Interim Report

For the six months ended
30 June 2017

Bank of Ireland Group

Interim Report

for the six months ended 30 June 2017

Forward-Looking statement

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

Examples of forward-looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Investors should read 'Principal risks and uncertainties' in this document beginning on page 40 and also the discussion of risk in the Group's Annual Report for the year ended 31 December 2016.

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

For further information please contact:

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

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

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

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www.bankofireland.com/investor

Key highlights

Ireland's leading bank	Largest lender to Irish economy; growing market shares in business banking and residential mortgages
Strategic Diversification	International businesses continue to provide diversification and attractive business opportunities
Business Transformation	Transforming today to underpin and drive long term sustainability and competiveness; enabled by technology investments
Asset Quality	Positive trends continue, impaired loans reduced to less than 7% of customer lending
Capital	Strong capital generation; increased fully loaded CET 1 ratio to 12.5%. Expect dividends to re-commence at a modest level in the first half of 2018

Performance summary

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m
Group performance on an underlying[1] basis		
Net interest income (before ELG fees)	1,151	1,135
Eligible Liabilities Guarantee (ELG) scheme fees[2]	-	(18)
Other income (net)	369	470
Operating income (net of insurance claims)	1,520	1,587
Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	(881)	(882)
Core Banking Platforms Investment charge	(55)	(8)
Levies and regulatory charges	(63)	(62)
Operating profit before impairment charges on financial assets	**521**	**635**
Impairment charges on loans and advances to customers	(59)	(93)
Impairment charges on available for sale (AFS) financial assets	-	(2)
Share of results of associates and joint ventures (after tax)	18	20
Underlying[1] profit before tax	**480**	**560**
Total non-core items (page 15)	(25)	(3)
Profit before tax	**455**	**557**
Group performance		
Net interest margin[3] (%)	2.32%	2.11%
Cost income ratio (excluding levies and regulatory charges) (%)	62%	56%
Gross new lending volumes (€bn)	6.6	6.9
Growth in core loan book (€bn)	0.5	1.1
Impairment charge on loans and advances to customers (bps)	14	21
Return on assets (annualised) (bps)	61	70

For further information on measures referred to in the key highlights and performance summary see page 126.

[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 15 for further information.

[2] 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 no longer has eligible liabilities for the purpose of the ELG Scheme no further ELG fees will accrue.

[3] The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications. See page 11 for further details.

	Pre-share consolidation		Post-share consolidation	
	6 months ended 30 June 2017 € cent	6 months ended 30 June 2016 € cent	**6 months ended 30 June 2017 € cent**	6 months ended 30 June 2016 € cent
Per ordinary share[1]				
Basic earnings per share[2]	1.1	1.2	31.8	35.3
Underlying earnings per share[2]	1.2	1.2	34.6	35.8
Tangible Net Asset Value per share	25	23	740	684

Divisional performance[3] **Underlying profit before tax**	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m
Retail Ireland	313	309
Bank of Ireland Life	40	54
Retail UK	70	94
Retail UK (Stg£ million equivalent)	*60*	*72*
Corporate and Treasury	273	256
Group Centre and other (excluding Core Banking Platforms Investment charge)	(161)	(145)
Core Banking Platforms Investment charge[4]	(55)	(8)
Underlying profit before tax	**480**	**560**

Balance sheet and key metrics	**30 June 2017 €bn**	31 December 2016 €bn
Total assets	122	123
Average interest earning assets	99	102
Ordinary stockholders' equity	8.7	8.6
Loans and advances to customers (after impairment provisions)	76.9	78.5
Impaired loan volumes[5]	5.4	6.2
Non-performing exposures[5]	8.1	9.4
Customer deposits	74.7	75.2
Wholesale funding	13.5	14.4
- Wholesale market funding	*8.2*	*11.0*
- Drawings from Monetary Authorities	*5.3*	*3.4*
Liquidity		
Liquidity Coverage ratio[6]	120%	113%
Net Stable Funding ratio[7]	121%	122%
Loan to deposit ratio	103%	104%
Capital		
Common equity tier 1 ratio - CRD IV fully loaded	12.5%	12.3%
Common equity tier 1 ratio - CRD IV transitional rules	14.4%	14.2%
Total capital ratio - CRD IV transitional	18.3%	18.5%
Risk weighted assets (€bn)	48.8	50.8

[1] The earnings per share and TNAV measures for the current and prior periods reflect the results before and after the share consolidation implemented in July 2017 as described in note 27 on page 87. 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).
[2] For basis of calculation of basic earnings per share see note 14 on page 77. Underlying earnings per share excludes non-core items.
[3] For more details on the performance of each division see pages 27 to 39.
[4] The Core Banking Platforms Investment charges have been booked in Group Centre for the current and comparative period.
[5] As set out on pages 41 and 42, 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 46.
[6] 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.
[7] The Group's Net Stable Funding Ratio (NSFR) is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.

Group Chief Executive's review

'The Group generated an underlying profit of €480 million in the first half of 2017. Our customer base is growing and customer satisfaction scores are increasing as we invest in our customer propositions, in supporting business growth and in our infrastructure. We are the largest lender to the Irish economy with growing market shares in business banking and residential mortgages. Our net interest margin continued to expand and our asset quality continues to improve. The transformation of our business, enabled by our technology investments, to efficiently and sustainably align with the way our customers want to engage with us, continues to make progress. We are generating capital and increased our fully loaded CET 1 ratio to 12.5%. We expect dividends to re-commence at a modest level in the first half of 2018, in respect of financial year 2017'

Profitable with continued strengthening of our capital position

€480 million underlying profit before tax

The Group generated an underlying profit before tax of €480 million in the first half of 2017. All trading divisions are profitable. Strong commercial discipline on lending and deposit margins, tight control over our cost base while continuing to invest for the future, and further improvements in asset quality contributed to this positive financial result.

Continued organic capital generation; fully loaded CET 1 ratio of 12.5%

The Group continued to generate strong organic capital. Our fully loaded CET 1 ratio increased by 20 basis points to 12.5% and our transitional CET 1 ratio increased by 20 basis points to 14.4%. The increase in our fully loaded capital ratio primarily reflects organic capital accretion of 70 basis points from profits earned during the period partly offset by the investment of 20 basis points in the replacement of our Core Banking Platforms, a modest increase in the IAS 19 accounting deficit on our sponsored defined benefit pension schemes and a deduction for a potential dividend in 2018.

Anticipate recommencing dividend payments in the first half of 2018

We expect dividend payments to re-commence at a modest level, prudently and progressively building, over time, towards a payout ratio of around 50% of sustainable earnings. As additional clarity emerges on the impact of the UK's decision to leave the European Union, and as the recent improvement in the IAS 19 accounting pension deficit is sustained, the Group expects to re-commence dividend payments in respect of financial year 2017, with the initial payment being made in the first half of 2018.

Economic backdrop has been supportive

The Irish economy is expanding. Irish GDP grew by 5.1% in 2016, marking three consecutive years that the Irish economy has posted the highest rate of growth of any euro area member. Irish consumer spending, investment and exports all rose last year and are forecast to continue to do so. The UK economy has been growing, albeit the decision to leave the EU, which has generated uncertainty and currency volatility is a headwind for the two economies. Nonetheless, we are confident in the robustness and flexibility of our diversified business model.

Expanded NIM to 2.32%

Our average net interest margin expanded to 2.32% in the first half of 2017 primarily due to further reductions in our cost of funding, particularly in the UK. Fees and other income of €369 million, from diversified business activities including bancassurance, foreign exchange and payments, includes sustainable business income of €328 million which increased marginally from the second half of 2016.

Core loan books growing; Largest lender to Irish economy with growing market shares

Our core loan books continued to grow, by €0.5 billion in the first half of 2017, on a constant currency basis. Gross new lending volumes of €6.6 billion for the first six months of 2017 were in line with the same period in 2016 on a constant currency basis, while redemptions of €7.2 billion remained in line with previous periods. Redemptions included €1.0 billion relating to the continued amortisation of RoI tracker mortgages, redemptions from our impaired book and our non-core GB Business Banking and Corporate loan books. We remain the largest lender to the Irish economy with growing market shares in business banking and residential mortgages. We provided €3.4 billion of credit to personal and business customers in Ireland in the first half of 2017 while maintaining our commercial discipline.

Asset quality trends continue to improve

Our asset quality continues to improve. Reflecting the continuing improvement in the credit quality of our loan portfolios and our actions to reduce our impaired loan portfolios, the net customer loan impairment charge was €59 million in the first half of 2017 with a lower charge expected for the second half of 2017. We reduced our impaired loans by €0.8 billion in the first half of the year to €5.4 billion while non-performing exposures also reduced over the period by €1.3 billion to €8.1 billion. The Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications, with a net neutral impact on the Group's capital ratios and impairment provisions.

Focussed on maintaining tight control on costs; Transformation programme is making progress

We have continued to maintain tight control over costs, while at the same time, making appropriate investments in our businesses, infrastructure and initiatives to further enhance our customer propositions. Operating expenses of €881 million in the first half of 2017 were in line with the first half of 2016. Our Core Banking Platforms Investment programme is making progress and we invested €105 million in this programme in the first half of 2017, of which c.50% was charged directly to the income statement with the remaining balance capitalised. Levies and regulatory charges of €63 million were incurred.

New holding company established

In early 2017, the Single Resolution Board and the Bank of England advised the Group that their preferred resolution strategy consisted of a single point of entry bail-in. As a consequence, and following the relevant shareholder and High Court approvals, Bank of Ireland Group plc was introduced as the listed holding company of the Group. Trading in the new ordinary shares (which also reflected the stock consolidation programme) commenced on 10 July 2017.

All divisions continue to perform strongly

Strong Irish franchises supporting Irish economic growth

Our Retail Ireland and Bank of Ireland Life divisions reported combined underlying profits before tax of €353 million in the first half of 2017. Our Irish mortgage business has performed strongly over the period with a mortgage strategy led by competitive fixed rate products which provide value, certainty and stability for our customers and the Group. Our residential mortgage lending in Ireland grew by over 30% in the first half of 2017 with an increase in new lending market share to 26%.

Ireland's number 1 business bank; Ireland's only bancassurer

We are the number 1 bank for Irish businesses and we continue to be the largest provider of new business lending into the Irish economy. 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 c.20% with a new business market share of c.20%.

Diversification through our banking franchises in the UK

Our Retail UK division provides chosen strategic diversification, primarily through our separately regulated, capitalised and self-funded subsidiary Bank of Ireland (UK) plc, and generated an underlying profit before tax of £60 million in the first half of 2017. With over 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).

Ireland's number one international corporate bank; International Acquisition Finance continues to perform strongly

Our Corporate and Treasury division provides banking services to our larger business customers and generated an underlying profit before tax of €273 million in the first half of 2017. We continue to be Ireland's number one corporate bank, with new lending volumes of €1.9 billion in the first half of 2017. Our international Acquisition Finance business, which accounts for c.10% of Group income, delivered another strong performance during the first half of the year.

Our People are a key differentiator for our business

The capability, determination and commitment of our people continues to be a key differentiator in how we do business. I should 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.

Focussed on delivering attractive and sustainable returns for our business

In March 2017, I announced my intention to retire from the Group later this year. I have been in my current role since February 2009 and the intervening period has seen a number of important milestones for the Group including its recapitalisation from the private sector as well as the repayment of all State Aid completed in 2013 with a significant positive cash return to Irish taxpayers for their support and investment in the Group during the financial crisis. The Group has announced the appointment of Ms. Francesca McDonagh as the new Group CEO who will take up the position on 2 October 2017. I want to thank our Board and all of my colleagues across the Group, past and present, for their wise counsel, support, professionalism and commitment throughout my time with the Group and for which I am extremely grateful.

In the first half of 2017, we have continued to deliver against the strategic objectives we have set for ourselves and have articulated to our shareholders. The strength of our franchises and the positive impacts of the investments we have been making are reflected in the strength of our financial performance. The Group will continue to invest in our people, businesses and infrastructure to enhance our distribution platforms, transform our customer propositions and experiences and to deliver sustainable efficiencies. My colleagues will remain focussed on ensuring that we continue to responsibly develop our profitable, long term franchises and better serve our customers in a way that delivers attractive sustainable returns to our shareholders.

Richie Boucher
27 July 2017

Operating and financial review *(incorporating risk management)*

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 15.

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.

The income statements are presented for the six months ended 30 June 2017 compared to the six months ended 30 June 2016. The balance sheets are presented for 30 June 2017 compared to 31 December 2016.

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

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
Net interest income (before ELG fees)	1	1,151	1,135	1%
Eligible Liabilities Guarantee (ELG) scheme fees[2]		-	(18)	n/m
Net other income	2	369	470	(21%)
Operating income (net of insurance claims)		**1,520**	**1,587**	**(4%)**
Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	3	(881)	(882)	-
Core Banking Platforms Investment charge	3	(55)	(8)	n/m
Levies and regulatory charges	3	(63)	(62)	2%
Operating profit before impairment charges on financial assets		**521**	**635**	**(18%)**
Impairment charges on loans and advances to customers	4,5	(59)	(93)	37%
Impairment charges on available for sale (AFS) financial assets		-	(2)	n/m
Share of results of associates and joint ventures (after tax)		18	20	(10%)
Underlying[1] profit before tax		**480**	**560**	**(14%)**
Non-core items	6	(25)	(3)	n/m
Profit before tax		**455**	**557**	**(18%)**
Tax charge		(84)	(118)	29%
Profit for the period		**371**	**439**	**(15%)**

Key metrics			
Net interest margin[3] (%)		2.32%	2.11%
Cost income ratio (excluding levies and regulatory charges) (%)		62%	56%
Impairment charge on loans and advances to customers (bps)		14	21

Principal rates of exchange used in the preparation of the Interim Financial Statements are set out on page 125.

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 15 for further information.*
[2] *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 no longer has eligible liabilities for the purpose of the ELG Scheme no further ELG fees will accrue.*
[3] *The net interest margin is stated before ELG fees and after adjusting for IFRS income classifications.*

Summary consolidated income statement on an underlying basis (continued)

Profit before tax was €455 million for the six months ended 30 June 2017, a decrease of €102 million or 18% compared to the same period in 2016.

Underlying profit before tax was €480 million for the six months ended 30 June 2017, a decrease of €80 million or 14% on the same period in 2016 primarily due to:

- Lower gains on sale of sovereign bonds / other assets of €15 million, compared to €160 million in the same period in 2016.
- Higher investment in our core banking platforms - €55 million charge in the six months ended 30 June 2017 compared to €8 million in the same period in 2016.

partially offset by;

- Higher net interest and business income - €52 million higher than the same period in 2016.
- Lower impairment charges - €36 million lower than the same period in 2016.
- Absence of ELG Scheme fees in 2017 (2016: €18 million).

Net interest income has increased by €16 million compared to the same period in 2016, primarily reflecting lower funding costs (reflecting the maturity of the CoCo[1] and lower UK deposit costs) partially offset by the impacts of the ongoing low interest rate environment and weaker sterling.

Other income was €101 million lower than in 2016, primarily reflecting lower additional gains in the current period. Other income includes gains of €16 million primarily related to the sale of bonds and other financial instruments. In the prior period, the Group recognised gains of €157 million, primarily reflecting a €95 million gain on the sale of shares in VISA Europe and gains of €54 million on the sale of sovereign bonds as part of a rebalancing of the Group's liquid asset portfolio.

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €881 million for the six months ended 30 June 2017 are in line with the same period in 2016, reflecting the Group's ongoing tight control of its costs, partially offset by further investment in our people, compliance with the growing regulatory environment, investment in technology and business growth. Our Core Banking Platforms programme is making progress and we invested a further €105 million in this programme in the first half of 2017, with an income statement charge of €55 million (30 June 2016: €8 million). The Group has incurred levies and regulatory charges of €63 million in the six months ended 30 June 2017, compared to €62 million in the same period in 2016.

Net impairment charges on loans and advances to customers of €59 million (14 basis points) for the six months ended 30 June 2017 were €34 million or 37% lower compared to €93 million (21 basis points) in the same period of 2016. The significant reduction in impairment charges in the first half of 2017 reflects the strong performance of the Group's loan portfolios, ongoing reductions in non-performing exposures and impaired loans, and a continued positive economic environment in the countries in which the Group's portfolios are located.

Income from associates and joint ventures was €18 million for the six months ended 30 June 2017 compared to €20 million for the same period in 2016.

Non-core items were a net charge of €25 million for the six months ended 30 June 2017, primarily reflecting costs associated with the Group's restructuring programme of €17 million, costs associated with the Group's corporate reorganisation and establishment of a new holding company of €7 million, a loss of €5 million on the disposal / liquidation of business activities and a charge relating to movements in the Group's credit spreads of €4 million, partially offset by a gain relating to the gross-up of policyholder tax in the Life business of €8 million.

The Group continues to closely monitor any Brexit related impacts from the UK decision to trigger Article 50 and leave the EU, including foreign exchange 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 40.

[1] *The €1 billion 10% Convertible Contingent Capital Note.*

Operating income (net of insurance claims)

Net interest income

TABLE: 1 Net interest income / net interest margin	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
Net interest income (before ELG fees)	1,151	1,135	1%
IFRS income classifications[1]	(8)	(33)	76%
Net interest income (before ELG fees) after IFRS income classifications	**1,143**	**1,102**	**4%**
Average interest earning assets (€bn)			
Loans and advances to customers	78	83	(6%)
Other interest earning assets	21	22	(5%)
Total average interest earning assets	**99**	**105**	**(6%)**
Net interest margin[2] (annualised)	**2.32%**	**2.11%**	
Gross yield - customer lending[3]	3.28%	3.37%	
Gross yield - liquid assets[3]	0.62%	0.82%	
Average cost of funds - interest bearing liabilities and current accounts[3]	(0.41%)	(0.73%)	
ECB base rate (average)	0.00%	0.02%	
3 month Euribor rate (average)	(0.33%)	(0.22%)	
Bank of England base rate (average)	0.25%	0.50%	
3 month Libor rate (average)	0.33%	0.59%	

Net interest income (before ELG fees) after IFRS income classifications of €1,143 million for the six months ended 30 June 2017 has increased by €41 million or 4% when compared to the same period in 2016, primarily reflecting lower funding costs (reflecting the maturity of the CoCo and lower UK deposit costs) partially offset by the impacts of the ongoing low interest rate environment and the translation effects of weaker sterling (c.€35 million).

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

The Group's average net interest margin has increased by 21 basis points to 2.32% for the six months ended 30 June 2017 from 2.11% for the six months ended 30 June 2016 and by 5 basis points from 2.27% for the second half of 2016. The Group's net interest margin reflects lower funding costs, the positive impact of new lending and strong commercial discipline on pricing, partially offset by the impact of excess liquidity and the impact of the December 2016 credit risk transfer transaction.

The Group's average cost of funds reduced from 73 basis points in the first half of 2016 to 41 basis points in the current period, primarily reflecting the maturity of the €1 billion 10% CoCo on 30 July 2016 and progress in reducing UK deposit costs. The Group's gross yield on customer lending reduced by 9 basis points over the same period, primarily reflecting the impact of the low interest rate environment on certain portfolios which are contractually linked to official interest rates such as Bank of England base rates and 3 months Euribor and Libor.

The reduction in average interest earning assets is primarily due to the impact of the 11% weakening of sterling against the euro (using average rates for the six months ended 30 June 2017 compared to the same period in 2016).

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

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

[3] Gross yield and Average cost of funds represents the interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. See page 124 for further information.

Net other income

TABLE: 2 Net other income	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
Net other income	369	470	(21%)
IFRS income classifications[1]	8	33	(76%)
Net other income after IFRS income classifications	**377**	**503**	**(25%)**

Net other income after IFRS income classifications	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
Business income[2]			
Retail Ireland	157	156	1%
Bank of Ireland Life	86	76	13%
Retail UK	3	5	(40%)
Corporate and Treasury	86	86	-
Group Centre and other	(4)	(6)	(33%)
Total business income	**328**	**317**	**3%**
Other gains			
Transfer from available for sale reserve on asset disposal	15	160	(91%)
- Sovereign bonds	*2*	*54*	*(96%)*
- Other financial instruments (incl. VISA share disposal)	*13*	*106*	*(88%)*
Gain / (loss) on disposal and revaluation of investment properties	1	(3)	n/m
Other valuation items			
Financial instrument valuation adjustments (CVA, DVA, FVA)[3] and other	29	11	n/m
Fair value movement on Convertible Contingent Capital Note (CCCN) embedded derivative	-	(1)	100%
Investment variance - Bank of Ireland Life	1	(6)	n/m
Economic assumptions - Bank of Ireland Life	3	25	(88%)
Net other income after IFRS income classifications	**377**	**503**	**(25%)**

Net other income after IFRS income classifications for the six months ended 30 June 2017 was €377 million, a decrease of €126 million or 25% on the same period in 2016, primarily reflecting a higher level of additional gains in the prior period.

Business income for the six months ended 30 June 2017 has increased by €11 million or 3% compared to the same period in 2016:

- business income in Retail Ireland of €157 million, which includes personal and business current account fees, foreign exchange income, interchange income on credit and debit cards and insurance income is in line with the same period in 2016;
- other income in Bank of Ireland Life of €86 million increased by €10 million reflecting an increase in single premium and pension sale volumes during the period;
- business income in Retail UK, which includes transactional banking fees and interchange income on credit cards less commissions payable to strategic partners was €3 million; and
- business income in Corporate and Treasury of €86 million is in line with the same period in 2016.

Other gains included in net other income are as follows:

- a gain of €15 million for the six months ended 30 June 2017 relating to transfers from the available for sale reserve on asset disposals relating to corporate banking equity securities and the Group's interest in a UK card business, Vocalink, compared to a gain of €160 million in the same period in 2016. The prior period gain mainly arose from 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; and
- a gain of €1 million relating to the disposal and revaluation of investment properties.

[1] The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. See page 11 for further information.
[2] 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.
[3] Credit Valuation Adjustment (CVA); Debit Valuation Adjustment (DVA); Funding Valuation Adjustment (FVA).

Net other income (continued)

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

- a gain of €29 million due to valuation adjustments on financial instruments (CVA, DVA, FVA) and other primarily relate to market movements during the period;
- a €1 million investment variance in Bank of Ireland Life in the six months ended 30 June 2017 reflecting growth in investment markets during the period; and
- a gain of €3 million arose as a result of economic assumption changes and interest rate movements in Bank of Ireland Life for the six months ended 30 June 2017 compared to a gain of €25 million in the same period in 2016. The 2016 gain primarily related to Solvency II transitioning impacts.

Operating expenses

TABLE: 3 Operating expenses	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
Staff costs (excluding pension costs)	378	374	1%
Pension costs	74	78	(5%)
- Retirement benefit costs (defined benefit plans)	*62*	*70*	*(11%)*
- Retirement benefit costs (defined contribution plans)	*12*	*8*	*50%*
Depreciation and amortisation	74	65	14%
Other costs	355	365	(3%)
Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	**881**	**882**	**-**
Core Banking Platforms Investment charge	55	8	n/m
Levies and regulatory charges	63	62	2%
Operating expenses	**999**	**952**	**5%**

			Change
Staff numbers at period end	**11,355**	**11,277**	**78**
Average staff numbers during the period	**11,261**	**11,169**	**92**

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €881 million for the six months ended 30 June 2017 are in line with the same period in 2016.

The Group has continued its focus on tight cost control during the period, while further investing in its people, compliance with the growing regulatory environment, technology and business growth. Foreign currency movements provided an €18 million translation benefit when comparing the first half of 2017 with the prior period.

Staff costs (excluding pension costs) of €378 million for the six months ended 30 June 2017 are €4 million higher than the same period in 2016. On a constant currency basis, staff costs have increased by €10 million or 3%. The Group paid a salary increase averaging c.2.5% effective 1 January 2017. The average number of staff employed by the Group has increased slightly at an average of 11,261 in the six months ended 30 June 2017 compared to 11,169 in 2016, partially due to the Group's decision to directly perform certain activities which were previously outsourced. Staff numbers at 30 June 2017 were 11,355, of which c.500 (six months ended 30 June 2016: c.500) were on fixed term contracts.

Pension costs of €74 million for the six months ended 30 June 2017 were €4 million or 5% lower than the same period in 2016. The decrease is due to reduced defined benefit scheme cost due to lower service costs and lower interest cost, partially offset by an increase in the cost of the defined contribution schemes due to increased membership.

Depreciation and amortisation of €74 million for the six months ended 30 June 2017 was €9 million or 14% higher than the same period in 2016. The increase is a result of technology investments made in recent years.

Operating expenses (continued)

Other costs including technology, property, outsourced services and other non-staff costs were €355 million for the six months ended 30 June 2017 compared with €365 million for the same period in 2016. Other costs are broadly flat on a constant currency basis. The Group continues to invest in strategic initiatives including technology, distribution channels in RoI and UK, customer acquisition and improved propositions and is also generating cost savings and efficiencies across its businesses.

