.

Options and guarantees
The Group has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

Uncertainties associated with insurance contract cash flows and risk management activities
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

41 Liabilities to customers under investment and insurance contracts (continued)

incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of prudent insurance contract liabilities.

Credit risk
Reinsurance programmes are in place to restrict the amount of exposure on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

Capital management and available resources
The Solvency II framework came into full effect from 1 January 2016 and introduced new capital, risk management, governance and reporting requirements for all European insurance entities. Under Solvency II, insurance entities are required to hold technical provisions to meet liabilities to policyholders using best estimate assumptions plus a risk margin. In addition, entities are required to hold a risk based Solvency Capital Requirement (SCR) which is calculated by considering the capital required to withstand a number of shock scenarios.

As part of the new disclosure requirements, the Group's life assurance entity, NIAC, annually publishes a public document called the Solvency and Financial Condition Report setting out more detail on its solvency and capital management.

42 Other liabilities

	2017 €m	2016 €m
Notes in circulation	1,222	1,210
Sundry creditors	282	247
Accrued interest payable	204	245
Accruals and deferred income	151	148
Finance lease obligations	7	5
Short position in trading securities	-	47
Other	616	563
Other liabilities	**2,482**	**2,465**
Other liabilities are analysed as follows:		
Within 1 year	2,369	2,356
After 1 year	113	109
	2,482	**2,465**

43 Provisions

	Restructuring €m	**Onerous contracts €m**	**Legal and other €m**	**Total €m**
As at 1 January 2017	21	4	71	96
Exchange adjustment	-	-	(1)	(1)
Charge to income statement	51	-	173	224
Utilised during the year	(52)	(1)	(58)	(111)
Unused amounts reversed during the year	-	(1)	(2)	(3)
As at 31 December 2017	**20**	**2**	**183**	**205**

Of the €20 million closing provision for restructuring, €11 million relates to staff exits and €9 million relates to property and other costs.

Expected utilisation	**Restructuring €m**	**Onerous contracts €m**	**Legal and other €m**	**Total €m**
Less than 1 year	15	-	179	194
1 to 2 years	1	1	2	4
2 to 5 years	3	1	1	5
5 to 10 years	1	-	1	2
Total	**20**	**2**	**183**	**205**

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.

43 Provisions (continued)

During 2016, as part of the industry wide examination of tracker mortgages, the Group identified a number of accounts where a right to, or the option of, a tracker rate of interest was not provided to the customer in accordance with their loan agreement. The Group also identified a rate differential on a number of accounts already on a tracker rate of interest. At 31 December 2016, the Group had provided €25 million in respect of redress, compensation and costs associated with the examination.

In 2017, the Group agreed to include an additional c.6,000 accounts within the scope of the compensation scheme. Of these additional accounts, 5,400 were deemed impacted under the examination. A charge of €170 million has been recognised in the income statement to provide principally for the redress, compensation and costs relating to these additional impacted accounts. Of this amount, €96 million was recognised in Interest income (see note 4) and the remaining €74 million was charged to Operating expenses (see note 12).

The Group utilised €38 million of the provision during 2017, the majority of which related to the payment of redress and compensation to impacted customers. The Group expects that the majority of the remaining €158 million provision will be fully utilised within 12 months of the balance sheet date.

The Group has made considerable progress in contacting impacted customers and advising them of their proposed redress and compensation. This therefore has largely informed the quantum of this element of the provision however there are still a number of uncertainties as to the eventual total cost of the examination.

Management has therefore exercised judgement to determine the appropriate provision in respect of certain key items in addition to the core elements of the redress and compensation to be paid to customers. These key judgemental items principally comprise the following:

- Appeals: Impacted customers can lodge appeals in the 12 months after receiving their letter offering redress and compensation. The appeals are considered by an independent appeals panel. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals.
- Loss of ownership cases: There are a small number of cases in which customers have lost ownership of their property as a direct result of the Group's actions. Management recognises the difficult nature of these cases and the fact that complex solutions will be required to appropriately compensate such customers. In determining the provision management has sought to estimate the volume and financial impact of these cases.
- Programme costs: In determining the provision in respect of the examination management has had to consider a range of costs associated with bringing the examination to an ultimate conclusion. This includes costs associated with the running of the appeals panel, tax liabilities that the Group will settle on behalf of customers, data system costs, tracing agents and various oversight and governance processes, including relating to the conclusion of the ongoing Central Bank of Ireland examination.

44 Retirement benefit obligations

The Group sponsors a number of DB and defined contribution schemes in Ireland and overseas. The DB schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement, the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Willis Towers Watson.

The most significant DB scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the total liabilities across all Group sponsored DB schemes at 31 December 2017. The BSPF and all of the Group's other RoI and UK DB schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of DB 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, RetireWell, was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other DB plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

Regulatory Framework
The Group operates the DB plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country. In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to assess whether the scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS by a specified future point in time.

44 Retirement benefit obligations (continued)

The responsibilities of the Trustees, and the regulatory framework, are broadly similar for the Group's other DB schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

Actuarial Valuation of the BSPF
The last formal triennial valuation of the BSPF was carried out as at 31 December 2015.

The triennial valuation disclosed that the fair value of scheme assets represented 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions.

In respect of future service, the actuary recommended a joint employer / employee future service contribution rate, using the Attained Age method, of 23.4% (increased from 19.8% at the previous triennial valuation).

In addition to the future service contributions, the Group continues to make additional deficit-reducing contributions to the BSPF arising from the 2013 Group Pensions Review. During 2017, the Group accelerated the payment of €90 million of these additional contributions. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €140 million for the BSPF and are payable between 2018 and 2020.

BSPF plan details at last valuation date (31 December 2015)	Number of members	Proportion of funding liability
Active members	5,961	35.9%
Deferred members	8,087	27.1%
Pensioner members	3,793	37.0%
Total	**17,841**	**100.0%**

The next formal triennial valuation of the BSPF will be carried out during 2019 based on the position at 31 December 2018.

The actuarial valuations are available for inspection by members but are not available for public inspection.

Plan details
The table above sets out details of the membership of the BSPF.

Group UK pension scheme
The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €9 million in 2017 (2016: €19 million).

Negative past service cost
A negative past service cost of €nil, excluding the impact of restructuring, was recognised in 2017 (2016: €20 million).

Settlements
During 2017, the Group completed a liability management exercise which resulted in no gain or loss recognised in the income statement (2016: €1 million).

Financial and Demographic assumptions
The assumptions used in calculating the accounting costs and obligations of the Group's DB pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary, with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments. During 2017, the Group refined its approach to the determination of the discount rate used to value sterling denominated liabilities under IAS 19, by adopting a more appropriate, recently developed model produced by the independent actuary and available to all its clients. The UK discount rate determined using this approach was 2.75%. For information, the discount rate under the previous approach would have been 2.40%, which if used, would have increased pension obligations by approximately €110 million and increased DTAs by approximately €14 million at 31 December 2017.

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 determined with reference to the Group's independent actuary's standard cash flow matching inflation assumption methodology, except for UK Consumer Price Index (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, promotion and current employment markets relevant to the Group. Other financial assumptions are reviewed in line with changing market conditions to determine best estimate

The significant financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	2017 % p.a.	2016 % p.a.
Irish schemes		
Discount rate	2.10	2.20
Inflation rate	1.65	1.55
Rate of general increase in salaries[1]	2.15	2.05
Rate of increase in pensions in payment[1]	0.98	0.93
Rate of increase to deferred pensions	1.60	1.50
UK schemes		
Discount rate	2.75	2.55
Consumer Price Inflation	2.20	2.40
Retail Price Inflation	3.20	3.40
Rate of general increase in salaries[1]	3.70	3.90
Rate of increase in pensions in payment[1]	2.16	2.27
Rate of increase to deferred pensions	2.20	2.40

[1] *Weighted average increase across all Group schemes.*

44 Retirement benefit obligations (continued)

Mortality assumptions	2017 years	2016 years
Longevity at age 70 for current pensioners		
Males	17.7	17.6
Females	19.2	19.1
Longevity at age 60 for active members currently aged 60 years		
Males	27.2	27.0
Females	29.0	28.9
Longevity at age 60 for active members currently aged 40 years		
Males	29.6	29.5
Females	31.1	31.0

assumptions. Demographic assumptions are reviewed periodically in line with the actual experience of the Group's 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.

Amounts recognised in financial statements
The table below outlines where the Group's DB plans are recognised in the financial statements:

	2017			2016		
	Irish Pension Plans €m	UK Pension Plans[1] €m	Total €m	Irish Pension Plans €m	UK Pension Plans[1] €m	Total €m
Income statement credit / (charge)						
- Other operating expenses	(99)	(26)	(125)	(97)	(21)	(118)
- Cost of restructuring programme	1	2	3	3	1	4
Statement of other comprehensive income						
Impact of remeasurement	(203)	76	(127)	249	(65)	184
Balance sheet obligations	**(481)**	**3**	**(478)**	**(365)**	**(81)**	**(446)**
This is shown on the balance sheet as:						
Retirement benefit obligation			(536)			(454)
Retirement benefit asset			58			8
Total net liability			**(478)**			**(446)**

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

44 Retirement benefit obligations (continued)

The movement in the net DB obligation over the year in respect of the Group's DB plans is as follows:

	2017			2016		
	Present value of obligation €m	**Fair value of plan assets €m**	**Surplus / (deficit) of plans €m**	Present value of obligation €m	Fair value of plan assets €m	Surplus / (deficit) of plans €m
At 1 January	**(7,738)**	**7,292**	**(446)**	**(7,548)**	**6,812**	**(736)**
Cost of restructuring programme						
- Negative past service cost	3	-	3	4	-	4
Other operating expenses	(198)	73	(125)	(275)	157	(118)
- Current service cost	*(117)*	*-*	*(117)*	*(123)*	*-*	*(123)*
- Negative past service cost	*-*	*-*	*-*	*20*	*-*	*20*
- Interest (expense) / income	*(170)*	*162*	*(8)*	*(180)*	*164*	*(16)*
- Impact of settlements	*89*	*(89)*	*-*	*8*	*(7)*	*1*
Return on plan assets not included in income statement	-	(39)	(39)	-	464	464
Change in demographic assumptions	15	-	15	4	-	4
Change in financial assumptions	(103)	-	(103)	(406)	-	(406)
Experience (loss) / gains	(5)	-	(5)	61	-	61
Employer contributions	-	217	217	-	220	220
- Deficit reducing[1]	*-*	*124*	*124*	*-*	*128*	*128*
- Other	*-*	*93*	*93*	*-*	*92*	*92*
Employee contributions	(11)	11	-	(12)	12	-
Benefit payments	252	(252)	-	210	(210)	-
Changes in exchange rates	59	(54)	5	224	(163)	61
At 31 December	**(7,726)**	**7,248**	**(478)**	**(7,738)**	**7,292**	**(446)**
The above amounts are recognised in the financial statements as follows: (charge) / credit						
Other operating expenses	(198)	73	(125)	(275)	157	(118)
Cost of restructuring programme	3	-	3	4	-	4
Total amount recognised in income statement	**(195)**	**73**	**(122)**	**(271)**	**157**	**(114)**
Changes in financial assumptions	(103)	-	(103)	(406)	-	(406)
Return on plan assets not included in income statement	-	(39)	(39)	-	464	464
Change in demographic assumptions	15	-	15	4	-	4
Changes in exchange rates	59	(54)	5	224	(163)	61
Experience (loss) / gains	(5)	-	(5)	61	-	61
Total remeasurements in other comprehensive income	**(34)**	**(93)**	**(127)**	**(117)**	**301**	**184**
Total Negative past service cost comprises						
Impact of restructuring programme	3	-	3	4	-	4
Other operating expenses	-	-	-	20	-	20
Total	**3**	**-**	**3**	**24**	**-**	**24**

[1] *Deficit-reducing contributions consist principally of additional contributions related to the Group's Pensions Reviews.*

44 Retirement benefit obligations (continued)

Asset breakdown	2017 €m	2016 €m
Liability Driven Investment (unquoted)	2,272	2,300
Equities (quoted)	1,706	1,643
Property (unquoted)	648	541
Corporate bonds (quoted)	463	446
Property and infrastructure (quoted)	432	428
Cash and other (quoted)	382	423
Government bonds (quoted)	329	386
Reinsurance (unquoted)	254	299
Senior secured loans (unquoted)	285	297
Private equities (unquoted)	296	266
Hedge funds (unquoted)	181	263
Total fair value of assets	**7,248**	**7,292**

The retirement benefit schemes' assets include BOIG plc shares amounting to €7 million (2016: €7 million) and one property occupied by Group companies to the value of €38 million (2016: €38 million).

Impact on defined benefit obligations	Impact on defined benefit obligation Increase / (decrease) 2017 €m	Impact on defined benefit obligation Increase / (decrease) 2016 €m
RoI schemes		
Discount rate		
- Increase of 0.25%	(304)	(293)
- Decrease of 0.25%	328	316
Inflation rate		
- Increase of 0.10%	85	81
- Decrease of 0.10%	(83)	(78)
Salary growth		
- Increase of 0.10%	29	26
- Decrease of 0.10%	(28)	(24)
Life expectancy		
- Increase of 1 year	185	174
- Decrease of 1 year	(184)	(172)
UK schemes		
Discount rate		
- Increase of 0.25%	(71)	(85)
- Decrease of 0.25%	77	91
RPI inflation		
- Increase of 0.10%	21	21
- Decrease of 0.10%	(18)	(22)
Salary growth		
- Increase of 0.10%	3	4
- Decrease of 0.10%	(3)	(4)
Life expectancy		
- Increase of 1 year	44	42
- Decrease of 1 year	(44)	(42)

Sensitivity of defined benefit obligation to key assumptions
This table sets out how the DB obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible.

While the DB obligation sensitivity table 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 reasonably possible changes in DB obligation assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the DB obligation. The extent to which these sensitivities are managed is discussed further below.

44 Retirement benefit obligations (continued)

Impact on plan assets	Impact on plan assets Increase / (decrease) 2017 €m	Impact on plan assets Increase / (decrease) 2016 €m
All schemes		
Sensitivity of plan assets to a movement in global equity markets with allowance for other correlated diversified asset classes		
- Increase of 5.00%	128	122
- Decrease of 5.00%	(128)	(124)
Sensitivity of liability-matching assets to a 25bps movement in interest rates		
- Increase of 0.25%	(271)	(217)
- Decrease of 0.25%	287	231
Sensitivity of liability-matching assets to a 10bps movement in inflation rates		
- Increase of 0.10%	74	48
- Decrease of 0.10%	(73)	(48)

The table above sets out the estimated sensitivity of plan assets to changes in equity markets, interest rates and inflation rates.

The sensitivity analysis is prepared by the independent actuaries calculating the DB obligation under the alternative assumptions and the fair value of plan assets using alternative asset prices.

Future cash flows
The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration or average term to payment for the benefits due, weighted by liability, is c.21 years for the Irish plans and c.21 years for the UK plans.

Expected employer contributions for 2018 are €121 million. This excludes any additional contributions arising from the 2013 Group Pensions Review. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €140 million for the BSPF and are payable between 2018 and 2020. Expected employee contributions for 2018 are €10 million.

Risks and risk management
The Group's DB pension plans have a number of areas of risk.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Changes in bond yields, interest rate and inflation risks, along with equity risk, are the DB 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 37% of its assets in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk.

The key areas of risk, and the ways in which the Group has sought to manage them, are set out below:

Asset volatility
The DB 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 DB liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio.

For measurement of the obligation in the financial statements under IAS 19, however, the DB 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 DB 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. In Q1 2017, the level of both euro and sterling interest rate and inflation hedging was increased in the BSPF LDI portfolio to 75% of assets and a similar increase to 75% was executed for the Bank Affiliated Pension Fund in Q4. These changes are expected to reduce asset volatility and provide a better match to the fund's liabilities.

The investment in bonds is discussed further below.

Changes in bond yields
The LDI approach invests in cash, government bonds, interest rate and inflation swaps, and other financial derivatives to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. It also provides a closer match to the expected timing of cash flow / pension payments. The portfolio broadly hedges against movements in long-term interest rates although it only hedges a portion of the BSPF's interest rate risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities.

However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.

Inflation risk
The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although, in most cases, caps on the level of inflationary increases are in place to protect the plans against high inflation and the 2013 Group Pensions Review changes have further limited this exposure. The LDI portfolio broadly hedges against movements in inflation expectations

44 Retirement benefit obligations (continued)

although it only hedges a portion of the BSPF's inflation risks.

Furthermore, the portfolio does not protect against differences between expectations for eurozone average inflation and the fund's Irish inflation exposure.

Life expectancy
The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the Trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but are not limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, foreign exchange risk, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

45 Subordinated liabilities

	Note	2017 €m	2016 €m
Undated loan capital			
The Governor and Company of the Bank of Ireland			
Stg£75 million 13⅜% Perpetual Subordinated Bonds	(a)	85	89
Bristol & West plc			
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	(b)	37	38
Bank of Ireland UK Holdings plc			
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities		-	32
		122	**159**
Dated loan capital			
The Governor and Company of the Bank of Ireland			
€600 million Subordinated Floating Rate Notes 2017		-	1
€1,002 million 10% Fixed Rate Subordinated Notes 2020	(c)	222	229
Stg£197 million 10% Fixed Rate Subordinated Notes 2020		2	2
€250 million 10% Fixed Rate Subordinated Notes 2022	(d)	264	270
€750 million 4.25% Fixed Rate Subordinated Notes 2024	(e)	759	764
Bank of Ireland Group plc			
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	(f)	332	-
US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	(f)	406	-
		1,985	**1,266**
Total subordinated liabilities		**2,107**	**1,425**

Subordinated liabilities in issue at 31 December 2017

Undated loan capital
The remaining €32 million of outstanding Bank of Ireland UK Holdings plc 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities were redeemed and cancelled in June 2017.

The principal terms and conditions of the subordinated liabilities which were in issue by the Group at 31 December 2017 are set out below.

(a) The 13³/8% Perpetual Subordinated Bonds were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. The Bank became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to the Bank.

(b) These preference shares, which are non-redeemable, non-equity shares, rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc.

Holders of the preference shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. This preference dividend will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to the Bank, the Bank entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the preference shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to the preference shares that remained following the transfer of business would be protected. Under the Guarantee, the Bank agreed, subject to certain conditions, to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

45 Subordinated liabilities (continued)

The Guarantee contains provisions to the effect that the rights of the Bank's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of the Bank and (ii) subordinated creditors of the Bank other than those whose claims rank, or are expressed to rank, pari passu or junior to the payments under the Guarantee.

Dated loan capital

Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves.

The table on page 201 provides a description of the dated loan capital, including:

- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue at 31 December 2017 were issued under the Group's Euro Note Programme.

(c) €1,002 million 10% Fixed Rate Subordinated Notes 2020

On 12 February 2010, the Bank issued 10 year fixed rate subordinated notes with a coupon rate of 10% and a maturity date of February 2020. The notes rank pari passu with all other dated subordinated debt.

(d) €250 million 10% Subordinated Debt 2022

On 18 December 2012, the Bank issued 10 year fixed rate loan notes with a coupon rate of 10% and a maturity date of December 2022. The notes rank pari passu with all other dated subordinated debt.

(e) Fixed Rate Subordinated Notes 2024

On 11 June 2014, the Bank issued a €750 million 10 year (callable at the end of year five) Tier 2 capital instrument. The bond carries a coupon of 4.25%. Following the implementation in Ireland of the European Union (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event), or (ii) Tax reasons (additional amounts payable on the Notes). Any redemption before the Maturity Date is subject to such approval by the Competent Authority as may be required by the Capital Requirements Regulation (CRR) and / or such other laws and regulations which are applicable to the Issuer.

(f) Sterling and US Dollar Subordinated fixed rate notes

On 19 September 2017, the Company completed a dual tranche issuance of Stg£300 million and US$500 million 10 year (callable at the end of year five) Tier 2 capital instruments. The sterling bond has a coupon of 3.125% and the US dollar bond has a coupon of 4.125%. Following the implementation in Ireland of the European Union (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability and Noteholders acknowledge that the notes may be subject to the exercise of Irish statutory loss absorption powers by the relevant resolution authority. Redemption in whole but not in part is at the option of the Company upon (i) regulatory reasons (capital event), or (ii) tax reasons (additional amounts payable on the notes). Any redemption before the maturity date is subject to such approval by the Competent Authority as may be required by the CRR and / or such other laws and regulations which are applicable to the Issuer.

46 Corporate reorganisation and capital reduction

The following table shows the impact of the corporate reorganisation at 7 July 2017 and the capital reduction approved by the High Court on 27 July 2017

	Share capital €m	Share premium €m	Capital reserve €m	Other equity instru-ments €m	Merger reserve €m	Retained earnings €m	Total equity excluding non-controlling interests €m	Non-controlling interests €m	Total equity €m
Redemption and cancellation of Bank deferred stock	(920)	-	920	-	-	-	**-**	-	**-**
Cancellation of Bank treasury stock	(2)	-	2	-	-	-	**-**	-	**-**
Elimination of equity components of the Bank	(1,616)	(512)	(977)	-	17	(3,947)	**(7,035)**	-	**(7,035)**
Issue of share capital of Bank of Ireland Group plc	6,473	-	-	-	562	-	**7,035**	-	**7,035**
Transfer to non-controlling interests	(7)	(59)	-	(740)	-	-	**(806)**	806	**-**
Transfer to capital reserve on renominalisation of share capital / capitalisation of merger reserve	(5,394)	562	5,394	-	(562)	-	**-**	-	**-**
Transfer to retained earnings on capital reduction	-	(106)	(5,394)	-	-	5,500	**-**	-	**-**
Total	**(1,466)**	**(115)**	**(55)**	**(740)**	**17**	**1,553**	**(806)**	**806**	**-**

Establishment of new holding company, Bank of Ireland Group plc
The Group announced in February 2017 that it had been notified by the Single Resolution Board (SRB) that the resolution authorities (being the SRB and the BoE working together within the Resolution College) had reached a joint decision on the resolution plan for the Group, being a single point of entry bail-in strategy at a holding company level.

On 28 April 2017, the ordinary stockholders of the Bank approved the resolutions necessary to implement the corporate reorganisation. The reorganisation was implemented by a scheme of arrangement under the Companies Act 2014, approved by the High Court on 23 June 2017 (the 'Scheme').

The Scheme became effective on 7 July 2017 and, as a result, BOIG plc became the new parent entity of the Bank on that date.

Holders of ordinary stock in the Bank on 7 July 2017 were issued with BOIG plc shares on the basis of one BOIG plc share for each individual holding of 30 units of ordinary stock in the Bank (which included a rounding up mechanism) (the 'Exchange Ratio').

As a result, a total of 1,078,822,872 ordinary shares of €1.00 each in BOIG plc, representing its entire issued ordinary share capital, were listed on the Irish Stock Exchange and the London Stock Exchange on 10 July 2017.

Predecessor accounting has been applied to the Scheme, such that the consolidated financial statements of the BOIG plc Group incorporate the assets and liabilities of the pre-existing group at their existing consolidated carrying values as at the date of the Scheme, and include the full year's results of the pre-existing group, including comparatives. The net assets of the BOIG plc Group immediately after implementation of the Scheme did not differ from the net assets of the pre-existing group immediately before the Scheme.

The merger reserve represents the difference between the carrying value of BOIG plc's initial investment in the Bank arising from the corporate reorganisation and the nominal value of the shares issued as part of that reorganisation, less amounts capitalised as share premium. In the consolidated financial statements, it is used to eliminate the value of the reserves in the equity of the Bank as they relate to assets and liabilities of the Bank at the date of corporate reorganisation. These reserves of the Bank relate to the values of the AFS reserve, cash flow hedge reserve, foreign exchange reserve and the revaluation reserve of the Bank at the date of the corporate reorganisation.

BOIG plc capital reduction
On 10 July 2017, BOIG plc applied to the High Court for approval of a capital reduction to create distributable reserves (within the meaning of Section 117 of the Companies Act 2014). A capital reduction is a legal procedure and does not reduce regulatory capital. The capital reduction was approved by the High Court on 27 July 2017 and distributable reserves of €5.5 billion were created in BOIG plc once the relevant filings were registered with the Companies Registration Office.

47 Share capital

Authorised	2017	2016
Bank of Ireland Group plc		
Eur€	**€m**	€m
10 billion ordinary shares of €1.00 each	10,000	-
100 million preference shares of €0.10 each	10	-
The Governor and Company of the Bank of Ireland		
Eur€	**€m**	€m
90 billion units of ordinary stock of €0.05 each	-	4,500
228 billion units of deferred stock of €0.01 each	-	2,280
100 million units of non-cumulative preference stock of €1.27 each	-	127
100 million units of undesignated preference stock of €0.25 each	-	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	-	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	-	100
100 million units of undesignated preference stock of Stg£0.25 each	-	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	-	200
100 million units of undesignated preference stock of US$0.25 each	-	25

Allotted and fully paid	2017 €m	2016 €m
Bank of Ireland Group plc		
1.075 billion ordinary shares of €1.00 each	1,075	-
4.204 million treasury shares of €1.00 each	4	-
The Governor and Company of the Bank of Ireland		
32.337 billion units of ordinary stock of €0.05 each	-	1,616
48.752 million units of treasury stock of €0.05 each	-	2
91.981 billion units of deferred stock of €0.01 each	-	920
1.9 million units of non-cumulative preference stock of Stg£1 each	-	3
3.0 million units of non-cumulative preference stock of €1.27 each	-	4
	1,079	**2,545**

As outlined in note 46, the Group undertook a corporate reorganisation during the year whereby BOIG plc became the ultimate parent company of the Group. As a result, the share capital of the Group as at 31 December 2017 reflects that of BOIG plc. For the year ended 31 December 2016, the share capital of the Group reflects the capital stock of the Bank, the Group's previous ultimate parent company.