Core Banking Platforms Investment charge
Our Core Banking Platforms programme is making progress and we invested a further €105 million in this programme in the first half of 2017, of which €56 million was capitalised on the balance sheet (compared to €9 million in the six months ended 30 June 2016) and €49 million was charged directly to the income statement. The total income statement charge of €55 million (compared to €8 million in the six months ended 30 June 2016) also includes €6 million of an amortisation charge relating to assets capitalised previously and the release of software licence prepayments incurred in 2016.

Levies and regulatory charges
The Group has incurred levies and regulatory charges of €63 million in the six months ended 30 June 2017, compared to €62 million in the same period in 2016. The charge in the six months to 30 June 2017 primarily reflects the Group's full year contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund.

The Finance Act 2016, which was signed into law in December 2016, confirmed the revised basis on which the Irish bank levy will be calculated for the years 2017 to 2021. Under this revised basis, the Group expects to record a charge of c.€30 million in the second half of 2017, compared to a charge of €38 million in the second half of 2016.

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

TABLE: 4 **Impairment charges / (reversals) on loans and advances to customers**	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
Residential mortgages	(53)	(77)	31%
- Retail Ireland	*(52)*	*(71)*	*27%*
- Retail UK	*(1)*	*(6)*	*83%*
Non-property SME and corporate	48	58	(17%)
- Republic of Ireland SME	*21*	*32*	*(34%)*
- UK SME	*10*	*2*	*n/m*
- Corporate	*17*	*24*	*(29%)*
Property and construction	63	104	(39%)
- Investment	*48*	*77*	*(38%)*
- Land and development	*15*	*27*	*(44%)*
Consumer	1	8	(88%)
Total impairment charges / (reversals) on loans and advances to customers	**59**	**93**	**(37%)**

Impairment charges on loans and advances to customers of €59 million for the period ended 30 June 2017 were €34 million or 37% lower than the same period in 2016. The significant reduction in impairment charges in the first half of 2017 reflects the strong performance of the Group's loan portfolios, ongoing reductions in impaired loans and non-performing exposures and a continued positive economic environment in the countries in which the Group's portfolios are located.

The significant reductions in impaired loans and non-performing exposures reflect the continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

The impairment reversal on **Residential mortgages** of €53 million for the period ended 30 June 2017 compares to an impairment reversal of €77 million in the same period in 2016.

The impairment reversal on the Retail Ireland mortgage portfolio of €52 million during the period compares to an impairment reversal of €71 million in the same period in 2016, and reflects positive underlying book performance. Retail Ireland mortgage impaired loans and non-performing exposures reduced by 13% and 9% respectively during the first half of 2017 with reductions achieved in both the Owner occupied and Buy to let market segments.

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

The impairment charge on the **Non-property SME and corporate** loan portfolio of €48 million for the period ended 30 June 2017 has decreased by €10 million or 17% compared to the same period in 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 impairment charge on the **Property and construction** loan portfolio of €63 million for the period ended 30 June 2017 has decreased by €41 million or 39% from the same period in 2016. The impairment charge on the Investment property element of the Property and construction portfolio was €48 million for the period ended 30 June 2017 compared to €77 million in the same period in 2016. The impairment charge on the Land and development portion was €15 million for the period ended 30 June 2017 compared to €27 million in the same period in 2016. Impairment charges for the period ended 30 June 2017 on the Property and construction exposures were related to individual case specific events and resolution activities that may involve asset sales and / or shorter term exit strategies.

The €1 million impairment charge on **Consumer** loans in the period ended 30 June 2017 reflected continued positive macroeconomic conditions, with lower levels of customer default and higher recoveries particularly in the Retail Ireland Consumer portfolios.

TABLE: 5

Impairment charges / (reversals) by nature of impairment provision	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
Specific charge individually assessed	148	172	(14%)
Specific charge collectively assessed	(20)	(45)	(56%)
Incurred but not reported	(69)	(34)	n/m
Total impairment charges / (reversals)	**59**	**93**	**(37%)**

For details of the impairment provision by the nature of impairment provision see page 49.

Non-core items

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

TABLE: 6

Non-core items	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
Cost of restructuring programme	(17)	(10)	(74%)
Gross-up for policyholder tax in the Life business	8	5	74%
Cost of corporate reorganisation and establishment of a new holding company	(7)	-	(100%)
Loss on disposal / liquidation of business activities	(5)	-	(100%)
(Charge) / gain arising on the movement in the Group's credit spreads	(4)	19	n/m
Loss on liability management exercises	-	(19)	100%
Investment return on treasury stock held for policyholders	-	2	(100%)
Total non-core items	**(25)**	**(3)**	**n/m**

Non-core items (continued)

Cost of restructuring programme
During the six months ended 30 June 2017, the Group recognised a charge of €17 million in relation to its restructuring programme, primarily related to changes in employee numbers. A restructuring charge of €10 million was incurred in the same period of 2016.

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

Cost of corporate reorganisation and establishment of a new holding company
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. During the six months ended 30 June 2017, the Group recognised a charge of €7 million in relation to the reorganisation. No charges are anticipated in 2018 in respect of this corporate restructure. See note 27 on page 87 for further details.

Loss on disposal / liquidation of business activities
A loss of €5 million was recognised during the year relating to the recycling of cumulative unrealised foreign exchange gains and losses through the income statement following the liquidation of two subsidiaries.

(Charge) / gain arising on the movement in the Group's credit spreads
A charge of €4 million was recognised in the six months ended 30 June 2017 compared with a gain of €19 million for the same period in 2016. This charge arises from the narrowing in credit spreads which is partially offset by the 'pull to par' effect of cumulative losses reversing over time on the Group's structured deposits that are accounted for at 'fair value through profit or loss'.

Loss on liability management exercises
In the six months ended 30 June 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 the current period.

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was no gain or charge in the six months ended 30 June 2017, compared to a charge of €2 million in the same period of 2016. Units of stock held by Bank of Ireland Life for policyholders at 30 June 2017 were 3 million units (year ended 31 December 2016: 0.9 million units), adjusted for the share consolidation outlined in note 27 on page 87.

Taxation

The taxation charge for the Group was €84 million for the six months ended 30 June 2017 with an effective taxation rate on a statutory basis of 18%, compared to a taxation charge of €118 million and an effective taxation rate on a statutory basis of 21% for the same period in 2016.

On an underlying basis, the effective taxation rate was 16% for the six months ended 30 June 2017 (six months ended 30 June 2016: 20%). The effective tax rate is influenced by changes in the geographic mix of profits and losses. As set out in note 13 on page 76, the deferred tax asset has reduced by €30 million in the period due to the utilisation of brought forward trading losses against current year taxable profits which reduces the amount of tax payable on those profits.

Group balance sheet *(incorporating liquidity and funding)*

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	30 June 2017 €bn	31 December 2016 €bn	Change %
Loans and advances to customers (after impairment provisions)	7	77	78	(2%)
Liquid assets	8	22	21	2%
Bank of Ireland Life assets		17	17	2%
Other assets	11	6	7	(5%)
Total assets		**122**	**123**	**(1%)**
Customer deposits	9	75	75	(1%)
Wholesale funding	10	13	14	(5%)
Bank of Ireland Life liabilities		17	17	2%
Other liabilities	11	6	6	(4%)
Subordinated liabilities	12	1	1	(3%)
Total liabilities		**112**	**113**	**(1%)**
Stockholders' equity	13	9	9	1%
Other equity instruments	14	1	1	-
Total liabilities and stockholders' equity		**122**	**123**	**(1%)**
Liquidity coverage ratio[1]		120%	113%	
Net stable funding ratio[2]		121%	122%	
Loan to deposit ratio		103%	104%	
Common equity tier 1 ratio - CRD IV fully loaded		12.5%	12.3%	
Common equity tier 1 ratio - CRD IV transitional rules		14.4%	14.2%	
Total capital ratio - CRD IV transitional		18.3%	18.5%	

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

Loans and advances to customers

TABLE: 7

Loans and advances to customers Composition	**30 June 2017**		31 December 2016	
	€m	**%**	€m	%
Residential mortgages	47,092	59%	48,207	59%
- Retail Ireland	*23,953*	*30%*	*24,329*	*30%*
- Retail UK	*23,139*	*29%*	*23,878*	*29%*
Non-property SME and corporate	19,605	24%	20,000	24%
- Republic of Ireland SME	*8,767*	*11%*	*8,808*	*11%*
- UK SME	*1,861*	*2%*	*1,909*	*2%*
- Corporate	*8,977*	*11%*	*9,283*	*11%*
Property and construction	9,325	12%	10,344	12%
- Investment	*8,637*	*11%*	*9,321*	*11%*
- Land and development	*688*	*1%*	*1,023*	*1%*
Consumer	4,083	5%	3,811	5%
Total loans and advances to customers	**80,105**	**100%**	**82,362**	**100%**
Less impairment provisions on loans and advances to customers	(3,210)		(3,885)	
Net loans and advances to customers	**76,895**		**78,477**	
Impaired loans[1]	5,395		6,236	
Non-performing exposures[1]	8,067		9,430	

The Group's **loans and advances to customers (after impairment provisions)** of €76.9 billion have decreased by €1.6 billion since 31 December 2016, with growth in our core loan books of €0.5 billion, being offset by redemptions and repayments on Irish mortgage trackers, impaired loans and the Great Britain (GB) books in run-down of €1.0 billion as well as currency translation effects of €1.1 billion.

Gross new lending of €6.6 billion was €0.3 billion or 4% lower than in the same period in 2016. New lending is in line with the prior period on a constant currency basis.

Redemptions and repayments totalled €7.2 billion, broadly in line with the same period in 2016. The Group's success in reducing (through resolution or restructure / cure) impaired assets, redemptions in the RoI mortgage tracker book and as part of the run-down of the GB business banking / GB corporate banking book together accounted for €1.0 billion of this figure. Therefore, growth in the Group's core loan books (i.e. excluding redemptions relating to impaired loans, trackers and GB books in rundown) amounted to €0.5 billion.

The composition of the Group's loans and advances to customers by portfolio at 30 June 2017 was consistent with 31 December 2016.

Our asset quality continues to improve and we reduced our impaired loans by €0.8 billion since 31 December 2016 to €5.4 billion, with reductions across all asset classes. Non-performing exposures also reduced over the period to €8.1 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 over the second half of 2017 and beyond, 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 €3.2 billion has decreased by €0.7 billion since 31 December 2016. The impaired loans provision coverage ratio[2] at 30 June 2017 is 52% (31 December 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 41 to 52.

[1] *As set out on pages 41 and 42, 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.*

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

Liquid assets

TABLE: 8

Liquid assets	**30 June 2017 €bn**	31 December 2016 €bn
Cash at banks	3	3
Cash and balances at central banks	5	5
- Bank of England	*2*	*2*
- Central Bank of Ireland	*3*	*3*
- US Federal Reserve	*-*	*-*
Government bonds	8	7
- Available for sale	*6*	*5*
- Held to maturity	*2*	*2*
Covered bonds	3	3
Senior bank bonds, NAMA senior bonds and other	3	3
	22	**21**

The Group's portfolio of liquid assets has increased by c.€0.5 billion since 31 December 2016 to €22 billion, reflecting increased holdings of sovereign bonds (€0.9 billion), partially offset by redemptions of NAMA senior bonds of €0.4 billion (remaining balance of less than €0.1 billion at 30 June 2017).

Customer deposits

TABLE: 9

Customer deposits	**30 June 2017 €bn**	31 December 2016 €bn
Retail Ireland	42	41
- Deposits	*21*	*22*
- Current account credit balances	*21*	*19*
Retail UK	23	23
Retail UK (Stg£bn equivalent)	20	20
- UK Post Office	*15*	*15*
- Other Retail UK	*5*	*5*
Corporate and Treasury	10	11
Total customer deposits	**75**	**75**
Loan to deposit ratio	**103%**	**104%**

Group customer deposits (including current accounts with credit balances) have decreased by €0.5 billion to €74.7 billion since 31 December 2016, with the reduction due to the translation effect of a weaker sterling. On a constant currency basis, Group customer deposits remain broadly unchanged. This comprises of an increase in the Retail Ireland Division (€1.1 billion), offset by a decrease in the Corporate and Treasury Division (€1.0 billion) with Retail UK unchanged.

In the Retail Ireland Division, customer deposits of €42 billion at 30 June 2017 have increased by €1.1 billion since 31 December 2016 due to growth in current account credit balances.

In Retail UK Division, customer deposits of £20 billion at 30 June 2017 are unchanged since 31 December 2016.

In Corporate and Treasury Division, customer deposits of €10 billion at 30 June 2017 have decreased by €1.0 billion due to planned optimisation of deposit pricing.

Customer deposits of €75 billion at 30 June 2017 (31 December 2016: €75 billion) do not include €1.2 billion (31 December 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.

The Group's Loan to Deposit Ratio (LDR) was 103% at 30 June 2017.

Wholesale funding

TABLE: 10

Wholesale funding sources	30 June 2017 €bn	30 June 2017 %	31 December 2016 €bn	31 December 2016 %
Secured funding	11	82%	10	73%
- Monetary Authority	*5*	*39%*	*3*	*24%*
- Covered bonds	*5*	*35%*	*6*	*41%*
- Securitisations	*1*	*8%*	*1*	*8%*
Unsecured funding	2	18%	4	27%
- Senior debt	*1*	*9%*	*2*	*15%*
- Bank deposits	*1*	*9%*	*2*	*12%*
Total wholesale funding	**13**	**100%**	**14**	**100%**
Wholesale market funding < 1 year to maturity	2	24%	4	36%
Wholesale market funding > 1 year to maturity	6	76%	7	64%
Monetary Authority funding < 1 year to maturity	1	17%	-	-
Monetary Authority funding > 1 year to maturity	4	83%	3	-
Liquidity metrics				
Liquidity Coverage Ratio[1]		120%		113%
Net Stable Funding Ratio[2]		121%		122%

The Group's wholesale funding of €13.5 billion has decreased by c.€0.8 billion since 31 December 2016, primarily due to scheduled senior debt and covered bond redemptions (c.€2.0 billion), lower bank deposits c.€0.7 billion, partially offset by an increase in Monetary Authority borrowings (c.€1.9 billion) consisting of drawings from the ECB of €1.0 billion and from the Bank of England (BoE) of €0.9 billion.

The Group's funding from Monetary Authorities of €5.3 billion at 30 June 2017 consists of c.€3.3 billion of funding drawn under the ECB's Targeted Longer Term Refinancing Operation (TLTRO), €1.1 billion from the BoE Term Funding Scheme (TFS) and €0.9 billion from the BoE Indexed Long-Term Repo (ILTR) operation.

At 30 June 2017, €6.3 billion or 76% of wholesale market funding had a term to maturity of greater than one year (31 December 2016: €7.0 billion or 64%). The proportionate increase since 31 December 2016 relates to the scheduled maturity during 2017 of senior debt and covered bonds. Wholesale market funding with a maturity of less than one year was €2.0 billion (31 December 2016: €4.0 billion) of which €0.6 billion is secured.

The Group's Liquidity Coverage Ratio (LCR) was 120% at 30 June 2017 (31 December 2016: 113%). Based on the Group's interpretation of the final Basel standard, the Group's Net Stable Funding Ratio (NSFR) was 121% at 30 June 2017 (31 December 2016: 122%).

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

Other assets and other liabilities

TABLE: 11

Other assets and other liabilities	**30 June 2017 €bn**	31 December 2016 €bn
Other assets	6.4	6.8
- Derivative financial instruments	*2.9*	*3.7*
- Net deferred tax asset	*1.2*	*1.2*
- Other assets	*2.3*	*1.9*
Other liabilities	5.9	6.2
- Derivative financial instruments	*2.4*	*2.9*
- Pension deficit	*0.5*	*0.4*
- Notes in circulation	*1.1*	*1.2*
- Other liabilities	*1.9*	*1.7*

Other assets at 30 June 2017 include **derivative financial instruments** with a positive fair value of €2.9 billion compared to a positive fair value of €3.7 billion at 31 December 2016. Other liabilities at 30 June 2017 include **derivative financial instruments** with a negative fair value of €2.4 billion compared to a negative fair value of €2.9 billion at 31 December 2016. The movement in the value of derivative assets and derivative liabilities is due to the maturity of transactions during the period as well as changes in fair values caused by the impact of the movements in foreign exchange rates (particularly the euro / sterling exchange rate) and in interest rates during the period to 30 June 2017.

At 30 June 2017, the Group's net deferred tax asset was substantially unchanged at €1.2 billion with the utilisation of the deferred tax asset against current year profits being offset by an increase in the deferred tax asset associated with movements in the pension deficit and the cash flow hedge reserve. The net deferred tax asset of €1.2 billion at 30 June 2017 includes €1.2 billion in respect of trading losses which are available to relieve future profits from tax. Of these losses, €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses. For further details on movements in the net deferred tax asset in the period see note 19 on page 81.

At 30 June 2017, the IAS 19 defined benefit **pension deficit** was €0.5 billion, a net increase of c.€50 million from the position at 31 December 2016. The primary drivers of the movement in the pension deficit were:

- c.20 basis points decrease in credit spreads used by the Group to value its liabilities, which increased liabilities;

offset by;

- the net impact of higher interest rates, which reduced liabilities, albeit significantly offset by the related hedging assets;
- modest growth in the value of other assets i.e. listed equities and diversified assets; and
- deficit reducing contributions of €40 million.

The significant financial assumptions used in measuring the deficit are set out in note 24 on page 83, together with the sensitivity of the deficit to changes in those assumptions.

Subordinated liabilities

TABLE: 12

Subordinated liabilities	**30 June 2017 €m**	31 December 2016 €m
€750 million 4.25% Fixed Rate Notes 2024	760	764
€250 million 10% Fixed Rate Notes 2022	266	270
€1,002 million 10% Fixed Rate Notes 2020	225	229
Undated loan capital	124	159
Other dated capital	3	3
Total	**1,378**	**1,425**

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.

Stockholders' equity

TABLE: 13 Movements in stockholders' equity	Six months ended 30 June 2017 €m	Year ended 31 December 2016 €m
Stockholders' equity at beginning of period	**8,661**	**8,372**
Movements:		
Profit attributable to stockholders	371	793
Dividends on preference stock	(4)	(8)
Distribution on other equity instruments - Additional tier 1 coupon (net of tax)	(24)	(73)
Remeasurement of the net defined benefit pension liability	(70)	167
Available for sale (AFS) reserve movements	(2)	(169)
Cash flow hedge reserve movement	(102)	(4)
Foreign exchange movements	(101)	(419)
Other movements	(13)	2
Stockholders' equity at end of period	**8,716**	**8,661**

Stockholders' equity increased from €8,661 million at 31 December 2016 to €8,716 million at 30 June 2017.

The **profit attributable to stockholders** of €371 million for the six months ended 30 June 2017 compares to the profit attributable to stockholders of €793 million for the year ended 31 December 2016.

On 17 February 2017, the Group paid **dividends** of €2.1 million and £1.1 million on its other euro and sterling preference stock respectively.

On 19 June 2017, the Group paid €27 million (after tax impact €24 million) relating to the semi-annual coupon on its Additional tier 1 (AT1) securities.

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

The reduced **available for sale reserve** movement during 2017 is primarily due to lower volumes of transfers from the available for sale reserve on asset disposal during the period. Gains recognised on transfers from the available for sale reserve during the period are included in other income on page 12.

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

Foreign exchange movements are driven by the translation of the Group's net investments in foreign operations. The movement in the period was primarily due to the strengthening of the euro against sterling (3%) and the US dollar (8%) in the six months ended 30 June 2017. The movement during 2016 was primarily due to the 17% strengthening of the euro against sterling.

Other equity instruments

TABLE: 14	30 June 2017 €m	31 December 2016 €m
Balance at the end of the period	740	740

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%.

Capital

Regulatory capital and key capital ratios

CRD IV Transitional 31 December 2016 €m	CRD IV Fully loaded 31 December 2016 €m		CRD IV Transitional[1] 30 June 2017 €m	CRD IV Fully loaded[1] 30 June 2017 €m
		Capital Base		
9,402	9,402	Total equity	9,457	9,457
-	-	*- less potential dividend[2]*	(70)	(70)
(750)	(750)	*- less Additional tier 1 capital*	(750)	(750)
8,652	**8,652**	**Total equity less potential dividend and equity instruments not qualifying as CET 1**	**8,637**	**8,637**
(520)	**(1,458)**	**Regulatory adjustments being phased in / out under CRD IV**	**(631)**	**(1,539)**
(243)	*(1,215)*	*- Deferred tax assets[3]*	*(357)*	*(1,191)*
-	*(43)*	*- 10% / 15% threshold deduction[4]*	*(52)*	*(150)*
156	-	*- Retirement benefit obligations[5]*	*92*	-
(140)	-	*- Available for sale reserve[6]*	*(70)*	-
(20)	-	*- Pension supplementary contributions[5]*	*(10)*	-
(273)	*(200)*	*- Other adjustments[7]*	*(234)*	*(198)*
(915)	**(975)**	**Other regulatory adjustments**	**(984)**	**(1,033)**
(90)	*(150)*	*- Expected loss deduction[8]*	*(198)*	*(247)*
(625)	*(625)*	*- Intangible assets and goodwill*	*(691)*	*(691)*
(2)	*(2)*	*- Coupon expected on AT 1 instrument*	*(2)*	*(2)*
(156)	*(156)*	*- Cash flow hedge reserve*	*(54)*	*(54)*
12	*12*	*- Own credit spread adjustment (net of tax)*	*20*	*20*
(54)	*(54)*	*- Securitisation deduction*	*(59)*	*(59)*
7,217	**6,219**	**Common equity tier 1**	**7,022**	**6,065**
		Additional tier 1		
805	750	Additional tier 1[9]	780	750
(30)	**-**	**Regulatory adjustments**	**(31)**	**-**
(30)	-	*- Expected loss deduction[8]*	*(25)*	-
-	-	*- 10% / 15% threshold deduction[4]*	*(6)*	-
7,992	**6,969**	**Total tier 1 capital**	**7,771**	**6,815**
		Tier 2		
1,124	1,124	Tier 2 dated debt	1,104	1,104
116	152	Tier 2 undated debt	119	149
(30)	**-**	**Regulatory adjustments**	**(31)**	**-**
(30)	-	*- Expected loss deduction[8]*	*(25)*	-
-	-	*- 10% / 15% threshold deduction[4]*	*(6)*	-
22	-	Standardised incurred but not reported (IBNR) provisions	10	-
150	150	Provisions in excess of expected losses on defaulted assets	-	-
10	(80)	Other adjustments	(33)	(80)
1,392	**1,346**	**Total tier 2 capital**	**1,169**	**1,173**
9,384	**8,315**	**Total capital**	**8,940**	**7,988**
50.8	**50.7**	**Total risk weighted assets (€bn)**	**48.8**	**48.6**
		Capital ratios		
14.2%	12.3%	Common equity tier 1	14.4%	12.5%
15.7%	13.7%	Tier 1	15.9%	14.0%
18.5%	16.4%	Total capital	18.3%	16.4%
7.3%	6.4%	Leverage ratio	7.2%	6.4%

Capital (continued)

Risk weighted assets (RWA)[10,11]

CRD IV Transitional 31 December 2016 €bn	CRD IV Fully loaded 31 December 2016 €bn		CRD IV Transitional[1] 30 June 2017 €bn	CRD IV Fully loaded[1] 30 June 2017 €bn
42.5	42.5	Credit risk	40.6	40.6
2.9	2.8	Other assets[12]	2.7	2.5
0.5	0.5	Market risk	0.7	0.7
4.6	4.6	Operational risk	4.6	4.6
0.3	0.3	Credit valuation adjustment	0.2	0.2
50.8	**50.7**	**Total RWA**	**48.8**	**48.6**

CRD IV

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

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

IFRS 9 Regulatory Treatment

The regulatory capital treatment of IFRS 9 has yet to be finalised. It is expected that IFRS 9 will have a negative impact on both the Group's fully loaded and transitional capital ratios, although the transitional ratios will likely benefit from a phase-in period. Relief for the initial impact on regulatory capital due to the impairment requirements of IFRS 9 is under consideration at EU level based on a 5-year transitional period commencing on the effective date of IFRS 9, with a significant level of add-back in the initial year and reducing incrementally thereafter. This proposal is currently being fast-tracked through the EU legislative process with a view to being enacted by the end of 2017. Further detail on IFRS 9 implementation is set out in asset quality on page 52.

[1] Capital ratios have been presented including the benefit of the retained profit in the period. Under Article 26 (2) of the CRR, financial institutions may include independently verified interim profits in their regulatory capital only with the prior permission of the competent authority, namely the ECB, and such permission is being sought.
[2] A potential dividend 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] Non-qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 50% in 2017 increasing annually at a rate of 10% thereafter. Certain instruments are phased into Tier 2 capital from Tier 1 capital.
[10] RWA reflect the application of certain Central Bank of Ireland required Balance Sheet Assessment (BSA) adjustments and the updated treatments of expected loss.
[11] Further details on RWA as at 31 December 2016 can be found in the Group's Pillar III disclosures for the year ended 31 December 2016, available on the Group's website.
[12] Includes RWA relating to non-credit obligation assets / other assets and RWA arising from the 10% / 15% threshold deduction.