Ordinary shares

Pursuant to the corporate reorganisation, as detailed in note 46, with the exception of a single unit all remaining units of ordinary stock in the Bank with a nominal value of €0.05 each were cancelled and extinguished without reducing the authorised capital stock of the Bank. Both the capital reserve arising in the Bank as a result of this cancellation and the entire amount standing to the credit of the Bank's stock premium account as at 18.00 on 7 July 2017 (the 'Scheme Record Time') were used in their entirety to issue 32,363,275,073 new units of ordinary stock with a nominal value of €0.05 each. These units of ordinary stock were allotted and issued as fully paid as to par and at an aggregate premium equivalent to the entire amount standing to the credit of the Bank's stock premium account as at the Scheme Record Time to BOIG plc. All units of ordinary stock with nominal value of €0.05 each in the Bank are held by BOIG plc.

Holders of ordinary stock in the Bank immediately prior to the Scheme becoming effective were issued with ordinary shares in BOIG plc on the basis of the Exchange Ratio. Following this, a total of 1,078,822,872 ordinary shares with a nominal value of €1.00 each in BOIG plc were in issue and represent the entire issued ordinary share capital of BOIG plc. Refer to note g of the Company's financial statements for further detail.

All ordinary shares carry the same voting rights.

There were no outstanding options on ordinary shares under employee schemes as at 31 December 2017 or 2016.

Treasury shares

Immediately upon the effectiveness of the Scheme, the Bank cancelled all 22,008,690 units of ordinary stock with nominal value of €0.05 each held in treasury in accordance with section 109(6)(a) of the Companies Act. In addition, 91,860,116 units of own stock issued by the Bank and held for the benefit of life assurance policyholders were cancelled and replaced by shares in BOIG plc.

Deferred stock

Immediately upon the effectiveness of the Scheme, the Bank acquired all of the 90,682,081,918 units of deferred stock with a nominal value of €0.01 each in issue which were not held by the Bank in treasury, for no consideration and immediately cancelled all units of stock in issue in accordance with the Bye-Laws of the Bank. The Bank held a further 1,298,512,710 units of deferred stock in treasury as at the effective date of the Scheme which were cancelled based on Court resolutions passed on 29 June 2017.

Preference stock - Stg£1 each and €1.27 each

From the date of the corporate reorganisation, the preference stock issued by the Bank was not attributable to owners of the parent, BOIG plc, and has been reclassified to non-controlling interests.

47 Share capital (continued)

The Governor and Company of the Bank of Ireland	**Ordinary stock**		**Treasury stock**	
Movement in units of ordinary and treasury stock	**2017**	2016	**2017**	2016
At beginning of year	32,336,532,036	32,345,699,711	48,751,727	39,584,052
Stock purchased and held for the benefit of life assurance policyholders prior to corporate reorganisation	(65,117,079)	(9,167,675)	65,117,079	9,167,675
Corporate reorganisation - cancellation of ordinary and treasury stock	(32,271,414,956)	-	(113,868,806)	-
At date of corporate reorganisation / at end of year	**1**	**32,336,532,036**	**-**	**48,751,727**

From the date of the corporate reorganisation, as the owner of the single remaining unit of stock of the Bank, BOIG plc became the ultimate parent company of the Group. The share capital movements from this date reflect those of BOIG plc.

Bank of Ireland Group plc	**2017**	
Movement in ordinary and treasury shares	**Ordinary shares**	**Treasury shares**
At date of corporate reorganisation	2	-
Impact of corporate reorganisation	1,075,760,866	3,062,004
- Issue of BOIG plc shares to former Bank stockholders	*1,075,760,867*	*3,062,004*
- Issue of additional bonus share	*1*	-
- Cancellation of incorporation shares	*(2)*	-
Shares purchased and held for the benefit of life assurance policyholders after corporate reorganisation	(1,141,577)	1,141,577
At end of year	**1,074,619,291**	**4,203,581**

As at 31 December 2017, New Ireland Assurance Company plc held 4,203,581 ordinary shares of BOIG plc as ‘own shares’ (2016: 26,743,037 units of ordinary stock of the Bank). The consideration paid for these shares amounted to €32.6 million (2016: €10.9 million).

48 Other equity instruments - Additional tier 1

	2017 €m	2016 €m
Balance at the beginning of the year	740	740
Reclassification to non-controlling interest	(740)	-
Balance at the end of the year	**-**	**740**

From the date of the corporate reorganisation, the AT1 securities issued by the Bank were no longer attributable to owners of the parent, BOIG plc, and have been reclassified to non-controlling interests.

49 Non-controlling interests

	2017 €m	2016 €m
Balance at the beginning of the year	1	1
Reclassification of AT1 securities from other equity instruments	740	-
Transfer from share premium related to preference stock	59	-
Non-controlling interest share of net profit	28	-
Distribution to non-controlling interests - AT1	(24)	-
Reclassification of preference stock from share capital	7	-
Dividends paid to non-controlling interests - preference stock	(3)	-
Balance at the end of the year	**808**	**1**

Additional tier 1 securities
As outlined in note 48, following the corporate reorganisation the AT1 securities have been reclassified to non-controlling interests. The AT1 securities were issued by the Bank in June 2015 with a par value of €750 million at an issue price of 99.874%.

In 2017, the Group paid €55 million relating to the coupons on its AT1 securities and recognised a deferred tax credit of €7 million in respect of this payment, resulting in a net reduction in equity of €48 million.

49 Non-controlling interests (continued)

The net reduction in equity of €24 million occurring prior to the effectiveness of the Scheme was recognised directly in shareholders' equity, while the net reduction in equity of €24 million occurring after the effectiveness of the Scheme was recognised directly in non-controlling interests. In 2016, the Group paid €83 million relating to the coupons, recognising a deferred tax credit of €10 million. The net reduction in equity of €73 million was recognised directly in shareholders' equity.

The principal terms of the AT1 securities are as follows:

- the securities constitute direct, unsecured and subordinated obligations of the Bank, rank behind Tier 2 instruments, pari passu with preference shareholders and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest of 7.375% until the first call date (on 18 June 2020). After the initial call date, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Bank may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Bank to redeem or purchase the securities at any time;
- the Bank may, in its sole and full discretion but subject to the satisfaction of certain conditions elect to redeem all (but not some only) of the securities on the initial call date or semi-annually on any interest payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities;
- the securities will be written down together with any accrued but unpaid interest if the Group's Common equity tier 1 (CET 1) ratio or the Bank's CET 1 ratio (calculated on an individual consolidated basis) falls below 5.125%; and
- subsequent to any write-down event the Bank may, at its sole discretion, write-up some or all of the written-down principal amount of the AT1 instrument provided regulatory capital requirements and certain conditions are met.

Preference stock

As outlined in note 47, following the corporate reorganisation the preference stock and related stock premium have been reclassified to non-controlling interests.

As at 31 December 2017 and 2016, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year.

On a winding up of, or other return of capital, by the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2017 and consequently the preference stockholders were not entitled to vote at the Annual General Court (AGC) held on 28 April 2017.

50 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2017 €m	2016 €m
Cash and balances at central banks	7,379	5,192
Loans and advances to banks (with an original maturity of less than 3 months)	2,822	3,107
Cash and cash equivalents	**10,201**	**8,299**

Cash and balances at central banks is made up as follows:

	2017 €m	2016 €m
Republic of Ireland (Central Bank of Ireland)	4,137	3,032
United Kingdom (Bank of England)	2,190	1,506
United States (Federal Reserve)	668	328
Other (cash holdings)	384	326
Total	**7,379**	**5,192**

Cash and cash equivalents comprise cash in hand and balances with central banks and banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

Cash and cash equivalents for the Group in 2017 increased by €1,902 million during the year despite a decrease of €159 million due to the effect of foreign currency exchange translation (2016: decrease of €2,676 million including a decrease of €873 million due to the effect of foreign currency translation).

51 Changes in liabilities arising from financing activities

2017	Subordinated liabilities €m	Interest on subordinated liabilities €m
At beginning of year	1,425	39
Cash flows		
- Proceeds from issue of subordinated liabilities	750	-
- Repayment of subordinated liabilities	(32)	-
- Interest paid on subordinated liabilities	-	(88)
Non-cash changes		
- Charge to income statement	-	98
- Fair value hedge adjustments	(20)	-
- Exchange adjustments	(19)	-
- Other movements	3	-
At end of year	**2,107**	**49**

This table sets out the changes in liabilities arising from financing activities between cash and non-cash items.

For more information on subordinated liabilities, see note 45. Interest accrued on subordinated liabilities is included within other liabilities.

52 Related party transactions

A number of banking transactions are entered into between the Company and its subsidiaries in the normal course of business. These include extending secured and unsecured loans, investing in debt securities issued by subsidiaries, taking of deposits and undertaking foreign currency transactions.

(a) Associates, joint ventures and joint operations

The Group provides to and receives from its associates, joint ventures and joint operations certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding during 2017 are set out in notes 29 and 30.

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Group for the benefit of its employees (principally to the BSPF), which are conducted on similar terms to third party transactions. Details on the Group's contributions to the pension funds are set out in note 44.

The Group occupies one property owned by the Group's pension schemes. At 31 December 2017, the value of this property was €38 million (2016: €38 million). In 2017, the rental income paid to the Group's pension schemes was €2 million (2016: €2 million).

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €9 million in 2017 (2016: €19 million).

At 31 December 2017, the Group's pension schemes assets included BOIG plc shares amounting to €7 million (2016: €7 million).

(c) Transactions with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 53.

(d) Transactions with Directors and Key Management Personnel

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, Directors means the Board of Directors and any past Directors who were Directors during the relevant period.

Directors' emoluments are set out in the Remuneration Report on pages 121 and 122.

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of €nil, or a balance of less than €500. The value of arrangements at the beginning and end of the financial year as stated below in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the financial year is less than 1%.

52 Related party transactions (continued)

Companies Acts disclosure Loans	Balance as at 1 January 2017[1] €'000	Balance as at 31 December 2017[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2017[2] €'000	Repayments during the year ended 31 December 2017[3] €'000
Directors at 31 December 2017				
A Keating				
Credit card total[4]	1	-	5	-
Total	**1**	**-**	**5**	**-**
P Kennedy				
Mortgages total	2,991	2,981	2,991	29
Credit card total	4	1	14	-
Current account total	-	-	1	-
Total	**2,995**	**2,982**	**3,006**	**29**
F Muldoon				
Mortgage total	165	135	165	36
Credit card total	6	9	11	-
Total	**171**	**144**	**176**	**36**
P Mulvihill				
Credit card total	-	-	-	-
Current account total	-	-	-	-
Total	**-**	**-**	**-**	**-**
Directors no longer in office at 31 December 2017				
R Boucher				
Mortgage total	16	-	16	16
Credit card total	1	-	4	-
Total	**17**	**-**	**20**	**16**
T Considine				
(resigned 31 December 2017)				
Credit card total	2	1	4	-
Total	**2**	**1**	**4**	**-**

K Atkinson, P Butler (resigned 31 December 2017), R Goulding, P Haren, A Kane, D Marston, F McDonagh had no loans from the Group in 2017. F McDonagh had a mortgage facility for €985,000 approved during the year, which was not drawn down. No advances were made during the year. No amounts were waived during 2017.

As outlined in note j to the Company financial statements, S Crowe and B Kealy were Directors of BOIG plc during the year ended 31 December 2017, with both resigning on 23 March 2017. As this was prior to the date of the corporate reorganisation, neither was a Director of the parent company of the Group or the pre-existing group (with the Bank as the ultimate parent company) at any time. S Crowe had no loans from the Group in 2017. B Kealy had loans of €536,037 outstanding at 1 January 2017 and €446,648[1] at 31 December 2017, with mortgage repayments[3] of €113,052 during the year and no amounts were waived.

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon in 2017 (2016: €nil). There is no interest which having fallen due on the above loans has not been paid in 2017 (2016: €nil).

All Directors except T Considine (resigned 31 December 2017) have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 211.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Group and of similar financial standing and do not involve more than normal risk of collectability.

1 *Balances include principal and interest.*
2 *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
3 *Repayments include principal and interest; revolving credit facilities are not included.*
4 *On terms, including interest rates and collateral, similar to those available to staff generally.*

52 Related party transactions (continued)

Companies Acts disclosure Loans	Balance as at 1 January 2016[1] €'000	Balance as at 31 December 2016[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2016[2] €'000	Repayments during the year ended 31 December 2016[3] €'000
Directors at 31 December 2016				
R Boucher				
Mortgage total	49	16	49	33
Other loans total	181	-	181	183
Credit card total	9	1	15	-
Total	239	17	245	216
T Considine				
Credit card total	1	2	4	-
Total	1	2	4	-
A Keating				
Credit card total[4]	1	1	6	-
Total	1	1	6	-
P Kennedy				
Mortgages total	3,002	2,991	3,001	30
Credit card total	6	4	7	-
Current account total	-	-	-	-
Total	3,008	2,995	3,008	30
F Muldoon				
Mortgage total	188	165	187	29
Credit card total	5	6	11	-
Current account total	-	-	-	-
Total	193	171	198	29
P Mulvihill				
Credit card total	-	-	-	-
Current account total	-	-	-	-
Total	-	-	-	-

K Atkinson, P Butler, P Haren, A Kane, D Marston and B Martin had no loans from the Group during 2016. No advances were made to any Director during the year. No amounts were waived during 2016.

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

52 Related party transactions (continued)

(ii) Loans to connected persons on favourable terms

2017 Loans to connected persons[1] on favourable terms[2]	Balance as at 31 December 2017[3] €'000	Maximum amounts outstanding during 2017[4] €'000	Number of persons as at 31 December 2017	Maximum number of persons during 2017
Directors no longer in office at 31 December 2017				
R Boucher	-	1	1	1

There were no loans to connected persons, as defined by Section 220 of the Companies Act 2014, on favourable terms as at 31 December 2016.

(iii) Loans to connected persons - Central Bank licence condition disclosures

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- the aggregate maximum amount outstanding during the year for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

2017 Connected persons[1] of the following Directors	Balance as at 31 December 2017[3] €'000	Maximum amounts outstanding during 2017[4] €'000	Number of persons as at 31 December 2017	Maximum number of persons during 2017
Persons connected to P Butler *(resigned 31 December 2017)*	184	404	1	1
Persons connected to P Kennedy	1,651	1,733	1	1
Persons connected to F Muldoon	444	754	1	1

2016 Connected persons[1] of the following Directors	Balance as at 31 December 2016[3] €'000	Maximum amounts outstanding during 2016[4] €'000	Number of persons as at 31 December 2016	Maximum number of persons during 2016
Persons connected to P Butler	404	434	1	1
Persons connected to P Kennedy	1,726	1,810	1	1
Persons connected to F Muldoon	307	332	1	1

(iv) Key management personnel (KMP) - loans and deposits (IAS 24)

For the purposes of IAS 24 'Related party disclosures', the Group has 25 KMPs (2016: 22) which comprise the Directors[5], the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to Executive Directors, the GEC comprises the Head of Group Strategy Development, Group Treasurer, Chief Executive, Retail (UK) and Interim Chief Executive, Retail Ireland, Chief Operating Officer, Chief Governance Risk Officer, Chief Credit and Market Risk Officer, Interim Head of Group Human Resources and Chief Executive, Corporate and Treasury Division. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

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[1] *Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*
[2] *Terms similar to those available to staff generally.*
[3] *Balance includes principal and interest.*
[4] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[5] *The Directors of the Bank up to the date of the corporate reorganisation, 7 July 2017, and the Directors of the Company thereafter.*

52 Related party transactions (continued)

Other than as indicated, all loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, and do not involve more than the normal risk of collectability. Loans to key management personnel other than Non-executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank and its KMP, as defined above, together with members of their close families and entities influenced by them are shown in the following table.

IAS 24 Disclosures

2017 **Key management personnel**	**Balance as at 1 January 2017[1,2]** **€'000**	**Balance as at 31 December 2017[1]** **€'000**	**Maximum amounts outstanding during 2017[3]** **€'000**	**Total number of relevant KMP as at 1 January 2017**	**Total number of relevant KMP as at 31 December 2017**
Loans	6,092	6,031	6,655	16	16
Deposits	4,743	6,421	14,281	21	23

2016 Key management personnel	Balance as at 1 January 2016[1,2] €'000	Balance as at 31 December 2016[1] €'000	Maximum amounts outstanding during 2016[3] €'000	Total number of relevant KMP as at 1 January 2016	Total number of relevant KMP as at 31 December 2016
Loans	5,907	6,092	6,777	16	16
Deposits	5,829	4,743	29,936	21	21

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2017 or 31 December 2016.

Included in the above IAS 24 loan disclosure figures are loans to key management personnel and close family members of KMP on preferential staff rates, amounting to €31,847 (2016: €35,452).

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon.

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

(v) Compensation of KMP

Details of compensation paid to KMP are provided below:

Remuneration	**2017** **€'000**	2016 €'000
Salaries and other short-term benefits[4]	8,372	7,246
Post employment benefits[5]	886	869
Termination benefits[6]	401	-
Total	**9,659**	**8,115**
Number of KMP	25	22

[1] *Balance includes principal and interest.*

[2] *The opening balance includes balances and transactions with KMP who retired during 2016 and are not related parties during 2017. Therefore these KMPs are not included in the maximum amounts outstanding.*

[3] *These figures include credit card exposures at the maximum statement balance. In all cases key management personnel have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel is €30,000. The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability for any member of key management personnel, close family and entities influenced by them did not exceed €3.1 million during 2017 (2016: €3.1 million). In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*

[4] *Comprises gross salary, Employer Pay Related Social Insurance contributions, fees, cash in lieu of pension, car allowance and other short-term benefits paid in the year.*

[5] *This comprises Employer contributions paid to pension funds.*

[6] *These include, inter alia, contractual payments due in lieu of notice periods.*

53 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. In March 2017, as part of the corporate reorganisation detailed in note 46, the Company agreed to be bound by and comply with certain provisions of the relationship framework in relation to the Ministerial consent and consultation process and the Group's business plan.

(a) *Ordinary shares*

At 31 December 2017, the State held through the Ireland Strategic Investment Fund (ISIF) 13.95% of the ordinary shares of the Company (2016: 13.95% of the capital 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 ELG Scheme. All qualifying deposits and other liabilities made up to the date of expiry of the ELG Scheme continued to be covered until the date of maturity of the deposit or liability. A fee was payable in respect of each liability guaranteed under the ELG Scheme. The Group no longer has any guaranteed liabilities for the purposes of the ELG Scheme and no fees were payable in respect of year ended 2017 (2016: €20 million).

Although the Group no longer has any guaranteed liabilities under the ELG Scheme, the ELG Scheme shall continue to exist until terminated by the Minister for Finance. Pending that termination, the Bank, BoIMB and Bank of Ireland (UK) plc continue to be bound by the terms of the ELG Scheme including the provision of certain covenants and an indemnity for the costs of the ELG Scheme in favour of the Minister pursuant to the Scheme documents of the ELG Scheme.

European Communities (Deposit Guarantee Schemes) Regulations 2015

Details of the deposits protected by these schemes are set out in note 39.

(c) *National Asset Management Agency Investment Limited (NAMAIL)*

The Group, through its wholly-owned subsidiary NIAC, holds 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL, acquired at a cost of €17 million. NAMAIL also issued 49 million A shares to National Asset Management Agency (NAMA). As a result the Group holds 17% of the total ordinary share capital of NAMAIL.

NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transferred eligible bank assets and which issued 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. 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. 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 is limited to the yield on ten year State bonds. A dividend of €0.2 million was received by the Group on 31 March 2017 (31 March 2016: €0.1 million).

(d) Other transactions with the State and entities under its control or joint control

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. This includes transactions with AIB Group plc and subsidiaries (AIB), Permanent TSB Group Holdings plc, Government departments, local authorities, county councils, embassies, NAMA, NAMAIL and the National Treasury Management Agency (NTMA) which are all considered to be 'controlled' by the Government. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. The amounts outstanding at 31 December 2017 and 2016 in respect of these transactions, which are considered individually significant, are set out below.

	2017 €m	2016 €m
Assets		
NAMA senior bonds (guaranteed by the State) (note 25)	-	451
Available for sale financial assets		
Unguaranteed senior bonds issued by AIB	182	297
Unguaranteed subordinated bonds issued by AIB	32	30
NAMA subordinated bonds (note 23)	293	274
Bonds issued by the State	4,762	2,248
Held to maturity financial assets		
Bonds issued by the State (note 24)	-	1,872
Other financial assets at fair value through the profit and loss		
Bonds issued by the State	367	376
Loans and advances to banks		
AIB	13	59
Liabilities		
Customer Accounts		
State (including agencies & entities under its control or joint control)	1,485	1,527
IBRC (in Special Liquidation) and its associates	28	464
National Treasury Management Agency	-	90
Debt securities in issue		
State (including agencies & entities under its control or joint control)	147	146

53 Summary of relations with the State (continued)

(e) ***Irish bank levy***
The Finance Act (No 2) 2013 introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The annual levy paid by the Group on 20 October 2017 was €29 million (20 October 2016: €38 million).

The Finance Act 2016, enacted in December 2016, confirmed the revised basis on which the levy would be calculated for the years 2017 to 2021. The revised levy equals 59% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for a particular year with the levy for 2017 and 2018 to be based on the DIRT payment for 2016, the revised levy for 2019 and 2020 to be based on the 2017 DIRT payment and the revised levy for 2021 to be based on the 2019 DIRT payment.

54 Principal undertakings

The Parent company of the Group is Bank of Ireland Group plc.

The principal Group undertakings for 2017 were:

Name	Principal activity	Country of incorporation	Statutory year end
The Governor and Company of the Bank of Ireland[1]	Banking and financial services	Ireland	31 December
Bank of Ireland (UK) plc[2]	Retail financial services	England and Wales	31 December
New Ireland Assurance Company plc	Life assurance business	Ireland	31 December
Bank of Ireland Mortgage Bank[2]	Mortgage lending and mortgage covered securities	Ireland	31 December
First Rate Exchange Services Limited[3]	Foreign exchange	England and Wales	31 March
N.I.I.B. Group Limited	Personal finance and leasing	Northern Ireland	31 December

All the Group undertakings are included in the consolidated financial statements. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Company will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

Bank of Ireland Mortgage Bank
BoIMB's principal activities are the issuance of Irish Residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. BoIMB asset covered securities may be purchased by the Bank and other members of the Group or third parties.

In 2017, the total amount outstanding in respect of mortgage covered securities issued was €7.0 billion (2016: €7.9 billion).

In 2017, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €10.2 billion (2016: €11.3 billion).

BoIMB issues other debt securities under BoIMB's obligation to the Central Bank of Ireland within the terms of the Special Mortgage Backed Promissory Note (SMBPN) programme. At 31 December 2017, BoIMB had no such debt securities in issue (2016: €nil).

55 Interests in other entities

(a) General
The Group holds ordinary shares and voting rights in a significant number of entities. Management has assessed its involvement in all such entities in accordance with the definitions and guidance in:

- IFRS 10 'Consolidated financial statements';
- IFRS 11'Joint arrangements';
- IAS 28 'Investments in associates and joint ventures'; and
- IFRS 12 'Disclosure of interests in other entities'.

See Group accounting policies on page 149.

(b) Significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group
Regulated banking and insurance subsidiaries are required to maintain minimum regulatory liquidity and solvency ratios and are subject to other regulatory restrictions that may impact on transactions between these subsidiaries and the Company, including on the subsidiaries ability to make distributions.

Certain transactions between Bank of Ireland (UK) plc and the Bank are subject to regulatory limits and approvals agreed with the Prudential Regulation Authority (PRA). Total assets of Bank of Ireland (UK) plc at 31 December 2017 were €29.6 billion (2016: €30.3 billion) and liabilities were €27.3 billion (2016: €27.9 billion).

[1] *Direct subsidiary of BOIG plc.*
[2] *Direct subsidiary of The Governor and Company of the Bank of Ireland.*
[3] *This entity is a subsidiary of First Rate Exchange Services Holdings Limited, a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.*

55 Interests in other entities (continued)

The activities of BoIMB are subject to the Asset Covered Securities Act 2001 to 2007 which imposes certain restrictions over the assets of BoIMB. Total assets of BoIMB at 31 December 2017 were €17 billion (2016: €20.8 billion) and liabilities were €15.8 billion (2016: €19.5 billion).