Capital (continued)

Capital requirements / buffers

Following the 2016 Supervisory Review and Evaluation Process (SREP), the Group is required to maintain a CET 1 ratio of 8.0% on a transitional basis from 1 January 2017. This includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2017 of 1.25%. Pillar II guidance (P2G) is not disclosed in accordance with regulatory preference. The Group expects to maintain a CET 1 ratio in excess of 12% on a transitional basis and on a fully loaded basis at the end of the phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

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

In addition, both the CBI (RoI) and Financial Policy Committee (FPC) (UK) have set the Countercyclical capital buffer (CCyB) at 0% from 1 January 2017. On 27 June 2017, the FPC announced that it had decided to increase the UK countercyclical capital buffer rate to 0.5% from 0%, with binding effect from 27 June 2018. The FPC noted that, absent a material change in the outlook, and consistent with its stated policy for a standard risk environment and of moving gradually, the FPC expects to increase the countercyclical buffer rate to 1% at its November 2017 meeting, with binding effect a year after that. The CBI confirmed that CCyB is to be maintained at 0%, with effect from 1 July 2017. The countercyclical capital buffer is subject to quarterly review by the CBI and FPC.

Risk weighted assets

Risk weighted assets (RWA) at 30 June 2017 of €48.8 billion compares to RWA of €50.8 billion at 31 December 2016. The decrease of €2.0 billion in Credit RWA is primarily due to the impact of foreign exchange movements (€0.7 billion) and changes in book size and quality (€1.3 billion).

Transitional ratio

The CET 1 ratio at 30 June 2017 of 14.4% compares to the ratio at 31 December 2016 of 14.2%. The increase of c.20 basis points is primarily due to organic capital generation (+c.85 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.20 basis points), the transitional impact of an increase in the IAS 19 pension deficit (-c.10 basis points) and an accrual for a potential dividend (-c.15 basis points) in line with regulatory guidance (c.20% of sustainable earnings).

Fully loaded ratio

The Group's fully loaded CET 1 ratio, is estimated at 12.5% as at 30 June 2017, which has increased from 12.3% as at 31 December 2016. The increase of c.20 basis points is primarily due to organic capital generation (+c.70 basis points), investment in the Group's Core Banking Platforms (-c.20 basis points), the fully loaded impact of an increase in the IAS 19 pension deficit (-c.15 basis points) and an accrual for a potential dividend (-c.15 basis points) in line with regulatory guidance (c.20% of sustainable earnings).

Leverage ratio

The leverage ratio at 30 June 2017 is 7.2% on a CRD IV transitional basis (31 December 2016: 7.3%), 6.4% on a pro-forma fully loaded basis (31 December 2016: 6.4%). The Group expects its leverage ratio to remain above the Basel committee indicated minimum level leverage ratio of 3%.

Distribution policy

The Group's aim is to have a sustainable dividend. The Group expects dividend payments to re-commence at a modest level, prudently and progressively building, over time, towards a payout ratio of around 50% of sustainable earnings. The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Directors' assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

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

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Divisional performance

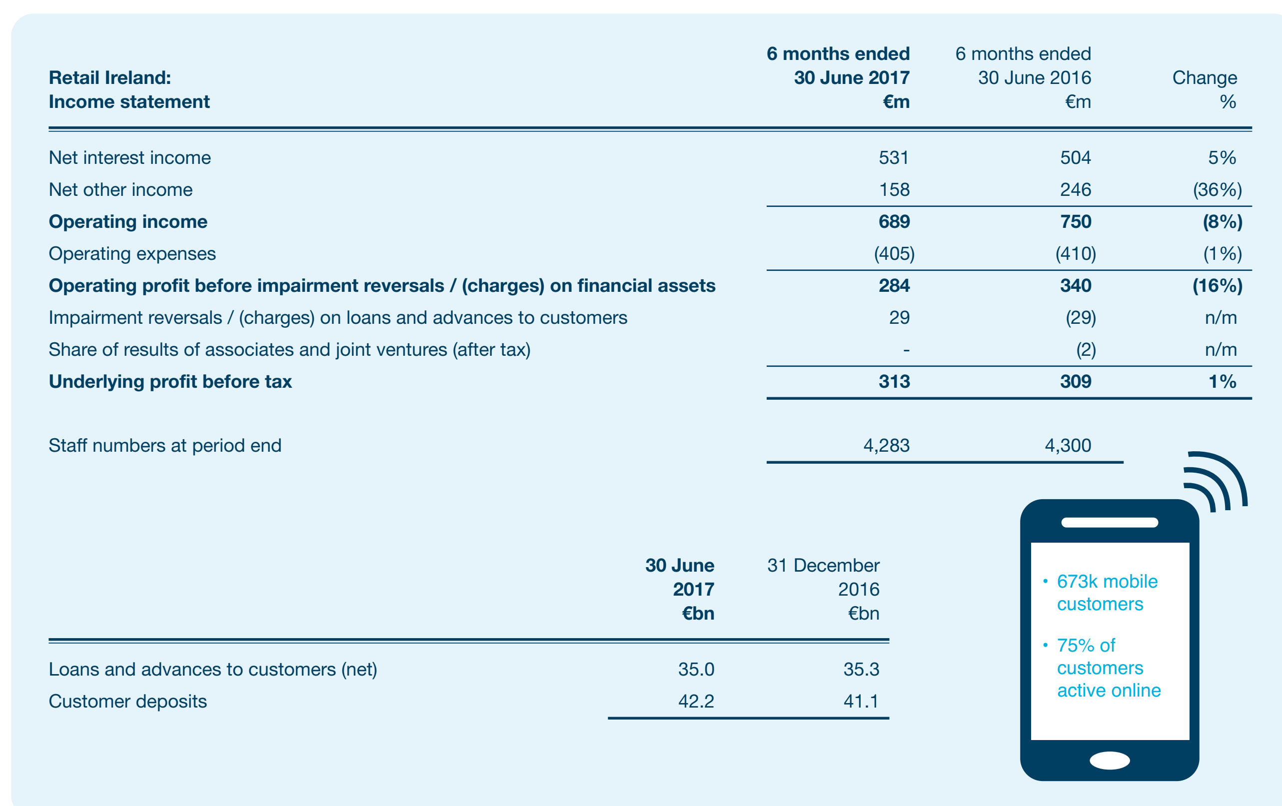
Divisional performance - on an underlying basis

Divisional performance is presented on an underlying basis, which is the measure of profit or loss used to measure the performance of the divisions and the measure of profit or loss disclosed for each division under IFRS (see note 1 on page 64).

Income statement - underlying profit / (loss) before tax	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change €m
Retail Ireland	313	309	4
Bank of Ireland Life	40	54	(14)
Retail UK	70	94	(24)
Corporate and Treasury	273	256	17
Group Centre	(219)	(180)	(39)
Other reconciling items[1]	3	27	(24)
Underlying profit before tax	**480**	**560**	**(80)**
Non-core items (see page 15)	(25)	(3)	(22)
Profit before tax	**455**	**557**	**(102)**

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

Retail Ireland



Retail Ireland: Income statement	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
Net interest income	531	504	5%
Net other income	158	246	(36%)
Operating income	**689**	**750**	**(8%)**
Operating expenses	(405)	(410)	(1%)
Operating profit before impairment reversals / (charges) on financial assets	**284**	**340**	**(16%)**
Impairment reversals / (charges) on loans and advances to customers	29	(29)	n/m
Share of results of associates and joint ventures (after tax)	-	(2)	n/m
Underlying profit before tax	**313**	**309**	**1%**
Staff numbers at period end	4,283	4,300	

	30 June 2017 €bn	31 December 2016 €bn
Loans and advances to customers (net)	35.0	35.3
Customer deposits	42.2	41.1

Retail Ireland offers a broad range of financial products and services. Through our network of branches in over 250 locations across the Republic of Ireland, we are one of the largest providers of financial services in the country, with c.1.7 million consumer banking customers and c.200,000 business banking customers.

We continue to focus on getting to know our customers better as individuals, supporting them more in their communities and enterprises, and helping to make them more financially confident.

Knowing our customers and demonstrating this knowledge through our actions

- **Digital adoption programmes** - our innovative digital offering is an area of continued focus and investment into the future. In 2017, more than 30 new services have been added including personalisation which provides smart customised content. Two in every three Retail customers now chooses to purchase their new product via direct / digital channels. We continue to expand the ways our customers can engage with us.
- **Award winning current account** - Bank of Ireland Current Account won a global award for the 'Best Customer Facing Technology' becoming the only Irish bank to win a prize at the 2017 International Retail Banking Awards. The award was achieved for the simplified Personal Current Account application process which creates a digital customer experience that meets customers' evolving requirements.
- **Proactive Care Programme** - the Proactive Care SMS programme was introduced in 2016. We are broadening the scope due to the exceptionally positive feedback and reduction in customer complaints. The unpaid (fee avoidance) SMS is a stand out service in the Proactive Care SMS programme with c.100,000 SMS messages being sent each month.
- **Contactless Payments** - customer usage of contactless payments has more than doubled in the last 12 months with over six million contactless payments made in May 2017 and we expect the figures to continue to increase across all demographics in the coming months.
- **Youth Proposition** - our market leading youth banking proposition has delivered significant year on year growth. This has been delivered through initiatives like Junk Kouture, TY Academy, new digital applications, FeelFree and Biz World.

Support for Local Communities

- **Encouraging enterprise in local communities** – during the first six months of 2017, we held over 55 Enterprise Towns which featured 4,400 local businesses and continued to support local communities. National Enterprise Week took place in May 2017 and had 36 flagship events on Scaling your Business across all counties and sectors. 5,080 businesses attended and 789 businesses 'Showed their Business' during the week.

Retail Ireland (continued)

- **Support for start-ups** - in continuing to provide support to start-ups and recognition for start-up enterprises, we have a new start-up proposition 'Everything you need to get your business off the ground' - offering free transaction banking for 2 years and significant value added offerings with key partners. Building on our 6 workbenches across Dublin, Cork, Galway and Limerick, we also have a strong regional focus in 2017 working with partners in Wexford, Waterford, Sligo and Kerry to deliver start-up facilities.
- **Helping everyone to 'think business'** - ThinkBusiness.ie, is a support platform for SMEs powered by Bank of Ireland. In the first six months of 2017, the site achieved more than 308,000 unique visits, and over 11,500 business templates were downloaded.

Financial performance
Retail Ireland reported an **underlying profit before tax** of €313 million for the six months ended 30 June 2017 which is an increase of 1% on the same period in 2016. The increase is due to an improvement of €58 million in impairment charges and an increase of €27 million in net interest income 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 €531 million for the six months ended 30 June 2017 is 5% higher than the same period in 2016. The year on year increase in net interest income is primarily a function of lower funding and liquidity 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 trend in market deposit rates.

Net other income of €158 million for the six months ended 30 June 2017 was 36% lower than the comparative of €246 million for the same period in 2016 primarily due to the non-reoccurrence of the VISA Europe shares gain. Business income of €157 million is broadly in line with the previous period.

Operating expenses of €405 million for the six months ended 30 June 2017 were 1% lower than the same period in 2016. The impact of lower staff numbers is offset by increased staff costs arising from Group-wide salary increases.

Impairment (reversals) / charges on loans and advances to customers	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
Residential mortgages	(52)	(71)	(27%)
Non-property SME and corporate	21	32	(34%)
Property and construction	6	67	(91%)
Consumer	(4)	1	n/m
Impairment (reversals) / charges on loans and advances to customers	**(29)**	**29**	**n/m**

Impairment (reversals) / charges on loans and advances to customers were €29 million for the six months ended 30 June 2017 compared to a charge of €29 million in the same period in 2016, an improvement of €58 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 41 to 51 and the supplementary asset quality and forbearance disclosures section on pages 99 to 123.

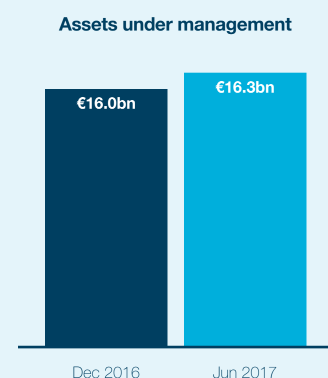
Loans and advances to customers (after impairment provisions) have decreased by €0.3 billion to €35.0 billion at 30 June 2017 when compared to 31 December 2016. This reflects a gross reduction of c.€0.6 billion in Retail Ireland's low yielding tracker mortgage book and a further reduction in Retail Ireland's impaired loans. Mortgage drawdowns of €0.8 billion during 2017 have increased by 31% and we continued to retain a strong share of new mortgage lending. SME lending approvals are more than 8% higher than the same period in 2016, while Business Banking new lending of €1.5 billion has remained in line with the first half of 2016.

Customer deposits of €42.2 billion have increased by €1.1 billion since 31 December 2016. We have a strong customer deposit franchise with 27% market share. Within deposits, current account credit balances have grown by €1.5 billion while other deposits have decreased by €0.4 billion.

[1] *During the six months ended 30 June 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 the six months ended 30 June 2017 in the Retail Ireland division of €13 million, the Retail UK division of €1 million, with a corresponding decrease in net interest income in the Corporate and Treasury division of €14 million, compared to the prior period.*

Bank of Ireland Life

Bank of Ireland Life: Income statement (IFRS performance)	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
Net interest income	8	17	(53%)
Net other income	86	76	13%
Operating income	**94**	**93**	**1%**
Operating expenses	(58)	(58)	-
Operating profit	**36**	**35**	**3%**
Investment variance	1	(6)	n/m
Economic assumption changes	3	25	(88%)
Underlying profit before tax	**40**	**54**	**(26%)**
Staff numbers at period end	909	940	



The Group, through Bank of Ireland Life, is the second largest life assurance company in the Irish market and distributes across three core channels made up of the 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 New Ireland Assurance Company plc (NIAC), is focused predominantly on the retail and SME market. Bank of Ireland Life provides a range of protection, investment and pension products offering customers access to a wide range of investment markets and fund managers across its fund platform.

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

The growing labour market, the ageing population and reducing levels of State and employer led pension provision mean that the underlying individual investment and protection needs of the working population will continue to grow. Bank of Ireland Life, with 20% market share and €16.3 billion in assets under management, is well positioned to benefit from the growing investment and pension market.

Of the €16.3 billion assets under management, €14.6 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 €40 million for the six months ended 30 June 2017 compared to an underlying profit before tax of €54 million for the same period in 2016. The decrease in profits of €14 million or 26% reflects the non-recurring nature of a Solvency II transitioning adjustment in 2016. Annual Premium Equivalent (APE) new business sales in the six months ended 30 June 2017 consisted of €63 million of new lump sum business (six months ended 30 June 2016: €54 million) and €75 million of new regular premium business (six months ended 30 June 2016: €61 million). New business levels are 20% higher benefiting from strong single premium and Group pension sales. Single premium life and protection sales are flat compared to the same period in 2016. New business profits grew as a result of volume increases.

Operating profit of €36 million for the six months ended 30 June 2017 was €1 million or 3% higher than the same period in 2016 due to higher operating income.

Operating income of €94 million for the six months ended 30 June 2017 is €1 million higher than the same period in 2016. New business profits grew while profits from the existing book of business were broadly in line with the previous period.

Operating expenses of €58 million for the six months ended 30 June 2017 were in line with the same period in 2016. Increased staff costs arising from Group-wide salary increases were offset by a reduction in the number of staff.

During the six months ended 30 June 2017, the investment funds' performance was slightly in excess of the unit growth assumptions leading to a positive **investment variance** of €1 million (six months ended 30 June 2016: loss €6 million).

Bank of Ireland Life (continued)

Interest rates have risen in particular towards the end of June 2017. The overall impact of the change in interest rates, including the impact on the **economic assumptions** was positive, resulting in a €3 million gain for the six months ended 30 June 2017 (six months ended 30 June 2016: €25 million). The higher economic assumption gains in the first half of 2016 were primarily due to Solvency II transitioning impacts. The discount rate applied to future cash flows was 6.04% at 30 June 2017, an increase of 0.21% when compared to 31 December 2016. The future assumed growth rate on unit-linked assets increased by 0.25% to 3.50% at 30 June 2017. These increases were driven by an increase in 10 year swap rates during 2017.

The following table outlines the Embedded value (EV) performance.

Bank of Ireland Life: income statement (Embedded value performance)	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Change %
New business profits	8	5	60%
Existing business profits	33	36	(8%)
Expected return	*24*	*25*	*(4%)*
Experience variance	*11*	*9*	*22%*
Assumption changes	*(2)*	*2*	*n/m*
Intercompany payments	(5)	(6)	17%
Interest payments	(2)	(3)	33%
Operating profit	**34**	**32**	**6%**
Investment variance	2	(9)	n/m
Economic assumption changes	4	19	(79%)
Underlying profit before tax	**40**	**42**	**(5%)**

The table below summarises the overall balance sheet of Bank of Ireland Life on an EV basis at 30 June 2017 compared to the value at 31 December 2016.

	30 June 2017 €m	31 December 2016 €m
Net assets	452	428
Value of In Force	672	666
Less Tier 2 subordinated capital / debt	(104)	(140)
Less pension scheme deficit	(76)	(96)
Total Embedded value	**944**	**858**

Retail UK (Sterling)

Retail UK: Income statement	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	Change %
Net interest income	273	251	9%
Net other income	7	(1)	n/m
Operating income	**280**	**250**	**12%**
Operating expenses	(177)	(166)	(7%)
Operating profit before impairment charges on financial assets	**103**	**84**	**23%**
Impairment charges on loans and advances to customers	(58)	(29)	n/m
Share of results of associates and joint ventures (after tax)	15	17	(12%)
Underlying profit before tax	**60**	**72**	**(17%)**
Underlying profit before tax (€m equivalent)	**70**	**94**	**(26%)**
Staff numbers at period end	1,707	1,841	

	30 June 2017 £bn	31 December 2016 £bn
Loans and advances to customers (net)	25.3	25.6
Customer deposits	19.5	19.5

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

Through our partnerships with the Post Office, AA and other intermediaries we have a substantial UK consumer banking franchise with c.3.0 million customers. Our longstanding relationship with the Post Office remains a significant and important part of the UK strategy with shared plans for a sustainable business that creates long term value. Our foreign exchange joint venture with the Post Office, which provides retail and wholesale foreign exchange services, remains the largest provider of retail travel money in the UK. 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 is to continue to develop our mortgage business, maintaining the progress we have made in recent years, while recognising the backdrop of continued uncertainties including the UK's decision to leave the European Union. For the six months ended 30 June 2017, our new mortgage lending was £1.3 billion compared with £1.4 billion for the same period in 2016 reflecting our pricing and risk discipline in a competitive market.

Financial performance

Retail UK reported an **underlying profit before tax** of £60 million for the six months ended 30 June 2017 compared to a profit of £72 million for the same period in 2016. The decrease of £12 million is primarily driven by increases in impairment charges of £29 million and operating expenses of £11 million, partly offset by an increase in operating income of £30 million.

Net interest income[1] of £273 million for the six months ended 30 June 2017 has increased by 9% compared to the same period in 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.

[1] *During the six months ended 30 June 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 the six months ended 30 June 2017 in the Retail UK division of €1 million, in the Retail Ireland division of €13 million, with a corresponding decrease in net interest income in the Corporate and Treasury division of €14 million, compared to the prior period.*

Retail UK (Sterling) (continued)

Net other income for the six months ended 30 June 2017 is a gain of £7 million compared to a charge of £1 million for the same period in 2016. The net improvement of £8 million is primarily due to a financial instrument valuation adjustment charge of £1 million in the period compared to a charge of £10 million for the same period in 2016. The division also realised a gain of £5 million in the period on the disposal of the Group's interest in a UK card business, compared to similar gains in the prior period in relation to other share disposals.

Operating expenses of £177 million for the six months ended 30 June 2017 are £11 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 £15 million for the six months ended 30 June 2017 relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, and is £2 million lower than the same period in 2016, mainly due to increased operating costs as a result of investment in new products.

Impairment charges / (reversals) on loans and advances to customers	**6 months ended 30 June 2017 £m**	6 months ended 30 June 2016 £m	Change %
Residential mortgages	(1)	(5)	(80%)
Non-property SME and corporate	9	1	n/m
Property and construction	45	27	67%
Consumer	5	6	(17%)
Impairment charges / (reversals) on loans and advances to customers	**58**	**29**	**100%**

Impairment charges / (reversals) on loans and advances to customers of £58 million for the six months ended 30 June 2017 were £29 million or 100% higher compared to the same period in 2016. The higher impairment charge is mainly driven by a small number of larger investment property cases where revised resolution strategies may involve asset sales and / or shorter term exit strategies.

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 41 to 51 and the supplementary asset quality and forbearance disclosures section on pages 99 to 123.

Loans and advances to customers (after impairment provisions) of £25.3 billion have reduced by £0.3 billion since 31 December 2016. This reflects continued repayments and redemptions in commercial lending portfolios including the ongoing reduction in the GB business banking portfolio and a modest reduction in net mortgage volumes, partially offset by an overall increase in consumer lending, which includes personal loans, the motor and asset finance business and the cards business.

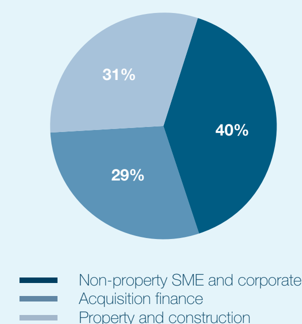
Customer deposits of £19.5 billion at 30 June 2017 are in line with 31 December 2016 volumes. As part of the Group's planned funding strategy, it continues to draw down on the BoE's TFS facility, with £1 billion being drawn at 30 June 2017, compared to £0.6 billion at 31 December 2016.

Corporate and Treasury

Corporate and Treasury: Income statement	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
Net interest income[1,2]	280	273	3%
Net other income[1]	118	114	4%
Operating income	**398**	**387**	**3%**
- Business - net interest and other income	*366*	*343*	*7%*
- Financial Instruments valuation adjustments	*22*	*(48)*	*n/m*
- Euro liquid asset bond portfolio - net interest and other income	*-*	*81*	*n/m*
- Other AFS gains	*10*	*11*	*(9%)*
Operating expenses	(104)	(102)	2%
Operating profit before impairment charges on financial assets	**294**	**285**	**3%**
Impairment charges on financial assets	(21)	(29)	(28%)
Underlying profit before tax	**273**	**256**	**7%**
Staff numbers at period end	651	651	

	30 June 2017 €bn	31 December 2016 €bn
Loans and advances to customers (net)	13.0	13.1
Customer deposits	10.3	11.3
Euro liquid asset bond portfolio	11.4[2]	10.6

Customer lending portfolio composition



Non-property SME and corporate
Acquisition finance
Property and construction

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

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

Corporate and Treasury manage 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.
- Corporate and Treasury receives a fee for the management of this portfolio, which is included in 'Business - net interest and other income' above.

[1] *'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 11 and 12. The impact on Corporate and Treasury was to reduce 'net interest income' in the six months ended 30 June 2017 by €16 million to €264 million (six months ended 30 June 2016 by €34 million to €239 million) with fully offsetting changes to 'net other income' in both periods.*

[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 €14 million lower (€27 million lower in 'euro liquid asset bond portfolio - net interest and other income' and €13 million higher in 'Business - net interest and other income') compared to the prior period.*

Corporate and Treasury (continued)

Corporate Banking

- Continuing strong new business.
- Retained position as Ireland's number one corporate bank and continued to win in excess of 60% of banking relationships arising from new foreign direct investment in Ireland.
- Supporting the ongoing recovery in the Irish economy while selectively growing our UK corporate business through a focused sector strategy.
- 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 Bank of Ireland Group and customers in evaluating and managing foreign exchange, 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 foreign exchange payments platform.
- Global Markets saw strong customer activity across treasury product lines for the six month ended 30 June 2017. This was underpinned by growth in the underlying Irish and UK economies and in international trade.

Financial performance

The division reported an **underlying profit before tax** of €273 million for the six months ended 30 June 2017 an increase of €17 million or 7% compared to the same period of 2016.

Business - net interest and other income is €23 million higher than the prior period at €366 million primarily due to:

- Lower funding costs, and
- The impact of the change in treatment of the euro liquid asset bond portfolio.

Financial instruments valuation adjustments and other is €70 million higher than the prior period at €22 million primarily due to negative fair value movements in the prior period on derivatives which economically hedged the Group (which largely eliminated on consolidation).

Euro liquid asset bond portfolio - net interest and other income, from 1 January 2017, is allocated across the Group through funds transfer pricing. Net funds transfer pricing costs and the management fee received to manage this portfolio are reflected in Business - net interest and other income.

Operating expenses of €104 million for the six months 30 June 2017 increased by 2%, primarily as a result of investment in infrastructure and technology and increased staff costs arising from Group-wide salary increases.