The Group's life assurance entity, NIAC, is required to hold shareholder equity that exceeds a solvency capital requirement, see note 41 for details. In addition, the Group's Isle of Man insurance entity is required to hold shareholder equity that exceeds the solvency requirements specified by the Isle of Man Financial Services Authority.

Under Section 357 (1)(b) of the Companies Act 2014, the Bank has given an irrevocable guarantee to meet the commitments entered into by certain Group undertakings. At 31 December 2017, the commitments of these undertakings amounted to €176 million (2016: €32 million).

The increase in the amount of the commitments guaranteed by the Bank in 2017 has resulted from an amendment to Section 357(1)(b) in June 2017. The amendment provides that in addition to the actual liabilities of the covered Group undertakings, all of their commitments and contingent liabilities must now also be covered by the guarantee.

(c) Structured entities

In the case of structured entities, the Group considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In the case of some venture capital investments, the Group may hold 50% or more of the voting power of an entity, but has been considered to have significant influence, rather than control of the entity because the Group is not involved in directing the relevant activities of the entity and does not have the right to remove the manager of the entity.

In each case the Group considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, even though the Group normally owns less than half of the voting rights of those entities.

The Group does not consider it controls an investee when:

- the Group's only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

The Group holds interests in a number of structured entities (Brunel Residential Mortgage Securitisation No. 1 plc, Bowbell No. 1 plc), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. All of the assets and liabilities of these entities are restricted. Total assets amounted to €4.8 billion (2016: €5.7 billion) and liabilities amounted to €2.5 billion (2016: €3.3 billion).

During 2016, the Group entered into a credit default swap (CDS) transaction transferring a portion of the credit risk on a reference portfolio of performing Irish SME and corporate exposures to Grattan Securities DAC (Grattan), a newly established structured entity. During 2017, the Group entered into a CDS transaction transferring a portion of the credit risk on a reference portfolio of performing leveraged acquisition finance exposures to Mespil Securities DAC (Mespil), a newly established structured entity. No assets or liabilities were transferred to Grattan or Mespil as part of the transactions. Grattan and Mespil each cash collateralised their exposure under the respective CDSs through the issue of credit linked notes to third party investors. The reference portfolios can, at the option of the Group, be replenished up to the third anniversary of the dates of issue of the notes. The protection provided by Grattan matures in 2024, while that provided by Mespil matures in 2025. In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In 2017 and 2016 the Group did not provide financial or other support, nor does it expect or intend to do so.

All of these entities are consolidated in the Group's financial statements.

(d) Treatment of changes in control of a subsidiary during the reporting period

From time to time, the Group may wind up a wholly owned company. During this process, the Group voluntarily appoints a liquidator to manage the winding up of relevant entities. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and accounts for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative foreign exchange losses relating to these companies from the foreign exchange reserve to the income statement. In 2017, €11 million was transferred (2016: €4 million) (page 142).

(e) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture.

The following table shows the Group's principal joint arrangements for the year ended 31 December 2017.

All joint ventures investments are unquoted and are measured using the equity method of accounting. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2017 or cumulatively in respect of these entities. Other than disclosed in

55 Interests in other entities (continued)

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited	50%	Joint venture	UK	Sale of financial products through the UK PO relationship
Enterprise 2000 Fund	50%	Joint venture	Ireland	Investment in venture capital companies

note 61, the Group does not have any further commitments or contingent liabilities in respect of these entities other than its investment to date.

(f) Associates

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it could be clearly demonstrated that this was not the case. There are no such cases where the Group holds 20% or more of the voting power of an entity, and is not considered to have significant influence over that entity.

The Group holds a number of investments in associates, none of which is individually material. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2017 or cumulatively in respect of these entities. The Group does not have any contingent liabilities in respect of these entities other than its investment to date.

(g) Unconsolidated structured entities

The Group has incorporated certain entities to provide investment opportunities to clients in international commercial properties. The Group considers that it sponsors these entities where it continues to be involved in the entity or if it is in receipt of income from the entity during the year. At 31 December 2017, there was 1 entity (2016: 2). At 31 December 2017 the total gross asset value of these entities was €51 million (2016: €134 million).

With regard to the remaining unconsolidated structured entity, it is a property holding company whose principal activity is managing property investments. In 2017, the Group earned asset management fees from this entity.

These structured entities are not consolidated, the associated fee and commission income in relation to these entities was €0.4 million for 2017 (2016: €0.3 million) and is included in the Group's financial statements.

The carrying amount of assets and liabilities in relation to these entities in the Group's financial statements is €nil (2016: €nil).

The Group's maximum exposure to loss in respect of its unconsolidated structured entities is €nil (2016: €nil).

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support.

(h) Coterminous year end dates

The Group consolidates certain entities where the entity does not have the same year end reporting date as the Group. This is to ensure the reporting dates of these Group entities are kept consistent with the principal legal agreements used to engage in its core business.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

56 Liquidity risk and profile

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life) at 31 December 2017 and 2016 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,766 million and €10,878 million respectively (2016: €5,647 million and €10,458 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

56 Liquidity risk and profile (continued)

2017 **Contractual maturity**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Deposits from banks	87	699	-	-	-	786
Monetary Authorities secured funding	-	170	1,733	3,126	-	5,029
Customer accounts	61,131	7,505	4,915	2,434	41	76,026
Debt securities in issue	-	586	95	5,214	1,716	7,611
Subordinated liabilities	9	42	188	917	1,706	2,862
Contingent liabilities	366	100	106	108	18	698
Commitments	12,172	22	1,113	2,556	-	15,863
Total	**73,765**	**9,124**	**8,150**	**14,355**	**3,481**	**108,875**

2016 Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	74	1,617	-	-	-	1,691
Monetary Authorities secured funding	-	181	294	2,963	-	3,438
Customer accounts	55,534	9,395	6,909	3,290	280	75,408
Debt securities in issue[1]	-	448	1,869	4,798	3,019	10,134
Subordinated liabilities	-	22	72	559	1,366	2,019
Contingent liabilities	475	15	119	123	180	912
Short positions in trading securities	47	-	-	-	-	47
Commitments	11,687	22	497	2,317	-	14,523
Total	67,817	11,700	9,760	14,050	4,845	108,172

As set out in note 20, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered with economic hedging intent to which the Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting. The tables below summarise the maturity profile of the Group's derivative liabilities.

The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

2017 **Derivative financial instruments**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	328	162	571	-	1,061
Gross settled derivative liabilities - inflows	-	(304)	(140)	(528)	-	(972)
Gross settled derivative liabilities - net flows	-	24	22	43	-	89
Net settled derivative liabilities	-	86	213	726	287	1,312
Total derivatives held with hedging intent	**-**	**110**	**235**	**769**	**287**	**1,401**
Derivative liabilities held with trading intent	631	-	-	-	-	631
Total derivative cash flows	**631**	**110**	**235**	**769**	**287**	**2,032**

[1] *Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain debt securities in issue. Debt securities in issue repayable: 1-5 years has been restated by €1.5 billion from €3.3 billion to €4.8 billion and; over 5 years has been restated by €1.5 billion from €4.5 billion to €3.0 billion with no change to debt securities in issue.*

56 Liquidity risk and profile (continued)

2016 Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	351	323	268	-	942
Gross settled derivative liabilities - inflows	-	(318)	(261)	(202)	-	(781)
Gross settled derivative liabilities - net flows	-	33	62	66	-	161
Net settled derivative liabilities	-	122	303	943	452	1,820
Total derivatives held with hedging intent	-	155	365	1,009	452	1,981
Derivative liabilities held with trading intent	1,027	-	-	-	-	1,027
Total derivative cash flows	1,027	155	365	1,009	452	3,008

57 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			**At fair value through other comprehensive income (OCI)**				
2017	**Derivatives designated as fair value hedging instruments €m**	**Held for trading €m**	**Designated upon initial recognition €m**	**Available for sale €m**	**Cash flow hedge derivatives €m**	**Held at amortised cost €m**	**Insurance contracts €m**	**Total €m**
Financial assets								
Cash and balances at central banks	-	-	-	-	-	7,379	-	7,379
Items in the course of collection from other banks	-	-	-	-	-	307	-	307
Trading securities	-	68	-	-	-	-	-	68
Derivative financial instruments	234	1,587	-	-	527	-	-	2,348
Other financial assets at fair value through profit or loss	-	-	14,421	-	-	-	-	14,421
Loans and advances to banks	-	-	-	-	-	3,061	-	3,061
Available for sale financial assets	-	-	-	13,223	-	-	-	13,223
Held to maturity financial assets	-	-	-	-	-	-	-	-
NAMA senior bonds	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	76,128	-	76,128
Interest in associates	-	-	59	-	-	-	-	59
Total financial assets	**234**	**1,655**	**14,480**	**13,223**	**527**	**86,875**	**-**	**116,994**
Financial liabilities								
Deposits from banks	-	-	-	-	-	4,339	-	4,339
Customer accounts	-	-	1,363	-	-	74,506	-	75,869
Items in the course of transmission to other banks	-	-	-	-	-	263	-	263
Derivative financial instruments	300	1,659	-	-	28	-	-	1,987
Debt securities in issue	-	-	536	-	-	7,854	-	8,390
Liabilities to customers under investment contracts	-	-	5,766	-	-	-	-	5,766
Insurance contract liabilities	-	-	-	-	-	-	10,878	10,878
Subordinated liabilities	-	-	-	-	-	2,107	-	2,107
Short positions in trading securities	-	-	-	-	-	-	-	-
Total financial liabilities	**300**	**1,659**	**7,665**	**-**	**28**	**89,069**	**10,878**	**109,599**

57 Measurement basis of financial assets and financial liabilities (continued)

Restated[1] 2016	At fair value through profit or loss			At fair value through other comprehensive income (OCI)				
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m	Held at amortised cost €m	Insurance contracts €m	Total €m
Financial assets								
Cash and balances at central banks	-	-	-	-	-	5,192	-	5,192
Items in the course of collection from other banks	-	-	-	-	-	242	-	242
Trading securities	-	18	-	-	-	-	-	18
Derivative financial instruments	295	2,259	-	-	1,155	-	-	3,709
Other financial assets at fair value through profit or loss	-	-	13,249	-	-	-	-	13,249
Loans and advances to banks	-	-	-	-	-	3,349	-	3,349
Available for sale financial assets	-	-	-	10,794	-	-	-	10,794
Held to maturity financial assets	-	-	-	-	-	1,872	-	1,872
NAMA senior bonds	-	-	-	-	-	451	-	451
Loans and advances to customers	-	-	-	-	-	78,477	-	78,477
Interest in associates	-	-	56	-	-	-	-	56
Total financial assets	295	2,277	13,305	10,794	1,155	89,583	-	117,409
Financial liabilities								
Deposits from banks	-	-	-	-	-	3,662	-	3,662
Customer accounts	-	-	1,766	-	-	73,401	-	75,167
Items in the course of transmission to other banks	-	-	-	-	-	223	-	223
Derivative financial instruments	405	2,404	-	-	64	-	-	2,873
Debt securities in issue	-	-	660	-	-	10,037	-	10,697
Liabilities to customers under investment contracts	-	-	5,647	-	-	-	-	5,647
Insurance contract liabilities	-	-	-	-	-	-	10,458	10,458
Subordinated liabilities	-	-	-	-	-	1,425	-	1,425
Short positions in trading securities	-	47	-	-	-	-	-	47
Total financial liabilities	405	2,451	8,073	-	64	88,748	10,458	110,199

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

	2017		2016	
	Fair values €m	**Contractual amount due on maturity €m**	Fair values €m	Contractual amount due on maturity €m
Customer accounts	1,363	1,361	1,766	1,762
Liabilities to customers under investment contracts	5,766	5,766	5,647	5,647
Debt securities in issue	536	505	660	631
Financial liabilities designated at fair value through profit or loss	**7,665**	**7,632**	**8,073**	**8,040**

For financial assets and financial liabilities which are measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 58.

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

58 Fair values of assets and liabilities

Fair value of assets and liabilities
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1
Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2
Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3
Inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and financial liabilities recognised and subsequently measured at fair value
All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and AFS financial assets at fair value in the balance sheet. These instruments are measured either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income.

A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by the management of the relevant business unit. The valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent both across the Group and compared to prior reporting periods.

Financial assets and financial liabilities held for trading
These instruments are valued using observable market prices (level 1 inputs), directly from a recognised pricing source or an independent broker or investment bank.

Derivative financial instruments
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, FX rates, equity prices and counterparty credit (level 2 inputs).

The fair values of the Group's derivative financial liabilities reflect the impact of changes in own credit spreads derived from observable market data (debit valuation adjustment). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment). The funding cost is derived from observable market data; however the model may perform numerical procedures in the pricing such as interpolation when market data input values do not directly correspond to the exact parameters of the trade. Both methodologies are considered to use level 2 inputs.

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as credit grade, which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €4 million or decrease their fair value by up to €4 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

Other financial assets at fair value through profit or loss
These consist of assets designated at fair value through profit or loss, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data i.e. level 1 or level 2 inputs. A small number of assets have been valued using DCF models, which incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

Available for sale financial assets
For AFS financial assets for which an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

58 Fair values of assets and liabilities (continued)

A small number of assets have been valued using vendor prices, which are not considered to represent observable market data, or DCF models which incorporate unobservable inputs (level 3 inputs).

Securities with terms and conditions substantially similar to the NAMA subordinated debt trade in an active market. The quoted price of these securities has been used to value the NAMA subordinated debt (level 2 inputs).

Interest in associates
Investments in associates, which are venture capital investments, are accounted for at fair value through profit or loss and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as DCF analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

Customer accounts
Customer accounts designated at fair value through profit or loss consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group (level 2 inputs).

A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see above), leaving the Group with no net valuation risk due to those non-observable inputs.

Liabilities to customers under insurance and investment contracts
In line with the accounting policy set out on page 157, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

Debt securities in issue
Debt securities in issue with a fair value of €536 million (2016: €660 million) are measured at fair value through profit or loss, in order to reduce an accounting mismatch which would otherwise arise from hedging derivatives. Their fair value is based on valuation techniques incorporating observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to market observable credit spreads of similar instruments issued by the Group or other comparable financial institutions (level 2 inputs).

A small number of the debt securities in issue are valued using additional unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these debt securities in issue would not have a significant impact.

(b) Financial assets and liabilities held at amortised cost
For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks
The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers
Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques which include:
- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs); and
- recent arm's length transactions in similar assets (level 2 inputs).

Deposits from banks and customer accounts
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on DCFs using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue and subordinated liabilities
The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a DCF model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread (level 2 and level 3 inputs).

58 Fair values of assets and liabilities (continued)

(c) Fair value on offsetting positions

Where the Group manages certain financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group applies the exception allowed under paragraph 48 of IFRS 13. That exception permits the Group to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, the Group measures the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

(d) Fair value of non-financial assets

Investment properties

Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs taken into consideration include occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Property

A revaluation of Group property was carried out as at 31 December 2017. All freehold and long leasehold commercial properties were valued by Lisney (or its partner, Sanderson Weatherall) as external valuers, with the exception of some select properties which were valued internally by the Group's qualified surveyors. External valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Assets classified as held for sale

The fair value of the property is based on a Lisney valuation received in November 2017.

58 Fair values of assets and liabilities (continued)

The following table sets out the level of the fair value hierarchy for assets and liabilities held at fair value. Information is also given for items carried at amortised cost where the fair value is disclosed.

	2017				Restated[1] 2016			
	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value								
Trading securities	68	-	-	68	18	-	-	18
Derivative financial instruments	3	2,301	44	2,348	4	3,651	54	3,709
Other financial assets at FVTPL	13,908	451	62	14,421	12,668	532	49	13,249
AFS financial assets	12,853	321	49	13,223	10,375	344	75	10,794
Interest in associates	-	-	59	59	-	-	56	56
Non-financial assets held at fair value								
Investment property	-	-	912	912	-	-	864	864
Property held at fair value	-	-	155	155	-	-	167	167
Assets classified as held for sale	-	-	28	28	-	-	-	-
	26,832	**3,073**	**1,309**	**31,214**	**23,065**	**4,527**	**1,265**	**28,857**
Financial liabilities held at fair value								
Customer accounts	-	1,360	3	1,363	-	1,747	19	1,766
Derivative financial instruments	1	1,985	1	1,987	3	2,869	1	2,873
Liabilities to customers under investment contracts	-	5,766	-	5,766	-	5,647	-	5,647
Insurance contract liabilities	-	10,878	-	10,878	-	10,458	-	10,458
Debt securities in issue	-	534	2	536	-	-	660	660
Short positions in trading securities	-	-	-	-	47	-	-	47
	1	**20,523**	**6**	**20,530**	**50**	**20,721**	**680**	**21,451**
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	3,061	-	3,061	-	3,349	-	3,349
Loans and advances to customers	-	-	73,075	73,075	-	-	74,246	74,246
NAMA senior bonds	-	-	-	-	-	454	-	454
Held to maturity financial assets	-	-	-	-	1,918	-	-	1,918
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	4,339	-	4,339	-	3,662	-	3,662
Customer accounts	-	74,521	-	74,521	-	73,453	-	73,453
Debt securities in issue	4,492	3,051	395	7,938	5,445	4,340	303	10,088
Subordinated liabilities	54	2,147	120	2,321	48	1,375	135	1,558

[1] *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*

58 Fair values of assets and liabilities (continued)

Movements in level 3 assets **2017**	**Other financial assets at FVTPL €m**	**Derivative financial instruments €m**	**Available for sale financial assets €m**	**Interest in associates €m**	**Investment property €m**	**Property held at fair value €m**	**Assets classified as held for sale €m**	**Total €m**
Opening Balance	49	54	75	56	864	167	-	1,265
Exchange Adjustment	-	(2)	-	-	(9)	(1)	-	(12)
Total gains or losses in:								
Profit or loss								
- Net trading income / (expense)	13	(2)	-	-	-	-	-	11
- Reversal of impairment charges	-	-	-	-	-	4	-	4
- Revaluation	-	-	-	-	-	8	-	8
- Impairment charge	-	-	-	-	-	-	-	-
- Share of results of associates	-	-	-	3	-	-	-	3
- Life assurance investment income and gains	-	-	-	-	42	-	-	42
- Other operating income	-	-	18	-	(2)	-	-	16
Other comprehensive income	-	-	(6)	-	-	8	-	2
Additions	-	-	5	11	74	-	-	90
Disposals	-	-	(39)	(11)	(57)	-	(3)	(110)
Redemptions	-	-	(4)	-	-	-	-	(4)
Reclassifications	-	-	-	-	-	(31)	31	-
Transfers out of level 3								
- from level 3 to level 2	-	(8)	-	-	-	-	-	(8)
Transfers into level 3								
- from level 2 to level 3	-	2	-	-	-	-	-	2
Closing balance	**62**	**44**	**49**	**59**	**912**	**155**	**28**	**1,309**
Other transfers								
- from level 1 to level 2	-	-	-	-	-	-	-	-
- from level 2 to level 1	-	-	4	-	-	-	-	4
Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year								
- Net trading income / (expense)	14	(5)	-	-	-	-	-	9
- Reversal of impairment charges	-	-	-	-	-	3	-	3
- Revaluation	-	-	-	-	-	8	-	8
- Life assurance investment income and gains	-	-	-	-	42	-	-	42
- Other operating income	-	-	20	-	(2)	-	-	18
- Share of results of associates	-	-	-	3	-	-	-	3

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2017 which were unavailable at 31 December 2016.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 2 to level 1 arose as a result of the availability of level 1 inputs at 31 December 2017 which were unavailable at 31 December 2016.

58 Fair values of assets and liabilities (continued)

Movements in level 3 assets 2016	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Investment property €m	Property held at fair value €m	Total €m
Opening Balance	17	164	201	56	841	167	1,446
Exchange Adjustment	-	(19)	(3)	-	(43)	(8)	(73)
Total gains or losses in:							
Profit or loss							
- Net trading income / (expense)	3	83	-	-	-	-	86
- Reversal of impairment charges	-	-	-	-	-	5	5
- Impairment charge	-	-	(2)	-	-	-	(2)
- Share of results of associates	-	-	-	(2)	-	-	(2)
- Life assurance investment income and gains	-	-	-	-	17	-	17
- Other operating income	-	-	14	-	(3)	-	11
Other comprehensive income	-	-	8	-	-	4	12
Additions	29	-	24	13	65	-	131
Disposals	-	(9)	(183)	(11)	(13)	-	(216)
Redemptions	-	(2)	(6)	-	-	-	(8)
Reclassifications	-	-	-	-	-	(1)	(1)
Transfers out of level 3							
- from level 3 to level 2	-	(170)	-	-	-	-	(170)
Transfers into level 3							
- from level 2 to level 3	-	7	22	-	-	-	29
Closing balance	49	54	75	56	864	167	1,265
Other transfers							
- from level 1 to level 2	-	-	3	-	-	-	3
- from level 2 to level 1	-	-	-	-	-	-	-
Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year							
- Net trading income / (expense)	3	23	-	-	-	-	26
- Life assurance investment income and gains	-	-	-	-	17	-	17
- Other operating income	-	-	8	-	(3)	-	5
- Share of results of associates	-	-	-	(3)	-	-	(3)

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2016 which were unavailable at 31 December 2015.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 1 to level 2 arose as a result of the unavailability of level 1 inputs at 31 December 2016 which were available at 31 December 2015. For such assets observable inputs (other than level 1 inputs) were available at 31 December 2016.

58 Fair values of assets and liabilities (continued)

Movements in level 3 liabilities	2017				2016			
	Customer accounts €m	Derivative financial instruments €m	Debt securities in issue €m	Total €m	Customer accounts €m	Derivative financial instruments €m	Debt securities in issue €m	Total €m
Opening balance	19	1	660	680	-	4	685	689
Exchange adjustments	-	-	-	-	-	(1)	-	(1)
Total gains or losses in:								
Profit or loss								
- Net trading expense / (income)	4	2	2	8	(1)	3	18	20
Additions	3	-	2	5	20	-	43	63
Redemptions and maturities	-	(1)	(128)	(129)	-	-	(86)	(86)
Transfers out of level 3								
- from level 3 to level 2	(23)	(1)	(534)	(558)	-	(5)	-	(5)
Closing balance	**3**	**1**	**2**	**6**	**19**	**1**	**660**	**680**
Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year								
Net trading income / (expense)	-	(1)	(1)	(2)	1	(1)	(16)	(16)

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets	Valuation technique	Unobservable input	Fair value 2017 €m	Fair value 2016 €m	Range 2017 %	Range 2016 %
Other financial assets at fair value through profit or loss	Discounted cash flow Equity Value less discount	Discount rate[1] Discount	62	49	Third party pricing 0%-50%	Third party pricing 0%-50%
Derivative financial assets	Discounted cash flow Option pricing model	Credit Spread[2]	44	54	0%-4%	0%-4%
AFS financial assets	Market comparable companies	Discount rate[1] EBITDA multiple[3] Liquidity factor	49	75	Third party pricing	Third party pricing
Interest in associates	Market comparable companies	Price of recent investment Earnings multiple[3] Revenue multiple[3]	59	56	Third party pricing	Third party pricing
Investment property	Market comparable property transactions	Property valuation assumptions	912	864	Third party pricing	Third party pricing
Property held at fair value	Market comparable property transactions	Property valuation assumptions	155	167	Third party pricing	Third party pricing
Assets classified as held for sale	Market comparable property transactions	Property valuation assumptions	28	-	Third party pricing	Third party pricing

[1] The discount rate represents a range of discount rates that market participants would use in valuing these investments.
[2] The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.
[3] The Group's multiples represent multiples that market participants would use in valuing these investments.

Note: 100 basis points = 1%

58 Fair values of assets and liabilities (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (continued)

Level 3 liabilities	Valuation technique	Unobservable input	Fair value 2017 €m	Fair value 2016 €m	Range 2017 %	Range 2016 %
Customer accounts	Discounted cash flow Option pricing model	Credit Spread[1]	3	19	0%-4%	0%-4%
Derivative financial liabilities	Discounted cash flow Option pricing model	Credit Spread[1]	1	1	0%-4% Third party pricing	0%-4% Third party pricing
Debt securities in issue	Discounted cash flow	Credit Spread[1]	2	660	0%-4%	0%-4%

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost, are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

Non-trading financial instruments	2017 Carrying amount €m	2017 Fair values €m	2016 Carrying amount €m	2016 Fair values €m
Assets				
Loans and advances to banks	3,061	3,061	3,349	3,349
Loans and advances to customers	76,128	73,075	78,477	74,246
NAMA senior bonds	-	-	451	454
Held to maturity financial assets	-	-	1,872	1,918
Liabilities				
Deposits from banks	4,339	4,339	3,662	3,662
Customer accounts	74,506	74,521	73,400	73,453
Debt securities in issue	7,854	7,938	10,037	10,088
Subordinated liabilities	2,107	2,321	1,425	1,558

[1] The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.