Impairment charges on financial assets (including available for sale financial assets) of €21 million for the six months ended 30 June 2017 have decreased by €8 million or 28% compared to €29 million the same period in 2016. Impairment charges on available for sale (AFS) financial assets are €nil for the six months ended 30 June 2017 compared to a charge of €2 million in the same period 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 41 to 51 and the supplementary asset quality and forbearance disclosures section on pages 99 to 123.

Loans and advances to customers (after impairment provisions) of €13.0 billion at 30 June 2017 were higher than 31 December 2016 by €0.1 billion, on a constant currency basis. The movement is primarily reflective of net new lending in our core books and the continued deleveraging of non-core loan books.

Customer deposits of €10.3 billion at 30 June 2017 have decreased by €1.0 billion since 31 December 2016 due to 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 €11.4 billion at 30 June 2017 was €0.8 billion higher than at 31 December 2016 due to increased holdings of sovereign bonds (€0.9 billion), supranational bonds (€0.4 billion), senior financial bonds (€0.1 billion) which were partially offset by lower holdings of covered bonds (€0.2 billion) and repayments of €0.4 billion on NAMA senior bonds.

Group Centre

Group Centre: Income statement	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Change %
ELG fees	**-**	**(18)**	**100%**
Other income	6	9	(33%)
Net operating (expense) / income	**6**	**(9)**	**n/m**
Operating expenses (before core banking platforms investment and levies and regulatory charges)	(109)	(103)	(6%)
Core Banking Platforms Investment	(55)	(8)	n/m
Levies and regulatory charges	(61)	(60)	(2%)
Underlying loss before tax	**(219)**	**(180)**	**(22%)**
Staff numbers at period end	3,805	3,545	

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 cost 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 €219 million for the six months ended 30 June 2017 compared to a loss of €180 million for the same period in 2016.

Net operating income was a gain of €6 million for the six months ended 30 June 2017 compared to a loss of €9 million for the same period in 2016. The increase of €15 million in the year is driven primarily by a decrease in ELG fees of €18 million.

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €109 million for the six months ended 30 June 2017 are €6 million higher than the same period in 2016. The increase is reflective of an average salary increase of 2.5% awarded to staff in the first half of 2017, investment in strategic initiatives, including technology and infrastructure, along with costs associated with compliance and regulatory expectations.

Core Banking Platforms Investment

Our Core Banking Platforms programme is making progress and we invested a further €105 million in this programme in the first half of 2017, of which €56 million was capitalised on the balance sheet (compared to €9 million in the six months ended 30 June 2016) and €49 million was charged directly to the income statement. The total income statement charge of €55 million (compared to €8 million in the six months ended 30 June 2016) also includes €6 million of an amortisation charge relating to assets capitalised previously and the release of software licence prepayments incurred in 2016.

Levies and regulatory charges

Group Centre has incurred levies and regulatory charges of €61 million in the six months ended 30 June 2017 compared to €60 million in the same period in 2016. The charge in the six months to 30 June 2017 primarily reflects the Group's full year contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund.

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Income statement - Operating segments

6 months ended 30 June 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 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	531	-	158	**689**	-	**689**	(405)	**284**	29	-	-	-	**313**
Bank of Ireland Life	8	657	314	**979**	(881)	**98**	(58)	**40**	-	-	-	-	**40**
Retail UK	317	-	9	**326**	-	**326**	(207)	**119**	(67)	-	18	-	**70**
Corporate and Treasury	280	-	118	**398**	-	**398**	(104)	**294**	(21)	-	-	-	**273**
Group Centre	16	4	(12)	**8**	(2)	**6**	(225)	**(219)**	-	-	-	-	**(219)**
Other reconciling items	(1)	-	4	**3**	-	**3**	-	**3**	-	-	-	-	**3**
Group - underlying[1]	**1,151**	**661**	**591**	**2,403**	**(883)**	**1,520**	**(999)**	**521**	**(59)**	**-**	**18**	**-**	**480**
Total non-core items													
- Cost of restructuring programme	-	-	-	**-**	-	**-**	(17)	**(17)**	-	-	-	-	**(17)**
- Gross-up for policyholder tax in the Life business	-	-	8	**8**	-	**8**	-	**8**	-	-	-	-	**8**
- Cost of corporate reorganisation and establishment of a new holding company	-	-	-	**-**	-	**-**	(7)	**(7)**	-	-	-	-	**(7)**
- Loss on disposal / liquidation of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	-	(5)	**(5)**
- (Charge) / gain arising on the movement in the Group's credit spreads	-	-	(3)	**(3)**	(1)	**(4)**	-	**(4)**	-	-	-	-	**(4)**
- Loss on liability management exercises	-	-	-	**-**	-	**-**	-	**-**	-	-	-	-	**-**
- Investment return on treasury stock held for policyholders	-	-	-	**-**	-	**-**	-	**-**	-	-	-	-	**-**
Group total	**1,151**	**661**	**596**	**2,408**	**(884)**	**1,524**	**(1,023)**	**501**	**(59)**	**-**	**18**	**(5)**	**455**

[1] *Underlying performance excludes the impact of non-core items (see page 15).*

Income statement - Operating segments

6 months ended 30 June 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	504	-	246	750	-	750	(410)	340	(29)	-	(2)	-	309
Bank of Ireland Life	17	558	98	673	(561)	112	(58)	54	-	-	-	-	54
Retail UK	323	-	(1)	322	-	322	(213)	109	(37)	-	22	-	94
Corporate and Treasury	273	-	114	387	-	387	(102)	285	(27)	(2)	-	-	256
Group Centre	1	3	(7)	(3)	(6)	(9)	(171)	(180)	-	-	-	-	(180)
Other reconciling items	(1)	-	26	25	-	25	2	27	-	-	-	-	27
Group - underlying[1]	1,117	561	476	2,154	(567)	1,587	(952)	635	(93)	(2)	20	-	560
Total non-core items													
- (Charge) / gain arising on the movement													
in the Group's credit spreads	-	-	19	19	-	19	-	19	-	-	-	-	19
- (Loss) / gain on liability management exercises			(19)	(19)	-	(19)	-	(19)	-	-	-	-	(19)
- Cost of restructuring programme	-	-	-	-	-	-	(10)	(10)	-	-	-	-	(10)
- Gross-up for policyholder tax in													
the Life business	-	-	5	5	-	5	-	5	-	-	-	-	5
- Investment return on treasury stock held for policyholders	-	-	2	2	-	2	-	2	-	-	-	-	2
Group total	1,117	561	483	2,161	(567)	1,594	(962)	632	(93)	(2)	20	-	557

[1] *Underlying performance excludes the impact of non-core items (see page 15).*

Principal risks and uncertainties

Principal risks and uncertainties facing the Group for the remaining six months of 2017 are listed below. This summary should not be regarded as a complete and comprehensive statement of all potential risks / uncertainties. Other factors not yet identified, or not currently material, may adversely affect the Group.

Business and strategic risk is the risk arising from changes in external factors (such as the macroeconomic environment, customer behaviour and competitive landscape) that impact the demand for and / or profitability of our products and services and / or our future strategy. This risk also includes the risk that the Group does not make appropriate strategic decisions or that strategic decisions do not have the intended effect. It also includes Brexit risks since as well as implications for trade and for both the UK and Irish economies, there are potentially negative consequences for the Group's customers as well as for the Group's operations in terms of currency fluctuations, legal and regulatory changes and people impacts.

Conduct risk is the risk that the Group and / or its staff conducts business in an inappropriate or negligent manner that leads to adverse customer outcomes. Examples of conduct risk include staff misconduct whether through corruption or negligence, risk of customer detriment due to improper / inappropriate advice and the risk of misalignment of market performance expectations.

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.

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.

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 life expectancy, health or behaviour characteristics, may be short or long term in nature.

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

Operational risks which may result in financial loss, disruption of services to customers, and damage to our reputation, include the availability, resilience and security of our core IT systems and the potential for failings in our customer processes. This risk also includes **transformation risk** recognizing the current important stage of the Group's multi-year investment programme to replace our core banking platforms. It also includes 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.

Pension risk is the risk in the Group's defined benefit pension schemes that the assets are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities. This risk crystallises for the sponsor when a deficit emerges of a size which implies a material probability that the liabilities will not be met. The defined benefit pension schemes are subject to market fluctuations and these movements impact the Group's capital position.

People risks include 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.

Regulatory risk is the risk that the Group fails to meet new or existing regulatory and / or legislative requirements which may lead to financial losses and / or reputational damage risk.

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.

The Group also faces other significant and emerging risks: Capital adequacy risk; Macroeconomic conditions; Geopolitical uncertainty; Resolution risk; Tax rates, legislation and practice; Risk in relation to Irish Government shareholding; Litigation and regulatory proceedings; and the Impact of accounting standards such as IFRS 9.

Further detail on risks facing the Group, including key mitigating considerations, may be found in the principal risks and uncertainties section on pages 63 to 71 of the Group's Annual Report for the year ended 31 December 2016.

Asset quality and impairment

Asset quality - loans and advances to customers

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

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.

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 ‘greater than 90 days in arrears and 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.

Forbearance occurs when a borrower is granted an amendment to contractual repayment terms (forbearance measure), for reasons relating to the actual or apparent financial stress or distress of that borrower. 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’.

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. 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 in arrears 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.

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

Asset quality - loans and advances to customers (continued)

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

- Impaired loans;
- Loans greater than 90 days in arrears and 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 will 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.

Composition of loans and advances to customers

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

Loans and advances to customers composition (before impairment provisions)	30 June 2017		31 December 2016	
	€m	**%**	€m	%
Residential mortgages	47,092	59%	48,207	59%
- Retail Ireland	*23,953*	*30%*	*24,329*	*30%*
- Retail UK	*23,139*	*29%*	*23,878*	*29%*
Non-property SME and corporate	19,605	24%	20,000	24%
- Republic of Ireland SME[1]	*8,767*	*11%*	*8,808*	*11%*
- UK SME	*1,861*	*2%*	*1,909*	*2%*
- Corporate	*8,977*	*11%*	*9,283*	*11%*
Property and construction	9,325	12%	10,344	12%
- Investment[1]	*8,637*	*11%*	*9,321*	*11%*
- Land and development[1]	*688*	*1%*	*1,023*	*1%*
Consumer	4,083	5%	3,811	5%
Total loans and advances to customers	**80,105**	**100%**	**82,362**	**100%**

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

The Group's loans and advances to customers before impairment provisions at 30 June 2017 were €80.1 billion compared to €82.4 billion at 31 December 2016, a decrease of €2.3 billion, with currency translation and reductions in impaired loans accounting for substantially all of the reduction.

At 30 June 2017, €43.7 billion or 54% of the Group's loans and advances to customers before impairment provisions related to Ireland[2] (31 December 2016: €44.6 billion or 54%) and €32.5 billion or 40% related to the UK[2] (31 December 2016: €33.4 billion or 40%).

The composition of the Group's loans and advances to customers by portfolio at 30 June 2017 was consistent with 31 December 2016.

[1] *The Non-retail portfolio balances at 30 June 2017 include the impact of the reclassification of certain loans between 'Non-property SME and corporate' and 'Property and construction' during the first half of 2017. The impact of these changes if applied at 31 December 2016 would be to increase ROI SME loan balances by €305 million with a corresponding reduction in Property investment of €202 million and Land and development of €103 million.*

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

Asset quality - loans and advances to customers (continued)

For an analysis of the Group's Risk profile of loans and advances to customers (before impairment provisions) between 'non-forborne' and 'forborne' see pages 118 and 119 in the supplementary asset quality and forbearance disclosures.

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

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.

30 June 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	41,765	5,965	3,209	3,663	54,602	68%
Satisfactory quality	965	8,982	1,744	239	11,930	15%
Acceptable quality	1,461	1,868	1,279	20	4,628	6%
Lower quality but neither past due nor impaired	81	799	731	-	1,611	2%
Neither past due nor impaired	**44,272**	**17,614**	**6,963**	**3,922**	**72,771**	**91%**
Past due but not impaired	1,378	212	285	64	1,939	2%
Impaired	1,442	1,779	2,077	97	5,395	7%
Total loans and advances to customers	**47,092**	**19,605**	**9,325**	**4,083**	**80,105**	**100%**

31 December 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 loans and advances to customers	48,207	20,000	10,344	3,811	82,362	100%

[1] *As described on pages 41 and 42, 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 pages 41 and 42, 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).*

Asset quality - loans and advances to customers (continued)

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Loans and advances to customers classified as **'neither past due nor impaired'** amounted to €72.8 billion at 30 June 2017, a reduction of €1.2 billion compared to €74.0 billion at 31 December 2016.

The **'past due but not impaired'** category amounted to €1.9 billion at 30 June 2017 compared to €2.1 billion at 31 December 2016.

'Impaired' loans decreased to €5.4 billion at 30 June 2017 from €6.2 billion at 31 December 2016. This reduction in impaired loans 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 information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

'Past due and / or impaired'

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

30 June 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	460	58	107	38	663
Past due 31 - 60 days	414	26	21	20	481
Past due 61 - 90 days	148	25	46	6	225
Past due greater than 90 days but not impaired	356	103	111	-	570
Past due but not impaired	**1,378**	**212**	**285**	**64**	**1,939**
Impaired	1,442	1,779	2,077	97	5,395
Total loans and advances to customers - past due and / or impaired	**2,820**	**1,991**	**2,362**	**161**	**7,334**

Asset quality - loans and advances to customers (continued)

31 December 2016 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	453	90	29	35	607
Past due 31 - 60 days	455	15	95	18	583
Past due 61 - 90 days	152	21	89	6	268
Past due greater than 90 days but not impaired[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 loans and advances to customers - past due and / or impaired	3,079	2,085	3,041	163	8,368

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Loans and advances to customers classified as **'past due and / or impaired'** amounted to €7.3 billion at 30 June 2017 compared to €8.4 billion at 31 December 2016. The reduction in 'past due and / or impaired' loans in the period reflects improvements in arrears and the Group's ongoing progress with restructure and resolution activities.

[1] *Comparative figures have been restated as set out on page 43.*

Asset quality - loans and advances to customers (continued)

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Non-performing exposures

As described on pages 41 and 42, 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 tables below provide an analysis of Non-performing loans and advances to customers by asset classification.

30 June 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]	1,442	1,779	2,077	97	5,395
Past due greater than 90 days but not impaired	356	103	111	-	570
Neither impaired nor past due greater than 90 days	1,547	221	333	1	2,102
Total loans and advances to customers - Non-performing exposures	**3,345**	**2,103**	**2,521**	**98**	**8,067**

31 December 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 loans and advances to customers - Non-performing exposures	3,652	2,199	3,474	105	9,430

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

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 (31 December 2016: €0.2 billion)

Non-performing exposures decreased to €8.1 billion at 30 June 2017 from €9.4 billion at 31 December 2016, with reductions evident across all of the Group’s portfolios. Non-performing exposures at 30 June 2017 comprise impaired loans of €5.4 billion (31 December 2016: €6.2 billion), loans that were greater than 90 days in arrears but not impaired of €0.6 billion (31 December 2016: €0.7 billion), forborne collateral realisation loans of €1.5 billion (31 December 2016: €1.8 billion) and other non-performing exposures[2] of €0.6 billion (31 December 2016: €0.7 billion).

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

[1] *As set out on page 42, the non-retail portfolio balances at 30 June 2017 include the impact of the reclassification of certain loans between ‘Non-property SME and corporate’ and ‘Property and construction’ during the first half of 2017. The impact of these changes if applied at 31 December 2016 would be to increase ‘Non-property SME and corporate’ impaired loan balances by €132 million with a corresponding reduction in ‘Property and construction’. On this basis, ‘Non-property SME and corporate’ impaired loans would have reduced by €182 million and ‘Property and construction’ impaired loans would have reduced by €460 million in the period to 30 June 2017.*

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

Asset quality - loans and 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.

30 June 2017

Total loans and advances to customers - Composition and impairment	**Advances (pre-impairment) €m**	**Impaired loans €m**	**Impaired loans as % of advances %**	**Specific impairment provisions €m**	**Specific provisions as % of impaired loans %**
Residential mortgages	47,092	1,442	3.1%	560	39%
- Retail Ireland	*23,953*	*1,271*	*5.3%*	*534*	*42%*
- Retail UK	*23,139*	*171*	*0.7%*	*26*	*15%*
Non-property SME and corporate	19,605	1,779	9.1%	1,017	57%
- Republic of Ireland SME[1]	*8,767*	*1,390*	*15.9%*	*773*	*56%*
- UK SME	*1,861*	*118*	*6.3%*	*66*	*56%*
- Corporate	*8,977*	*271*	*3.0%*	*178*	*66%*
Property and construction	9,325	2,077	22.3%	1,150	55%
- Investment[1]	*8,637*	*1,700*	*19.7%*	*894*	*53%*
- Land and development[1]	*688*	*377*	*54.8%*	*256*	*68%*
Consumer	4,083	97	2.4%	63	65%
Total	**80,105**	**5,395**	**6.7%**	**2,790**	**52%**

31 December 2016

Total loans and advances to customers - Composition and impairment	Advances (pre-impairment) €m	Impaired loans[2] €m	Impaired loans as % of advances %	Specific impairment provisions €m	Specific provisions as % of impaired loans %
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%

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Loans and advances to customers (pre-impairment) at 30 June 2017 were €80.1 billion compared to €82.4 billion at 31 December 2016, a decrease of €2.3 billion, with currency translation and reductions in impaired loans accounting for substantially all of the reduction.

Impaired loans decreased to €5.4 billion at 31 December 2016 from €6.2 billion at 31 December 2016. The reduction in impaired loans in the period reflects the Group's continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty along

[1] As set out on page 42, the Non-retail portfolio balances at 30 June 2017 include the impact of the reclassification of certain loans between 'Non-property SME and corporate' and 'Property and construction' during the first half of 2017. The impact of these changes if applied at 31 December 2016 would be to increase RoI SME impaired loan balances by €132 million with a corresponding reduction in Property investment of €59 million and Land and development of €73 million. On this basis, RoI SME impaired loans would have reduced by €123 million, Property investment by €206 million and Land and development of €254 million in the period to 30 June 2017.

[2] Comparative figures have been restated as set out on page 43.

Asset quality - loans and advances to customers (continued)

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 stock of **impairment provisions** decreased to €3.2 billion at 30 June 2017 from €3.9 billion at 31 December 2016. Impairment provisions of €3.2 billion at 30 June 2017 are after provisions utilised in the period of €0.8 billion as set out in note 17 on page 79.

The Group's impaired loans **provision coverage ratio** was 52% compared to 54% at 31 December 2016. The Group's provision cover at 30 June 2017 reflects a combination of the significant reduction in the Group's impaired loans, impairment charges recognised during the period and provisions utilised.

Included in the above table is €32.5 billion of UK[1] customer exposure at 30 June 2017. Of this, €23.1 billion relates to Retail UK mortgages, €4.3 billion non-property SME and corporate, €3.0 billion Property and construction, and €2.1 billion Consumer.

Of the €4.3 billion UK Non-property SME and corporate exposure (€1.9 billion SME and €2.4 billion corporate) at 30 June 2017, €0.1 billion is impaired, primarily related to UK SME. UK Non-property SME and corporate impaired loans provision coverage ratio is 60% at 30 June 2017.

Of the €3.0 billion UK Property and construction exposure (€2.8 billion Investment and €0.2 billion Land and development) at 30 June 2017, €0.6 billion is impaired (€0.5 billion Investment property and €0.1 billion Land and development). At 30 June 2017, UK Investment property impaired loans provision coverage ratio is 41% and UK Land and development impaired loans provision coverage ratio is 61%.

Of the €2.1 billion UK Consumer lending at 30 June 2017, €24 million is impaired, with an impaired loans provision coverage ratio of 71%. High provision cover reflects the unsecured nature of this lending.

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

The table below summarises the composition, non-performing exposures[2] and impairment provisions of the Group's loans and advances to customers.

30 June 2017 Total loans and advances to customers - Composition and impairment	Advances (pre-impairment) €m	Non-performing exposures €m	Non-performing exposures as % of advances %	Impairment provisions €m	Impairment provisions as % of non-performing exposures %
Residential mortgages	47,092	3,345	7.1%	818	24%
- Retail Ireland	*23,953*	*2,877*	*12.0%*	*746*	*26%*
- Retail UK	*23,139*	*468*	*2.0%*	*72*	*15%*
Non-property SME and corporate	19,605	2,103	10.7%	1,083	51%
- Republic of Ireland SME[3]	*8,767*	*1,651*	*18.8%*	*800*	*48%*
- UK SME	*1,861*	*175*	*9.4%*	*77*	*44%*
- Corporate	*8,977*	*277*	*3.1%*	*206*	*74%*
Property and construction	9,325	2,521	27.0%	1,215	48%
- Investment[3]	*8,637*	*2,124*	*24.6%*	*956*	*45%*
- Land and development[3]	*688*	*397*	*57.7%*	*259*	*65%*
Consumer	4,083	98	2.4%	94	96%
Total	**80,105**	**8,067**	**10.1%**	**3,210**	**40%**

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

[2] As described on pages 41 and 42, 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] As set out on page 42, the Non-retail portfolio balances at 30 June 2017 include the impact of the reclassification of certain loans between 'Non-property SME and corporate' and 'Property and construction' during the first half of 2017. The impact of these changes if applied at 31 December 2016 would be to increase RoI SME non-performing exposures by €146 million with a corresponding reduction in Property investment of €70 million and Land and development of €76 million. On this basis, RoI SME non-performing exposures would have reduced by €181 million, Property investment by €548 million and Land and development of €259 million in the period to 30 June 2017.

Asset quality - loans and advances to customers (continued)

31 December 2016 Total loans and advances to customers - Composition and impairment	Advances (pre-impairment) €m	Non-performing exposures €m	Non-performing exposures as % of advances %	Impairment provisions €m	Impairment provisions as % of non-performing exposures %
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%

The movements in non-performing exposures in the period are consistent with the movements in impaired loans as set out on page 47. The Group's non-performing exposures provision coverage ratio was 40% compared to 41% at 31 December 2016.

For an analysis of the composition of the impairment provision on forborne loans and advances, see table 4 on page 123 in the supplementary asset quality and forbearance disclosures.

'Impairment provision'
The table below summarises the nature of the impairment provision on loans and advances to customers.

Impairment provision by nature of impairment provision	**30 June 2017 €m**	31 December 2016 €m
Specific provisions individually assessed	2,400	2,967
Specific provisions collectively assessed	390	424
Incurred but not reported	420	494
Total impairment provision	**3,210**	**3,885**

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Individual and collective specific provisions at 30 June 2017 are after provisions utilised in the period of €0.8 billion as set out in note 17 on page 79.

The decrease in individual specific provisions in the period reflects the impact of provisions utilised, partially offset by new, and increases to existing, specific provisions attaching to individually assessed Residential mortgage, Non-property SME and corporate and Property and construction exposures.

The decrease in collective specific provisions in the period reflects the impact of provisions utilised activity, as well as a net provision reversal in the period, in the collectively assessed portfolios.

Incurred but not reported (IBNR) impairment provisions decreased by €74 million to €420 million at 30 June 2017. The reduction in IBNR impairment provisions reflects a combination of the improved risk profile and a decrease in the volume of loans assessed for IBNR provisions.

Asset quality - loans and advances to customers (continued)

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Geographical and industry analysis of loans and advances to customers

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

30 June 2017 **Geographical / industry analysis[1]**	**RoI** **€m**	**UK** **€m**	**RoW** **€m**	**Total** **€m**
Personal	25,914	25,261	-	51,175
- Residential mortgages	*23,953*	*23,139*	-	*47,092*
- Other consumer lending	*1,961*	*2,122*	-	*4,083*
Property and construction	6,661	2,664	-	9,325
- Investment	*6,170*	*2,467*	-	*8,637*
- Land and Development	*491*	*197*	-	*688*
Business and other services	6,034	1,879	600	8,513
Manufacturing	2,375	165	41	2,581
Distribution	2,642	577	685	3,904
Agriculture	1,175	124	62	1,361
Transport	604	40	76	720
Financial	1,648	307	-	1,955
Energy	485	70	16	571
Total	**47,538**	**31,087**	**1,480**	**80,105**

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

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

Asset quality - loans and advances to customers (continued)

The information below including referenced footnotes is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 61.

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

The Group's Residential mortgage portfolio is widely diversified by individual borrower and amounted to 59% of total loans and advances to customers at 30 June 2017 (31 December 2016: 59%). 51% of Residential mortgages related to Ireland (31 December 2016: 50%) and 49% related to the UK at 30 June 2017 (31 December 2016: 50%). At 30 June 2017, the Group's UK Residential mortgage book (before impairment provisions) amounted to £20.3 billion (31 December 2016: £20.4 billion).

The Property and construction sector accounted for 12% or €9.3 billion of total loans and advances to customers at 30 June 2017 (31 December 2016: 12% or €10.3 billion). The Group's Property and construction loan book consists primarily of Investment property loans.

Asset quality - other financial instruments

Asset quality: Other financial instruments

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

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

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the Basis of preparation on page 61.

Asset quality:	**30 June 2017**		31 December 2016[1]	
Other financial instruments with ratings equivalent to:	**€m**	**%**	€m	%
AAA to AA-	13,786	53%	13,857	53%
A+ to A-	9,037	34%	9,449	36%
BBB+ to BBB-	2,184	8%	1,977	7%
BB+ to BB-	865	3%	565	2%
B+ to B-	87	1%	185	1%
Lower than B-	314	1%	277	1%
Total	**26,273**	**100%**	**26,310**	**100%**

Other financial instruments at 30 June 2017 amounted to €26.3 billion, which is in line with the position at 31 December 2016.

[1] *Comparative figures have been adjusted to reflect a change in assessment in the current year of the credit rating of certain available for sale financial assets; AAA to AA- has been restated by €2,126 million from €11,731 million to €13,857 million; A+ to A- has been restated by €1,578 million from €11,027 million to €9,449 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 with no change to the total for other financial instruments.*

Asset quality - IFRS 9 financial instruments

Significant information about the Group's IFRS 9 Programme and key aspects of its IFRS 9 implementation were disclosed in the Group's Annual Report for the year ended 31 December 2016. Appropriate updates are provided below.

Overall implementation

The 'build' phase of the Programme is expected to be substantially completed by the end of the third quarter of 2017, allowing for appropriate testing, refinement and dry-run of models, technology infrastructure and processes in advance of 'go-live' on 1 January 2018. Testing of certain components of the Group's overall IFRS 9 solution commenced in the first half of 2017.

Classification and measurement

Based on progress to date in the assessment of business models and the contractual cash flow characteristics of assets, the Group expects that the classification requirements of IFRS 9 will result in no change in measurement basis for the vast majority of the Group's financial assets.

The Group does not expect to avail at transition of the option under IFRS 9 to elect to measure certain equity investments at fair value through other comprehensive income.

The Group does not intend to avail of the 'overlay approach' available to issuers of insurance contracts which is outlined in amendments to IFRS 4 which were published by the IASB in September 2016 and are awaiting EU endorsement.

Impairment

Development of the Group's expected credit losses (ECL) model suite is at an advanced stage, with multiple future macroeconomic scenarios being incorporated into the models.

The Group will finalise its qualitative and quantitative staging criteria in the second half of 2017, including the threshold(s) for movement in probability of default (PD) to be applied in determining whether an asset has experienced a significant increase in credit risk.

The Group expects to apply the low credit risk expedient to most debt securities measured at amortised cost or at fair value through other comprehensive income and similarly to loans and advances to central banks, credit institutions and investment firms. 'Low credit risk' is expected to encompass 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.

Detailed development work is continuing on the operating model and governance framework that will apply post transition to IFRS 9. It will leverage existing arrangements where appropriate and be consistent with the Group's three lines of defence approach to risk management. New or revised operating processes are being developed to ensure business readiness on transition to IFRS 9.

ECL models and model methodologies are expected to be subject to approval by the Risk Measurement Committee, which is responsible for approval and oversight of the Group's risk measurement systems.

The formulation of multiple future macroeconomic scenarios and associated probability weightings will be a cross-functional activity and subject to approval by the Group Risk Policy Committee, the Group's most senior management risk committee. It is expected that at least three such scenarios will be formulated at each reporting date.

The Court will retain ultimate responsibility, on the recommendation of Group Audit Committee, for approving the Group Impairment Policy and the Group's financial statements.

Quantitative impact and regulatory treatment

Transition to the classification and measurement requirements of IFRS 9 is not expected to have a material quantitative impact on the Group's total financial assets and liabilities.

Transition to the impairment requirements of IFRS 9 may result in a material increase in impairment provisions at transition, but a reasonable estimate currently cannot be made primarily as the Group's staging criteria have yet to be finalised; the incorporation of multiple future macroeconomic scenarios into the Group's ECL model suite is not yet complete; and the composition of the Group's portfolios and the macro-economic conditions and outlook that will prevail at transition are not known.

There continues to be uncertainty regarding the regulatory and tax treatment of the initial impact of transition to IFRS 9. Relief for the initial impact on regulatory capital due to the impairment requirements of IFRS 9 is under consideration at EU level based on a 5-year transitional period commencing on the effective date of IFRS 9, with a significant level of add-back in the initial year and reducing incrementally thereafter. For the purposes of UK Corporation Tax, transitional adjustments arising from the adoption of IFRS 9 in respect of credit losses are to be spread over a 10 year period. Irish Corporation Tax rules relating to the transition to IFRS 9 have not yet been established.

In June 2017, the EBA issued its draft methodology for the 2018 EU-wide stress test which will cover a three year period to the end of 2020 and incorporate the impact of IFRS 9. Based on the draft methodology, the baseline and adverse scenarios will each be based on a single future macroeconomic scenario; the full impact of the macroeconomic scenario must be applied in year 1 of the stress test for initial stage 2 and 3 assets; capital ratios under the stress test will be published on both a transitional and fully loaded basis; and no hurdle rates or thresholds will be specified but competent authorities will apply the results as an input to the supervisory review and evaluation process (SREP). The final methodology is to be published in early 2018.

The Group expects to provide quantitative information on the impact of transition to IFRS 9 in its Group's Annual Report for the year ended 31 December 2017.

Responsibility Statement
for the six months ended 30 June 2017

The Directors are responsible for preparing the Interim Report in accordance with International Accounting Standard 34 as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

The Directors confirm that to the best of each Director's knowledge and belief the condensed set of interim financial statements have been prepared in accordance with IAS 34 and that they give a true and fair view of the assets, liabilities, financial position and profit of the Group and that as required by the Transparency (Directive 2004/109/EC) Regulations 2007, the Interim Report includes a fair review of:

- important events that have occurred during the first six months of the year;
- the impact of those events on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year (see page 40);
- details of any related parties' transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2017; and
- details of any changes to related parties' transactions described in the Group's Annual Report for the year ended 31 December 2016 that could have a material effect on the financial position or performance of the Group in the six months ended 30 June 2017.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Court by
27 July 2017

Archie G Kane	***Patrick Kennedy***	***Richie Boucher***
Governor	*Deputy Governor*	*Group Chief Executive*

Independent Review Report
to The Governor and Company of the Bank of Ireland

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed The Governor and Company of the Bank of Ireland's condensed consolidated interim financial statements (the 'interim financial statements'), defined below, in the Interim Report of The Governor and Company of the Bank of Ireland (the 'Bank') for the six months ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

What we have reviewed
The interim financial statements, which are prepared by the Bank, comprise:
- the Consolidated income statement and Consolidated condensed statement of comprehensive income for the period then ended;
- the Consolidated balance sheet as at 30 June 2017;
- the Consolidated condensed statement of changes in equity for the period then ended;
- the Consolidated condensed cash flow statement for the period then ended;
- the Basis of preparation and accounting policies;
- the Notes to the interim financial statements; and
- the information described as being an integral part of the interim financial statements as set out in the interim financial statements paragraph on the Basis of preparation and accounting policies on page 61.

The interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

As disclosed in the Basis of preparation on page 61, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors
The Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the Bank for the purpose of complying with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers
Chartered Accountants
Dublin
27 July 2017

Consolidated interim financial statements and notes
(unaudited)

Consolidated income statement (unaudited)
for the six months ended 30 June 2017

	Note	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Interest income	2	1,342	1,481	2,861
Interest expense	3	(191)	(364)	(598)
Net interest income		**1,151**	**1,117**	**2,263**
Net insurance premium income	4	661	561	1,226
Fee and commission income	5	269	280	559
Fee and commission expense	5	(109)	(109)	(222)
Net trading income	6	80	6	113
Life assurance investment income, gains and losses	7	285	93	446
Other operating income	8	71	213	287
Total operating income		**2,408**	**2,161**	**4,672**
Insurance contract liabilities and claims paid	9	(884)	(567)	(1,564)
Total operating income, net of insurance claims		**1,524**	**1,594**	**3,108**
Other operating expenses	10	(1,006)	(952)	(1,897)
Cost of restructuring programme	11	(17)	(10)	(35)
Operating profit before impairment charges on financial assets		**501**	**632**	**1,176**
Impairment charges on financial assets	12	(59)	(95)	(178)
Operating profit		**442**	**537**	**998**
Share of results of associates and joint ventures (after tax)		18	20	41
Loss on disposal / liquidation of business activities		(5)	-	(7)
Profit before tax		**455**	**557**	**1,032**
Taxation charge	13	(84)	(118)	(239)
Profit for the period		**371**	**439**	**793**
Attributable to stockholders		371	439	793
Attributable to non-controlling interests		-	-	-
Profit for the period		**371**	**439**	**793**
Earnings per unit of ordinary stock	14	31.8c	35.3c	66.1c
Diluted earnings per unit of ordinary stock	14	31.8c	35.3c	66.1c

Consolidated condensed statement of comprehensive income (unaudited) for the six months ended 30 June 2017

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Profit for the period	**371**	**439**	**793**
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss in subsequent periods:			
Available for sale financial assets, net of tax	(2)	(148)	(169)
Cash flow hedge reserve, net of tax	(102)	108	(4)
Foreign exchange reserve	(101)	(355)	(419)
Total items that may be reclassified to profit or loss in subsequent periods	**(205)**	**(395)**	**(592)**
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of the net defined benefit pension liability, net of tax	(70)	(394)	167
Revaluation of property, net of tax	-	(2)	3
Total items that will not be reclassified to profit or loss in subsequent periods	**(70)**	**(396)**	**170**
Other comprehensive income for the period, net of tax	**(275)**	**(791)**	**(422)**
Total comprehensive income for the period, net of tax	**96**	**(352)**	**371**
Total comprehensive income attributable to equity stockholders	96	(352)	371
Total comprehensive income attributable to non-controlling interests	-	-	-
Total comprehensive income for the period, net of tax	**96**	**(352)**	**371**

The effect of tax on these items is shown in note 13.

Consolidated balance sheet (unaudited) as at 30 June 2017

	Note	30 June 2017 €m	31 December 2016 €m
Assets			
Cash and balances at central banks		4,943	5,192
Items in the course of collection from other banks		290	242
Trading securities		170	18
Derivative financial instruments		2,941	3,709
Other financial assets at fair value through profit or loss		13,982	13,249
Loans and advances to banks		3,029	3,349
Available for sale financial assets	15	11,980	10,794
Held to maturity financial assets		1,849	1,872
NAMA senior bonds		89	451
Loans and advances to customers	16	76,895	78,477
Interest in associates		53	56
Interest in joint ventures		87	71
Intangible assets	18	702	635
Investment properties		845	864
Property, plant and equipment		348	353
Current tax assets		14	4
Deferred tax assets	19	1,299	1,298
Other assets		2,486	2,487
Retirement benefit assets	24	17	8
Total assets		**122,019**	**123,129**
Equity and liabilities			
Deposits from banks	20	5,027	3,662
Customer accounts	21	74,652	75,167
Items in the course of transmission to other banks		425	223
Derivative financial instruments		2,365	2,873
Debt securities in issue	22	8,559	10,697
Liabilities to customers under investment contracts		5,740	5,647
Insurance contract liabilities		11,226	10,934
Other liabilities		2,513	2,465
Current tax liabilities		21	19
Provisions	23	79	96
Deferred tax liabilities	19	66	65
Retirement benefit obligations	24	511	454
Subordinated liabilities	25	1,378	1,425
Total liabilities		**112,562**	**113,727**
Equity			
Capital stock		2,545	2,545
Stock premium account		571	571
Retained earnings		5,503	5,214
Other reserves		120	342
Own stock held for the benefit of life assurance policyholders		(23)	(11)
Stockholders' equity		**8,716**	**8,661**
Other equity instruments		740	740
Total equity excluding non-controlling interests		**9,456**	**9,401**
Non-controlling interests		1	1
Total equity		**9,457**	**9,402**
Total equity and liabilities		**122,019**	**123,129**

Consolidated condensed statement of changes in equity (unaudited) for the six months ended 30 June 2017

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Capital stock			
Balance at the beginning of the period	2,545	2,558	2,558
Redemption of 2009 Preference Stock	-	(13)	(13)
Balance at the end of the period	**2,545**	**2,545**	**2,545**
Stock premium account			
Balance at the beginning of the period	571	1,135	1,135
Redemption of 2009 Preference Stock	-	(564)	(564)
Balance at the end of the period	**571**	**571**	**571**
Retained earnings			
Balance at the beginning of the period	5,214	4,950	4,950
Profit retained	343	380	712
- Profit for period attributable to stockholders	*371*	*439*	*793*
- Dividends on preference equity interests paid in cash	*(4)*	*(4)*	*(8)*
- Distribution on other equity instruments - Additional tier 1 coupon, net of tax	*(24)*	*(55)*	*(73)*
Redemption of 2009 Preference Stock	-	(727)	(727)
Transfer from capital contribution	-	-	116
Transfer from / (to) capital reserve	17	(15)	(3)
Remeasurement of the net defined benefit pension liability	(70)	(394)	167
Other movements	(1)	-	(1)
Balance at the end of the period	**5,503**	**4,194**	**5,214**
Other Reserves:			
Available for sale reserve			
Balance at the beginning of the period	350	519	519
Net changes in fair value	21	(20)	(19)
Transfer to income statement (pre tax)			
- Asset disposal	(15)	(160)	(174)
- Amortisation	(9)	(8)	(17)
Deferred tax on reserve movements	1	40	41
Balance at the end of the period	**348**	**371**	**350**
Cash flow hedge reserve			
Balance at the beginning of the period	156	160	160
Changes in fair value, net of transfers (to) / from income statement	(117)	127	(1)
Deferred tax on reserve movements	15	(19)	(3)
Balance at the end of the period	**54**	**268**	**156**

Consolidated condensed statement of changes in equity (unaudited) for the six months ended 30 June 2017 (continued)

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Foreign exchange reserve			
Balance at the beginning of the period	(696)	(277)	(277)
Exchange adjustments during the period	(106)	(355)	(423)
Transfer to income statement on liquidation of non-trading entities	5	-	4
Balance at the end of the period	**(797)**	**(632)**	**(696)**
Capital contribution	**-**	**116**	**-**
Capital reserve			
Balance at the beginning of the period	512	502	502
Transfer (to) / from retained earnings	(17)	15	3
Redemption of 2009 Preference Stock	-	7	7
Balance at the end of the period	**495**	**524**	**512**
Revaluation reserve			
Balance at the beginning of the period	20	17	17
Revaluation of property	-	(2)	4
Deferred tax on reserve movements	-	-	(1)
Balance at the end of the period	**20**	**15**	**20**
Total other reserves	**120**	**662**	**342**
Own stock held for the benefit of life assurance policyholders			
Balance at the beginning of the period	(11)	(11)	(11)
Changes in value and amount of stock held	(12)	2	-
Balance at the end of the period	**(23)**	**(9)**	**(11)**
Total stockholders' equity excluding other equity instruments and non-controlling interests	**8,716**	**7,963**	**8,661**
Other equity instruments			
Balance at the end of the period	740	740	740
Non-controlling interests			
Balance at the beginning of the period	1	1	1
Share of net profit	-	-	-
Balance at the end of the period	**1**	**1**	**1**
Total equity	**9,457**	**8,704**	**9,402**

Consolidated condensed cash flow statement (unaudited) for the six months ended 30 June 2017

	Notes	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Cash flows from operating activities				
Profit before tax		455	557	1,032
Share of results of associates and joint ventures		(18)	(20)	(41)
Loss on disposal / liquidation of business activities		5	-	7
Depreciation and amortisation	10	74	65	132
Impairment charges on financial assets	12	59	95	178
Reversal of impairment on property	10	-	(2)	(5)
Revaluation of investment property		(19)	(3)	(14)
Loss / (gain) on sale of assets classified as held for sale		-	-	1
Interest expense on subordinated liabilities		45	111	169
Charge for pension and similar obligations		62	78	114
Loss on liability management exercises	8	-	19	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'	6	4	(19)	(5)
Net change in accruals and interest payable		(61)	(131)	(118)
Net change in prepayments and interest receivable		41	52	25
Non-cash and other items		93	3	16
Cash flows from operating activities before changes in operating assets and liabilities		**740**	**805**	**1,510**
Net cash flow from operating assets and liabilities		221	(726)	(96)
Net cash flow from operating activities before tax		**961**	**79**	**1,414**
Tax paid		(50)	(27)	(98)
Net cash flow from operating activities		**911**	**52**	**1,316**
Investing activities				
Net additions of available for sale financial assets		(1,329)	(147)	(888)
Additions to property, plant and equipment, intangible assets and investment property		(171)	(99)	(345)
Disposal of property, plant and equipment, intangible assets and investment property		61	1	14
Disposal of assets held for sale		-	17	17
Dividends received from joint ventures		-	-	40
Net change in interest in associates		3	1	(2)
Net costs from disposal of business activity		-	-	(3)
Cash flows from investing activities		**(1,436)**	**(227)**	**(1,167)**
Financing activities				
Redemption of 2009 Preference Stock		-	(1,300)	(1,300)
Repayment of subordinated liabilities	25	(32)	-	(1,000)
Interest paid on subordinated liabilities		(58)	(59)	(190)
Dividend paid on 2009 Preference Stock and other preference equity interests		(4)	(120)	(124)
Consideration paid in respect of liability management exercises		-	(619)	(632)
Distributions paid on other equity instruments - Additional tier 1 coupon		(27)	(55)	(83)
Cash flows from financing activities		**(121)**	**(2,153)**	**(3,329)**
Effect of exchange translation and other adjustments		116	641	504
Net change in cash and cash equivalents		**(530)**	**(1,687)**	**(2,676)**
Opening cash and cash equivalents		8,299	10,975	10,975
Closing cash and cash equivalents		**7,769**	**9,288**	**8,299**

Basis of preparation and accounting policies

Basis of preparation

The interim financial statements of The Governor and Company of the Bank of Ireland (the 'Bank') and its subsidiaries (collectively the 'Group') for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as issued by the International Accounting Standards Board and as adopted by the European Union. These interim financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2016, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statement) Regulations, 2015.

Statutory financial statements
These interim financial statements do not comprise statutory financial statements within the meaning of the Companies Act 2014 (as amended). The statutory financial statements for the year ended 31 December 2016 were approved by the Court of Directors on 23 February 2017, contained an unqualified audit report and were filed with the Companies Registration Office on 31 May 2017.

Interim financial statements
The interim financial statements comprise the Consolidated income statement, Consolidated condensed statement of comprehensive income, Consolidated balance sheet, Consolidated condensed statement of changes in equity, Consolidated condensed cash flow statement, Basis of preparation and accounting policies and the Notes to the consolidated interim financial statements on pages 55 to 95. The interim financial statements include the information that is described as being an integral part of the interim financial statements contained in the Asset quality and impairment section of the Operating and financial review. The interim financial statements also include the tables in Other Information - Supplementary Asset Quality and forbearance disclosures described as being an integral part of the interim financial statements as described further on page 99.

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the interim financial statements for the six months ended 30 June 2017 is a period of twelve months from the date of approval of these interim financial statements (the 'period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, taking due account of the availability of collateral to access the Eurosystem under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, along with ongoing developments in the eurozone.

The matters of primary consideration by the Directors are set out below:

Capital
The Group has developed capital plans under base and stress scenarios and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and liquidity
The Directors have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment, including sufficient collateral for funding if required from the relevant Monetary Authorities.

Conclusion
On the basis of the above, the Directors consider it appropriate to prepare the interim 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.

Accounting policies

Accounting policies
The accounting policies and methods of computation and presentation applied by the Group in the preparation of these interim financial statements are consistent with those set out on pages 195 to 217 of the Group's Annual Report for the year ended 31 December 2016, with the following exceptions.

Basis of preparation and accounting policies (continued)

As part of the revision of its asset quality reporting methodology as set out in more detail on pages 41 and 42, 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 'greater than 90 days in arrears and 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. As a result the accounting policy on forbearance has been updated as follows:

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change ('forbearance measure') to a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 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.

New accounting pronouncements
There have been no new standards or amendments to standards adopted by the Group during the six months ended 30 June 2017 which have had a material impact on the Group.

Significant information about the Group's IFRS 9 Programme and key aspects of its IFRS 9 implementation were disclosed in the Group's Annual Report for the year ended 31 December 2016. The 'build' phase of the Programme is expected to be substantially completed by the end of the third quarter of 2017, allowing for appropriate testing, refinement and dry-run of models, technology infrastructure and processes in advance of 'go-live' on 1 January 2018. Testing of certain components of the Group's overall IFRS 9 solution commenced in the first half of 2017. The Group expects to provide additional disclosure on IFRS 9, including quantitative information on the impact of transition, in the Group's Annual Report for the year ended 31 December 2017.

Critical accounting estimates and judgements
The preparation of interim financial statements requires the Group to make estimates and judgements that impact the reported amounts of assets and liabilities, income and expense. There have been no significant changes to the Group's approach to, and methods of, making critical accounting estimates and judgements compared to those applied at 31 December 2016, as set out on pages 217 to 220 of the Group's Annual Report for the year ended 31 December 2016.

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 disclosure as appropriate.

Notes to the consolidated interim financial statements

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1 Operating segments

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

Retail Ireland
Retail Ireland is managed through a number of business units namely Distribution Channels, Customer Propositions (including Customer and Wealth Management and Bank of Ireland Mortgage Bank) 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 brokers, its financial advisors (direct sales force) and the Group's distribution channels.

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

Corporate and Treasury
The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. It also 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. The Group's central functions, through Group Centre, establish and oversee polices and provide and manage certain processes and delivery platforms for the divisions.

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

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

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

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

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Group accounting policies' on pages 195 to 217 of the Group's Annual Report for the year ended 31 December 2016, other than as noted on page 62. 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 the six months ended 30 June 2017, the Group amended the basis of allocating liquid asset income across the divisions which resulted in an increase in net interest income for the six months ended 30 June 2017 in the Retail Ireland division of €13 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 €14 million, compared to the former basis.

1 Operating segments (continued)

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

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

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

- Cost of restructuring programme;
- Gross-up for policyholder tax in the Life business;
- Cost of corporate reorganisation and establishment of a new holding company;
- Gain / loss on disposal / liquidation of business activities;
- Gains / charges arising on the movement in the Group's credit spreads;
- Gain / loss on liability management exercises; and
- Investment return on treasury stock held for policyholders.