Note: 100 basis points = 1%

59 Transferred financial assets

	Carrying amount of transferred assets €m	Carrying amount of associated liabilities[1] €m	Fair value of transferred assets €m	Fair value of associated liabilities[1] €m	Net fair value position €m
2017					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2]	633	748	611	729	(118)
Sale and repurchase / similar products					
Available for sale financial assets[3]	147	144	n/a	n/a	n/a
2016					
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[2]	770	968	725	889	(164)
Sale and repurchase / similar products					
Available for sale financial assets[3]	76	76	n/a	n/a	n/a

The Group has transferred certain financial assets that are not derecognised from the Group's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

60 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group's financial position. This includes the effect or potential effect of rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

				Related amounts not set off in the balance sheet		
Assets	Gross amounts of recognised financial assets €m	Gross amounts of recognised financial liabilities set off in the balance sheet €m	Net amounts of financial assets presented in the balance sheet €m	Financial[4] instruments €m	Cash[5] collateral received €m	Net amount €m
2017						
Derivative financial assets	2,057	-	2,057	(1,395)	(583)	79
Loans and advances to customers	942	(942)	-	-	-	-
Total	**2,999**	**(942)**	**2,057**	**(1,395)**	**(583)**	**79**
2016						
Derivative financial assets	3,272	-	3,272	(1,937)	(1,000)	335
Loans and advances to customers	1,261	(1,261)	-	-	-	-
Total	4,533	(1,261)	3,272	(1,937)	(1,000)	335

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation SPEs, held by other Group entities.*
[2] *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*
[3] *Assets sold or transferred subject to repurchase agreements or similar products are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*
[4] *Amounts of €1,395 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria (2016: €1,937 million).*
[5] *Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note 38).*

n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.

60 Offsetting financial assets and liabilities (continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

Liabilities	Gross amounts of recognised financial liabilities €m	Gross amounts of recognised financial assets set off in the balance sheet €m	Net amounts of financial liabilities presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral pledged €m	Net amount €m
2017						
Derivative financial liabilities	1,914	-	1,914	(1,395)	(465)	54
Customer deposits	942	(942)	-	-	-	-
Total	**2,856**	**(942)**	**1,914**	**(1,395)**	**(465)**	**54**
2016						
Derivative financial liabilities	2,763	-	2,763	(1,937)	(698)	128
Customer deposits	1,261	(1,261)	-	-	-	-
Total	4,024	(1,261)	2,763	(1,937)	(698)	128

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements such as an ISDA Master agreement. The agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis: however each party to the master netting agreement has the option to settle all such amounts on a net basis in the event of default of the other party.

61 Contingent liabilities and commitments

	2017 €m	2016 €m
Contingent liabilities		
Guarantees and irrevocable letters of credit	445	595
Acceptances and endorsements	5	6
Other contingent liabilities	249	311
	699	**912**
Commitments		
Documentary credits and short-term trade related transactions	71	99
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	12,618	11,441
- irrevocable with original maturity of over 1 year	3,174	2,983
	15,863	**14,523**

The table above gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short-term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory, taxation and other actions arising out of its normal business operations.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Included within total commitments above is an amount of €109 million of unrecognised loan commitments to the Group's joint ventures (2016: €58 million).

[1] *Amounts of €1,395 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria (2016: €1,937 million).*
[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

62 Impact of change in Life assurance operations policy

Impact of the restatement on the relevant financial statement line items for the year ended 31 December 2016:

2016	Published €m	Impact of change in in policy €m	Restated €m
Consolidated income statement (selected lines)			
Other operating income	287	16	303
Insurance contract liabilities and claims paid	(1,564)	(13)	(1,577)
Profit before tax	1,032	3	1,035
Taxation charge	(239)	3	(236)
Profit for the year	793	6	799
Earnings per ordinary share	66.1c[1]	0.5c	66.6c
Diluted earnings per ordinary share	66.1c[1]	0.5c	66.6c
Consolidated statement of comprehensive income (selected lines)			
Profit for the year	793	6	799
Other comprehensive expense for the year, net of tax	(422)	-	(422)
Total comprehensive income for the year, net of tax	371	6	377
Total comprehensive income attributable to equity stockholders	371	6	377
Consolidated balance sheet (selected lines)			
Assets			
Other assets	2,487	(462)	2,025
Total assets	123,129	(462)	122,667
Liabilities			
Insurance contract liabilities	10,934	(476)	10,458
Deferred tax liabilities	65	(3)	62
Total liabilities	113,727	(479)	113,248
Equity			
Other reserves	342	17	359
Stockholders' equity	8,661	17	8,678
Total equity excluding non-controlling interests	9,401	17	9,418
Total equity	9,402	17	9,419

As outlined in the Life assurance operations accounting policy on page 157 and Adoption of new accounting standards and voluntary changes in accounting policies on page 148, the Group has voluntarily changed its accounting policy for the valuation of insurance contract liabilities and the ViF asset. It has not been practicable to calculate the amount of the adjustment as a result of this change in accounting policy for the year ended 31 December 2017.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative periods have been restated to reflect this change. The effect of this change is explained in this note.

[1] *The basic and the diluted earnings per share for 2016 have been adjusted for the share consolidation as outlined in note 46.*

62 Impact of change in Life assurance operations policy (continued)

Impact of the restatement on the relevant financial statement line items for the year ended 31 December 2016 (continued):

2016	Published €m	Impact of change in in policy €m	Restated €m
Consolidated statement of changes in equity (selected lines)			
Retained earnings			
Balance at the beginning of the year	4,950	-	4,950
Profit retained	712	6	718
Transfer to capital reserve	(3)	(6)	(9)
Balance at the end of the year	5,214	-	5,214
Other reserves: Capital reserve			
Balance at the beginning of the year	502	11	513
Transfer from retained earnings	3	6	9
Redemption of 2009 Preference Stock	7	-	7
Balance at the end of the year	512	17	529
Total other reserves	342	17	359
Total stockholders' equity excluding other equity instruments	8,661	17	8,678
Total equity	9,402	17	9,419
Consolidated cash flow statement (selected lines)			
Cash flows from operating activities			
Profit before tax	1,032	3	1,035
Cashflows from operating activities before changes in operating assets and liabilities	1,510	3	1,513
Net change in other assets	102	(97)	5
Net change in insurance contract liabilities	531	94	625
Net cash flow from operating assets and liabilities	(96)	(3)	(99)
Net cash flow from operating activities before tax	1,414	-	1,414

Impact of the restatement on the consolidated balance sheet as at 1 January 2016[1]:

	Published €m	Impact of change in in policy €m	Restated €m
Consolidated balance sheet (selected lines)			
Assets			
Other assets	2,640	(559)	2,081
Total assets	130,960	(559)	130,401
Liabilities			
Insurance contract liabilities	10,403	(570)	9,833
Total liabilities	121,847	(570)	121,277
Equity			
Other reserves	(260)	11	(249)
Stockholders' equity	8,372	11	8,383
Total equity excluding non-controlling interests	9,112	11	9,123
Total equity	9,113	11	9,124

[1] *Opening balance sheet as at 1 January 2016 reflects the Group's restated closing balance at 31 December 2015.*

63 Post balance sheet events

On 21 February, the Group announced that Mr Archie Kane intends to step down as Chairman of BOIG plc and as Governor of the Bank this year. As part of the Board's ongoing succession planning a selection process is underway to appoint a new Chairman and Governor. Accordingly, the effective date of Mr Kane's departure will be announced in due course.

On 23 February 2018, the Board recommended a dividend of 11.5 cent per ordinary share, €124 million in total, to be paid on 24 May 2018 to those ordinary shareholders who appear on the Company's register on 20 April 2018, the record date for the dividend, subject to ordinary shareholder approval.

64 Approval of financial statements

The Board of Directors approved the Consolidated and Company financial statements on 23 February 2018.

Company Financial Statements

Index	Page
Company balance sheet	233
Company statement of changes in equity	234

Notes:

a	Accounting policies and critical accounting estimates and judgements	235
b	Loans and advances to banks	235
c	Shares in Group undertakings	236
d	Other assets	236
e	Subordinated liabilities	237
f	Other liabilities	237
g	Share capital	237
h	Capital reduction	238
i	Other	238
j	Directors and secretary	239

Company balance sheet *(as at 31 December 2017)*

	Note	2017 €m
Assets		
Loans and advances to banks	b	948
Shares in Group undertakings	c	7,035
Other assets	d	808
Total assets		**8,791**
Equity and liabilities		
Subordinated liabilities	e	748
Other liabilities	f	8
Total liabilities		**756**
Equity		
Share capital	g	1,079
Share premium account		456
Retained earnings		6,500
Other reserves		-
Total equity		**8,035**
Total equity and liabilities		**8,791**

The Company recorded a profit after tax of €1,000 million for the period from incorporation on 28 November 2016 to 31 December 2017.

Archie G Kane	***Patrick Kennedy***	***Francesca McDonagh***	***Helen Nolan***
Chairman	*Deputy Chairman*	*Group Chief Executive*	*Group Secretary*

Company statement of changes in equity *(for the period ended 31 December 2017)*

	Note	2017 €m
Share capital		
Balance at the beginning of the period		-
Issue of ordinary shares on the investment in The Governor and Company of the Bank of Ireland	g	6,473
Transfer to capital reserve on renominalisation of share capital		(5,394)
Balance at the end of the period		**1,079**
Share premium account		
Balance at the beginning of the period		-
Capitalisation of merger reserve	g	562
Transfer to retained earnings		(106)
Balance at the end of the period		**456**
Retained earnings		
Balance at the beginning of the period		-
Court authorised capital reduction and creation of distributable reserves	h	5,500
- Transfer from capital reserve		*5,394*
- Transfer from share premium		*106*
Profit for the period		1,000
Other movements		-
Balance at the end of the period		**6,500**
Other reserves:		
Capital reserve		
Balance at the beginning of the period		-
Transfer from share capital - renominalisation of share capital		5,394
Transfer to retained earnings		(5,394)
Balance at the end of the period		**-**
Merger reserve		
Balance at the beginning of the period		-
Investment in The Governor and Company of the Bank of Ireland		562
Capitalisation of merger reserve to share premium		(562)
Balance at the end of the period		**-**
Total other reserves		**-**
Total equity		**8,035**

a Accounting policies and critical accounting estimates and judgements

The Company financial statements have been prepared in accordance with FRS 101 ‘Reduced disclosure framework’ from the date of incorporation on 28 November 2016 to 31 December 2017.

These financial statements are financial statements of the Company only and do not consolidate the results of any subsidiaries. They are prepared in accordance with Section 290 (1) of the Companies Act 2014.

In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of IFRS as adopted by the EU (but makes amendments where necessary in order to comply with the Companies Act 2014). The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- statement of Cash Flows;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- certain requirements of IAS 1 ‘Presentation of financial statements’;
- disclosures required by IFRS 7 ‘Financial instruments: disclosures’;
- disclosures required by IFRS 13 ‘Fair value measurement’; and
- the effects of new but not yet effective IFRSs.

The financial statements are presented in euro millions except where otherwise indicated. They have been prepared under the historical cost convention. The accounting policies of the Company are the same as those of the Group which are set out in the Group accounting policies section of the Annual Report on pages 147 to 159, where applicable. The Company’s investment in its subsidiary is stated at cost less any impairment.

The preparation of financial statements in conformity with FRS 101 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 below.

Shares in Group undertakings

Cost

The cost of the Company’s investment in the ordinary stock of its subsidiary undertaking, the Bank, was measured at the Company’s share of the carrying value of the equity items reflected in the separate financial statements of the Bank at 7 July 2017, the date of the corporate reorganisation (see note c). The Company’s share of these equity items, as holder of 100% of the ordinary stock of the Bank, was assessed in accordance with the rights attaching to other equity instruments, comprising preference stock and an Additional tier 1 instrument, and measured on a relative fair value basis.

Impairment review

The Company carries its investment in its subsidiary undertaking at cost and reviews for impairment at each reporting date. Impairment testing involves the comparison of the carrying value of the investment with its recoverable amount. The recoverable amount is the higher of the investment’s fair value or its VIU.

VIU is the present value of expected future cash flows from the investment. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of the investment; and the valuation of the separable assets comprising the overall investment in the Group undertaking. The use of reasonably possible alternative assumptions would not materially impact the carrying value of the Company’s investment in its subsidiary undertakings. See note c for further information.

b Loans and advances to banks

	2017 €m
Placements with banks	948
Loans and advances to banks	**948**
Amounts include:	
Due from Group undertakings	948

c Shares in Group undertakings

	2017 €m
At beginning of period	-
Investment in the Bank	7,035
At end of period	**7,035**
Group undertakings of which:	
- Credit Institutions	7,035

As outlined in note 46 to the consolidated financial statements, on 7 July 2017 the Company acquired all of the ordinary stock in the Bank in exchange for 1,078,822,871 units of BOIG plc ordinary shares of nominal value €6.00 per share. Consequently, from 7 July 2017 the Bank is a wholly owned subsidiary of the Company.

The Company's investment in the Bank is reviewed for impairment if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of the investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount. No impairment charge was recognised in 2017.

The recoverable amount of the investment is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the investment, based upon a VIU calculation that discounts expected pre-tax cash flows at a discount rate appropriate to the investment. The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement.

The recoverable amount calculation performed is sensitive to changes in the following key assumptions:

Cash flow forecasts
Cash flow forecasts are based on internal management information for a period of up to five years, after which a long-term growth rate appropriate for the business is applied (see below). The next five years' cash flows are consistent with approved plans for each business.

Growth rates
Growth rates beyond five years are determined by reference to long-term economic growth rates.

Discount rate
The discount rate applied is the pre-tax weighted average cost of capital for the Company increased to include a risk premium to reflect the specific risk profile of the investment to the extent that such risk is not already reflected in the forecast cash flows.

The forecast cash flows reflect management's view of future business prospects. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed in the review.

d Other assets

	2017 €m
Dividend receivable from the Bank	800
Other assets	8
Total	**808**
Amounts include:	
Due from Group undertakings	808
Other assets are analysed as follows:	
Within 1 year	808

In October 2017, the Bank declared and approved a €1 billion dividend payment to BOIG plc. The Bank paid €200 million of this dividend in December 2017. As the declaration and approval of the dividend is an irrevocable commitment by the Bank, the full amount of the dividend has been accounted for by the Company.

e Subordinated liabilities

	2017 €m
Dated loan capital	
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	335
US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	413
Total subordinated liabilities	**748**

Further details on subordinated liabilities are contained in note 45 to the consolidated financial statements.

f Other liabilities

	2017 €m
Accrued interest payable	8
Other liabilities	**8**
Other liabilities are analysed as follows:	
Within 1 year	8
After 1 year	-
	8

g Share capital

Authorised	2017 €m
10 billion ordinary shares of €1.00 each	10,000
100 million preference shares of €0.10 each	10
Total	**10,010**

Allotted and fully paid	2017 €m
1.079 billion ordinary shares of €1.00 each	1,079

Movements in number of ordinary and deferred shares	Ordinary shares	Deferred ordinary shares
Issued at incorporation (28 November 2016)	2	25,000
Issue of deferred ordinary shares (23 March 2017)	-	2,800
Effectiveness of the Scheme (7 July 2017)	1,078,822,870	(27,800)
- Issue of BOIG plc ordinary shares	*1,078,822,871*	-
- Acquisition and cancellation of BOIG plc deferred ordinary shares	-	*(27,800)*
- Issue of additional bonus ordinary share	*1*	-
- Cancellation of incorporation ordinary shares	*(2)*	-
At 31 December 2017	**1,078,822,872**	**-**

All ordinary shares in issue carry the same voting rights. The Company does not hold any treasury shares.

The Company was incorporated on 28 November 2016. On incorporation, the total authorised share capital was €1,000,025,000, comprising 10,000,000,000 ordinary shares of nominal value €0.10 each and 25,000 deferred ordinary shares of nominal value €1.00 each.

The issued share capital of the Company on incorporation was €25,000, divided into 25,000 deferred ordinary shares of €1.00 each and 2 ordinary shares of €0.10 each. All of these shares were fully paid up on that date.

On 23 March 2017, the Company issued an additional 2,800 deferred ordinary shares of €1.00 each. Immediately following their allotment, the nominal value of the deferred ordinary shares was reduced from €1.00 to €0.90 per share. Immediately following this, the nominal value of each ordinary share was increased from €0.10 to €1.00 per share.

g Share capital (continued)

As outlined in note 46 to the consolidated financial statements, the Group undertook a corporate reorganisation during 2017.

Immediately prior to the Scheme becoming effective, the nominal value of each ordinary share of the Company was increased from €1.00 to €6.00 per share in accordance with section 83(1)(c) of the Companies Act.

The Scheme became effective on 7 July 2017 and as a result the Company became the new parent entity of the Bank on that date. Holders of ordinary stock in the Bank on 7 July 2017 were issued with 1,078,822,871 ordinary shares of the Company with a nominal value of €6.00 per share on the basis of the Exchange Ratio.

Upon effectiveness of the Scheme, the nominal value of the ordinary shares of the Company was decreased from €6.00 to €1.00 per share in accordance with section 83(1)(d) of the Companies Act with €5,394 million being credited to the capital reserve of the Company. The Company also acquired all of the 27,800 deferred ordinary shares of €0.90 each in issue for no consideration and immediately cancelled those deferred ordinary shares as upon effectiveness of the Scheme, they were no longer necessary for the purpose of satisfying Irish law minimum share capital requirements for plcs.

Immediately upon cancellation of the deferred ordinary shares, the Company amended its authorised share capital and adopted a new Constitution to reflect the cancellation of the deferred ordinary shares and the creation of a new class of €0.10 preference shares. As such, following the cancellation, the Company's authorised share capital was €10,010,000,000 divided into 10,000,000,000 ordinary shares of €1.00 each and 100,000,000 preference shares of €0.10 each. There are no preference shares in issue.

The entire amount of the merger reserve account of the Company arising as a result of the Scheme was capitalised by the Company and used to pay up a single 'bonus' ordinary share of €1.00 in the Company which was issued to a nominee on terms that it be held for the benefit of all the Company's shareholders. The merger reserve arising on the effectiveness of the corporate reorganisation was €562 million. As a result the bonus share was paid up as to its nominal value of €1.00 and a total share premium of €562 million. The two incorporation ordinary shares of €1.00 each in the Company were acquired by the Company for nil consideration and cancelled, as authorised under the Constitution of the Company and section 102(1)(a) of the Companies Act.

On 10 July 2017 all of the 1,078,822,872 ordinary shares of €1.00 each in the Company, representing its entire issued ordinary share capital, were admitted to the primary listing segment of the Official List of the ISE and to the premium listing segment of the Official List of the FCA and to trading on the ISE's main securities market and the LSE's main market for listed securities.

h Capital reduction

On 10 July 2017, the Company applied to the High Court for approval of a capital reduction to create distributable reserves (within the meaning of Section 117 of the Companies Act 2014). A capital reduction is a legal procedure and does not reduce regulatory capital. The capital reduction was approved by the High Court on 27 July 2017 and distributable reserves of €5.5 billion were created in the Company by transferring €5,394 million from the capital reserve and €106 million from the share premium account of the Company. The capital reduction became effective on 28 July 2017 when the High Court order and minute approving the capital reduction were registered with the Companies Registration Office. Refer to note 46 of the consolidated financial statements for further information.

i Other

(i) Bank of Ireland Group plc was incorporated as Adjigo plc in Ireland as a public limited company on 28 November 2016 with registration number 593672. Its registered office is situated at 40 Mespil Road, Dublin 4.

On 31 March 2017, Adjigo plc changed its name to Bank of Ireland Group plc.

(ii) The Company is domiciled in Ireland.

(iii) Company income statement:
In accordance with Section 304 of the Companies Act, the Company is availing of the exemption to not present its individual income statement to the Annual General Meeting (AGM) and from filing it with the Registrar of Companies. The Company's profit after tax for the period from the date of incorporation on 28 November 2016 to 31 December 2017 determined in accordance with FRS 101 is €1,000 million.

(iv) Information in relation to the Company's principal subsidiaries is contained in note 54 to the consolidated financial statements.

(v) Auditor's Remuneration:
In accordance with Section 322 of the Companies Act, the fees paid in the period to the statutory auditor for work engaged by the Company comprised audit fees of €0.1 million and other assurance services of €nil.

(vi) BOIG plc had no employees at any time during the period.

(vii) Post balance sheet events are shown in note 63 to the consolidated financial statements.

j Directors and secretary

Directors
Cian McCourt *(Appointed 28 November 2016; Resigned 8 December 2016)*
Stephen Ranalow *(Appointed 28 November 2016; resigned 8 December 2016)*
Sean Crowe *(Appointed 8 December 2016; resigned 23 March 2017)*
Brian Kealy *(Appointed 8 December 2016; resigned 23 March 2017)*
Archie G Kane *(Appointed 23 March 2017)*
Kent Atkinson *(Appointed 23 March 2017)*
Richie Boucher *(Appointed 23 March 2017; resigned 1 October 2017)*
Pat Butler *(Appointed 23 March 2017; resigned 31 December 2017)*
Tom Considine *(Appointed 23 March 2017; resigned 31 December 2017)*
Patrick Haren *(Appointed 23 March 2017)*
Andrew Keating *(Appointed 23 March 2017)*
Patrick Kennedy *(Appointed 23 March 2017)*
Davida Marston *(Appointed 23 March 2017)*
Francesca McDonagh *(Appointed 2 October 2017)*
Fiona Muldoon *(Appointed 23 March 2017)*
Patrick Mulvihill *(Appointed 23 March 2017)*
Richard Goulding *(Appointed 20 July 2017)*

Company Secretary
Bradwell Limited *(Appointed 28 November 2016; resigned 23 March 2017)*
Helen Nolan *(Appointed 23 March 2017)*

The names of the persons who were Directors or Company Secretary of the Company at any time during the period from 28 November 2016 to 31 December 2017 and up to the date of the approval of the financial statements are set out in this note.

Business Review Governance Financial Statements Other Information

Other Information

Group exposures to selected countries

The information in Group exposures to selected countries forms an integral part of the audited financial statements as described in the Basis of preparation on page 147.

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items at 31 December 2017. These include exposures to Ireland, the United Kingdom, the United States and those other countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million.

2017 **Assets**	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Belgium €m**	**Other[1] €m**	**Total €m**
Cash and balances at central banks	4,136	2,224	668	-	-	-	351	7,379
Trading securities	-	10	10	16	-	-	32	68
Derivative financial instruments[2] (net)	82	231	14	5	1	-	37	370
Other financial assets at fair value through profit or loss[3]	401	51	132	7	518	112	386	1,607
Loans and advances to banks[3]	34	1,990	8	1	366	-	216	2,615
Available for sale financial assets	5,274	1,174	40	646	1,455	612	4,022	13,223
Held to maturity financial assets	-	-	-	-	-	-	-	-
NAMA senior bonds	-	-	-	-	-	-	-	-
Total	**9,927**	**5,680**	**872**	**675**	**2,340**	**724**	**5,044**	**25,262**

2016 Assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Other[4] €m	Total €m
Cash and balances at central banks	3,032	1,542	328	-	-	-	290	5,192
Trading securities	-	-	-	-	-	-	18	18
Derivative financial instruments[1] (net)	114	476	16	8	44	-	110	768
Other financial assets at fair value through profit or loss[3]	445	45	105	7	529	118	404	1,653
Loans and advances to banks[3]	99	2,271	11	1	354	-	245	2,981
Available for sale financial assets	2,849	1,408	24	640	1,501	665	3,707	10,794
Held to maturity financial assets	1,872	-	-	-	-	-	-	1,872
NAMA senior bonds	451	-	-	-	-	-	-	451
Total	8,862	5,742	484	656	2,428	783	4,774	23,729

[1] In 2017, other is primarily made up of exposures to the following countries: Sweden: €0.7 billion, Netherlands: €0.4 billion, Canada: €0.3 billion, Norway: €0.3 billion, Austria: €0.3 billion, Denmark: €0.2 billion, Finland: €0.2 billion, Turkey €0.1 billion, Italy €0.1 billion, Rest of world: €0.8 billion and Supranational institutions: €1.6 billion. Also included in other is the Group's euro cash holding in branches.
[2] Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.
[3] This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.
[4] In 2016, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Sweden €0.5 billion, Norway: €0.3 billion, Austria: €0.3 billion, Portugal: €0.1 billion, Turkey: €0.1 billion, Canada: €0.4 billion, Italy €0.3 billion, Rest of world: €1.0 billion and Supranational institutions: €1.3 billion. Also included in other is the Group's euro cash holding in branches.

Group exposures to selected countries (continued)

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2017 by asset class.

2017 **Derivative financial instruments**	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Belgium €m**	**Other[1] €m**	**Total €m**
Gross derivative assets								
Financial institutions	1	717	128	4	457	7	383	1,697
Corporate	83	506	38	5	-	-	19	651
Total	**84**	**1,223**	**166**	**9**	**457**	**7**	**402**	**2,348**
Net Derivative Assets[2]								
Financial institutions	-	7	1	-	1	-	18	27
Corporate	82	224	13	5	-	-	19	343
Total	**82**	**231**	**14**	**5**	**1**	**-**	**37**	**370**

2016 Derivative financial instruments	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Other[3] €m	Total €m
Gross derivative assets								
Financial institutions	6	1,251	143	4	425	8	1,081	2,918
Corporate	119	581	50	8	1	-	32	791
Total	125	1,832	193	12	426	8	1,113	3,709
Net Derivative Assets[2]								
Financial institutions	-	103	2	-	43	-	78	226
Corporate	114	373	14	8	1	-	32	542
Total	114	476	16	8	44	-	110	768

2017 **Available for sale financial assets**	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Belgium €m**	**Other[4] €m**	**Total €m**
Government bonds	4,762	483	1	534	803	532	376	7,491
Senior bank debt and other senior debt	-	4	21	3	257	-	1,854	2,139
Covered bonds	182	637	-	74	392	79	1,771	3,135
Subordinated debt	325[5]	-	-	7	2	-	18	352
Asset backed securities and other	5	50	18	29	1	-	3	106
Total	**5,274**	**1,174**	**40**	**647**	**1,455**	**611**	**4,022**	**13,223**

2016 Available for sale financial assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Belgium €m	Other[6] €m	Total €m
Government bonds	2,248	629	1	293	738	539	693	5,141
Senior bank debt and other senior debt	-	10	-	3	182	-	1,494	1,689
Covered bonds	297	696	-	308	567	126	1,487	3,481
Subordinated debt	304[5]	-	-	-	10	-	23	337
Asset backed securities and other	-	73	23	36	4	-	10	146
Total	2,849	1,408	24	640	1,501	665	3,707	10,794

AFS 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 shareholders' equity.

[1] *In 2017, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €17 million, Germany: €16 million, Luxembourg: €1 million, Austria: €1 million and Netherlands: €1 million.*

[2] *Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.*

[3] *In 2016, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €55 million, Germany: €21 million, Denmark: €15 million, Australia: €6 million, Austria: €3 million and Netherlands: €7 million.*

[4] *At 31 December 2017, other is primarily made up of exposures to the following countries: Sweden: €0.7 billion, Netherlands: €0.4 billion, Canada: €0.3 billion, Norway: €0.3 billion, Rest of world: €0.7 billion and Supranational institutions €1.6 billion.*

[5] *NAMA subordinated debt of €293 million (31 December 2016: €274 million) is classified as an available for sale debt instrument (note 23).*

[6] *At 31 December 2016, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Norway: €0.2 billion, Sweden: €0.5 billion, Portugal: €0.1 billion, Rest of world: €1.1 billion and Supranational institutions €1.3 billion.*

Business Review
Governance
Financial Statements
Other Information

Supplementary asset quality and forbearance disclosures

Index	Page
Retail Ireland mortgages	
Book composition	
Loan volumes	243
Origination profile	244
Risk profile	245
Arrears profile	246
Loan to value profiles	
- Loan to value ratio analysis - total loans	247
- Loan to value ratio analysis - non-performing exposures	248
Asset quality	
Composition and impairment	249
Properties in possession	250
Disposals of properties in possession	250
Forbearance measures	250
Loan to value profiles	
- Loan to value ratio analysis - forborne loans	255
- Loan to value ratio analysis - non-performing forborne loans	256
Retail UK mortgages	
Book composition	
Loan volumes	257
Origination profile	258
Risk profile	259
Arrears profile	260
Loan to value profiles	
- Loan to value ratio analysis - total loans	260
- Loan to value ratio analysis - non-performing exposures	262
Asset quality	
Composition and impairment	263
Properties in possession	263
Disposals of properties in possession	264
Loans and advances *(excluding Residential mortgages)*	
Asset quality	
Forbearance measures	265
Group forbearance disclosures	
Risk profile of forborne loans and advances to customers	271
Past due and / or impaired	273
Non-performing exposures	275
Impairment charges / (reversals) on forborne loans and advances to customers	276
Impairment provisions on forborne loans and advances to customers	277

The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 147. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.

Retail Ireland mortgages

The following disclosures relate 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 including evidence of key borrower information such as 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.

Lending criteria for the Retail Ireland mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

Table: 1

Retail Ireland mortgages - Volumes (before impairment provisions) by product type	2017 €m	2016 €m
Owner occupied mortgages	20,160	19,839
Buy to let mortgages	3,909	4,490
Total Retail Ireland mortgages	**24,069**	**24,329**

Retail Ireland mortgages - Volumes (before impairment provisions) by interest rate type	2017		2016	
	€m	%	€m	%
Tracker	10,942	46%	11,781	48%
Variable rates	5,813	24%	7,202	30%
Fixed rates	7,314	30%	5,346	22%
Total Retail Ireland mortgages	**24,069**	**100%**	**24,329**	**100%**

At 31 December 2017, Retail Ireland mortgages were €24.1 billion (2016: €24.3 billion), a decrease of €0.2 billion or 1%, which comprises a €0.8 billion decrease in the tracker portfolio, a €1.4 billion decrease in the variable rate portfolio and an increase of €2.0 billion in the fixed rate portfolio. This increase in the fixed rate portfolio reflects the strong take up of fixed interest rate mortgages by both existing and new customers. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments, resolution activity and the acquisition of a mortgage portfolio of €0.1 billion in the year.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'[1] repayment basis at 31 December 2017 was 94% (2016: 93%) with the balance of 6% on an 'interest only'[2] repayment basis (2016: 7%). Of the Owner occupied mortgages of €20.2 billion, 97% were on a 'full principal and interest' repayment basis (2016: 96%), while 78% of the Buy to let (BTL) mortgages of €3.9 billion were on a 'full principal and interest' repayment basis (2016: 77%). It is the Group's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

[1] *'Full principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.*

[2] *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. Interest only periods on Retail Ireland mortgages typically range between three and five years.*

Book composition (continued)

Origination profile

Table: 2	2017				2016			
Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Non-performing exposures		Total Retail Ireland mortgage loan book		Non-performing exposures	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	245	9,912	33	786	314	11,928	42	992
2001	226	4,549	24	344	262	4,914	27	386
2002	414	6,498	59	547	483	7,534	70	652
2003	782	10,109	114	938	886	10,869	132	1,100
2004	1,367	14,125	207	1,454	1,550	15,039	258	1,727
2005	2,303	18,769	391	2,036	2,577	19,879	469	2,425
2006	3,552	24,046	721	3,358	3,940	25,221	862	3,830
2007	3,110	19,932	622	2,766	3,435	21,037	745	3,162
2008	2,168	14,676	341	1,649	2,382	15,305	404	1,846
2009	1,154	8,914	87	599	1,264	9,438	104	676
2010	837	6,102	23	155	920	6,509	25	166
2011	728	5,425	8	55	796	5,730	10	70
2012	644	4,888	4	22	706	5,152	2	15
2013	608	4,347	2	15	669	4,590	2	15
2014	979	6,200	2	12	1,062	6,484	2	9
2015	1,403	10,908	4	69	1,509	11,575	4	92
2016	1,543	9,460	7	47	1,574	9,722	4	21
2017	2,006	9,625[3]	1	6	-	-	-	-
Total	**24,069**	**188,485**	**2,650**	**14,858**	**24,329**	**190,926**	**3,162**	**17,184**

The table above illustrates that at 31 December 2017, €5.3 billion or 22% of the Retail Ireland mortgage loan book originated before 2006, €8.8 billion or 37% between 2006 and 2008 and €9.9 billion or 41% in the years since 2008.

As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports ‘non-performing exposures’ and ‘impaired’ loans, replacing the previous classification of ‘non-performing’ loans which comprised ‘probationary residential mortgages’ and ‘defaulted’ loans.

At 31 December 2017, total non-performing exposures were €2.7 billion (2016: €3.2 billion) or 11% of the Retail Ireland mortgage loan book, of which €1.7 billion originated between 2006 and 2008. There has been a significant decrease in total non-performing exposures in 2017 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.

[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.
[3] The total number of accounts originated in 2017 includes 552 accounts (31 December 2016: 2,435) which were acquired during the year.

Book composition (continued)

Risk profile

Table: 3a

2017 **Risk profile of Retail Ireland mortgage loan book (before impairment provisions)**	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	19,129	95%	3,285	84%	22,414	93%
1-90 days past due but not impaired	257	1%	91	2%	348	1%
Past due greater than 90 days but not impaired	142	1%	40	1%	182	1%
Impaired	632	3%	493	13%	1,125	5%
Total	**20,160**	**100%**	**3,909**	**100%**	**24,069**	**100%**
Non-performing exposures						
Impaired	632	46%	493	39%	1,125	42%
Past due greater than 90 days but not impaired	142	10%	40	3%	182	7%
Neither impaired nor past due greater than 90 days	604	44%	739	58%	1,343	51%
Total	**1,378**	**100%**	**1,272**	**100%**	**2,650**	**100%**

2016 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	18,648	94%	3,647	82%	22,295	92%
1-90 days past due but not impaired	256	1%	101	2%	357	1%
Past due greater than 90 days but not impaired	158	1%	61	1%	219	1%
Impaired	777	4%	681	15%	1,458	6%
Total	19,839	100%	4,490	100%	24,329	100%
Non-performing exposures						
Impaired	777	48%	681	44%	1,458	46%
Past due greater than 90 days but not impaired	158	10%	61	4%	219	7%
Neither impaired nor past due greater than 90 days	681	42%	804	52%	1,485	47%
Total	1,616	100%	1,546	100%	3,162	100%

The tables above illustrate that €22.4 billion or 93% of the total Retail Ireland mortgage loan book at 31 December 2017 was classified as 'neither past due nor impaired' compared to €22.3 billion or 92% at 31 December 2016.

As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

In 2017, total non-performing exposures reduced significantly by €0.5 billion or 16% to €2.7 billion. Within this, impaired mortgages reduced by €0.4 billion or 23% to €1.1 billion (2016: €1.5 billion), 'past due greater than 90 days but not impaired' mortgages remained at €0.2 billion and 'neither impaired nor past due greater than 90 days' decreased by €0.1 billion to €1.4 billion. 'Neither impaired nor past due greater than 90 days' consists of forborne collateral realisation loans of €1.1 billion (2016: €1.2 billion) and other non-performing exposures of €0.3 billion (2016: €0.3 billion). The overall reduction reflects the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity, supported by improving economic conditions.

There has been a reduction in Owner occupied non-performing exposures in 2017, decreasing to €1.4 billion at 31 December 2017 from €1.6 billion at 31 December 2016. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies. This progress is also evident in the reduction of non-performing exposures in relation to BTL mortgages, decreasing to €1.3 billion (2016: €1.5 billion). This reduction reflects the significant progress made by the Group in the ongoing restructure of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

Book composition (continued)

Arrears profile

Table: 3b *(unaudited)*

Mortgage arrears Greater than 90 days past due	December 2017 %	September 2017 %	June 2017 %	December 2016 %
Number of accounts				
Retail Ireland Owner occupied mortgages	2.3%	2.4%	2.5%	2.8%
Industry[1] Owner occupied (number of accounts)	n/a	8.2%	8.3%	8.6%
Retail Ireland Buy to let mortgages	5.1%	5.7%	5.8%	6.8%
Industry[1] Buy to let (number of accounts)	n/a	17.8%	18.2%	18.2%
Value				
Retail Ireland Owner occupied mortgages	3.3%	3.5%	3.7%	4.0%
Industry[1] Owner occupied (value)	n/a	12.1%	12.3%	12.7%
Retail Ireland Buy to let mortgages	10.8%	12.1%	12.0%	13.7%
Industry[1] Buy to let (value)	n/a	25.5%	25.8%	25.7%

TABLE: 3b-(i) *(unaudited)*

Mortgage arrears 720 days past due	December 2017 %	September 2017 %	June 2017 %	December 2016 %
Number of accounts				
Retail Ireland Owner occupied mortgages	1.3%	1.4%	1.4%	1.6%
Industry[1] Owner occupied (Number of accounts)	n/a	5.2%	5.2%	5.4%
Retail Ireland Buy to let mortgages	2.8%	3.0%	3.1%	3.7%
Industry[1] Buy to let (Number of accounts)	n/a	13.1%	13.4%	12.8%
Value				
Retail Ireland Owner occupied mortgages	2.0%	2.2%	2.3%	2.5%
Industry[1] Owner occupied (value)	n/a	8.5%	8.6%	8.8%
Retail Ireland Buy to let mortgages	6.1%	6.5%	6.6%	7.5%
Industry[1] Buy to let (value)	n/a	20.1%	20.2%	19.5%

The latest information published by the Central Bank of Ireland (CBI) is for the quarter ended 30 September 2017.

This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (29.3% of industry average) and BTL (32.0% of industry average) mortgages. At 30 September 2017, 2.4% and 5.7% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 8.2%[1] and 17.8%[1] respectively for the industry.

This information also indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (26.9% of industry average) and BTL (22.9% of industry average) mortgages. At 30 September 2017, 1.4% and 3.0% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than 720 days past due compared to 5.2%[1] and 13.1%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland.*

Book composition (continued)

Loan to value profiles - total loans

Table: 3c

2017 Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	6,480	32%	986	25%	7,466	31%
51% to 70%	6,542	32%	885	23%	7,427	31%
71% to 80%	2,931	15%	501	13%	3,432	14%
81% to 90%	2,081	10%	676	17%	2,757	11%
91% to 100%	1,133	6%	320	8%	1,453	6%
Subtotal	**19,167**	**95%**	**3,368**	**86%**	**22,535**	**93%**
101% to 120%	816	4%	307	8%	1,123	5%
121% to 150%	133	1%	113	3%	246	1%
Greater than 150%	44	-	121	3%	165	1%
Subtotal	**993**	**5%**	**541**	**14%**	**1,534**	**7%**
Total	**20,160**	**100%**	**3,909**	**100%**	**24,069**	**100%**
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		61%		73%		63%
New Retail Ireland mortgages during the year		69%		52%		69%

2016 Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	4,987	25%	789	17%	5,776	24%
51% to 70%	5,520	28%	755	17%	6,275	26%
71% to 80%	2,897	15%	445	10%	3,342	14%
81% to 90%	2,195	11%	755	17%	2,950	12%
91% to 100%	1,449	7%	542	12%	1,991	8%
Subtotal	17,048	86%	3,286	73%	20,334	84%
101% to 120%	2,106	11%	698	16%	2,804	11%
121% to 150%	599	3%	306	7%	905	4%
Greater than 150%	86	-	200	4%	286	1%
Subtotal	2,791	14%	1,204	27%	3,995	16%
Total	19,839	100%	4,490	100%	24,329	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		69%		84%		72%
New Retail Ireland mortgages during the year		68%		52%		67%

The tables above set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which showed positive movements during 2017 and was, on average, 63% at 31 December 2017, 61% for Owner occupied mortgages and 73% for BTL mortgages. The weighted average indexed LTV for new Residential mortgages written during 2017 was 69%, being 69% for Owner occupied mortgages and 52% for BTL mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the RPPI CSO. The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the CSO RPPI at November 2017.

The RPPI for November 2017 reported that average national residential property prices were 23.1% below peak (2016: 32.1% below peak), with Dublin residential prices and outside of Dublin residential prices 24.1% and 29.2% below peak respectively (2016: 32.8% and 36.3% below peak respectively). In the 11 months to November 2017, residential property prices at a national level increased by 11.6%.

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Business Review Governance Financial Statements Other Information

Book composition (continued)

Loan to value profiles - total loans (continued)

At 31 December 2017, €22.5 billion or 93% of Retail Ireland mortgages were classified as being in positive equity, 95% for Owner occupied mortgages and 86% for BTL mortgages.

At 31 December 2017, the total calculated negative equity in the Retail Ireland mortgage loan book was €0.2 billion (2016: €0.6 billion). The majority of Retail Ireland mortgage borrowers in negative equity are performing and / or continue to meet their mortgage repayments.

Loan to value profiles - non-performing exposures

Table: 3d

2017 **Loan to value (LTV) ratio of total Retail Ireland mortgages - non-performing exposures[1]**	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	243	18%	83	7%	326	13%
51% to 70%	278	20%	149	12%	427	16%
71% to 80%	165	12%	132	10%	297	11%
81% to 90%	183	13%	329	26%	512	19%
91% to 100%	166	12%	196	15%	362	14%
Subtotal	**1,035**	**75%**	**889**	**70%**	**1,924**	**73%**
101% to 120%	215	16%	211	16%	426	16%
121% to 150%	99	7%	86	7%	185	7%
Greater than 150%	29	2%	86	7%	115	4%
Subtotal	**343**	**25%**	**383**	**30%**	**726**	**27%**
Total	**1,378**	**100%**	**1,272**	**100%**	**2,650**	**100%**

2016 Loan to value (LTV) ratio of total Retail Ireland mortgages - non-performing exposures[1]	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	204	13%	69	4%	273	9%
51% to 70%	239	14%	122	8%	361	11%
71% to 80%	166	10%	111	7%	277	9%
81% to 90%	174	11%	275	18%	449	14%
91% to 100%	175	11%	203	13%	378	12%
Subtotal	958	59%	780	50%	1,738	55%
101% to 120%	338	21%	403	27%	741	23%
121% to 150%	252	16%	217	14%	469	15%
Greater than 151%	68	4%	146	9%	214	7%
Subtotal	658	41%	766	50%	1,424	45%
Total	1,616	100%	1,546	100%	3,162	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for non-performing exposures. The ratios reflect the application of the CSO RPPI at November 2017.

Of the non-performing exposures, €1.9 billion or 73% were classified as being in positive equity (2016: €1.7 billion or 55%) while €0.7 billion or 27% were classified as being in negative equity at 31 December 2017 (2016: €1.4 billion or 45%).

For the non-performing exposures, 75% of the Owner occupied Retail Ireland mortgages (2016: 59%) and 70% of the BTL Retail Ireland mortgages (2016: 50%) were classified as being in positive equity at 31 December 2017.

[1] *As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

Asset quality

Composition and impairment

The tables below summarise the composition of non-performing exposures[1], impaired loans[1] and total impairment provisions for the Retail Ireland mortgage portfolio.

Table: 4 **2017** **Retail Ireland mortgages**	**Advances (pre-impairment) €m**	**Non-performing exposures[2] €m**	**Non-performing exposures as % of advances %**	**Impaired loans €m**	**Total provisions €m**	**Total provisions as % of non-performing exposures %**	**Specific provisions as % of Impaired loans %**
Total Retail Ireland mortgages							
Owner occupied mortgages	20,160	1,378	7%	632	310	22%	35%
Buy to let mortgages	3,909	1,272	33%	493	333	26%	51%
Total	**24,069**	**2,650**	**11%**	**1,125**	**643**	**24%**	**42%**
of which:							
Forborne Retail Ireland mortgages							
Owner occupied mortgages	1,970	1,193	61%	494	239	20%	34%
Buy to let mortgages	1,202	1,020	85%	264	201	20%	47%
Total	**3,172**	**2,213**	**70%**	**758**	**440**	**20%**	**39%**

2016 Retail Ireland mortgages	Advances (pre-impairment) €m	Non-performing exposures[2] €m	Non-performing exposures as % of advances %	Impaired loans €m	Total provisions €m	Total provisions as % of non-performing exposures %	Specific provisions as % of Impaired loans %
Total Retail Ireland mortgages							
Owner occupied mortgages	19,839	1,616	8%	777	415	26%	37%
Buy to let mortgages	4,490	1,546	34%	681	496	32%	55%
Total	24,329	3,162	13%	1,458	911	29%	45%
of which:							
Forborne Retail Ireland mortgages[3]							
Owner occupied mortgages	2,405	1,371	57%	586	310	23%	36%
Buy to let mortgages	1,408	1,151	82%	323	263	23%	50%
Total	3,813	2,522	66%	909	573	23%	41%

Total non-performing exposures of €2.7 billion were €0.5 billion lower than at 31 December 2016, reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

Owner occupied non-performing exposures of €1.4 billion were €0.2 billion lower than at 31 December 2016. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

This progress is also evident in the reduction of non-performing exposures in relation to BTL mortgages, decreasing to €1.3 billion at 31 December 2017 from €1.5 billion at 31 December 2016. This reduction reflects the significant progress made by the Group in the ongoing restructure of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

1 *As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*
2 *The 'non-performing' exposures classification does not indicate that the terms of the forbearance measure are not being met.*
3 *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €3.6 billion to €3.8 billion. Owner occupied forborne mortgages have increased by €0.1 billion to €2.4 billion and BTL forborne mortgages have increased by €0.1 billion to €1.4 billion.*

Asset quality (continued)

Properties in possession

Table: 5a	2017		2016	
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	72	21	84	25
Buy to let	15	6	27	8
Total residential properties in possession	**87**	**27**	**111**	**33**

Disposals of properties in possession

Table: 5b	2017		2016	
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	122	21	136	19
Buy to let	27	3	52	6
Total disposal of properties in possession	**149**	**24**	**188**	**25**

During 2017, the Group disposed of 149 properties (2016: 188 properties).

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 2017, the proceeds from disposals of Owner occupied properties were €21 million (2016: €19 million).

For the year ended 31 December 2017, the proceeds from disposals of BTL properties before value of additional collateral applied were €3 million (2016: €6 million). In addition, a further 412 BTL properties were disposed of by fixed charge receivers during 2017 (2016: 496).

Forbearance measures

Mortgage forbearance
As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. Previously, the Group did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.

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 provide, where viable, sustainable short-term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted an agreed change (‘forbearance measure’) to the contractual terms of a mortgage loan, 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.

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 that, 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 forbearance options that are supportive of customers in challenged financial circumstances.

[1] *Gross balance outstanding before value of additional collateral held.*

Asset quality (continued)

Forbearance measures (continued)

A forbearance request by the borrower is always 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 that, where possible, the most suitable and sustainable repayment arrangement is put in place.

Forbearance effectiveness
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 nature and type of forbearance measures include:

- **Full interest:** (with subsequent step up to full principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged.
- **Reduced payment:** (greater than full interest with step up to full principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged.
- **Term extension:** the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term.
- **Capitalisation of arrears:** the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term.
- **Hybrids:** comprising a combination of forbearance measures.
- **Other:** comprising primarily permanent restructures and an element of temporary payment suspensions.

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] at 31 December 2017.

Table: 6a 2017 Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Performing		Non-performing exposures[2,3]		All loans	
	Balance €m	Number of accounts[4]	Balance €m	Number of accounts[4]	Balance €m	Number of accounts[4]
Owner occupied						
Full Interest	93	808	244	1,381	337	2,189
Reduced payment (greater than full interest)	57	376	461	3,960	518	4,336
Term extension	65	728	33	342	98	1,070
Capitalisation of arrears	219	1,457	143	886	362	2,343
Hybrids	230	1,908	259	1,723	489	3,631
Other	113	808	53	436	166	1,244
Total	**777**	**6,085**	**1,193**	**8,728**	**1,970**	**14,813**
Buy to let						
Full Interest	12	84	187	647	199	731
Reduced payment (greater than full interest)	10	65	230	1,337	240	1,402
Term extension	34	210	18	113	52	323
Capitalisation of arrears	56	338	65	272	121	610
Hybrids	69	391	497	1,564	566	1,955
Other	1	9	23	180	24	189
Total	**182**	**1,097**	**1,020**	**4,113**	**1,202**	**5,210**
Total						
Full Interest	105	892	431	2,028	536	2,920
Reduced payment (greater than full interest)	67	441	691	5,297	758	5,738
Term extension	99	938	51	455	150	1,393
Capitalisation of arrears	275	1,795	208	1,158	483	2,953
Hybrids	299	2,299	756	3,287	1,055	5,586
Other	114	817	76	616	190	1,433
Total	**959**	**7,182**	**2,213**	**12,841**	**3,172**	**20,023**

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted forbearance but has subsequently exited forbearance, in line with EBA guidelines, prior to or on 31 December 2017, this mortgage loan is not included in the stock of forbearance measures.
[2] The 'non-performing' exposures classification does not indicate that the terms of the forbearance measure are not being met.
[3] As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.
[4] The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

Forbearance measures (continued)

2016 Formal forbearance measures[1] - Retail Ireland mortgages (before impairment provisions)	Performing		Non-performing exposures[2,3]		All loans	
	Balance €m	Number of accounts[4]	Balance €m	Number of accounts[4]	Balance €m	Number of accounts[4]
Owner occupied						
Full Interest	168	1,326	298	1,765	466	3,091
Reduced payment (greater than full interest)	93	590	504	4,105	597	4,695
Term extension	92	952	37	374	129	1,326
Capitalisation of arrears	269	1,801	159	986	428	2,787
Hybrids	307	2,549	317	2,022	624	4,571
Other	105	718	56	446	161	1,164
Total	1,034	7,936	1,371	9,698	2,405	17,634
Buy to let						
Full Interest	37	224	252	877	289	1,101
Reduced payment (greater than full interest)	21	109	275	1,527	296	1,636
Term extension	50	327	14	95	64	422
Capitalisation of arrears	71	391	58	277	129	668
Hybrids	76	458	527	1,653	603	2,111
Other	2	8	25	185	27	193
Total	257	1,517	1,151	4,614	1,408	6,131
Total						
Full Interest	205	1,550	550	2,642	755	4,192
Reduced payment (greater than full interest)	114	699	779	5,632	893	6,331
Term extension	142	1,279	51	469	193	1,748
Capitalisation of arrears	340	2,192	217	1,263	557	3,455
Hybrids	383	3,007	844	3,675	1,227	6,682
Other	107	726	81	631	188	1,357
Total	1,291	9,453	2,522	14,312	3,813	23,765

The total number of accounts in forbearance has decreased from 23,765 at 31 December 2016 to 20,023 accounts at the 31 December 2017. The balances on accounts in forbearance have decreased from €3.8 billion at the 31 December 2016 to €3.2 billion at the 31 December 2017. This overall decrease reflects the customers' progression in meeting the forbearance exit criteria required as outlined in the EBA guidance.