1 Operating segments (continued)

6 months ended 30 June 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	**531**	**8**	**317**	**280**	**16**	**(1)**	**1,151**
Other income, net of insurance claims	158	90	9	118	(10)	4	369
Total operating income, net of insurance claims	**689**	**98**	**326**	**398**	**6**	**3**	**1,520**
Other operating expenses	(377)	(56)	(194)	(99)	(199)	-	(925)
- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	*(377)*	*(56)*	*(192)*	*(99)*	*(83)*	-	*(807)*
- Core Banking Platforms Investment charge	-	-	-	-	*(55)*	-	*(55)*
- Levies and regulatory charges	-	-	*(2)*	-	*(61)*	-	*(63)*
Depreciation and amortisation	(28)	(2)	(13)	(5)	(26)	-	(74)
Total operating expenses	**(405)**	**(58)**	**(207)**	**(104)**	**(225)**	**-**	**(999)**
Underlying operating profit / (loss) before impairment charges on financial assets	**284**	**40**	**119**	**294**	**(219)**	**3**	**521**
Impairment (charges) / reversals on financial assets	29	-	(67)	(21)	-	-	(59)
Share of results of associates and joint ventures	-	-	18	-	-	-	18
Underlying profit / (loss) before tax	**313**	**40**	**70**	**273**	**(219)**	**3**	**480**

Reconciliation of underlying profit before tax to profit before tax	**Group €m**
Underlying profit before tax	480
Cost of restructuring programme	(17)
Gross-up for policyholder tax in the Life business	8
Cost of corporate reorganisation and establishment of a new holding company	(7)
Loss on disposal / liquidation of business activities	(5)
Charges arising on the movement in the Group's credit spreads	(4)
Profit before tax	**455**

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

1 Operating segments (continued)

6 months ended 30 June 2016	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[1] €m	Group €m
Net interest income	504	17	323	273	1	(1)	1,117
Other income, net of insurance claims	246	95	(1)	114	(10)	26	470
Total operating income, net of insurance claims	750	112	322	387	(9)	25	1,587
Other operating expenses	(383)	(56)	(199)	(97)	(154)	2	(887)
- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	*(383)*	*(56)*	*(197)*	*(97)*	*(86)*	*2*	*(817)*
- Core Banking Platforms Investment charge	*-*	*-*	*-*	*-*	*(8)*	*-*	*(8)*
- Levies and regulatory charges	*-*	*-*	*(2)*	*-*	*(60)*	*-*	*(62)*
Depreciation and amortisation	(27)	(2)	(14)	(5)	(17)	-	(65)
Total operating expenses	(410)	(58)	(213)	(102)	(171)	2	(952)
Underlying operating profit / (loss) before impairment charges on financial assets	340	54	109	285	(180)	27	635
Impairment charges on financial assets	(29)	-	(37)	(29)	-	-	(95)
Share of results of associates and joint ventures	(2)	-	22	-	-	-	20
Underlying profit / (loss) before tax	309	54	94	256	(180)	27	560

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	560
Gain arising on the movement in the Group's credit spreads	19
Loss on liability management exercises	(19)
Cost of restructuring programme	(10)
Gross-up for policyholder tax in the Life business	5
Investment return on treasury stock held for policyholders	2
Profit before tax	557

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

1 Operating segments (continued)

Year ended 31 December 2016	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[1] €m	Group €m
Net interest income	1,032	31	609	576	15	-	2,263
Other income, net of insurance claims	407	190	(9)	238	(16)	32	842
Total operating income, net of insurance claims	1,439	221	600	814	(1)	32	3,105
Other operating expenses	(764)	(95)	(387)	(196)	(323)	-	(1,765)
- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)	*(763)*	*(94)*	*(384)*	*(196)*	*(178)*	-	*(1,615)*
- Core Banking Platforms Investment charge	-	-	-	-	*(41)*	-	*(41)*
- Levies and regulatory charges	*(1)*	*(1)*	*(3)*	-	*(104)*	-	*(109)*
Depreciation and amortisation	(55)	(5)	(25)	(10)	(37)	-	(132)
Total operating expenses	(819)	(100)	(412)	(206)	(360)	-	(1,897)
Underlying operating profit / (loss) before impairment charges on financial assets	620	121	188	608	(361)	32	1,208
Impairment (charges) / reversals on financial assets	(2)	-	(99)	(77)	-	-	(178)
Share of results of associates and joint ventures	(3)	-	44	-	-	-	41
Underlying profit / (loss) before tax	615	121	133	531	(361)	32	1,071

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	1,071
Cost of restructuring programme	(35)
Loss on liability management exercises	(19)
Gross-up for policyholder tax in the Life business	15
Loss on disposal / liquidation of business activities	(7)
Gain arising on the movement in the Group's credit spreads	5
Investment return on treasury stock held for policyholders	2
Profit before tax	1,032

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

1 Operating segments (continued)

30 June 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	**53**	**-**	**87**	**-**	**-**	**-**	**140**
External assets	36,219	17,101	34,411	28,833	5,453	2	122,019
Inter segment assets	58,175	1,320	3,625	76,596	17,982	(157,698)	-
Total assets	**94,394**	**18,421**	**38,036**	**105,429**	**23,435**	**(157,696)**	**122,019**
External liabilities	49,282	17,455	26,381	16,838	2,597	9	112,562
Inter segment liabilities	43,527	172	9,037	87,661	17,282	(157,679)	-
Total liabilities	**92,809**	**17,627**	**35,418**	**104,499**	**19,879**	**(157,670)**	**112,562**

Year ended 31 December 2016 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	56	-	71	-	-	-	127
External assets	36,739	16,446	35,317	28,901	5,715	11	123,129
Inter segment assets	56,530	1,555	8,717	81,500	16,245	(164,547)	-
Total assets	93,269	18,001	44,034	110,401	21,960	(164,536)	123,129
External liabilities	48,884	17,061	26,557	18,598	2,617	10	113,727
Inter segment liabilities	42,750	184	14,852	90,578	16,154	(164,518)	-
Total liabilities	91,634	17,245	41,409	109,176	18,771	(164,508)	113,727

1 Operating segments (continued)

6 months ended 30 June 2017 Gross revenue 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**
Gross external revenue	**700**	**988**	**561**	**436**	**43**	**(2)**	**2,726**
Inter segment revenues	319	32	25	235	31	(642)	-
Gross revenue before claims paid	**1,019**	**1,020**	**586**	**671**	**74**	**(644)**	**2,726**
Insurance contract liabilities and claims paid	-	(881)	-	-	(3)	-	(884)
Gross revenue	**1,019**	**139**	**586**	**671**	**71**	**(644)**	**1,842**
Interest expense	**(58)**	**(1)**	**(90)**	**6**	**(56)**	**8**	**(191)**
Capital expenditure	**8**	**3**	**14**	**2**	**119**	**-**	**146**

6 months ended 30 June 2016 Gross revenue 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
Gross external revenue	777	713	754	392	43	(25)	2,654
Inter segment revenues	348	(6)	(25)	352	181	(850)	-
Gross revenue before claims paid	1,125	707	729	744	224	(875)	2,654
Insurance contract liabilities and claims paid	-	(561)	-	-	(6)	-	(567)
Gross revenue	1,125	146	729	744	218	(875)	2,087
Interest expense	(73)	(1)	(165)	(6)	(125)	6	(364)
Capital expenditure	13	4	7	1	60	-	85

Year ended 31 December 2016 Gross revenue 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
Gross external revenue	1,489	1,787	1,311	898	75	(27)	5,533
Inter segment revenues	689	66	30	600	291	(1,676)	-
Gross revenue before claims paid	2,178	1,853	1,341	1,498	366	(1,703)	5,533
Insurance contract liabilities and claims paid	-	(1,553)	-	-	(11)	-	(1,564)
Gross revenue	2,178	300	1,341	1,498	355	(1,703)	3,969
Interest expense	(138)	(1)	(287)	(4)	(182)	14	(598)
Capital expenditure	45	7	24	6	198	-	280

2 Interest income

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Loans and advances to customers	1,188	1,312	2,532
Finance leases and hire purchase receivables	76	73	146
Available for sale financial assets	49	63	121
Held to maturity financial assets[1]	15	15	31
Loans and advances to banks	7	12	22
NAMA senior bonds	2	2	4
Negative interest on liabilities	5	4	5
Interest income	**1,342**	**1,481**	**2,861**

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income.

Interest income recognised on loans and advances to customers

Interest income recognised on loans and advances to customers includes €36 million (six months ended 30 June 2016: €54 million; year ended 31 December 2016: €103 million) of interest recognised on impaired loans and advances to customers on which a specific impairment provision has been recognised at the period end. Of this amount:

- €26 million (six months ended 30 June 2016: €40 million; year ended 31 December 2016: €77 million) relates to loans on which specific provisions have been individually assessed; and
- €10 million (six months ended 30 June 2016: €14 million; year ended 31 December 2016: €26 million) relates to loans on which specific provisions have been collectively assessed.

Interest income received on loans and advances to customers

For the six months ended 30 June 2017, €47 million (six months ended 30 June 2016: €57 million; year ended 31 December 2016: €109 million) of interest income was received in cash on impaired loans and advances to customers on which a specific impairment provision has been recognised at the period end.

3 Interest expense

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Customer accounts	101	220	365
Debt securities in issue	41	48	80
Subordinated liabilities	35	91	139
Deposits from banks	7	5	6
Negative interest on assets	7	-	8
Interest expense	**191**	**364**	**598**

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense.

Included within interest expense for the six months ended 30 June 2017 is an amount of €nil (six months ended 30 June 2016: €18 million; year ended 31 December 2016: €20 million) relating to the cost of the Eligible Liabilities Guarantee (ELG) Scheme.

[1] *Includes €9 million (30 June 2016: €8 million; 31 December 2016: €17 million) of amortisation income transferred from the available for sale reserve in relation to those assets reclassified from available for sale to held to maturity.*

4 Net insurance premium income

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Gross premiums written	707	603	1,306
Ceded reinsurance premiums	(43)	(39)	(80)
Net premiums written	664	564	1,226
Change in provision for unearned premiums	(3)	(3)	-
Net insurance premium income	**661**	**561**	**1,226**

5 Fee and commission income and expense

Income	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Retail banking customer fees	218	223	442
Credit related fees	24	22	46
Insurance commissions	7	9	19
Asset management fees	2	2	3
Brokerage fees	1	1	2
Other	17	23	47
Fee and commission income	**269**	**280**	**559**

Expense

Fee and commission expense of €109 million (six months ended 30 June 2016: €109 million; year ended 31 December 2016: €222 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

6 Net trading income

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Financial assets designated at fair value	6	(1)	3
Financial liabilities designated at fair value	(53)	(14)	(105)
Related derivatives held for trading	39	(5)	66
	(8)	**(20)**	**(36)**
Other financial instruments held for trading	89	27	149
Net fair value hedge ineffectiveness	-	(2)	-
Cash flow hedge ineffectiveness	(1)	1	-
Net trading income	**80**	**6**	**113**

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 €20 million (six months ended 30 June 2016: €6 million; year ended 31 December 2016: €15 million) in relation to net gains arising from foreign exchange.

6 Net trading income (continued)

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €30 million (six months ended 30 June 2016: net charge of €135 million; year ended 31 December 2016: net charge of €87 million) offsetting a net charge from hedged items of €30 million (six months ended 30 June 2016: net gain of €133 million; year ended 31 December 2016: net gain of €87 million).

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

Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Recognised in			
- Net trading income	(3)	15	3
- Insurance contract liabilities and claims paid	(1)	4	2
	(4)	**19**	**5**
Cumulative charges arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss	(26)	(8)	(22)

7 Life assurance investment income, gains and losses

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Gross life assurance investment income, gains and losses	285	93	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.

8 Other operating income

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Other insurance income	34	49	121
Transfer from available for sale reserve on asset disposal (see note 15)	15	160	174
Dividend income	9	9	14
Movement in value of in force asset	7	10	(7)
Other income	6	4	4
Loss on liability management exercises	-	(19)	(19)
Other operating income	**71**	**213**	**287**

Other income includes a gain on investment property disposals and revaluations of €1 million (six months ended 30 June 2016: loss €3 million; year ended 31 December 2016: loss €3 million).

9 Insurance contract liabilities and claims paid

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Claims paid			
Policy surrenders	504	342	741
Death and critical illness claims	78	82	152
Annuity payments	38	38	77
Policy maturities	1	1	1
Other claims	24	21	59
Gross claims paid	**645**	**484**	**1,030**
Recovered from reinsurers	(46)	(45)	(90)
Net claims paid	**599**	**439**	**940**
Change in insurance contract liabilities			
Change in gross liabilities	292	233	531
Change in reinsured liabilities	(7)	(105)	93
Net change in insurance contract liabilities	**285**	**128**	**624**
Insurance contract liabilities and claims paid	**884**	**567**	**1,564**

10 Other operating expenses

Administrative expenses and staff costs	**6 months ended 30 June 2017 €m**	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Staff costs excluding restructuring and platforms investment staff costs	452	452	881
Levies and regulatory charges	63	62	109
- Irish bank levy	*-*	*-*	*38*
- Other	*63*	*62*	*71*
Amortisation of intangible assets (note 18)	57	48	98
Core Banking Platforms Investment charge	55	8	41
Depreciation of property, plant and equipment	17	17	34
Reversal of impairment on property	-	(2)	(5)
Other administrative expenses excluding cost of restructuring programme	362	367	739
Total	**1,006**	**952**	**1,897**
Total staff costs are analysed as follows:			
Wages and salaries	336	334	664
Retirement benefit costs (defined benefit plans) (note 24)	62	70	118
Social security costs	38	35	73
Retirement benefit costs (defined contribution plans)	12	8	17
Other staff expenses	4	5	9
Staff costs excluding restructuring and platforms investment staff costs	**452**	**452**	**881**
Additional restructuring and platforms investment staff costs:			
Included in cost of restructuring programme (note 11)	17	13	38
Included in Core Banking Platforms Investment charge	11	2	6
Total staff costs recognised in the income statement	**480**	**467**	**925**

10 Other operating expenses (continued)

The Group has incurred levies and regulatory charges of €63 million in the six months ended 30 June 2017 (six months ended 30 June 2016: €62 million; year ended 31 December 2016: €109 million). The charge in the six months to 30 June 2017 primarily reflects the Group's full year contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund.

Defined benefit retirement costs of €62 million for the six months ended 30 June 2017 (six months ended 30 June 2016: €70 million; year ended 31 December 2016: €118 million) include a negative past service cost of €nil (six months ended 30 June 2016: €nil; year ended 31 December 2016: €20 million).

Other administrative expenses includes an amount of €30 million (six months ended 30 June 2016: €26 million; year ended 31 December 2016: €54 million) relating to operating lease payments.

Staff numbers
At 30 June 2017, the number of staff (full time equivalents) was 11,355 (30 June 2016: 11,277; 31 December 2016: 11,208).

During the period, the average number of staff (full time equivalents) was 11,261 (30 June 2016: 11,169; 31 December 2016: 11,228).

11 Cost of restructuring programme

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Staff costs (note 10)	17	13	38
Property and other	-	(3)	(3)
	17	**10**	**35**

12 Impairment charges on financial assets

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Loans and advances to customers (note 17)	59	93	176
Available for sale financial assets	-	2	2
Impairment charges on financial assets	**59**	**95**	**178**

13 Taxation

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Current tax			
Irish Corporation Tax			
- Current period	14	36	53
- Adjustments in respect of prior period	1	(1)	(2)
Double taxation relief	-	(1)	(1)
Foreign tax			
- Current period	39	39	68
- Adjustments in respect of prior period	-	(3)	(3)
	54	**70**	**115**
Deferred tax			
Current period profits	30	58	84
Origination and reversal of temporary differences	(1)	(11)	11
Impact of Corporation Tax rate change	-	-	8
Reassessment of the value of tax losses carried forward	-	-	14
Adjustments in respect of prior period	1	1	7
Taxation charge	**84**	**118**	**239**

The effective taxation rate on a statutory profit basis for the six months ended 30 June 2017 is 18% (six months ended 30 June 2016: 21%; year ended 31 December 2016: 23%).

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

	6 months ended 30 June 2017			6 months ended 30 June 2016			Year ended 31 December 2016		
	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m
Available for sale reserve									
Changes in fair value	21	(3)	18	(20)	(1)	(21)	(19)	(1)	(20)
Transfer to income statement									
- On asset disposal	(15)	3	(12)	(160)	40	(120)	(174)	40	(134)
- Amortisation	(9)	1	(8)	(8)	1	(7)	(17)	2	(15)
Net change in reserve	**(3)**	**1**	**(2)**	**(188)**	**40**	**(148)**	**(210)**	**41**	**(169)**
Remeasurement of the net defined benefit pension liability	**(83)**	**13**	**(70)**	**(439)**	**45**	**(394)**	**184**	**(17)**	**167**
Cash flow hedge reserve									
Changes in fair value	101	(12)	89	1,233	(157)	1,076	1,525	(188)	1,337
Transfer to income statement	(218)	27	(191)	(1,106)	138	(968)	(1,526)	185	(1,341)
Net change in cash flow hedge reserve	**(117)**	**15**	**(102)**	**127**	**(19)**	**108**	**(1)**	**(3)**	**(4)**
Net change in foreign exchange reserve	**(101)**	**-**	**(101)**	**(355)**	**-**	**(355)**	**(419)**	**-**	**(419)**
Net change in revaluation reserve	**-**	**-**	**-**	**(2)**	**-**	**(2)**	**4**	**(1)**	**3**
Other comprehensive income for the period	**(304)**	**29**	**(275)**	**(857)**	**66**	**(791)**	**(442)**	**20**	**(422)**

14 Earnings per share

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Basic and diluted earnings per share			
Profit attributable to stockholders	371	439	793
Distribution on other equity instruments - Additional tier 1 coupon, net of tax	(24)	(55)	(73)
Dividend on preference equity interests	(4)	(4)	(8)
Profit attributable to ordinary stockholders	**343**	**380**	**712**

	Units (millions)	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders[1]	1,077	1,078	1,078
Basic and diluted earnings per share (cent)	**31.8c**	**35.3c**[2]	**66.1c**[2]

The calculation of basic earnings per unit of ordinary stock[3] is based on the profit attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders, adjusted for the share consolidation outlined in note 27. Excluding the impact of the share consolidation the basic and diluted earnings per share for the six months ended 30 June 2017 was 1.1 cent (six months ended June 2016: 1.2 cent; year ended 31 December 2016: 2.2 cent).

The diluted earnings per share is based on the profit attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury shares and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock and for the share consolidation outlined in note 27.

For the six months ended 30 June 2017, six months ended 30 June 2016 and the year ended 31 December 2016, there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary stock outstanding was anti-dilutive.

[1] The weighted average number of units of own stock held for the benefit of life assurance policyholders as adjusted for the share consolidation outlined in note 27 amounted to 1.8 million units (six months ended 30 June 2016: 0.6 million units; year ended 31 December 2016: 0.7 million units). The number of units of treasury stock outstanding at 30 June 2017, 30 June 2016 and 31 December 2016 was 22 million units. This stock was not subject to share consolidation and was cancelled on 7 July 2017.

[2] The basic and diluted earnings per share for the period ended 30 June 2016 and the year ended 31 December 2016 have been adjusted for the share consolidation outlined in note 27.

[3] The par value of an ordinary share following the share consolidation as outlined in note 27 is €1.00 (prior to consolidation the par value of each unit of ordinary stock was €0.05).

15 Available for sale financial assets

	30 June 2017 €m	31 December 2016 €m
Government bonds	5,982	5,141
Other debt securities		
- listed	5,662	5,322
- unlisted	307	294
Equity securities		
- unlisted	29	37
Available for sale financial assets	**11,980**	**10,794**

During the six months ended 30 June 2017, the Group sold available for sale financial assets of €0.3 billion (30 June 2016: €1.4 billion; 31 December 2016: €2.1 billion) which resulted in a transfer of €15 million from the available for sale reserve to the income statement (30 June 2016: €160 million; 31 December 2016: €174 million) (note 8).

Unlisted debt securities include subordinated bonds issued by NAMA with a nominal value of €281 million (31 December 2016: €281 million) and a fair value of €286 million (31 December 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 30 June 2017, available for sale financial assets with a fair value of €15 million (31 December 2016: €76 million) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

At 30 June 2017, available for sale financial assets included €0.4 billion (31 December 2016: €0.6 billion) pledged as collateral in respect of customer deposits and debt securities in issue (excluding Monetary Authority secured funding).

16 Loans and advances to customers

	30 June 2017 €m	31 December 2016 €m
Loans and advances to customers	77,171	79,772
Finance leases and hire purchase receivables	2,934	2,590
	80,105	82,362
Less allowance for impairment charges on loans and advances to customers (note 17)	(3,210)	(3,885)
Loans and advances to customers	**76,895**	**78,477**

17 Impairment provisions

The following tables show the movement in the impairment provisions on loans and advances to customers during the six months ended 30 June 2017 and the year ended 31 December 2016.

30 June 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	(2)	(9)	(9)	(1)	(21)
Charge / (reversal) in income statement	(53)	48	63	1	59
Provisions utilised	(123)	(162)	(457)	(15)	(757)
Other movements	8	124	(99)	11	44
Provision at 30 June 2017	**818**	**1,083**	**1,215**	**94**	**3,210**

31 December 2016	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2016	1,297	1,445	3,001	143	5,886
Exchange adjustments	(12)	(15)	(108)	(7)	(142)
Charge / (reversal) in income statement	(142)	113	213	(8)	176
Provisions utilised	(173)	(433)	(1,477)	(54)	(2,137)
Other movements	18	(28)	88	24	102
Provision at 31 December 2016	988	1,082	1,717	98	3,885

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not alter a customer’s obligations nor does it impact on the Group’s rights to take relevant enforcement action.

18 Intangible assets

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost				
At 1 January 2017	**101**	**1,379**	**201**	**1,681**
Exchange adjustments	-	(5)	(5)	(10)
Additions	-	127	-	127
Disposals / write-offs	(1)	(6)	-	(7)
At 30 June 2017	**100**	**1,495**	**196**	**1,791**
Accumulated amortisation				
At 1 January 2017	**(99)**	**(829)**	**(118)**	**(1,046)**
Exchange adjustments	-	4	3	7
Disposals / write-offs	1	6	-	7
Charge for the period (note 10)	-	(49)	(8)	(57)
At 30 June 2017	**(98)**	**(868)**	**(123)**	**(1,089)**
Net book value at 30 June 2017	**2**	**627**	**73**	**702**

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost				
At 1 January 2016	114	1,233	219	1,566
Exchange adjustments	(3)	(29)	(20)	(52)
Additions	1	206	12	219
Disposals / write-offs	(11)	(31)	(10)	(52)
At 31 December 2016	101	1,379	201	1,681
Accumulated amortisation				
At 1 January 2016	(113)	(803)	(124)	(1,040)
Exchange adjustments	3	23	14	40
Disposals / write-offs	11	31	10	52
Charge for the year (note 10)	-	(80)	(18)	(98)
At 31 December 2016	(99)	(829)	(118)	(1,046)
Net book value at 31 December 2016	2	550	83	635

19 Deferred tax

The deferred tax assets of €1,299 million (31 December 2016: €1,298 million) are shown on the consolidated balance sheet after netting at legal entity level (€1,378 million before netting by legal entity, 31 December 2016: €1,388 million). At 30 June 2017, deferred tax assets include an amount of €1,251 million (31 December 2016: €1,270 million) in respect of tax 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. It is currently projected that the deferred tax asset in respect of tax losses will be recovered in full by the end of 2038.

The deferred tax assets have been recognised on the basis that it is probable the tax losses will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised. Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses.

The deferred tax liabilities at 30 June 2017 are €66 million (31 December 2016: €65 million).

20 Deposits from banks

	30 June 2017 €m	31 December 2016 €m
Monetary Authority secured funding	3,846	1,973
Deposits from banks	1,164	1,676
Securities sold under agreement to repurchase - private market repos	17	13
Deposits from banks	**5,027**	**3,662**

Deposits from banks include cash collateral of €0.8 billion (31 December 2016: €1.1 billion) received from derivative counterparties in relation to net derivative asset positions.

	30 June 2017				31 December 2016			
Monetary Authority secured funding	**TLTRO €m**	**TFS €m**	**ILTR €m**	**Total €m**	TLTRO €m	TFS €m	ILTR €m	Total €m
Deposits from banks	1,799	1,137	910	3,846	799	701	473	1,973
Debt securities in issue (note 22)	1,449	-	-	1,449	1,447	-	-	1,447
Total	**3,248**	**1,137**	**910**	**5,295**	**2,246**	**701**	**473**	**3,420**

The Group's secured funding from the ECB Monetary Authority comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). In June 2016, the Group replaced all of its TLTRO I funding with TLTRO II funding which will be repaid between June 2018 and March 2021, in line with the terms and conditions of the TLTRO facility. Subject to certain lending targets being achieved by the Group between 1 February 2016 and 31 January 2018, the Group will be charged the ECB deposit interest rate on this funding which is currently a negative interest rate.

Drawings under the Term Funding Scheme (TFS) from the Bank of England will be repaid within four years from the date of drawdown. The interest to be charged on this funding is dependent on the quantum of net lending by the Bank's UK branch and by Bank of Ireland (UK) plc to UK resident households, private non-financial corporations and certain non-bank credit providers from June 2016 to December 2017.

Index Long Term Repo (ILTR) funding from the Bank of England has a maturity of less than one year.

The Group's Monetary Authority funding is secured by available for sale financial assets and loans and advances to customers.

21 Customer accounts

	30 June 2017 €m	31 December 2016 €m
Current accounts	27,837	26,199
Demand deposits	24,535	23,486
Term deposits and other products	22,280	25,482
Customer accounts	**74,652**	**75,167**

Term deposits and other products include €15 million (31 December 2016: €63 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

At 30 June 2017, the Group's largest 20 customer deposits amounted to 3% (31 December 2016: 3%) of customer accounts.

22 Debt securities in issue

	30 June 2017 €m	31 December 2016 €m
Bonds and medium term notes	6,038	7,859
Monetary Authorities secured funding (note 20)	1,449	1,447
Other debt securities in issue	1,072	1,391
Debt securities in issue	**8,559**	**10,697**

The movement on debt securities in issue is analysed as follows:

	30 June 2017 €m	31 December 2016 €m
Balance at the beginning of the period	10,697	13,243
Issued during the period	-	3,939
Redemptions	(1,916)	(5,474)
Repurchases	(131)	(941)
Other movements	(91)	(70)
Balance as at end of period	**8,559**	**10,697**

23 Provisions

	30 June 2017 €m	31 December 2016 €m
Balance at the beginning of the period	96	97
Charge to income statement	24	73
Utilised during the period	(38)	(58)
Unused amounts reversed during the period	(3)	(13)
Exchange adjustment	-	(3)
Balance as at end of period	**79**	**96**

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and regulatory matters and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

24 Retirement benefit obligations

The net pension deficit at 30 June 2017 was €494 million (31 December 2016: €446 million). This is shown on the balance sheet as a retirement benefit obligation of €511 million (31 December 2016: €454 million) and a retirement benefit asset of €17 million (31 December 2016: €8 million).