[1] *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €3.6 billion to €3.8 billion. Non-performing exposures under the forbearance classification have increased by €1.6 billion from €0.9 billion to €2.5 billion while performing exposures under the forbearance classification have decreased by €1.4 billion from €2.7 billion to €1.3 billion.*

[2] *The NPE classification does not indicate that the terms of the forbearance measure are not being met.*

[3] *As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

[4] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of forborne Retail Ireland mortgages (before impairment provisions) during 2017.

Table: 6b

2017 Reconciliation of forborne loan stock by performing / non-performing exposures - 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 2017[2]	**2,405**	**17,634**	**1,408**	**6,131**	**3,813**	**23,765**
New forbearance extended	191	1,565	46	227	237	1,792
Exited forbearance						
- Improved to or remained performing	(435)	(3,496)	(94)	(580)	(529)	(4,076)
- Improved / stabilised and remained non-performing exposures	-	-	-	(4)	-	(4)
- Redemptions, principal repayments and other	(189)	(880)	(158)	(561)	(347)	(1,441)
- Disimproved to or within non-performing exposures	(2)	(10)	-	(3)	(2)	(13)
Transfers within forbearance between performing and non-performing exposures	-	-	-	-	-	-
Closing balance at 31 December 2017	**1,970**	**14,813**	**1,202**	**5,210**	**3,172**	**20,023**
Performing exposures						
Opening balance at 1 January 2017[2]	**1,034**	**7,936**	**257**	**1,517**	**1,291**	**9,453**
New forbearance extended	127	1,005	11	68	138	1,073
Exited forbearance						
- Improved to or remained performing	(429)	(3,419)	(90)	(558)	(519)	(3,977)
- Improved / stabilised and remained non-performing exposures	-	-	-	-	-	-
- Redemptions, principal repayments and other	(65)	(277)	(21)	(69)	(86)	(346)
- Disimproved to or within non-performing exposures	(1)	(4)	-	(1)	(1)	(5)
Transfers within forbearance between performing and non-performing exposures	111	844	25	140	136	984
Closing balance at 31 December 2017	**777**	**6,085**	**182**	**1,097**	**959**	**7,182**
Non-performing exposures						
Opening balance at 1 January 2017[2]	**1,371**	**9,698**	**1,151**	**4,614**	**2,522**	**14,312**
New forbearance extended	64	560	35	159	99	719
Exited forbearance						
- Improved to performing	(6)	(77)	(4)	(22)	(10)	(99)
- Improved / stabilised and remained non-performing exposures	-	-	-	(4)	-	(4)
- Redemptions, principal repayments and other	(124)	(603)	(137)	(492)	(261)	(1,095)
- Disimproved and remained non-performing exposures	(1)	(6)	-	(2)	(1)	(8)
Transfers within forbearance between performing and non-performing exposures	(111)	(844)	(25)	(140)	(136)	(984)
Closing balance at 31 December 2017	**1,193**	**8,728**	**1,020**	**4,113**	**2,213**	**12,841**

[1] The number of accounts does not equate to either the number of customers or the number of properties.
[2] Opening balances have been restated as set out on page 252.

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2017 and 31 December 2017 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in performing status;
  - Improved / stabilised and remained in non-performing exposures;
  - 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 2017 and remained in forbearance stock at 31 December 2017);
  - Disimproved to or within non-performing exposures; and
- Those accounts and balances which transferred between performing and non-performing exposures but remained in forbearance.

The non-performing exposure classification does not indicate that the terms of the forbearance measure have not been met. The performing / non-performing exposures of accounts which exited forbearance during the year is determined at the date of exit.

The forborne loan stock has decreased to 20,023 accounts at 31 December 2017 with balances on those accounts of €3.2 billion from 23,765 accounts at 31 December 2016 with balances of €3.8 billion. A total of 1,792 accounts or €0.2 billion new forbearance measures were put in place during the year. A total of 4,093 accounts exited forbearance during the year with balances of €0.5 billion. A reduction of 1,441 accounts relates to redeemed accounts during the year; a reduction of €0.3 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner Occupier mortgages, the forborne loan stock has decreased to 14,813 accounts at 31 December 2017 with balances on those accounts of €2 billion from 17,634 accounts at 31 December 2016 with balances of €2.4 billion. A total of 1,565 accounts or €0.2 billion new forbearance measures were put in place during the year. A total of 3,506 accounts exited forbearance during the year with balances of €0.4 billion. A reduction of 880 accounts relates to redeemed accounts during the year; a reduction of €0.2 billion was due to those redeemed accounts and principal repayments made during the year.

For BTL mortgages, the forborne loan stock has decreased to 5,210 accounts at 31 December 2017 with balances on those accounts of €1.2 billion from 6,131 accounts at 31 December 2016 with balances of €1.4 billion. A total of 227 accounts or €46 million new forbearance measures were put in place during the year. A total of 587 accounts exited forbearance during the year with balances of €0.1 billion. A reduction of 561 accounts relates to redeemed accounts during the year; a reduction of €0.2 billion was due to those redeemed accounts and principal repayments made during the year.

Mortgage arrears

The Group has invested in its Mortgage Arrears Resolution Strategy (MARS), its related risk management infrastructure and continues to implement restructuring and resolution options for customers. The 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 BTL 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

2017 Loan to value (LTV) ratio of forborne Retail Ireland mortgages	**Owner occupied**		**Buy to let**		**All loans**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	394	20%	102	8%	496	16%
51% to 70%	450	23%	163	14%	613	19%
71% to 80%	233	12%	130	11%	363	11%
81% to 90%	263	13%	352	29%	615	19%
91% to 100%	243	12%	179	15%	422	14%
Subtotal	**1,583**	**80%**	**926**	**77%**	**2,509**	**79%**
101% to 120%	276	14%	176	15%	452	14%
121% to 150%	92	5%	55	4%	147	5%
Greater than 150%	19	1%	45	4%	64	2%
Subtotal	**387**	**20%**	**276**	**23%**	**663**	**21%**
Total	**1,970**	**100%**	**1,202**	**100%**	**3,172**	**100%**

2016 Loan to value (LTV) ratio of forborne[1] Retail Ireland mortgages	Owner occupied		Buy to let		All loans	
	€m	%	€m	%	€m	%
Less than 50%	364	15%	91	6%	455	12%
51% to 70%	419	18%	136	10%	555	15%
71% to 80%	264	11%	109	8%	373	10%
81% to 90%	261	11%	284	20%	545	14%
91% to 100%	271	11%	213	15%	484	12%
Subtotal	1,579	66%	833	59%	2,412	63%
101% to 120%	479	20%	359	26%	838	22%
121% to 150%	296	12%	144	10%	440	12%
Greater than 150%	51	2%	72	5%	123	3%
Subtotal	826	34%	575	41%	1,401	37%
Total	2,405	100%	1,408	100%	3,813	100%

The tables above illustrate the indexed loan to value ratios for total Retail Ireland forborne mortgages which showed an improvement in the average LTV for 2017. The ratios reflect the application of the CSO RPPI at November 2017.

Of the total Retail Ireland mortgages with forbearance measures in place €2.5 billion or 79% were classified as being in positive equity (2016: €2.4 billion or 63%) while €0.7 billion or 21% were classified as being in negative equity at 31 December 2017 (2016: €1.4 billion or 37%). 80% of forborne Owner occupied mortgages (2016: 66%) and 77% of forborne BTL mortgages (2016: 59%) were classified as being in positive equity at 31 December 2017.

[1] *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €3.6 billion to €3.8 billion.*

Asset quality (continued)

Loan to value profiles - non-performing forborne exposures

Table: 7b

2017 **Loan to value (LTV) ratio of forborne Retail Ireland mortgages - non-performing exposures[1]**	**Owner occupied**		**Buy to let**		**All loans**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	212	18%	71	7%	283	13%
51% to 70%	240	20%	127	12%	367	16%
71% to 80%	138	12%	108	11%	246	11%
81% to 90%	161	13%	301	29%	462	21%
91% to 100%	151	12%	161	16%	312	14%
Subtotal	**902**	**75%**	**768**	**75%**	**1,670**	**75%**
101% to 120%	192	16%	158	16%	350	16%
121% to 150%	81	7%	54	5%	135	6%
Greater than 150%	18	2%	40	4%	58	3%
Subtotal	**291**	**25%**	**252**	**25%**	**543**	**25%**
Total	**1,193**	**100%**	**1,020**	**100%**	**2,213**	**100%**

2016 Loan to value (LTV) ratio of forborne Retail Ireland mortgages - non-performing exposures[1]	Owner occupied		Buy to let		All loans	
	€m	%	€m	%	€m	%
Less than 50%	178	13%	56	5%	234	9%
51% to 70%	201	15%	99	9%	300	12%
71% to 80%	144	11%	87	7%	231	9%
81% to 90%	142	10%	232	20%	374	15%
91% to 100%	155	11%	172	15%	327	13%
Subtotal	820	60%	646	56%	1,466	58%
101% to 120%	291	21%	307	27%	598	24%
121% to 150%	212	15%	131	11%	343	14%
Greater than 150%	48	4%	67	6%	115	4%
Subtotal	551	40%	505	44%	1,056	42%
Total	1,371	100%	1,151	100%	2,522	100%

The tables above illustrate the indexed loan to value ratios for non-performing forborne exposures. The ratios reflect the application of the CSO RPPI at November 2017.

Of the non-performing exposures with forbearance measures in place, €1.7 billion or 75% were classified as being in positive equity (2016: €1.5 billion or 58%), while €0.5 billion or 25% were classified as being in negative equity at 31 December 2017 (2016: €1.0 billion or 42%). 75% of the Owner occupied Retail Ireland mortgages (2016: 60%) and 75% of the BTL Retail Ireland mortgages (2016: 56%) were classified as being in positive equity at 31 December 2017.

[1] As described on pages 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Retail UK mortgages

The following disclosures relate 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.

In 2017, lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

Table: 1a

Retail UK mortgages - Volumes (before impairment provisions) by product type	2017 £m	2016 £m
Standard mortgages	10,599	10,757
Buy to let mortgages	7,457	7,433
Self certified mortgages	1,987	2,254
Total Retail UK mortgages	**20,043**	**20,444**

Table: 1b

Retail UK mortgages - Volumes (before impairment provisions) by interest rate type	2017		2016	
	£m	%	£m	%
Tracker	7,147	36%	7,856	38%
Variable rates	3,256	16%	4,027	20%
Fixed rates	9,640	48%	8,561	42%
Total Retail UK mortgages	**20,043**	**100%**	**20,444**	**100%**

At 31 December 2017, Retail UK mortgages were £20.0 billion (2016: £20.4 billion). The decrease of £401 million or 2% reflects new business generation offset by redemptions in the book.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through distribution arrangements with other selected strategic partners and the Group's branch network in Northern Ireland.

Of the £10.6 billion Standard mortgages, 77% are on a 'principal and interest'[1] repayment basis (2016: 75%). Of the Self certified mortgages of £2.0 billion, 20% are on a 'principal and interest' repayment basis (2016: 20%). Of the BTL mortgages of £7.5 billion, 11% are on a 'principal and interest' repayment basis (2016: 10%). Overall, 53% of the Retail UK mortgage portfolio in 2017 is on an 'interest only'[2] repayment basis (2016: 54%).

The geographic profile[3] of the Retail UK mortgage book in 2017 is as follows; 20% Greater London, 12% Outer Metropolitan, 10% South East, 5% in Northern Ireland, 5% in Scotland and 4% in Wales. The remainder of the book relates to the rest of England.

Tracker mortgages were £7.1 billion or 36% of the Retail UK mortgages compared to £7.9 billion or 38% in 2016, a decrease of £0.7 billion.

Variable rate mortgages were £3.3 billion or 16% of the Retail UK mortgages compared to £4.0 billion or 20% in 2016, a decrease of £0.8 billion.

Fixed rate mortgages were £9.6 billion or 48% of the Retail UK mortgages compared to £8.6 billion or 42% in 2016, an increase of £1.1 billion.

Tracker rate mortgages now account for 10% of Standard mortgages (2016: 11%), 78% of BTL mortgages (2016: 86%) and 15% of Self certified mortgages (2016: 15%).

[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.*

[3] *The geographical profile is based on the location of the property.*

Book composition (continued)

Origination profile

Table: 2	2017				2016			
	Total Retail UK mortgage loan book		Non-performing exposures		Total Retail UK mortgage loan book		Non-performing exposures	
Origination profile of Retail UK mortgage loan book (before impairment provisions)	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
2000 and before	175	5,227	11	280	229	6,569	17	411
2001	113	1,875	4	40	133	2,155	4	50
2002	149	2,188	4	41	176	2,613	5	51
2003	338	4,227	16	127	396	4,874	16	133
2004	402	4,762	19	162	460	5,342	18	147
2005	1,127	10,902	42	337	1,258	12,024	48	385
2006	1,645	15,364	66	490	1,848	17,075	73	550
2007	2,612	23,232	95	744	2,997	26,343	99	750
2008	3,569	30,775	110	823	3,961	33,707	119	852
2009	396	3,910	8	78	469	4,473	10	89
2010	292	2,642	3	18	359	3,134	2	15
2011	205	1,816	1	8	261	2,193	2	14
2012	212	1,685	-	4	406	2,778	1	8
2013	461	2,963	2	10	568	3,478	1	6
2014	815	5,437	2	12	1,152	7,174	2	13
2015	1,809	11,392	2	15	3,024	17,221	2	9
2016	2,566	15,749	1	5	2,747	16,293	-	3
2017	3,157	21,186	-	3	-	-	-	-
Total	**20,043**	**165,332**	**386**	**3,197**	**20,444**	**167,446**	**419**	**3,486**

The table above illustrates that at 31 December 2017, £2.3 billion or 12% of the Retail UK mortgage loan book originated before 2006, £7.8 billion or 39% between 2006 and 2008 and £9.9 billion or 49% in the years since.

The BTL book is well seasoned with 77% of these mortgages originated pre 2009. As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Non-performing Retail UK mortgages were £0.4 billion or 1.9% (2016: £0.4 billion or 2.0%) of the Retail UK mortgage loan book in 2017, of which £0.3 billion or 1.3% were originated between 2006 and 2008 (2016: £0.3 billion or 1.4%).

[1] *The number of accounts does not equate to the number of customers or the number of properties.*

Book composition (continued)

Risk profile

Table: 3a

2017 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	10,315	97%	7,236	97%	1,664	84%	19,215	96%
1-90 days past due but not impaired	192	2%	144	2%	216	11%	552	3%
Past due greater than 90 days but not impaired	36	-	27	-	45	2%	108	-
Impaired	56	1%	50	1%	62	3%	168	1%
Total	**10,599**	**100%**	**7,457**	**100%**	**1,987**	**100%**	**20,043**	**100%**
Non-performing exposures								
Impaired	56	41%	50	49%	62	42%	168	44%
Past due greater than 90 days but not impaired	36	26%	27	26%	45	31%	108	28%
Neither impaired nor past due greater than 90 days	45	33%	25	25%	40	27%	110	28%
Total	**137**	**100%**	**102**	**100%**	**147**	**100%**	**386**	**100%**

2016 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	10,446	97%	7,199	97%	1,904	84%	19,549	96%
1-90 days past due but not impaired	204	2%	159	2%	239	11%	602	3%
Past due greater than 90 days but not impaired	52	-	33	-	57	3%	142	-
Impaired	55	1%	42	1%	54	2%	151	1%
Total	10,757	100%	7,433	100%	2,254	100%	20,444	100%
Non-performing exposures								
Impaired	55	35%	42	40%	54	35%	151	36%
Past due greater than 90 days but not impaired	52	32%	33	31%	57	37%	142	34%
Neither impaired nor past due greater than 90 days	52	33%	31	29%	43	28%	126	30%
Total	159	100%	106	100%	154	100%	419	100%

The above table illustrates that £19.2 billion or 96% of the total Retail UK mortgage loan book at 31 December 2017 was classified as 'neither past due nor impaired' (2016: £19.5 billion or 96%). The '1-90 days past due but not impaired' category was £0.6 billion or 3% of the total Retail UK mortgage loan book (2016: £0.6 billion or 3%).

The 'past due greater than 90 days but not impaired' category was £0.1 billion of the total Retail UK mortgage loan book at 31 December 2017 (2016: £0.1 billion or 1%). The impaired category amounted to £0.2 billion or 1% of the total Retail UK mortgage loan book (2016: £0.2 billion or 1%).

As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Total non-performing exposures reduced by £33 million or 8% to £0.4 billion at 31 December 2017 (2016: £0.4 billion), reflecting the effectiveness of the Group's operating infrastructure and mortgage collections activity supported by improving economic conditions.

Book composition (continued)

Arrears profile

Table: 3b *(unaudited)*

Mortgage arrears Greater than 90 days past due	December 2017 %	June 2017 %	December 2016 %
Number of accounts			
Standard mortgages	0.78%	0.86%	0.95%
Buy to let mortgages	0.72%	0.81%	0.78%
Self certified mortgages	3.39%	3.50%	3.38%
Value			
Standard mortgages	0.69%	0.75%	0.81%
Buy to let mortgages	0.72%	0.82%	0.80%
Self certified mortgages	4.32%	4.32%	4.32%

Data published by the Council of Mortgage Lenders (CML) for September 2017 indicates that the proportion of the Retail UK mortgage book in default (defined for CML purposes as greater than 90 days past due but excluding possessions and receivership cases) is in line with the UK industry average of 1% across all segments (Retail UK equivalent: 1%).

Loan to value profiles - total loans

Table: 3c

2017 Loan to value (LTV) ratio of total Retail UK mortgages	Standard		Buy to let		Self certified		Total Retail UK mortgage portfolio	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	2,384	22%	2,250	30%	613	31%	5,247	26%
51% to 70%	3,596	34%	3,309	45%	802	40%	7,707	38%
71% to 80%	1,882	18%	1,141	15%	288	14%	3,311	17%
81% to 90%	1,976	19%	602	8%	182	9%	2,760	14%
91% to 100%	589	5%	101	1%	73	4%	763	4%
Subtotal	**10,427**	**98%**	**7,403**	**99%**	**1,958**	**98%**	**19,788**	**99%**
101% to 120%	69	1%	16	-	11	1%	96	-
121% to 150%	25	-	4	-	8	-	37	-
Greater than 150%	78	1%	34	1%	10	1%	122	1%
Subtotal	**172**	**2%**	**54**	**1%**	**29**	**2%**	**255**	**1%**
Total	**10,599**	**100%**	**7,457**	**100%**	**1,987**	**100%**	**20,043**	**100%**
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		64%		58%		59%		62%
New Retail UK mortgages during year[1]		74%		60%		n/a		72%

[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)

Table: 3c (continued)

2016 Loan to value (LTV) ratio of total Retail UK mortgages	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total Retail UK mortgage portfolio £m	Total Retail UK mortgage portfolio %
Less than 50%	2,484	23%	2,226	30%	643	29%	5,353	26%
51% to 70%	3,837	36%	3,042	41%	858	39%	7,737	38%
71% to 80%	2,105	20%	1,192	16%	349	15%	3,646	18%
81% to 90%	1,527	14%	732	10%	251	11%	2,510	12%
91% to 100%	573	5%	187	3%	122	5%	882	4%
Subtotal	10,526	98%	7,379	100%	2,223	99%	20,128	98%
101% to 120%	134	1%	18	-	13	1%	165	1%
121% to 150%	29	-	5	-	8	-	42	-
Greater than 150%	68	1%	31	-	10	-	109	1%
Subtotal	231	2%	54	-	31	1%	316	2%
Total	10,757	100%	7,433	100%	2,254	100%	20,444	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		64%		59%		61%		62%
New Retail UK mortgages during year[1]		73%		62%		n/a		71%

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 62% at 31 December 2017, 64% for Standard mortgages, 59% for Self certified mortgages and 58% for BTL mortgages. The weighted average LTV for new Residential mortgages written during 2017 was 72%, 74% for Standard mortgages and 60% for BTL mortgages.

At 31 December 2017, 20% of Retail UK mortgages are located in Greater London. 95% of this segment of the portfolio has an LTV less than 80%, with an average mortgage balance of c.£195,000. 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 2017, £19.8 billion or 99% of the Retail UK mortgage book was in positive equity (2016: £20.1 billion or 98%), comprising £10.4 billion or 98% of Standard mortgages (2016: £10.5 billion or 98%), £7.4 billion or 99% of BTL mortgages (2016: £7.4 billion or 99%) and £2.0 billion or 98% of Self certified mortgages (2016: £2.2 billion or 99%). This improvement reflects the upward movement in house prices in the year with house prices increasing by 2.7% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

[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 - Non-performing exposures

Table: 3d

2017 **Loan to value (LTV) ratio of total Retail UK mortgages - non-performing exposures**	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	40	29%	23	22%	30	21%	93	24%
51% to 70%	39	29%	31	30%	56	38%	126	34%
71% to 80%	20	15%	16	16%	27	18%	63	16%
81% to 90%	16	12%	21	21%	18	12%	55	14%
91% to 100%	11	8%	8	8%	9	6%	28	7%
Subtotal	**126**	**93%**	**99**	**97%**	**140**	**95%**	**365**	**95%**
101% to 120%	7	5%	1	1%	4	3%	12	3%
121% to 150%	2	1%	1	1%	2	1%	5	1%
Greater than 150%	2	1%	1	1%	1	1%	4	1%
Subtotal	**11**	**7%**	**3**	**3%**	**7**	**5%**	**21**	**5%**
Total	**137**	**100%**	**102**	**100%**	**147**	**100%**	**386**	**100%**

2016 Loan to value (LTV) ratio of total Retail UK mortgages - non-performing exposures	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	44	28%	23	22%	30	20%	97	23%
51% to 70%	47	30%	29	27%	49	32%	125	30%
71% to 80%	22	14%	18	17%	32	21%	72	17%
81% to 90%	16	10%	20	19%	22	14%	58	14%
91% to 100%	16	10%	12	11%	13	8%	41	10%
Subtotal	145	92%	102	96%	146	95%	393	94%
101% to 120%	10	6%	3	3%	4	3%	17	4%
121% to 150%	2	1%	1	1%	2	1%	5	1%
Greater than 150%	2	1%	-	-	2	1%	4	1%
Subtotal	14	8%	4	4%	8	5%	26	6%
Total	159	100%	106	100%	154	100%	419	100%

The table above illustrates the indexed loan to value ratios at the applicable reporting date for non-performing Retail UK mortgages.

The ratios reflect the application of the Nationwide Building Society house price index at the applicable reporting date to the portfolio.

Of the non-performing Retail UK standard mortgages £126 million or 93% are in positive equity (2016: £145 million or 92%) while £11 million or 7% are in negative equity in 2017 (2016: £14 million or 8%).

Of the non-performing Retail UK self-certified mortgages £140 million or 95% are in positive equity (2016: £146 million or 95%) while £7 million or 5% are in negative equity in 2017 (2016: £8 million or 5%).

Of the non-performing Retail UK BTL mortgages £99 million or 97% are in positive equity (2016: £102 million or 96%) while £3 million or 3% in negative equity in 2017 (2016: £4 million or 4%).

[1] *As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

Asset quality

Composition and impairment

The table below summarises the composition, non-performing exposures[1], impaired loans[1] and total impairment provisions of the Retail UK mortgage portfolio.

Table: 4 2017 Retail UK mortgages	Advances (pre-impairment) £m	Non-performing exposures[2] £m	Non-performing exposures as % of advances %	Impaired loans £m	Total provisions £m	Total provisions as % of non-performing exposures %	Specific provisions as % of Impaired loans %
Total Retail UK mortgages							
Standard mortgages	10,599	137	1.3%	56	25	18%	8%
Buy to let mortgages	7,457	102	1.4%	50	16	16%	17%
Self certified mortgages	1,987	147	7.4%	62	15	10%	9%
Total	**20,043**	**386**	**1.9%**	**168**	**56**	**15%**	**11%**

2016 Retail UK mortgages	Advances (pre-impairment) £m	Non-performing exposures[2] £m	Non-performing exposures as % of advances %	Impaired loans £m	Total provisions £m	Total provisions as % of non-performing exposures %	Specific provisions as % of Impaired loans %
Total Retail UK mortgages							
Standard mortgages	10,757	159	1.5%	55	26	16%	12%
Buy to let mortgages	7,433	106	1.4%	42	22	21%	25%
Self certified mortgages	2,254	154	6.8%	54	18	12%	11%
Total	20,444	419	2.1%	151	66	16%	15%

At 31 December 2017, Retail UK mortgages were £20.0 billion (2016: £20.4 billion). Non-performing Retail UK mortgages were £386 million (2016: £419 million), attributable to decreases in Standard mortgages of £22 million, Self certified mortgages of £7 million and BTL mortgages of £4 million compared to 2016. The overall impairment provision coverage ratio on the non-performing Retail UK mortgages book was 15% (2016: 16%).

Properties in possession

At 31 December 2017, the Group had possession of properties held as security as follows:

Table: 5a	2017		2016	
Properties in possession Retail UK mortgages	**Number of properties in possession at balance sheet date**	**Balance outstanding before impairment provisions £m**	Number of properties in possession at balance sheet date	Balance outstanding before impairment provisions £m
Standard mortgages	19	3	28	4
Buy to let mortgages	34	3	23	2
Self certified mortgages	19	4	14	4
Total residential properties in possession	**72**	**10**	**65**	**10**

[1] *As described on page 60, the Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

[2] *The 'non-performing' exposures classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Disposals of properties in possession

Table: 5b	2017		2016	
Disposals of properties in possession Retail UK mortgages	**Number of disposals during the year**	**Balance outstanding after impairment provisions £m**	Number of disposals during the year	Balance outstanding after impairment provisions £m
Standard mortgages	47	4	79	8
Buy to let mortgages	55	4	83	6
Self certified mortgages	19	3	53	8
Total disposals of properties in possession	**121**	**11**	**215**	**22**

During 2017, the Group disposed of 121 properties (2016: 215 properties). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

During 2017, the proceeds from disposals of Standard mortgages was £6 million (2016: £9 million).

During 2017, the proceeds from disposals of BTL mortgages was £5 million (2016: £7 million).

During 2017, the proceeds from disposals of Self certified mortgages was £3 million (2016: £10 million).

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 offer a range of forbearance measures for customers who are currently experiencing, or it is anticipated may face, difficulties in meeting their debt servicing commitments, in order to arrange, where viable, sustainable short-term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted short-term or long-term agreed changes to the contractual terms of a loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the 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.

The Group has an established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for borrowers. 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.

Forbearance is always 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 always takes place prior to a decision to grant forbearance to the customer.

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 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.
- **Other:** primarily permanent restructures and additional forbearance arrangements such as short-term / temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2017, the stock of forborne other loans and advances to customers (excluding Residential mortgages), analysed by forbearance type is as follows:

Table: 1 *(unaudited)*

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2017 Performing exposures[1] balance €m	2017 Non-performing exposures[1] balance €m	2017 Total loans balance €m	2016 Performing exposures[1,2] balance €m	2016 Non-performing exposures[1,2] balance €m	2016 Total loans[2] balance €m
Republic of Ireland SME						
Term extension	181	390	571	196	286	482
Adjustment or non-enforcement of covenants	7	33	40	60	18	78
Facilities in breach of terms placed on demand	4	38	42	5	54	59
Reduced payment (full interest)	38	94	132	41	163	204
Reduced payment (greater than full interest)	76	102	178	37	171	208
Capitalisation of arrears	6	7	13	3	18	21
Other	22	366	388	41	640	681
Total	**334**	**1,030**	**1,364**	**383**	**1,350**	**1,733**
UK SME						
Term extension	42	48	90	56	36	92
Adjustment or non-enforcement of covenants	-	19	19	9	-	9
Facilities in breach of terms placed on demand	-	21	21	23	19	42
Reduced payment (full interest)	2	2	4	4	2	6
Reduced payment (greater than full interest)	-	-	-	3	2	5
Capitalisation of arrears	-	-	-	-	-	-
Other	72	17	89	84	58	142
Total	**116**	**107**	**223**	**179**	**117**	**296**
Corporate						
Term extension	81	66	147	126	43	169
Adjustment or non-enforcement of covenants	91	141	232	248	52	300
Facilities in breach of terms placed on demand	-	-	-	-	2	2
Reduced payment (full interest)	6	-	6	-	-	-
Reduced payment (greater than full interest)	-	-	-	-	9	9
Capitalisation of arrears	-	-	-	-	-	-
Other	73	41	114	49	149	198
Total	**251**	**248**	**499**	**423**	**255**	**678**
Investment property						
Term extension	449	632	1,081	589	709	1,298
Adjustment or non-enforcement of covenants	78	20	98	121	30	151
Facilities in breach of terms placed on demand	4	48	52	58	268	326
Reduced payment (full interest)	23	124	147	60	180	240
Reduced payment (greater than full interest)	21	130	151	54	175	229
Capitalisation of arrears	10	8	18	13	25	38
Other	10	334	344	180	1,166	1,346
Total	**595**	**1,296**	**1,891**	**1,075**	**2,553**	**3,628**

[1] *As described on page 60, the Group now reports 'non-performing exposures' replacing the previous classification of 'non-performing loans' which comprised 'probationary residential mortgages' and 'defaulted loans'.*

[2] *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in reported total forborne other loans and advances to customers (excluding Residential mortgages) of €2.5 billion, from €4.6 billion to €7.1 billion. 'RoI SME ' increased by €0.9 billion to €1.7 billion, 'Corporate' increased by €0.1 billion to €0.7 billion, 'Investment property' increased by €0.9 billion to €3.6 billion and 'Land and development' increased by €0.6 billion to €0.7 billion.*

Asset quality (continued)

Forbearance measures (continued)

Table: 1 (continued) *(unaudited)*

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2017 Performing exposures[1] balance €m	2017 Non-performing exposures[1] balance €m	2017 Total loans balance €m	2016 Performing exposures[1,2] balance €m	2016 Non-performing exposures[1,2] balance €m	2016 Total loans[2] balance €m
Land and development						
Term extension	16	57	73	18	95	113
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	-	17	17	4	18	22
Reduced payment (full interest)	-	14	14	-	24	24
Reduced payment (greater than full interest)	1	1	2	-	6	6
Capitalisation of arrears	-	2	2	9	2	11
Other	-	71	71	-	540	540
Total	**17**	**162**	**179**	**31**	**685**	**716**
Consumer						
Term extension	6	22	28	12	32	44
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	-	-	-
Reduced payment (greater than full interest)	1	-	1	1	-	1
Capitalisation of arrears	2	6	8	2	7	9
Other	-	-	-	-	-	-
Total	**9**	**28**	**37**	**15**	**39**	**54**
Total						
Term extension	775	1,215	1,990	997	1,201	2,198
Adjustment or non-enforcement of covenants	176	213	389	438	100	538
Facilities in breach of terms placed on demand	8	124	132	90	361	451
Reduced payment (full interest)	69	234	303	105	369	474
Reduced payment (greater than full interest)	99	233	332	95	363	458
Capitalisation of arrears	18	23	41	27	52	79
Other	177	829	1,006	354	2,553	2,907
Total	**1,322**	**2,871**	**4,193**	**2,106**	**4,999**	**7,105**

The Group's other loans and advances to customers (excluding Residential mortgages) at 31 December 2017 were €31.8 billion before impairment provisions (2016: €34.2 billion), of which €4.2 billion or 13% was classified and reported as forborne (2016: €7.1 billion or 21%). Property and construction exposures represent 49% of all forborne loans (excluding Residential mortgages) in 2017 (2016: 61%), 50% relate to Non-property SME and corporate lending (2016: 38%), with Consumer Lending representing 1% of forborne loans in 2017 (2016: 1%).

The total volume of forborne loans reduced by €2.9 billion during the year, with reductions experienced across all forbearance measures. This trend is consistent with the impact of the work the Group is doing to support its customers who are in financial difficulty together with an improvement in market conditions and liquidity in the Republic of Ireland.

Further information on the movements in forborne loans during the year is set out later in this section.

[1] *As described on page 60, the Group now reports 'non-performing exposures' replacing the previous classification of 'non-performing loans' which comprised 'probationary residential mortgages' and 'defaulted loans'.*

[2] *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne other loans and advances to customers (excluding Residential mortgages) of €2.5 billion, from €4.6 billion to €7.1 billion. 'RoI SME ' increased by €0.9 billion to €1.7 billion, 'Corporate' increased by €0.1 billion to €0.7 billion, 'Investment property' increased by €0.9 billion to €3.6 billion and 'Land and development' increased by €0.6 billion to €0.7 billion.*

Asset quality (continued)

Forbearance measures (continued)

Total loans and advances to customers in the **Non-property SME and corporate** portfolio at 31 December 2017 were €18.8 billion before impairment provisions, of which €2.1 billion or 11% was classified and reported as forborne (2016: €2.7 billion or 14%).

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 2017 were €8.2 billion, of which €1.4 billion or 17% was classified and reported as forborne (2016: €1.7 billion or 20%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 42% of forborne loans (2016: 28%) with reduced payment (greater than full interest) accounting for 13% (2016: 12%) and a further 28% accounted for by the Other forbearance type (2016: 39%).

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 2017 were €1.7 billion, of which €0.2 billion or 13% was classified and reported as forborne (2016: €0.3 billion or 16%). Within the UK SME portfolio, term extension and facilities in breach of terms placed on demand are the two primary forbearance measures, accounting for a combined 50% of forborne loans in 2017 (2016: 45%). The Other forbearance type accounts for 40% of forborne loans in 2017 (2016: 48%).

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2017 were €8.8 billion, of which €0.5 billion or 6% was classified and reported as forborne (2016: €0.7 billion or 7%). Loan covenant amendments / waivers account for 46% of forborne loans with term extensions accounting for a further 29% (2016: 44% and 25% 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 2017 were €8.3 billion before impairment provisions, of which €1.9 billion or 23% was classified and reported as forborne (2016: €3.6 billion or 39%). Non-performing forborne loans were €1.3 billion or 69% of total forborne loans in 2017 (2016: €2.6 billion or 70%). Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 57% of total forborne loans in 2017 (2016: 36%), with reduced payment (greater than full interest) accounting for 8% (2016: 6%). Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility is the most common longer term arrangement utilised.

The level of the Group's **Land and development** portfolio classified and reported as forborne is €0.2 billion or 38% at 31 December 2017 (2016: €0.7 billion or 70%), predominantly accounting for all remaining non-performing exposures in this sector.

Total loans and advances to customers in the **Consumer** portfolio at 31 December 2017 were €4.3 billion before impairment provisions, of which €37 million or 1% was classified and reported as forborne (2016: €54 million or 1%). The €37 million of forborne balances primarily relates to personal loans that have had their term extended as part of a consolidated debt restructure.

Asset quality (continued)

Forbearance measures (continued)

Table: 2

2017

Reconciliation of forborne loan stock by performing / non-performing status[1] - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	Non-property SME and corporate			Property and construction			
	Republic of Ireland SME €m	UK SME €m	Corporate €m	Investment property €m	Land and development €m	Consumer €m	All loans €m
All loans							
Opening balance at 1 January 2017[2]	1,733	296	678	3,628	716	54	7,105
New forbearance extended	226	30	220	315	8	5	804
Exited forbearance							
- Improved to or remained in performing	(183)	(21)	(130)	(574)	(3)	-	(911)
- Disimproved to non-performing exposures without specific provision	(58)	(13)	-	(242)	(28)	-	(341)
- Redemptions, principal repayments and other	(681)	(69)	(269)	(944)	(338)	(18)	(2,319)
- Disimproved to non-performing exposures	(19)	-	-	(114)	(8)	(4)	(145)
Transfers within forbearance between performing and non-performing exposures	-	-	-	-	-	-	-
Transfers between sub product class	346	-	-	(178)	(168)	-	-
Closing balance at 31 December 2017	**1,364**	**223**	**499**	**1,891**	**179**	**37**	**4,193**
Performing exposures							
Opening balance at 1 January 2017[2]	383	179	423	1,075	31	15	2,106
New forbearance extended	85	8	58	241	1	2	395
Exited forbearance							
- Remained in performing	(173)	(21)	(13)	(541)	(2)	-	(750)
- Disimproved to non-performing exposures without specific provision	-	(2)	-	(6)	-	-	(8)
- Redemptions, principal repayments and other	(22)	(24)	(217)	(152)	(8)	(4)	(427)
- Disimproved to non-performing exposures	-	-	-	(4)	-	(4)	(8)
Transfers within forbearance between performing and non-performing exposures	53	(24)	-	(7)	(8)	-	14
Transfers between sub product class	8	-	-	(11)	3	-	-
Closing balance at 31 December 2017	**334**	**116**	**251**	**595**	**17**	**9**	**1,322**
Non-performing exposures							
Opening balance at 1 January 2017[2]	1,350	117	255	2,553	685	39	4,999
New forbearance extended	141	22	162	74	7	3	409
Exited forbearance							
- Improved to performing	(10)	-	(117)	(33)	(1)	-	(161)
- Remained in non-performing exposures without specific provision	(58)	(11)	-	(236)	(28)	-	(333)
- Redemptions, principal repayments and other	(659)	(45)	(52)	(792)	(330)	(14)	(1,892)
- Disimproved to non-performing exposures with specific provision	(19)	-	-	(110)	(8)	-	(137)
Transfers within forbearance between performing and non-performing exposures	(53)	24	-	7	8	-	(14)
Transfers between sub product class	338	-	-	(167)	(171)	-	-
Closing balance at 31 December 2017	**1,030**	**107**	**248**	**1,296**	**162**	**28**	**2,871**

[1] *As described on page 60, the Group now reports 'non-performing exposures' replacing the previous classification of 'non-performing loans' which comprised 'probationary residential mortgages' and 'defaulted loans'.*

[2] *Opening balances have been restated as set out on pages 266 and 267.*

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page details the movement in forborne accounts and balances between 1 January 2017 and 31 December 2017 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in performing status;
  - Improved / stabilised and remained in non-performing status;
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2017 and remained in forbearance stock at 31 December 2017). Other includes the impact of foreign currency translation during the year;
  - Disimproved to or within non-performing with specific provision; and
- Those accounts and balances which transferred between performing loans and non-performing loans but remained in forbearance.

The non-performing loan classification does not indicate that the terms of the forbearance measure have not been met.

At 31 December 2017, €4.2 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 €2.9 billion from the level classified and reported as forborne in 2016.

The reduction in forborne loans during the year reflected the fact that €3.7 billion of forborne loans exited forbearance during the year while €0.8 billion of loans were granted new forbearance during the year.

Term extensions and loan covenant amendments / waivers were the most common forbearance measure utilised for new forborne loans during the year. This is consistent with experience in previous years and the nature of the underlying portfolios, which include a large proportion of loans that have shorter term maturities and financial covenants, as part of the facility terms, to facilitate improved credit management of these portfolios.

Of the new forborne loans during the year, €0.3 billion or 39% were from the Investment property portfolio, €0.2 billion or 28% were from the Republic of Ireland SME loan portfolio and €0.2 billion or 27% were from the Group's Corporate portfolio.

Of the loans that exited forbearance during the year, €0.9 billion improved to or remained in performing status. €750 million, or 82% of these loans, had been categorised as performing in 2017, and, €161 million categorised as non-performing in 2017 improved to performing. €341 million in forborne loans disimproved to non-performing without a specific provision. €242 million or 71% of these loans were in the Investment property portfolio with €58 million or 17% in the Republic of Ireland SME portfolio.

€2.3 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. €1.6 billion or 70% of these movements were in the Investment property and Republic of Ireland SME portfolios.

At 31 December 2017, €2.9 billion or 68% of total forborne loans were classified as non-performing (2016: €5.0 billion or 70%).

Group forbearance disclosures

Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers at 31 December 2017 of €78.5 billion is available in note 28 on page 181. Exposures are before provisions for impairment.

As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. Previously the Group did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance. All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'.

The Group's definition of impaired loans has been modified to remove non-mortgage loans that are greater than 90 days in arrears but where a specific provision is not required, instead these loans are classified as 'past due greater than 90 days but not impaired'.

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'.

Table: 1 2017 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	41,823	6,138	3,789	3,920	55,670	79%
Satisfactory quality	-	8,504	1,463	226	10,193	14%
Acceptable quality	-	1,290	962	10	2,262	3%
Lower quality but neither past due or impaired	-	389	210	-	599	1%
Neither past due nor impaired	**41,823**	**16,321**	**6,424**	**4,156**	**68,724**	**97%**
Past due but not impaired	897	118	66	63	1,144	2%
Impaired	539	238	187	62	1,026	1%
Total non-forborne loans and advances to customers	**43,259**	**16,677**	**6,677**	**4,281**	**70,894**	**100%**
Forborne loans and advances to customers						
High quality	-	19	40	1	60	1%
Satisfactory quality	789	123	154	4	1,070	14%
Acceptable quality	1,380	422	276	4	2,082	27%
Lower quality but neither past due or impaired	78	346	410	-	834	11%
Neither past due nor impaired	**2,247**	**910**	**880**	**9**	**4,046**	**53%**
Past due but not impaired	378	75	76	1	530	7%
Impaired	775	1,101	1,114	27	3,017	40%
Total forborne loans and advances to customers	**3,400**[1]	**2,086**	**2,070**	**37**	**7,593**	**100%**

[1] *Included in total forborne Residential mortgages are UK Residential mortgages with a value of €228 million (2016: €249 million).*

Risk profile of forborne loans and advances to customers (continued)

2016 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	42,414	5,802	2,750	3,401	54,367	76%
Satisfactory quality	-	9,132	1,718	219	11,069	16%
Acceptable quality	-	1,406	850	13	2,269	3%
Lower quality but neither past due or impaired	-	377	304	-	681	1%
Neither past due nor impaired	42,414	16,717	5,622	3,633	68,386	96%
Past due but not impaired[1]	1,018	157	164	58	1,397	2%
Impaired[1]	713	419	214	66	1,412	2%
Total non-forborne loans and advances to customers	44,145	17,293	6,000	3,757	71,195	100%
Forborne loans and advances to customers						
High quality	-	19	97	1	117	1%
Satisfactory quality	1,025	162	145	5	1,337	12%
Acceptable quality	1,607	414	562	9	2,592	23%
Lower quality but neither past due or impaired	82	603	877	-	1,562	14%
Neither past due nor impaired[1]	2,714	1,198	1,681	15	5,608	50%
Past due but not impaired	427	99	208	1	735	7%
Impaired[1]	921	1,410	2,455	38	4,824	43%
Total forborne loans and advances to customers	4,062	2,707	4,344	54	11,167	100%

Forborne loans and advances to customers classified as ‘neither past due nor impaired’ were €4.0 billion in 2017 (2016: €5.6 billion).

Forborne loans and advances to customers classified as ‘past due but not impaired’ have reduced to €0.5 billion in 2017 (2016: €0.7 billion).

Forborne ‘impaired’ loans have reduced to €3.0 billion in 2017 (2016: €4.8 billion).

[1] *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €8.4 billion to €11.2 billion primarily due to:*

- *an increase in ‘Impaired’ loans under the forbearance classification of €4.2 billion from €0.6 billion to €4.8 billion, with ‘Residential mortgages’ increased by €0.5 billion, ‘Non-property SME and corporate’ by €1.3 billion and ‘Property and construction’ by €2.3 billion;*

partially offset by:

- *a reduction in ‘Neither past due nor impaired’ loans under the forbearance classification of €1.7 billion from €7.3 billion to €5.6 billion, with ‘Residential mortgages’ reduced by €0.4 billion, ‘Non-property SME and corporate’ by €0.4 billion and ‘Property and construction’ by €0.9 billion.*

Past due and / or impaired

The Group's total risk profile of loans and advances to customers - past due and / or impaired in 2017 of €5.7 billion is available in note 28 on page 182. 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.

Table: 2

2017 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	338	45	22	38	443
Past due 31 - 60 days	319	16	16	19	370
Past due 61 - 90 days	80	6	4	6	96
Past due greater than 90 days but not impaired	160	51	24	-	235
Past due but not impaired	**897**	**118**	**66**	**63**	**1,144**
Impaired	539	238	187	62	1,026
Total non-forborne loans and advances to customers - past due and / or impaired	**1,436**	**356**	**253**	**125**	**2,170**
Forborne loans and advances to customers					
Past due up to 30 days	131	16	10	-	157
Past due 31 - 60 days	70	11	21	1	103
Past due 61 - 90 days	33	5	3	-	41
Past due greater than 90 days but not impaired	144	43	42	-	229
Past due but not impaired	**378**	**75**	**76**	**1**	**530**
Impaired	775	1,101	1,114	27	3,017
Total forborne loans and advances to customers - past due and / or impaired[1]	**1,153**	**1,176**	**1,190**	**28**	**3,547**

[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)

2016 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	318	82	11	35	446
Past due 31 - 60 days	377	11	52	17	457
Past due 61 - 90 days	110	18	82	6	216
Past due greater than 90 days but not impaired	213	46	19	-	278
Past due but not impaired	1,018	157	164	58	1,397
Impaired	713	419	214	66	1,412
Total non-forborne loans and advances to customers - past due and / or impaired	1,731	576	378	124	2,809
Forborne loans and advances to customers					
Past due up to 30 days	135	8	18	-	161
Past due 31 - 60 days	78	4	43	1	126
Past due 61 - 90 days	42	3	7	-	52
Past due greater than 90 days but not impaired	172	84	140	-	396
Past due but not impaired	427	99	208	1	735
Impaired	921	1,410	2,455	38	4,824
Total forborne loans and advances to customers - past due and / or impaired[1,2]	1,348	1,509	2,663	39	5,559

The Group's total loans and advances to customers - past due and / or impaired of €8.4 billion in 2016 are analysed above using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

At 31 December 2017, forborne loans and advances to customers classified as 'past due and / or impaired' were €3.5 billion or 47% of the Group's forborne loan book (2016: €5.6 billion or 50%).

Forborne Residential mortgages classified as 'past due and / or impaired' decreased by €0.1 billion from €1.3 billion in 2016 to €1.2 billion in 2017.

Forborne Property and construction loans classified as 'past due and / or impaired' decreased by €1.5 billion from €2.7 billion in 2016 to €1.2 billion in 2017.

Forborne Non-property SME and corporate loans classified as 'past due and / or impaired' decreased by €0.3 billion from €1.5 billion in 2016 to €1.2 billion in 2017.

Forborne Consumer loans that are 'past due and / or impaired' are not significant in a Group context at €28 million in 2017 (2016: €39 million).

[1] *In line with the revised asset reporting methodology as set out on page 60, the comparative figures for forborne loans have been restated, resulting in an increase in total 'Past due and / or impaired' forborne loans from €1.1 billion to €5.6 billion, primarily due to the increase in 'Impaired' loans under the forbearance classification of €4.2 billion from €0.6 billion to €4.8 billion, with 'Residential mortgages' increased by €0.5 billion, 'Non-property SME and corporate' by €1.3 billion and 'Property and construction' by €2.3 billion.*

[2] *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.*

Non-performing exposures

As described on page 60, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Table: 3

2017 Risk profile of loans and advances to customers - non-performing exposures	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Non-forborne loans and advances to customers					
Impaired	539	238	187	62	1,026
Past due greater than 90 days but not impaired	161	52	24	-	237
Neither impaired nor past due greater than 90 days	118	2	-	-	120
Total non-forborne loans and advances to customers	**818**	**292**	**211**	**62**	**1,383**
Forborne loans and advances to customers					
Impaired	775	1,101	1,114	27	3,017
Past due greater than 90 days but not impaired	143	42	42	-	227
Neither impaired nor past due greater than 90 days	1,349	242	302	1	1,894
Total	**2,267**	**1,385**	**1,458**	**28**	**5,138**

2016 Risk profile of loans and advances to customers - non-performing exposures	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Impaired	713	419	214	66	1,412
Past due greater than 90 days but not impaired	213	46	19	-	278
Neither impaired nor past due greater than 90 days	43	12	3	-	58
Total non-forborne loans and advances to customers	969	477	236	66	1,748
Forborne loans and advances to customers					
Impaired	921	1,410	2,455	38	4,824
Past due greater than 90 days but not impaired	172	84	140	-	396
Neither impaired nor past due greater than 90 days	1,590	228	643	1	2,462
Total	2,683	1,722	3,238	39	7,682

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

The total impairment charge on loans and advances to customers for 2017 was €15 million (see note 15 on page 172 and 173). Of this, the impairment charge (net) on forborne loans amounted to €25 million as set out in the table below.

Table: 4

2017 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	(42)	(55)	(97)
- Retail Ireland	*(42)*	*(55)*	*(97)*
- Retail UK	-	-	-
Non-property SME and corporate	101	(11)	90
- Republic of Ireland	*40*	*(6)*	*34*
- UK SME	*24*	*(2)*	*22*
- Corporate	*37*	*(3)*	*34*
Property and construction	56	(23)	33
- Investment	*45*	*(22)*	*23*
- Land and development	*11*	*(1)*	*10*
Consumer	-	(1)	(1)
Total Impairment charge / (reversal) on forborne loans	**115**	**(90)**	**25**

2016 Impairment charges / (reversals) on forborne loan and advances[1] Composition	Specific charge individually and collectively assessed €m	Incurred but not reported €m	Total impairment charge on forborne loans €m
Residential mortgages	(68)	(35)	(103)
- Retail Ireland	*(68)*	*(35)*	*(103)*
- Retail UK	-	-	-
Non-property SME and corporate	110	(10)	100
- Republic of Ireland	*29*	*(5)*	*24*
- UK SME	*11*	*(7)*	*4*
- Corporate	*70*	*2*	*72*
Property and construction	188	(19)	169
- Investment	*110*	*(16)*	*94*
- Land and development	*78*	*(3)*	*75*
Consumer	-	-	-
Total Impairment charge / (reversal) on forborne loans	230	(64)	166

Impairment reversals on forborne loans and advances
The impairment reversal recognised on Retail Ireland forborne mortgage loans reflects continued positive underlying book performance, with reductions in impaired loans and non-performing exposures.