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	30 June 2017 % p.a.	31 December 2016 % p.a.
RoI schemes		
Discount rate	2.30	2.20
Inflation rate	1.45	1.55
UK schemes		
Discount Rate	2.50	2.55
Consumer Price Inflation	2.35	2.40
Retail Price Inflation	3.35	3.40

24 Retirement benefit obligations (continued)

Sensitivity of defined benefit obligation to key assumptions

The table below sets out how the defined benefit obligation would have been affected by changes in the following significant actuarial assumptions that were reasonably possible.

Impact on defined benefit obligation	Impact on defined benefit obligation Increase / (decrease) 30 June 2017 €m	Impact on defined benefit obligation Increase / (decrease) 31 December 2016 €m
RoI schemes		
Discount rate		
- Increase of 0.25%	(280)	(293)
- Decrease of 0.25%	301	316
Inflation rate		
- Increase of 0.10%	76	81
- Decrease of 0.10%	(75)	(78)
UK schemes		
Discount rate		
- Increase of 0.25%	(82)	(85)
- Decrease of 0.25%	89	91
RPI inflation		
- Increase of 0.10%	20	21
- Decrease of 0.10%	(16)	(22)

The table below sets out the estimated sensitivity of plan assets to changes in equity markets and interest rates.

Impact on plan assets	Impact on plan assets Increase / (decrease) 30 June 2017 €m	Impact on plan assets Increase / (decrease) 31 December 2016 €m
All schemes		
Sensitivity of plan assets to movements in global equity markets with allowance for other correlated diversified asset classes		
- Increase of 5.00%	121	122
- Decrease of 5.00%	(121)	(124)
Sensitivity of liability-matching assets to a 25bps movement in interest rates		
- Increase of 0.25%	(262)	(217)
- Decrease of 0.25%	278	231
Sensitivity of liability-matching assets to a 10bps movement in inflation rates		
- Increase of 0.10%	69	57
- Decrease of 0.10%	(69)	(57)

24 Retirement benefit obligations (continued)

Remeasurements of the net defined benefit pension liability, recognised in other comprehensive income, are as follows:

	6 months ended 30 June 2017 €m	6 months ended 30 June 2016 €m	Year ended 31 December 2016 €m
Present value of obligation gain / (loss)	223	(650)	(117)
Fair value of plan assets (loss) / gain	(306)	211	301
Total (loss) / gain	**(83)**	**(439)**	**184**

25 Subordinated liabilities

Subordinated liabilities	**30 June 2017 €m**	31 December 2016 €m
€750 million 4.25% Fixed Rate Notes 2024	760	764
€250 million 10% Fixed Rate Notes 2022	266	270
€1,002 million 10% Fixed Rate Notes 2020	225	229
Undated loan capital	124	159
Other dated capital	3	3
Total	**1,378**	**1,425**

The principal terms and conditions of all subordinated liabilities are set out in note 43 of the Group's Annual Report for the year ended 31 December 2016.

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

26 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.

Further details of the Group's relations with the State are set out in note 49 of the Group's Annual Report for the year ended 31 December 2016. There has been no material change, significant events or transactions with the State with respect to ordinary stock, guarantee schemes, National Asset Management Agency Investment Limited or the Irish bank levy during the six months ended 30 June 2017.

In addition to the items noted above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks.

The amounts outstanding at 30 June 2017 and 31 December 2016 in respect of these transactions, which are considered individually significant, are set out below:

	30 June 2017 €m	31 December 2016 €m
Assets		
Available for sale financial assets:		
- Bonds issued by the State	3,005	2,248
- NAMA subordinated bonds (note 15)	286	274
- Unguaranteed senior bonds issued by AIB	145	297
- Unguaranteed subordinated bonds issued by AIB	32	30
Held to maturity financial assets		
- Bonds issued by the State	1,849	1,872
Other financial assets at fair value through the profit and loss		
- Bonds issued by the State	388	376
NAMA senior bonds (guaranteed by the State)	89	451
Loans and advances to banks		
- AIB	55	59
Liabilities		
Deposits from banks		
- Permanent TSB Group Holdings plc	64	-
Customer accounts		
- State (including its agencies and entities under its control or joint control)	1,497	1,527
- IBRC (in Special Liquidation) and its associates	52	464
- National Treasury Management Agency (NTMA)	-	90
Debt securities in issue		
- State (including its agencies and entities under its control or joint control)	144	146

27 Corporate reorganisation

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 (the ‘SRB’) that the resolution authorities (being the SRB and the Bank of England working together within the Resolution College) had reached a joint decision on the Group 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 also announced that the reorganisation would be implemented by a scheme of arrangement under the Companies Act 2014 (the ‘Scheme’).

On 28 April 2017, the ordinary stockholders of the Bank approved the resolutions necessary to implement the corporate reorganisation and subsequently on 23 June 2017 the 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 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 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 listed on the Irish Stock Exchange and the London Stock Exchange on 10 July 2017.

Under IFRS, the Scheme is considered to be a corporate reorganisation that does not change the substance of the existing Group of which the Bank is the parent. The new Group, of which BOIG plc is the parent (the ‘BOIG plc Group’), is considered to be a continuation of the existing Group. Predecessor accounting will apply to the Scheme, such that the consolidated financial statements of the BOIG plc Group will incorporate the assets and liabilities of the existing Group at their existing consolidated carrying values as at the date of the Scheme, and will include the full year's results of the 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 existing Group immediately before the Scheme.

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 will be created in BOIG plc once the relevant filings are registered with the Companies Registration Office.

28 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 30 June 2017 and 31 December 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 €5,740 million and €11,226 million respectively (31 December 2016: €5,647 million and €10,934 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

As at 30 June 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	101	1,081	-	-	-	1,182
Monetary Authorities secured funding	-	911	6	4,403	-	5,320
Customer accounts	57,796	8,001	6,219	2,623	192	74,831
Debt securities in issue	-	225	630	5,062	1,826	7,743
Subordinated liabilities	-	1	88	517	1,228	1,834
Short positions in trading securities	83	-	-	-	-	83
Contingent liabilities	374	7	154	46	117	698
Commitments	12,050	30	972	2,602	-	15,654
Total	**70,404**	**10,256**	**8,069**	**15,253**	**3,363**	**107,345**

As at 31 December 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
Short positions in trading securities	47	-	-	-	-	47
Contingent liabilities	475	15	119	123	180	912
Commitments	11,687	22	497	2,317	-	14,523
Total	67,817	11,700	9,760	14,050	4,845	108,172

[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.*

29 Fair values of assets and liabilities

A definition of fair value and the fair value hierarchy, description of the methods, assumptions and processes used to calculate fair values of assets and liabilities is set out on pages 291 to 294 of the Group's Annual Report for the year ended 31 December 2016. At 30 June 2017, there has been no significant change to those methods, assumptions, processes or the Group's policy for assessing transfers between the different levels of the fair value hierarchy.

Sensitivity of level 3 valuations

(a) Derivative financial instruments

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.

(b) Available for sale (AFS) financial assets

A small number of assets have been valued using vendor prices, which are not considered to represent observable market data (level 3 inputs).

(c) Interest in associates

Investments in associates which are venture capital investments are accounted for at fair value through profit or loss and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as discounted cash flow analysis and comparison with the earnings multiples of listed comparative companies amongst others. Using reasonably possible alternative assumptions would not have a material impact on the value of the assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

(d) Customer accounts and deposits by banks

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, leaving the Group with no net valuation risk due to those non-observable inputs.

(e) Debt securities in issue

The significant unobservable input is the Group's credit spread, the estimation of which is judgemental. A 1% increase / (decrease) in the estimated credit spread at 30 June 2017 would result in a decrease of €52 million / (increase of €52 million) respectively in the fair value of the liabilities, with a corresponding impact on the income statement.

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.

29 Fair values of assets and liabilities (continued)

The following table sets out the fair value hierarchy for financial assets and liabilities held at fair value.

	30 June 2017				31 December 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	170	-	-	170	18	-	-	18
Derivative financial instruments	4	2,877	60	2,941	4	3,651	54	3,709
Other financial assets at FVTPL	13,414	513	55	13,982	12,668	532	49	13,249
AFS financial assets	11,578	318	84	11,980	10,375	344	75	10,794
Interest in associates	-	-	53	53	-	-	56	56
	25,166	**3,708**	**252**	**29,126**	**23,065**	**4,527**	**234**	**27,826**
Financial liabilities held at fair value								
Customer accounts	-	1,558	13	1,571	-	1,747	19	1,766
Derivative financial instruments	3	2,361	1	2,365	3	2,869	1	2,873
Liabilities to customers under investment contracts	-	5,740	-	5,740	-	5,647	-	5,647
Insurance contract liabilities	-	11,226	-	11,226	-	10,934	-	10,934
Short positions in trading securities	83	-	-	83	47	-	-	47
Debt securities in issue	-	-	554	554	-	-	660	660
	86	**20,885**	**568**	**21,539**	**50**	**21,197**	**680**	**21,927**

29 Fair values of assets and liabilities (continued)

Movements in level 3 assets	**30 June 2017** Derivative financial instruments €m	Other financial assets at FVTPL €m	Available for sale financial assets €m	Interest in associates €m	Total €m	**31 December 2016** Derivative financial instruments €m	Other financial assets at FVTPL €m	Available for sale financial assets €m	Interest in associates €m	Total €m
Opening balance	54	49	75	56	234	164	17	201	56	438
Exchange Adjustment	(1)	-	-	-	(1)	(19)	-	(3)	-	(22)
Total gains or losses in:										
Profit or loss;										
- Net trading income	8	6	-	-	14	83	3	-	-	86
- Impairment charge	-	-	-	-	-	-	-	(2)	-	(2)
- Share of results of associates	-	-	-	-	-	-	-	-	(2)	(2)
- Other operating income	-	-	8	-	8	-	-	14	-	14
Other comprehensive income	-	-	3	-	3	-	-	8	-	8
Additions	-	-	30	7	37	-	29	24	13	66
Disposals	-	-	(28)	(10)	(38)	(9)	-	(183)	(11)	(203)
Redemptions	-	-	(4)	-	(4)	(2)	-	(6)	-	(8)
Reclassifications						-	-	-	-	-
Transfers out of level 3										
- from level 3 to level 2	(16)	-	-	-	(16)	(170)	-	-	-	(170)
Transfers into level 3										
- from level 2 to level 3	15	-	-	-	15	7	-	22	-	29
Closing balance	**60**	**55**	**84**	**53**	**252**	**54**	**49**	**75**	**56**	**234**

Total gains and losses for the period included in profit or loss for assets held in level 3 at the end of the reporting period

	30 June 2017 Derivative financial instruments €m	Other financial assets at FVTPL €m	Available for sale financial assets €m	Interest in associates €m	Total €m	31 December 2016 Derivative financial instruments €m	Other financial assets at FVTPL €m	Available for sale financial assets €m	Interest in associates €m	Total €m
- Net trading income	(5)	-	-	-	(5)	23	3	-	-	26
- Other operating income	-	-	9	-	9	-	-	8	-	8
- Impairment charge	-	-	-	-	-	-	-	-	-	-
- Share of results of associates	-	-	-	-	-	-	-	-	(3)	(3)

The transfers from level 3 to level 2 arose as a result of the availability of observable inputs at 30 June 2017 which were unavailable at 31 December 2016.

The transfers from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

A transfer of €5 million from level 2 to level 1 was a result of the availability of a level 1 pricing source at the balance sheet date for these assets.

29 Fair values of assets and liabilities (continued)

	30 June 2017				31 December 2016			
Movements in level 3 liabilities	**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 income	2	1	(7)	(4)	(1)	3	18	20
Additions	14	-	2	16	20	-	43	63
Redemptions and maturities	-	-	(101)	(101)	-	-	(86)	(86)
Transfers out of level 3								
- from level 3 to level 2	(22)	(1)	-	(23)	-	(5)	-	(5)
Closing balance	**13**	**1**	**554**	**568**	**19**	**1**	**660**	**680**

Total gains / (losses) for the period included in profit or loss for liabilities held in level 3 at the end of the reporting period

Net trading income	1	(1)	(7)	(7)	1	(1)	(16)	(16)

The transfers from level 3 to level 2 arose due to the observable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

29 Fair values of assets and liabilities (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets	Valuation technique	Unobservable input	Fair value 30 June 2017 €m	Fair value 31 December 2016 €m	Range 30 June 2017 %	Range 31 December 2016 %
Derivative financial assets	Discounted cash flow	Credit spread[1]	60	54	0%-4%	0%-4%
	Option pricing model	Credit spread[1]			0%-4%	0%-4%
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount rate[2]	55	49	Third party pricing	Third party pricing
	Equity value less discount	Discount[3]			0%-50%	0%-50%
AFS financial assets	Market comparable companies	Discount rate[2]	84	75	Third party pricing	Third party pricing
		EBITDA multiple[4]				
		Liquidity factor				
Interest in associates	Market comparable companies	Price of recent investment	53	56	Third party pricing	Third party pricing
		Earnings multiple[4]				
		Revenue multiple[4]				

Level 3 liabilities	Valuation technique	Unobservable input	Fair value 30 June 2017 €m	Fair value 31 December 2016 €m	Range 30 June 2017 %	Range 31 December 2016 %
Customer accounts	Discounted cash flow	Credit spread[1]	13	19	0%-4%	0%-4%
	Option pricing model					
Derivative financial liabilities	Discounted cash flow	Credit spread[1]	1	1	0%-4%	0%-4%
	Option pricing model				Third party pricing	Third party pricing
Debt securities in issue	Discounted cash flow	Credit spread[1]	554	660	0%-4%	0%-4%

[1] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
[2] *The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
[3] *The discount reflects factors specific to the underlying equity.*
[4] *The Group's multiples represent multiples that market participants would use in valuing these investments.*

Note: 100 basis points = 1%

29 Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost, are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included as permitted by IFRS 7.

	30 June 2017		31 December 2016	
Non-trading financial instruments	**Carrying amount €m**	**Fair values €m**	Carrying amount €m	Fair values €m
Assets				
Loans and advances to customers	76,895	73,152	78,477	74,246
NAMA senior bonds	89	90	451	454
Held to maturity financial assets	1,849	1,881	1,872	1,918
Loans and advances to banks	3,029	3,029	3,349	3,349
Liabilities				
Deposits from banks	5,027	5,027	3,662	3,662
Customer accounts	73,081	73,116	73,400	73,453
Debt securities in issue	8,005	8,079	10,037	10,088
Subordinated liabilities	1,378	1,562	1,425	1,558

30 Contingent liabilities and commitments

	30 June 2017 €m	31 December 2016 €m
Contingent liabilities		
Guarantees and irrevocable letters of credit	462	595
Acceptances and endorsements	4	6
Other contingent liabilities	232	311
	698	**912**
Commitments		
Documentary credits and short term trade related transactions	100	99
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	12,400	11,441
- irrevocable with original maturity of over 1 year	3,154	2,983
	15,654	**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.

At 30 June 2017, the Group is engaged in an industry-wide mortgage review with respect to compliance with certain contractual and regulatory requirements in Ireland. In accordance with IAS 37.92, the Group has not provided further information on this issue.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory and other actions arising out of its normal business operations.

31 Post balance sheet events

The corporate reorganisation pursuant to which BOIG plc became the listed holding company of the Group completed on 7 July 2017. On 27 July 2017, the High Court approved a capital reduction that created distributable reserves in BOIG plc which will be available for distribution once the relevant filings are registered with the Companies Registration Office, see note 27 for further details.

Mr. Richard Goulding was appointed as a Non-executive Director on the Board of BOIG plc and the Court of Directors of the Bank with effect from 20 July 2017.

On 26 July 2017, the Group announced that Mr Richie Boucher will step down as Chief Executive Officer (CEO) and resign from the Board of BOIG plc and the Court of Directors of the Bank with effect from 1 October 2017. As previously announced, Ms Francesca McDonagh will succeed Mr Boucher as CEO. Ms McDonagh will also take up the position of Executive Director on the Board of BOIG plc and the Court of Directors of the Bank on 2 October 2017.

32 Approval of Interim Report

The Court of Directors approved the Interim Report on 27 July 2017.

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Other information

Other information

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1 Supplementary asset quality and forbearance disclosures

The tables below including referenced footnotes (except for table 3b on pages 103 and 113 and 3b-(i) on page 104) in Other information - Supplementary Asset Quality and forbearance disclosures on pages 99 to 123 form an integral part of the interim financial statements as described in the Basis of preparation on page 61. All other information in Other information - Supplementary Asset Quality and forbearance disclosures is additional information and does not form part of the interim financial statements.

Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 30 June 2017, 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	**30 June 2017 €m**	31 December 2016 €m
Owner occupied mortgages	19,780	19,839
Buy to let mortgages	4,173	4,490
Total Retail Ireland mortgages	**23,953**	**24,329**

Retail Ireland mortgages - Volumes (before impairment provisions) by interest rate type	**30 June 2017**		31 December 2016	
	€m	**%**	€m	%
Tracker	11,169	47%	11,781	48%
Variable rates	6,535	27%	7,202	30%
Fixed rates	6,249	26%	5,346	22%
Total Retail Ireland mortgages	**23,953**	**100%**	**24,329**	**100%**

Book composition (continued)

Loan volumes (continued)

Retail Ireland mortgages were €24.0 billion at 30 June 2017 compared to €24.3 billion at 31 December 2016, a decrease of €0.3 billion or 1%, which includes a €0.6 billion decrease in the tracker portfolio and a €0.2 billion increase in the combined variable and fixed portfolios. This increase in combined variable and fixed portfolios primarily reflects the strong take up of fixed interest rate mortgages by both existing and new customers. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments and resolution activity.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'[1] repayment basis at 30 June 2017 was 93% (31 December 2016: 93%) with the balance of 7% on an 'interest only'[2] repayment basis (31 December 2016: 7%). Of the Owner occupied mortgages of €19.8 billion, 97% were on a 'full principal and interest' repayment basis (31 December 2016: 96%), while 77% of the Buy to let mortgages of €4.2 billion were on a 'full principal and interest' repayment basis (31 December 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.

Origination profile

TABLE: 2

30 June 2017	Total Retail Ireland mortgage loan book		Non-performing exposures	
Origination[3] of Retail Ireland mortgage loan book (before impairment provisions)	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**
2000 and before	282	10,940	37	862
2001	244	4,723	25	365
2002	446	7,042	60	567
2003	831	10,518	120	1,003
2004	1,457	14,599	227	1,551
2005	2,442	19,366	425	2,182
2006	3,739	24,631	784	3,528
2007	3,268	20,485	685	2,939
2008	2,268	15,009	368	1,734
2009	1,207	9,192	96	629
2010	875	6,314	23	153
2011	765	5,605	9	59
2012	672	5,010	4	21
2013	638	4,477	3	16
2014	1,020	6,356	2	9
2015	1,458	11,257	4	73
2016	1,572	9,631	5	31
2017	769	3,743	-	1
Total	**23,953**	**188,898**	**2,877**	**15,723**

[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.*

[3] *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.*

[4] *The number of accounts does not equate to either the number of customers or the number of properties.*

Book composition (continued)

Origination profile (continued)

31 December 2016 Origination[1] of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Non-performing exposures	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	314	11,928	42	992
2001	262	4,914	27	386
2002	483	7,534	70	652
2003	886	10,869	132	1,100
2004	1,550	15,039	258	1,727
2005	2,577	19,879	469	2,425
2006	3,940	25,221	862	3,830
2007	3,435	21,037	745	3,162
2008	2,382	15,305	404	1,846
2009	1,264	9,438	104	676
2010	920	6,509	25	166
2011	796	5,730	10	70
2012	706	5,152	2	15
2013	669	4,590	2	15
2014	1,062	6,484	2	9
2015	1,509	11,575	4	92
2016	1,574	9,722	4	21
Total	24,329	190,926	3,162	17,184

The tables above illustrate that at 30 June 2017, €5.7 billion or 24% of the Retail Ireland mortgage loan book originated before 2006, €9.3 billion or 39% between 2006 and 2008 and €9.0 billion or 37% in the years since 2008.

As described on pages 41 and 42, 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 30 June 2017, total non-performing exposures were €2.9 billion or 12% (31 December 2016: €3.2 billion or 13%) of the Retail Ireland mortgage loan book, of which €1.8 billion originated between 2006 and 2008. There has been a significant decrease in total non-performing exposures in the six month period ending 30 June 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.*

Book composition (continued)

Risk profile

TABLE: 3a

30 June 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	18,666	94%	3,442	82%	22,108	92%
1-90 days past due but not impaired	265	1%	108	3%	373	2%
Past due greater than 90 days but not impaired	150	1%	51	1%	201	1%
Impaired	699	4%	572	14%	1,271	5%
Total	**19,780**	**100%**	**4,173**	**100%**	**23,953**	**100%**
Non-performing exposures						
Impaired	699	47%	572	41%	1,271	44%
Past due greater than 90 days but not impaired	150	10%	51	4%	201	7%
Neither impaired nor past due greater than 90 days	631	43%	774	55%	1,405	49%
Total	**1,480**	**100%**	**1,397**	**100%**	**2,877**	**100%**

31 December 2016 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	18,648	94%	3,647	82%	22,295	92%
1-90 days past due but not impaired	256	1%	101	2%	357	1%
Past due greater than 90 days but not impaired	158	1%	61	1%	219	1%
Impaired	777	4%	681	15%	1,458	6%
Total	19,839	100%	4,490	100%	24,329	100%
Non-performing 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 €22.1 billion or 92% of the total Retail Ireland mortgage loan book at 30 June 2017 was classified as 'neither past due nor impaired' compared to €22.3 billion or 92% at 31 December 2016.

The '1-90 days past due but not impaired' category amounted to €0.4 billion or 2% of the total Retail Ireland mortgage loan book at 30 June 2017 compared to €0.4 billion or 1% at 31 December 2016.

The 'past due greater than 90 days but not impaired' category amounted to €0.2 billion or 1% of the total Retail Ireland mortgage loan book at 30 June 2017 compared to €0.2 billion or 1% at 31 December 2016.

The 'impaired' category amounted to €1.3 billion or 5% of the total Retail Ireland mortgage loan book at 30 June 2017 compared to €1.5 billion or 6% at 31 December 2016.

Book composition (continued)

Risk profile (continued)

As described on pages 41 and 42, 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 significantly by €0.3 billion or 9% to €2.9 billion at 30 June 2017. Within this, impaired mortgages reduced by €0.2 billion or 13% to €1.3 billion at 30 June 2017 (31 December 2016: €1.5 billion), past due greater than 90 days but not impaired remained at €0.2 billion, forborne collateral realisation loans of €1.1 billion reduced by €0.1 billion (31 December 2016: €1.2 billion) and other non-performing exposures remained at €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 for the six months ended 30 June 2017, decreasing to €1.5 billion at 30 June 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 further evident in the reduction of non-performing Buy to let mortgages, decreasing to €1.4 billion at 30 June 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 on a sustainable basis and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

The Retail Ireland Buy to let mortgage loan portfolio reduced by €0.3 billion or 7% for the six months ended 30 June 2017 and the percentage of the Buy to let portfolio on a 'full principal and interest' repayment basis remained at 77% from 31 December 2016 to 30 June 2017.

Arrears profile

TABLE: 3b *(not an integral part of Interim Financial Statements)*

Mortgage arrears - Greater than 90 days past due (number of accounts)	**30 June 2017 %**	31 December 2016 %	30 June 2016 %
Retail Ireland Owner occupied mortgages	2.5%	2.8%	3.3%
Industry[1] Owner occupied (number of accounts)	n/a	8.6%	9.0%
Retail Ireland Buy to let mortgages	5.8%	6.8%	8.0%
Industry[1] Buy to let (number of accounts)	n/a	18.2%	18.7%

Mortgage arrears - Greater than 90 days past due (value)	**30 June 2017 %**	31 December 2016 %	30 June 2016 %
Retail Ireland Owner occupied mortgages	3.7%	4.0%	4.6%
Industry[1] Owner occupied (value)	n/a	12.7%	13.2%
Retail Ireland Buy to let mortgages	12.0%	13.7%	15.5%
Industry[1] Buy to let (value)	n/a	25.7%	26.1%

The latest information published by the Central Bank of Ireland is for the quarter ended 31 March 2017. This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (32% of industry average) and Buy to let (34% of industry average) mortgages. At 31 March 2017, 2.70% and 6.27% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 8.51%[1] and 18.32%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland.*

Book composition (continued)

Arrears profile (continued)

TABLE: 3b-(i) *(not an integral part of Interim Financial Statements)*

Mortgage arrears - 720 days past due (number of accounts)	30 June 2017 %	31 December 2016 %	30 June 2016 %
Retail Ireland Owner occupied mortgages	1.4%	1.6%	1.8%
Industry[1] Owner occupied (Number of accounts)	n/a	5.4%	5.5%
Retail Ireland Buy to let mortgages	3.1%	3.7%	4.4%
Industry[1] Buy to let (Number of accounts)	n/a	12.8%	12.9%

Mortgage arrears - 720 days past due (value)	30 June 2017 %	31 December 2016 %	30 June 2016 %
Retail Ireland Owner occupied mortgages	2.3%	2.5%	2.9%
Industry[1] Owner occupied (value)	n/a	8.8%	9.0%
Retail Ireland Buy to let mortgages	6.6%	7.5%	8.3%
Industry[1] Buy to let (value)	n/a	19.5%	19.6%

The latest information published by the Central Bank of Ireland is for the quarter ended 31 March 2017. This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (28% of industry average) and Buy to let (25% of industry average) mortgages. At 31 March 2017, 1.49% and 3.42% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than 720 days past due compared to 5.33%[1] and 13.46%[1] respectively for the industry.