The impairment charge on the forborne Property and construction loan portfolio was €33 million in 2017, €136 million lower than 2016, with significant reductions recorded in both the Investment and Land and development elements of the book. The lower impairment charge was mainly driven by the recovery in Irish property markets, which enabled the Group to resolve non-performing exposures at, or within, provision levels.

[1] *As described on page 60, the Group has revised its asset quality reporting methodology. All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'. Therefore following this change, all impairment charges / reversals on forborne non-mortgage loans, whether specific or IBNR in nature are now included in the above tables.*

Impairment provisions on forborne loans and advances to customers

The total impairment provisions on loans and advances to customers at 31 December 2017 were €2,359 million (2016: €3,885 million) (see note 27 on page 180). Of this, the impairment provisions on forborne loans amounted to €1,745 million (2016: €3,012 million) as set out in the table below.

Table: 5

2017 Impairment provisions on forborne loan and advances Composition	**Specific provisions individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment provisions on forborne loans €m**
Residential mortgages	292	150	442
- Retail Ireland	*292*	*148*	*440*
- Retail UK	*-*	*2*	*2*
Non-property SME and corporate	655	14	669
- Republic of Ireland	*451*	*8*	*459*
- UK SME	*45*	*2*	*47*
- Corporate	*159*	*4*	*163*
Property and construction	608	26	634
- Investment	*517*	*25*	*542*
- Land and development	*91*	*1*	*92*
Consumer	-	-	-
Total impairment provisions on forborne loans	**1,555**	**190**	**1,745**

2016 Impairment provisions on forborne loan and advances Composition	Specific provisions individually and collectively assessed[1] €m	Incurred but not reported €m	Total impairment provisions on forborne loans €m
Residential mortgages	370	205	575
- Retail Ireland	*370*	*203*	*573*
- Retail UK	*-*	*2*	*2*
Non-property SME and corporate	829	25	854
- Republic of Ireland	*599*	*14*	*613*
- UK SME	*54*	*5*	*59*
- Corporate	*176*	*6*	*182*
Property and construction	1,531	51	1,582
- Investment	*1,036*	*48*	*1,084*
- Land and development	*495*	*3*	*498*
Consumer	-	1	1
Total impairment provisions on forborne loans	2,730	282	3,012

Impairment provisions on forborne loans
The decrease in specific provisions on forborne loans in the year reflects the Group's continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty along with the positive economic environment with stable or increasing collateral values. Resolution strategies include the realisation of cash proceeds from property asset sales activity, and, where appropriate, have given rise to the utilisation of provisions.

The reduction in IBNR impairment provisions reflects a combination of the improved risk profile and a decrease in the volume of loans assessed for IBNR provisions.

[1] *As described on page 60, the Group has revised its asset quality reporting methodology. All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'. Therefore following this change, all impairment provisions on forborne non-mortgage loans, whether specific or IBNR in nature are now included in the above tables. In addition, previously the Group did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.*

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 2017 and 2016. The calculations of average balances can be based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 16.

	2017			Restated[1] 2016		
	Average Balance €m	**Interest[2] €m**	**Rate %**	Average Balance €m	Interest[2] €m	Rate %
Assets						
Loans and advances to banks[3]	7,647	2	0.02%	8,470	14	0.17%
Loans and advances to customers[3,4]	76,856	2,488[5]	3.24%	80,693	2,693[5]	3.34%
Available for sale financial assets and NAMA senior bonds	12,147	98	0.80%	11,182	125	1.12%
Held to maturity financial assets	1,543	29	1.88%	1,896	31	1.64%
Total interest earning assets	**98,193**	**2,617**	**2.66%**	**102,241**	**2,863**	**2.80%**
Non interest earning assets	22,978	-	-	21,890	-	-
Total assets	**121,171**	**2,617**	**2.16%**	**124,131**	**2,863**	**2.31%**
Liabilities and shareholders' equity						
Deposits from banks[6]	4,760	17	0.36%	2,604	1	0.04%
Customer accounts[6,7]	44,919	197	0.44%	51,917	343	0.66%
Debt securities in issue	8,547	82	0.96%	10,912	80	0.73%
Subordinated liabilities	1,559	77	4.94%	1,957	139	7.10%
- Convertible Contingent Capital Note (CCCN) 2016	*-*	*-*	*-*	*577*	*67*	*11.61%*
- Other subordinated liabilities	*1,559*	*77*	*4.94%*	*1,380*	*72*	*5.22%*
Total interest bearing liabilities	**59,785**	**373**	**0.62%**	**67,390**	**563**	**0.84%**
Current accounts	28,174	(4)	(0.01%)	24,559	2	0.01%
Total interest bearing liabilities and current accounts	**87,959**	**369**	**0.42%**	**91,949**	**565**	**0.61%**
Non interest bearing liabilities[8]	23,807	-	-	23,475	-	-
Shareholders' equity and non-controlling interests	9,405	-	-	8,707	-	-
Total liabilities and shareholders' equity	**121,171**	**369**	**0.30%**	**124,131**	**565**	**0.46%**
Euro and sterling reference rates (average)						
ECB base rate			(0.00%)			0.01%
3 month Euribor rate			(0.33%)			(0.26%)
Bank of England base rate			0.29%			0.40%
3 month Libor rate			0.36%			0.50%

Loans and advances to banks includes cash and balances at central banks.

1 *As outlined in the Group accounting policies on page 148, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 62 for additional information.*
2 *Represents underlying interest income or underlying expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.*
3 *Interest expense of €14 million (2016: €8 million) arising from assets subject to negative interest rates has been reclassified to interest income, whereas in the Consolidated income statement it is presented as interest expense.*
4 *Average loans and advances to customers volumes are presented net of specific impairment provisions.*
5 *Interest income on loans and advances to customers is shown on an underlying basis. Therefore a charge of €96 million (2016: €15 million charge) related to redress arising from the Central Bank of Ireland Tracker Mortgage Examination is excluded. As outlined on page 4 comparative figures have been restated to reflect the revised treatment of this item as non-core.*
6 *Interest income of €11 million (2016: €5 million) arising from liabilities subject to negative interest rates has been reclassified to interest expense, whereas in the Consolidated income statement it is presented as interest income.*
7 *Excludes deposits carried at fair value through profit and loss.*
8 *Includes liabilities carried at fair value through profit and loss.*

Shareholder information

Holders of ordinary shares

Shareholder profile	2017 % by value	2016 % by value
Ireland	16%	16%
UK	22%	22%
North America	35%	32%
Europe / other	13%	14%
Retail	14%	16%
Total	**100%**	**100%**

2017 Shareholding range - number of shares	Number of shareholders	% of total holders	Shares held number	% of total shares
Up to 500	80,020	78.17%	8,744,970	0.81%
501 to 1,000	8,763	8.56%	6,339,267	0.59%
1,001 to 5,000	10,338	10.10%	22,144,673	2.06%
5,001 to 10,000	1,446	1.41%	10,299,583	0.96%
10,001 to 50,000	1,132	1.11%	23,523,282	2.19%
50,001 to 100,000	182	0.18%	13,116,450	1.22%
100,001 to 500,000	282	0.27%	61,778,625	5.75%
Over 500,000[1]	201	0.20%	928,672,441	86.42%
Total	**102,364**	**100%**	**1,074,619,291**	**100.00%**

Restated[1] 2016 Stockholding range - units of stock	Number of stockholders	% of total holders	Stock held units	% of total stock
Up to 500	82,086	78.01%	9,042,540	0.84%
501 to 1,000	9,110	8.66%	6,572,731	0.61%
1,001 to 5,000	10,812	10.27%	23,200,107	2.15%
5,001 to 10,000	1,482	1.41%	10,519,111	0.98%
10,001 to 50,000	1,104	1.05%	22,289,129	2.07%
50,001 to 100,000	173	0.16%	12,425,727	1.15%
100,001 to 500,000	282	0.27%	60,855,288	5.64%
Over 500,000[1]	178	0.17%	933,026,806	86.56%
Total	105,227	100.00%	1,077,931,439	100.00%

Listings
Bank of Ireland Group plc is a public limited company incorporated in Ireland in 2016. Its ordinary shares, of nominal value €1.00 per share, have a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

Registrar
The Company's Registrar is:
Computershare Investor Services (Ireland) Limited, P.O. Box 954, Sandyford Industrial Estate, Dublin 18.
Telephone: + 353 1 247 5414
Facsimile: + 353 1 447 5571

or
Contact via website:
www.computershare.com/ie/contact-us

Shareholders may view their shareholding on Computershare's website at: www.investorcentre.com/ie by registering their details with Computershare. Once registered, shareholders will be sent a Computershare activation code and will then be able to view and amend their account details using the above link.

Amalgamating your shareholdings
If you receive more than one copy of shareholder mailing with similar details on your accounts, it may be because the Company has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future and to reduce the cost and waste associated with this, please have all your shareholdings amalgamated into one account by contacting the Company's Registrar (joint accounts cannot be merged with sole accounts or vice versa).

Shareholder enquiries
All enquiries concerning shareholdings should be addressed to the Company's Registrar.

Communication
It is the policy of the Company to communicate with shareholders by electronic means or through the www.bankofireland.com website in the interest of protecting the environment. Those shareholders who do not wish to receive documents or information by electronic means may request to receive the relevant information in paper form.

Bank of Ireland website
Further information about the Bank of Ireland Group can be obtained from the internet at www.bankofireland.com

[1] Comparative figures for 2016 have been adjusted for the share consolidation outlined in note 46 to the consolidated financial statements.
[2] Excludes shareholdings held by New Ireland Assurance Company plc.

Other disclosures

TARGET 2

1. On 15 February 2008 a first floating charge was placed in favour of the Central Bank of Ireland (CBI) over all The Governor and Company of the Bank of Ireland's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of The Governor and Company of the Bank of Ireland's account held as a TARGET 2 participant with the CBI (the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

   This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:
   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof;
   or
   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 15 February 2008 a first floating charge was placed in favour of the CBI over all The Governor and Company of the Bank of Ireland's right, title, interest and benefit, present and future, in and to certain segregated securities (the Charged Property) listed in an Eligible Securities Schedule kept by The Governor and Company of the Bank of Ireland for purposes of participating in TARGET 2 where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

   This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:

   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof;
   or
   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

Publication of unaudited financial information

On 11 August 2017, the Bank together with BOIG plc updated the Prospectus for the Group's €25,000,000,000 Euro Note Programme (the 'Programme').

The information contained in the Prospectus relating to the Programme (the 'Prospectus') was prepared in accordance with Annex XI of Commission Regulation (EC) No 809/2004.

The Prospectus contained unaudited historical financial for BOIG plc from incorporation on 28 November 2016 to 30 June 2017. There is no difference between this unaudited historical financial information contained in the Prospectus and the actual figures for the same period. The unaudited historical financial information of BOIG plc as contained in the Prospectus is set out below together with the actual figures for the same period.

UNAUDITED HISTORICAL FINANCIAL INFORMATION OF BOIG PLC

Section A: Historical Financial Information
The following unaudited historical financial information presents the financial records of BOIG plc for the period from incorporation on 28 November 2016 to 30 June 2017. The Directors of BOIG plc have prepared financial information for BOIG plc for the period ended 30 June 2017 on the basis expected to be applicable, in so far as this is currently known, for the first set of consolidated financial statements of BOIG plc expected to be prepared for the period ended 31 December 2017.

Condensed statement of financial position	As per the Prospectus 30 June 2017 €	Actual figures 30 June 2017 €
Assets		
Debtors	27,800	27,800
Total assets	**27,800**	**27,800**
Equity		
Called up share capital	25,022	25,022
Undenominated capital account	2,778	2,778
Total equity	**27,800**	**27,800**

Publication of unaudited financial information (continued)

Income Statement
BOIG plc did not trade during the period from incorporation (being 28 November 2016) to 30 June 2017 and received no income or incurred no expenditure. Consequently, during this period BOIG plc made neither a profit nor loss.

BOIG plc has no other recognised gains or losses, nor any cash flows during this period and accordingly no statement of changes in equity or statement of cash flows is presented.

Summary of Accounting Policies

Statement of compliance
The financial information has been prepared in accordance with IFRS as adopted by the EU.

Basis of preparation
The financial information presents the financial records of BOIG plc for the period from incorporation (being 28 November 2016) to 30 June 2017.

The financial information is presented in euro (€), being the functional currency of BOIG plc's operations.

BOIG plc did not trade during the period from incorporation to 30 June 2017.

Debtors
Debtors are stated at the lower of amortised cost or recoverable amount.

Share capital
Ordinary shares are classified as equity.

Authorised Share Capital	As per the Prospectus 30 June 2017 €	Actual figures 30 June 2017 €
Authorised and Issued Share Capital		
10,000,000,000 ordinary shares of €1.00 each	10,000,000,000	10,000,000,000
27,800 deferred ordinary shares of €0.90 each	25,020	25,020
	10,000,025,020	**10,000,025,020**
Issued and called up Share Capital		
2 ordinary shares of €1.00 each	2	2
27,800 deferred ordinary shares of €0.90 each	25,020	25,020
	25,022	**25,022**

On incorporation (28 November 2016), the issued share capital of BOIG plc was €25,000.20 divided into 25,000 deferred ordinary shares of €1.00 each and 2 ordinary shares of €0.10 each. All of these shares were fully paid up on that date.

On 23 March 2017 the Company issued an additional 2,800 deferred ordinary shares of €1.00 each. Immediately following allotment the nominal value of the deferred ordinary shares was reduced from €1.00 to €0.90 per share with €2,780 being credited to the undenominated capital account of the company. Immediately following this, the nominal value of each ordinary share was increased from €0.10 to €1.00 by debiting the undenominated capital account. Immediately following the increase in nominal value of the ordinary shares, the amount standing to the credit of the undenominated capital account of BOIG plc was €2,778.20.

Debtors
Debtors are receivable within one year.

Publication of unaudited financial information (continued)

Post Balance Sheet Events

Introduction of BOIG plc as the listed holding company of the Group
The Group announced in February 2017 that it had been notified by the SRB that the resolution authorities (being the SRB and the BoE working together within the Resolution College) had reached a joint decision on the resolution plan for the Group and in that context had settled on a single point of entry bail-in strategy at a holding company level as the preferred resolution strategy. It was announced in March 2017 that the reorganisation would be implemented by a scheme of arrangement (the 'Scheme') under the Companies Act.

At an Extraordinary General Meeting held on 28 April 2017, the ordinary stockholders of BOI approved the resolutions necessary to implement the corporate reorganisation and subsequently on 23 June 2017 the Irish High Court approved the Scheme.

The Scheme became effective on 7 July 2017 and as a result BOIG plc became the new parent entity of the Group on that date.

Holders of ordinary stock in BOI on 7 July 2017 were issued with BOIG plc Shares on the basis of the exchange ratio of one BOIG plc Share for each individual holding of 30 units of ordinary stock in the Bank (which included a rounding up mechanism).

As a result, a total of 1,078,822,872 units of €1.00 per unit ordinary shares in BOIG plc, representing its entire issued ordinary share capital, were admitted to the primary listing segment of the Official List of the Irish Stock Exchange and to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the Irish Stock Exchange's Main Securities Market and the London Stock Exchange's main market for listed securities on 10 July 2017.

BOIG plc capital reduction
On 10 July 2017, BOIG plc applied to the Irish High Court for approval of a capital reduction to create distributable reserves (within the meaning of Section 117 of the Companies Act). A capital reduction is a legal procedure which does not reduce regulatory capital. The capital reduction was approved by the High Court on 27 July 2017 and distributable reserves of €5.5 billion were created in BOIG plc when the Irish High Court order approving the capital reduction was registered with the Companies Registration Office on 28 July 2017.

There have been no other post balance sheet events since 30 June 2017.

Glossary

Further information related to certain measures referred to in the Key Highlights and Performance Summary

Average cost of funds represents the underlying interest expense recognised on interest bearing liabilities, net of interest on derivatives which are in a hedge relationship with the relevant liability. See page 16 and 278 for further information.

Business income is net other income after IFRS income classifications before other gains and other valuation items. See page 17 for further details.

Constant currency: To enable a better understanding of performance, certain variances are calculated on a constant currency basis by adjusting for the impact of movements in exchange rates during the period as follows:

- For balance sheet items, by reference to the closing rate at the end of the current and prior period ends; and
- For items relating to the income statement, by reference to the current and prior period average rates.

Cost income ratio is calculated on an underlying basis (excluding non-core items) as operating expenses excluding levies and regulatory charges divided by operating income (net of insurance claims).

Forborne collateral realisation loans (FCRs) that are not greater than 90 days past due and / or impaired consist of loans (primarily residential mortgages) where forbearance is in place and where future reliance on the realisation of collateral is expected, for the repayment in full of the relevant borrower loan. Such arrangements will include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

Gross new lending volumes represent loans and advances to customers drawn down during the period and portfolio acquisitions.

Gross yield represents the underlying interest income recognised on interest bearing assets, net of interest on derivatives which are in a hedge relationship with the relevant asset. See page 16 and 278 for further information.

Impairment charge on loans and advances to customers (bps) is the net impairment charge on loans and advances to customers divided by average gross loans and advances to customers (including held for sale).

Liquid assets are comprised of cash and balances at central banks, loans and advances to banks (excluding balances in Bank of Ireland Life), held to maturity financial assets, NAMA senior bonds and certain AFS financial assets. See page 22 for further details.

Liquid asset spread is calculated as gross yield on interest bearing liquid assets less the average cost of funds. See page 16 for further detail.

Loan asset spread is calculated as gross yield on loans and advances to customers less the average cost of funds. See page 16 for further detail.

Loan to deposit ratio is calculated as being net loans and advances to customers divided by customer deposits.

Net interest margin is stated on an underlying basis before ELG fees and after adjusting for IFRS income classifications. See page 16 for further details.

Non-performing exposures consist of impaired loans, loans past due greater than 90 days but not impaired, Forborne Collateral Realisation loans (FCRs) and other / probationary loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

Organic capital generation consists of attributable profit, AFS reserve movements, the reduction in DTA deduction (DTAs that rely on future profitability), movements in the Expected Loss deduction and RWA book size and quality movements.

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

Tangible Net Asset Value (TNAV) per share is calculated as shareholder equity excluding amounts not attributable to ordinary shareholders and intangible assets divided by the number of ordinary shares in issue and adjusted for own shares held for the benefit of life assurance policyholders.

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 19 for further information.

Wholesale funding is comprised of deposits by banks (including collateral received) and debt securities in issue.

Performance measure no longer disclosed

In prior reporting periods, the Group reported 'Growth in core loan book'. This metric excluded new lending, redemptions and repayments related to (1) the RoI tracker mortgage book, (2) impaired loans and (3) GB business banking / GB corporate banking books which were previously mandated by the EU for run-down. The Group no longer reports this metric as the Group now considers Gross new lending to be a more useful measure.

Abbreviations

AFS	Available for sale
AGC	Annual General Court
AGM	Annual General Meeting
AIB	AIB Group plc and subsidiaries
ALCO	Group Asset & Liability Committee
AML	Anti Money Laundering
APE	Annual Premium Equivalent
AT1	Additional tier 1
ATM	Automated Teller Machine
Bank	The Governor and Company of the Bank of Ireland
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BOIG plc	Bank of Ireland Group plc
BoIGM	Bank of Ireland Global Markets
BoIMB	Bank of Ireland Mortgage Bank
bps	Basis points
BRC	Board Risk Committee
BRRD	Bank Recovery and Resolution Directive
BSA	Balance Sheet Assessment
BSPF	Bank of Ireland Staff Pensions Fund
BTL	Buy to let
CBI	Central Bank of Ireland
CCCN	Convertible Contingent Capital Note
CCyB	Countercyclical buffer
CDS	Credit Default Swap
CEO	Chief Executive Officer
CET 1	Common equity tier 1
CFO	Chief Financial Officer
CGRO	Chief Governance & Regulatory Officer
CGU	Cash generating units
CML	Council of Mortgage Lenders
CPI	Consumer Price Index
CRD	Capital Requirements Directive (European Union)
CRMF	Conduct Risk Management Framework
CRR	Capital Requirements Regulation
CRT	Credit risk transfer
CSAs	Credit Support Annexes
CSR	Corporate social responsibility
CSO	Central Statistics Office
CVA	Credit Valuation Adjustment
DAC	Designated Activity Company
DB	Defined Benefit
DBRS	Dominion Bond Rating Service
DCF	Discounted Cash Flow
DGS	Deposit Guarantee Scheme
DIRT	Deposit Interest Retention Tax
DTA	Deferred tax asset
DVA	Debit Valuation Adjustment
EAD	Exposure at Default
EBA	European Banking Authority
EBITDA	Earnings before interest, tax, depreciation and amortisation
EC	European Commission
ECB	European Central Bank
ECL	Expected credit losses
EDIS	European Deposit Insurance Scheme
EIOPA	European Insurance and Occupational Pensions Authority
ELG	Eligible Liabilities Guarantee Scheme
EPS	Earnings per share
ESB	Electricity Supply Board
EU	European Union
Euribor	Euro Inter Bank Offered Rate
EV	Embedded Value
EWMA	Exponentially weighted moving average
FCR	Forborne collateral realisation
FLI	Forward looking information
FPC	Financial Policy Committee
FRES	First Rate Exchange Services Limited
FSCS	Financial Services Compensation Scheme
FVA	Funding Valuation Adjustment
FVTPL	Fair Value Through Profit or Loss
FX	Foreign exchange
GAC	Group Audit Committee
GB	Great Britain
GCC	Group Credit Committee
GCR	Group Credit Review
GCRO	Group Chief Risk Officer
GCRR	Group Compliance and Regulatory Risk
GDPR	General Data Protection Regulation
GEC	Group Executive Committee
GIA	Group Internal Audit
GORC	Group Operational Risk Committee
GRC	Group Remuneration Committee
GRCRC	Group Regulatory and Conduct Risk Committee
GRPC	Group Risk Policy Committee
HMRC	HM Revenue & Customs
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	Incurred but not Reported
IBRC	Irish Banking Resolution Corporation
ICAAP	Internal Capital Adequacy Assessment Process
ICU	Independent Control Unit
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Index Long Term Repo
IMF	International Monetary Fund
IPO	Initial Public Offering
IRB	Internal Rating Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivative Association
ISE	Irish Stock Exchange
ISIF	Ireland Strategic Investment Fund
KMP	Key management personnel
LCR	Liquidity Coverage Ratio
LDI	Liability Driven Investment
LDR	Loan to deposit ratio
LGD	Loss Given Default
Libor	London Inter Bank Offered Rate
LLP	Limited Liability Partnership
LTI	Loan to income
LTV	Loan to Value

MARS	Mortgage Arrears Resolution Strategy
MCEV	Market Consistent Embedded Value
MFS	Minimum Funding Standard
MLL	Marshall Leasing Limited
MREL	Minimum Requirement for own Funds and Eligible Liabilities
NAMA	National Asset Management Agency
NAMAIL	National Asset Management Agency Investment Limited
NI	Northern Ireland
NIAC	New Ireland Assurance Company plc
NIE	Northern Ireland Electricity
NIM	Net interest margin
NPEs	Non-performing exposures
NSFR	Net Stable Funding Ratio
NTMA	National Treasury Management Agency
N&G	Group Nomination and Governance Committee
OCI	Other Comprehensive Income
ORSA	Own Risk and Solvency Assessment
O-SII	Other Systemically Important Institutions
P2G	Pillar II Guidance
P2R	Pillar II Requirement
PCF	Pre-approval Controlled Functions
PD	Probability of Default
PRA	Prudential Regulation Authority
PRC	Portfolio Review Committee
PSD2	Directive on Payment Services
PwC	PricewaterhouseCoopers
RAS	Risk Appetite Statement
RAROC	Risk Adjusted Return on Capital
RCF	Revolving credit facility
RCSA	Risk and Control Self Assessment
REAU	Real Estate Advisory Unit
RMC	Risk Measurement Committee
RoI	Republic of Ireland
RoW	Rest of World
RPI	Retail Price Index
RPPI	Residential Property Price Index
RWAs	Risk weighted assets
SFCR	Solvency and Financial Condition Report
SID	Senior Independent Director
SMBPN	Special Mortgage Backed Promissory Note
SME	Small Medium Enterprise
SPE	Special purpose entity
SREP	Supervisory Review & Evaluation Process
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFS	Bank of England Term Funding Scheme
TLTRO	Targeted Longer Term Refinancing Operation
TRIM	Targeted review of internal models
TSA	The Standardised Approach
TtC	Through-the-Cycle
UK	United Kingdom
US	United States
VaR	Value at Risk
VAT	Value Added Tax
ViF	Value of in Force
VIU	Value in Use

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