Loan to value profiles - total loans

TABLE: 3c

30 June 2017

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	5,399	27%	854	20%	6,253	26%
51% to 70%	5,867	30%	776	19%	6,643	27%
71% to 80%	3,068	16%	463	11%	3,531	15%
81% to 90%	2,022	10%	740	18%	2,762	12%
91% to 100%	1,361	7%	450	11%	1,811	8%
Subtotal	**17,717**	**90%**	**3,283**	**79%**	**21,000**	**88%**
101% to 120%	1,648	8%	524	12%	2,172	9%
121% to 150%	357	2%	201	5%	558	2%
Greater than 151%	58	-	165	4%	223	1%
Subtotal	**2,063**	**10%**	**890**	**21%**	**2,953**	**12%**
Total	**19,780**	**100%**	**4,173**	**100%**	**23,953**	**100%**
Weighted average LTV[2]:						
Stock of Retail Ireland mortgages at period end		66%		80%		68%
New Retail Ireland mortgages during the period		71%		50%		70%

[1] *Industry source: CBI Mortgage Arrears Statistics Report - adjusted to exclude Bank of Ireland.*
[2] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

31 December 2016

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	4,987	25%	789	17%	5,776	24%
51% to 70%	5,520	28%	755	17%	6,275	26%
71% to 80%	2,897	15%	445	10%	3,342	14%
81% to 90%	2,195	11%	755	17%	2,950	12%
91% to 100%	1,449	7%	542	12%	1,991	8%
Subtotal	17,048	86%	3,286	73%	20,334	84%
101% to 120%	2,106	11%	698	16%	2,804	11%
121% to 150%	599	3%	306	7%	905	4%
Greater than 150%	86	-	200	4%	286	1%
Subtotal	2,791	14%	1,204	27%	3,995	16%
Total	19,839	100%	4,490	100%	24,329	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end		69%		84%		72%
New Retail Ireland mortgages during the year		68%		52%		67%

The tables on the previous page set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which showed positive movements during the six months ended 30 June 2017 and was, on average, 68% at 30 June 2017, 66% for Owner occupied mortgages and 80% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written during the first six months of 2017 was 70%, being 71% for Owner occupied mortgages and 50% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index (RPPI) published by the Central Statistics Office (CSO). The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the CSO Residential Property Price Index, at the applicable reporting date.

The CSO index for May 2017 reported that average national residential property prices were 29.5% below peak (31 December 2016: 32.1% below peak), with Dublin residential prices and outside of Dublin residential prices 29.5% and 34.7% below peak respectively (31 December 2016: 32.8% and 36.3% below peak respectively). For the five months ended 31 May 2017, residential property prices at a national level, increased by 4.2%.

At 30 June 2017, €21.0 billion or 88% of Retail Ireland mortgages were classified as being in positive equity, 90% for Owner occupied mortgages and 79% for Buy to let mortgages.

At 30 June 2017, the total calculated negative equity in the Retail Ireland mortgage loan book was €0.4 billion (31 December 2016: €0.6 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.2 billion negative equity related to loans that were 'neither past due nor impaired' at 30 June 2017 (31 December 2016: €0.4 billion).

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - Non-performing exposures

TABLE: 3d

30 June 2017

Loan to value (LTV) ratio of total Retail Ireland mortgages - Non-performing exposures[1]	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	208	14%	71	5%	279	10%
51% to 70%	242	16%	125	9%	367	13%
71% to 80%	159	11%	111	8%	270	9%
81% to 90%	168	11%	267	19%	435	15%
91% to 100%	173	12%	220	16%	393	14%
Subtotal	**950**	**64%**	**794**	**57%**	**1,744**	**61%**
101% to 120%	299	20%	330	23%	629	21%
121% to 150%	190	13%	149	11%	339	12%
Greater than 151%	41	3%	124	9%	165	6%
Subtotal	**530**	**36%**	**603**	**43%**	**1,133**	**39%**
Total	**1,480**	**100%**	**1,397**	**100%**	**2,877**	**100%**

31 December 2016

Loan to value (LTV) ratio of total Retail Ireland mortgages - Non-performing exposures[1]	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
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 Retail Ireland exposures. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the non-performing Retail Ireland mortgages, €1.7 billion or 61% were classified as being in positive equity (31 December 2016: €1.7 billion or 55%) while €1.1 billion or 39% were classified as being in negative equity at 30 June 2017 (31 December 2016: €1.4 billion or 45%).

For the non-performing category, 64% of the Owner occupied Retail Ireland mortgages (31 December 2016: 59%) and 57% of the Buy to let Retail Ireland mortgages (31 December 2016: 50%) were classified as being in positive equity at 30 June 2017.

[1] *As described on pages 41 and 42, 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, non-performing exposures[1], impaired loans[1] and total impairment provisions of the Retail Ireland mortgage portfolio.

TABLE: 4

30 June 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	19,780	1,480	7%	699	351	24%	35%
Buy to let mortgages	4,173	1,397	33%	572	395	28%	51%
Total	**23,953**	**2,877**	**12%**	**1,271**	**746**	**26%**	**42%**

31 December 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%

Non-performing Retail Ireland exposures at 30 June 2017 were €2.9 billion or 12% of advances compared to €3.2 billion or 13% of advances at 31 December 2016.

Total non-performing exposures reduced significantly by €0.3 billion or 9% to €2.9 billion at 30 June 2017 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

There has been a reduction in Owner occupied non-performing exposures for the period ended 30 June 2017, decreasing to €1.5 billion at 30 June 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 further evident in the reduction of non-performing Buy to let mortgages, decreasing to €1.4 billion at 30 June 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 on a sustainable basis and resolution activity supported by improved rental market conditions, particularly evident in primary urban areas.

[1] As described on pages 41 and 42, 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)

Properties in possession

At 30 June 2017, the Group had possession of properties held as security as follows:

TABLE: 5a	30 June 2017		31 December 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	70	20	84	25
Buy to let	21	8	27	8
Total residential properties in possession	**91**	**28**	**111**	**33**

Disposals of properties in possession

TABLE: 5b	30 June 2017		31 December 2016	
Disposals of properties in possession Retail Ireland mortgages	**Number of disposals during the period**	**Balance[1] outstanding after impairment provisions €m**	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied	64	11	136	19
Buy to let	11	1	52	6
Total disposals of properties in possession	**75**	**12**	**188**	**25**

During the six months ended 30 June 2017, the Group disposed of 75 properties (year ended 31 December 2016: 188 properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the six months ended 30 June 2017, the proceeds from disposals of Owner occupied properties were €11 million (year ended 31 December 2016: €19 million).

For the six months ended 30 June 2017, the proceeds from disposals of Buy to let properties before value of additional collateral applied were €1 million (year ended 31 December 2016: €6 million).

In addition, a further 221 Buy to let properties were disposed of by fixed charge receivers during the six months ended 30 June 2017 (year ended 31 December 2016: 496).

[1] *Gross balance outstanding before value of additional collateral held.*

Retail UK mortgages

The following disclosures refer to the Retail UK mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail UK mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 30 June 2017, lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1a

Retail UK mortgages - Volumes (before impairment provisions) by product type	**30 June 2017 £m**	31 December 2016 £m
Standard mortgages	10,781	10,757
Buy to let mortgages	7,442	7,433
Self certified mortgages	2,124	2,254
Total Retail UK mortgages	**20,347**	**20,444**

Retail UK mortgages were £20.3 billion at 30 June 2017 compared to £20.4 billion at 31 December 2016.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through distribution arrangements with other selected strategic partners and the Group's branch network in Northern Ireland.

Of the £10.8 billion Standard mortgages, 75% are on a 'principal and interest'[1] repayment basis (31 December 2016: 75%). Of the Self certified mortgages of £2.1 billion, 20% are on a 'principal and interest' repayment basis (31 December 2016: 20%). Of the Buy to let mortgages of £7.4 billion, 10% are on a 'principal and interest' repayment basis (31 December 2016: 10%). Overall, 54% of the Retail UK mortgage portfolio at 30 June 2017 is on an 'interest only'[2] repayment basis (31 December 2016: 54%).

The geographic profile[3] of the Retail UK mortgage book at 30 June 2017 is as follows; 21% Greater London, 13% 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.

[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)

Loan volumes (continued)

TABLE: 1b

Retail UK mortgages - Volumes (before impairment provisions) by interest rate type	30 June 2017		31 December 2016	
	£m	%	£m	%
Tracker	7,548	37%	7,856	38%
Variable rates	3,636	18%	4,027	20%
Fixed rates	9,163	45%	8,561	42%
Total Retail UK mortgages	**20,347**	**100%**	**20,444**	**100%**

Tracker mortgages were £7.5 billion or 37% of the Retail UK mortgages compared to £7.9 billion or 38% at 31 December 2016, a decrease of £0.3 billion.

Variable rate mortgages were £3.6 billion or 18% of the Retail UK mortgages compared to £4.0 billion or 20% at 31 December 2016, a decrease of £0.4 billion.

Fixed rate mortgages were £9.2 billion or 45% of the Retail UK mortgages compared to £8.6 billion or 42% at 31 December 2016, an increase of £0.6 billion.

Tracker rate mortgages now account for 10% of Standard mortgages (31 December 2016: 11%), 82% of Buy to let mortgages (31 December 2016: 86%) and 15% of Self certified mortgages (31 December 2016: 15%).

Origination profile

TABLE: 2

30 June 2017 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book		Non-performing exposures	
	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
2000 and before	203	5,913	15	365
2001	122	2,004	5	48
2002	163	2,385	5	44
2003	370	4,574	16	136
2004	434	5,061	19	158
2005	1,196	11,464	44	365
2006	1,753	16,224	73	535
2007	2,824	24,895	102	781
2008	3,797	32,390	115	857
2009	435	4,208	9	84
2010	326	2,886	3	19
2011	229	1,983	1	10
2012	347	2,412	-	6
2013	518	3,228	1	5
2014	979	6,324	2	11
2015	2,695	15,562	2	11
2016	2,704	16,255	-	5
2017	1,252	8,784	-	1
Total	**20,347**	**166,552**	**412**	**3,441**

[1] *The number of accounts does not equate to the number of customers or the number of properties.*

Book composition (continued)

Origination profile (continued)

31 December 2016 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book		Non-performing exposures	
	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
2000 and before	229	6,569	17	411
2001	133	2,155	4	50
2002	176	2,613	5	51
2003	396	4,874	16	133
2004	460	5,342	18	147
2005	1,258	12,024	48	385
2006	1,848	17,075	73	550
2007	2,997	26,343	99	750
2008	3,961	33,707	119	852
2009	469	4,473	10	89
2010	359	3,134	2	15
2011	261	2,193	2	14
2012	406	2,778	1	8
2013	568	3,478	1	6
2014	1,152	7,174	2	13
2015	3,024	17,221	2	9
2016	2,747	16,293	0	3
Total	20,444	167,446	419	3,486

The tables above illustrate that at 30 June 2017, £2.5 billion or 12% of the Retail UK mortgage loan book originated before 2006, £8.4 billion or 41% between 2006 and 2008 and £9.5 billion or 47% in the years since.

The Buy to let book is well seasoned with 81% of these mortgages originated pre 2009.

As described on pages 41 and 42, 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 2.0% (31 December 2016: £0.4 billion or 2.0%) of the Retail UK mortgage loan book at 30 June 2017, of which £0.3 billion or 1.4% were originated between 2006 and 2008 (31 December 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

30 June 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	10,479	97%	7,225	97%	1,785	83%	19,489	95%
1-90 days past due but not impaired	201	2%	140	2%	229	11%	570	3%
Past due greater than 90 days but not impaired	49	-	35	-	53	3%	137	1%
Impaired	52	1%	42	1%	57	3%	151	1%
Total	**10,781**	**100%**	**7,442**	**100%**	**2,124**	**100%**	**20,347**	**100%**
Non-performing exposures								
Impaired	52	34%	42	39%	57	36%	151	37%
Past due greater than 90 days but not impaired	49	32%	35	33%	53	35%	137	33%
Neither impaired nor past due greater than 90 days	51	34%	29	28%	44	29%	124	30%
Total	**152**	**100%**	**106**	**100%**	**154**	**100%**	**412**	**100%**

31 December 2016 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	10,446	97%	7,199	97%	1,904	84%	19,549	96%
1-90 days past due but not impaired	204	2%	159	2%	239	11%	602	3%
Past due greater than 90 days but not impaired	52	-	33	-	57	3%	142	-
Impaired	55	1%	42	1%	54	2%	151	1%
Total	10,757	100%	7,433	100%	2,254	100%	20,444	100%
Non-performing 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 tables illustrate that £19.5 billion or 95% of the total Retail UK mortgage loan book at 30 June 2017 was classified as 'neither past due nor impaired' compared to £19.5 billion or 96% at 31 December 2016. The '1-90 days past due but not impaired' category amounted to £0.6 billion or 3% of the total Retail UK mortgage loan book at 30 June 2017 compared to £0.6 billion or 3% at 31 December 2016. The past due greater than 90 days but not impaired category amounted to £0.1 billion or 1% of the total Retail UK mortgage loan book at 30 June 2017 compared to £0.1 billion or 1% at 31 December 2016. The impaired category amounted to £0.2 billion or 1% of the total Retail UK mortgage loan book at 30 June 2017 compared to £0.2 billion or 1% at 31 December 2016.

As described on pages 41 and 42, 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 mortgages reduced by £7 million to £0.4 billion at 30 June 2017 (31 December 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 *(not an integral part of Interim Financial Statements)*

Mortgage arrears - Greater than 90 days past due (number of accounts)	30 June 2017 %	31 December 2016 %	30 June 2016 %
Standard mortgages	0.86%	0.95%	0.89%
Buy to let mortgages	0.81%	0.78%	0.81%
Self certified mortgages	3.50%	3.38%	3.29%

Mortgage arrears - Greater than 90 days past due (value)	30 June 2017 %	31 December 2016 %	30 June 2016 %
Standard mortgages	0.75%	0.81%	0.75%
Buy to let mortgages	0.82%	0.80%	0.85%
Self certified mortgages	4.32%	4.32%	4.28%

Data published by the Council Mortgage Lenders (CML) for March 2017 indicates that the proportion of the Retail UK mortgage book in default (defined for CML purposes as greater than 90 days but excluding possessions and receivership cases) 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

30 June 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%	2,532	23%	2,298	31%	645	30%	5,475	26%
51% to 70%	3,893	36%	3,169	42%	843	40%	7,905	38%
71% to 80%	1,906	18%	1,142	15%	313	15%	3,361	17%
81% to 90%	1,697	16%	642	9%	209	10%	2,548	13%
91% to 100%	521	5%	120	2%	86	4%	727	4%
Subtotal	**10,549**	**98%**	**7,371**	**99%**	**2,096**	**99%**	**20,016**	**98%**
101% to 120%	82	1%	14	-	12	1%	108	1%
121% to 150%	26	-	4	-	9	-	39	-
Greater than 150%	124	1%	53	1%	7	-	184	1%
Subtotal	**232**	**2%**	**71**	**1%**	**28**	**1%**	**331**	**2%**
Total	**10,781**	**100%**	**7,442**	**100%**	**2,124**	**100%**	**20,347**	**100%**
Weighted average LTV[1]:								
Stock of Retail UK mortgages at period end[1]		63%		58%		60%		61%
New Retail UK mortgages during the period[1]		77%		61%		n/a		73%

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

31 December 2016 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%	2,484	23%	2,226	30%	643	29%	5,353	26%
51% to 70%	3,837	36%	3,042	40%	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	99%	2,223	99%	20,128	98%
101% to 120%	134	1%	18	-	13	1%	165	1%
121% to 150%	29	-	5	-	8	-	42	-
Greater than 150%	68	1%	31	1%	10	-	109	1%
Subtotal	231	2%	54	1%	31	1%	316	2%
Total	10,757	100%	7,433	100%	2,254	100%	20,444	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		64%		59%		61%		62%
New Retail UK mortgages during year[1]		73%		62%		n/a		71%

The table on the previous page sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 61% at 30 June 2017, 63% for Standard mortgages, 60% for Self certified mortgages and 58% for Buy to let mortgages. The weighted average LTV for new Residential mortgages written during for the six months ended 30 June 2017 was 73%, 77% for Standard mortgages and 61% for Buy to let mortgages.

At 30 June 2017, 21% of Retail UK mortgages are located in Greater London, 90% of this segment of the portfolio has an LTV less than 70%, with an average mortgage balance of c.£196,000.

Property values are determined by reference to the original or latest property valuations held, indexed to the published 'Nationwide UK House Price Index'.

At 30 June 2017, £20 billion or 98% of the Retail UK mortgage book was in positive equity (year ended 31 December 2016: £20.1 billion or 98%), comprising £10.5 billion or 98% of Standard mortgages (year ended 31 December 2016: £10.5 billion or 98%), £7.4 billion or 99% of Buy to let mortgages (year ended 31 December 2016: £7.4 billion or 99%) and £2.1 billion or 99% of Self certified mortgages (year ended 31 December 2016: £2.2 billion or 99%). This improvement reflects the upward movement in house prices in the period with house prices increasing by 2.6% on average across the UK, with regional variances, together with capital reductions and principal repayments.

At 30 June 2017, the total calculated negative equity in the Retail UK mortgage book was £21 million (31 December 2016: £26 million), which comprised £3 million (14%) (31 December 2016: £3 million (12%)) related to mortgages classified as 'greater than 90 days past due but not impaired'.

[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

30 June 2017 Loan to value (LTV) ratio of total Retail UK mortgages - Non-performing exposures[1]	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	46	31%	24	23%	34	22%	104	25%
51% to 70%	44	29%	33	31%	54	35%	131	32%
71% to 80%	20	13%	16	15%	29	19%	65	16%
81% to 90%	17	11%	22	21%	20	13%	59	14%
91% to 100%	13	8%	9	8%	9	6%	31	8%
Subtotal	**140**	**92%**	**104**	**98%**	**146**	**95%**	**390**	**95%**
101% to 120%	8	5%	1	1%	4	2%	13	3%
121% to 150%	2	2%	-	-	3	2%	5	1%
Greater than 150%	2	1%	1	1%	1	1%	4	1%
Subtotal	**12**	**8%**	**2**	**2%**	**8**	**5%**	**22**	**5%**
Total	**152**	**100%**	**106**	**100%**	**154**	**100%**	**412**	**100%**

31 December 2016 Loan to value (LTV) ratio of total Retail UK mortgages - Non-performing exposures[1]	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 tables above illustrate the indexed loan to value ratios at the applicable reporting date for non-performing Retail UK mortgages.

The ratios reflect the application of the Nationwide Building Society house price index at the applicable reporting date to the portfolio. Of the non-performing Retail UK standard mortgages, £140 million or 92% are in positive equity (31 December 2016: £145 million or 91%) while £12 million or 8% are in negative equity at 30 June 2017 (31 December 2016: £14 million or 9%).

Of the non-performing Retail UK self-certified mortgages, £146 million or 95% are in positive equity (31 December 2016: £146 million or 95%) while £8 million or 5% are in negative equity at 30 June 2017 (31 December 2016: £8 million or 5%).

Of the non-performing Retail UK Buy to let mortgages, £104 million or 98% are in positive equity (31 December 2016: £102 million or 96%) while £2 million or 2% are in negative equity at 30 June 2017 (31 December 2016: £4 million or 4%).

[1] *As described on pages 41 and 42, 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, non-performing exposures[1], impaired loans[1] and total impairment provisions of the Retail UK mortgage portfolio.

TABLE: 4

30 June 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	10,781	152	1.4%	52	26	17%	11%
Buy to let mortgages	7,442	106	1.4%	42	20	19%	24%
Self certified mortgages	2,124	154	7.3%	57	17	11%	11%
Total	**20,347**	**412**	**2.0%**	**151**	**63**	**15%**	**15%**

31 December 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%

Retail UK mortgages were £20.3 billion at 30 June 2017 compared to £20.4 billion at 31 December 2016. Non-performing Retail UK exposures were £412 million at 30 June 2017 compared to £419 million at 31 December 2016, due to a decrease in Standard mortgages. The overall impairment provision coverage ratio on the non-performing Retail UK mortgages book was 15% (31 December 2016: 16%).

[1] *As described on pages 41 and 42, 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)

Properties in possession

At 30 June 2017, the Group had possession of properties held as security as follows:

TABLE: 5a

Properties in possession Retail UK mortgages	30 June 2017 Number of properties in possession at balance sheet date	30 June 2017 Balance outstanding before impairment provisions £m	31 December 2016 Number of properties in possession at balance sheet date	31 December 2016 Balance outstanding before impairment provisions £m
Standard mortgages	17	2	28	4
Buy to let mortgages	26	2	23	2
Self certified mortgages	7	2	14	4
Total residential properties in possession	**50**	**6**	**65**	**10**

Disposals of properties in possession

TABLE: 5b

Disposals of properties in possession Retail UK mortgages	30 June 2017 Number of disposals during the period	30 June 2017 Balance outstanding after impairment provisions £m	31 December 2016 Number of disposals during the year	31 December 2016 Balance outstanding after impairment provisions £m
Standard mortgages	33	3	79	8
Buy to let mortgages	30	2	83	6
Self certified mortgages	13	2	53	8
Total disposals of properties in possession	**76**	**7**	**215**	**22**

During the six months ended 30 June 2017, the Group disposed of 76 properties (for the year ended 31 December 2016: 215 properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the six months ended 30 June 2017, the proceeds from disposals of Standard mortgages was £4 million (year ended 31 December 2016: £9 million).

For the six months ended 30 June 2017, the proceeds from disposals of Buy to let mortgages was £3 million (year ended 31 December 2016: £7 million).

For the six months ended 30 June 2017, the proceeds from disposals of Self certified mortgages was £2 million (year ended 31 December 2016: £10 million).

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 30 June 2017 of €80.1 billion is available on page 43 in the asset quality disclosures. Exposures are before provisions for impairment.

As described on pages 41 and 42, 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 'greater than 90 days in arrears and 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

30 June 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	41,765	5,940	3,144	3,663	54,512	77%
Satisfactory quality	-	8,842	1,530	234	10,606	15%
Acceptable quality	-	1,462	755	14	2,231	3%
Lower quality but neither past due or impaired	-	436	273	-	709	1%
Neither past due nor impaired	**41,765**	**16,680**	**5,702**	**3,911**	**68,058**	**96%**
Past due but not impaired	960	130	132	63	1,285	2%
Impaired	601	257	253	64	1,175	2%
Total non-forborne loans and advances to customers	**43,326**	**17,067**	**6,087**	**4,038**	**70,518**	**100%**
Forborne loans and advances to customers						
High quality	-	25	65	-	90	1%
Satisfactory quality	965	140	214	5	1,324	14%
Acceptable quality	1,461	406	524	6	2,397	25%
Lower quality but neither past due or impaired	81	363	458	-	902	9%
Neither past due nor impaired	**2,507**	**934**	**1,261**	**11**	**4,713**	**49%**
Past due but not impaired	418	82	153	1	654	7%
Impaired	841	1,522	1,824	33	4,220	44%
Total forborne loans and advances to customers	**3,766**	**2,538**	**3,238**	**45**	**9,587**	**100%**

Risk profile of forborne loans and advances to customers (continued)

TABLE: 1

31 December 2016 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	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[2]	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' amounted to €4.7 billion at 30 June 2017 compared to €5.6 billion at 31 December 2016.

Forborne loans and advances to customers classified as 'past due but not impaired' remained broadly unchanged at €0.7 billion.

Forborne loans and advances to customers classified as 'impaired' were €4.2 billion at 30 June 2017 compared to €4.8 billion at 31 December 2016.

[1] *In line with the revised asset reporting methodology as set out on pages 41 and 42, 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 which are past due and / or impaired at 30 June 2017 of €7.3 billion is available on page 44 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below provide an aged analysis of loans 'past due and / or impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

TABLE: 2

30 June 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	315	46	60	38	459
Past due 31 - 60 days	341	21	15	19	396
Past due 61 - 90 days	103	10	14	6	133
Past due greater than 90 days but not impaired	201	53	43	-	297
Past due but not impaired	**960**	**130**	**132**	**63**	**1,285**
Impaired	601	257	253	64	1,175
Total non-forborne loans and advances to customers - past due and / or impaired	**1,561**	**387**	**385**	**127**	**2,460**
Forborne loans and advances to customers					
Past due up to 30 days	145	12	47	-	204
Past due 31 - 60 days	73	5	6	1	85
Past due 61 - 90 days	45	15	32	-	92
Past due greater than 90 days but not impaired	155	50	68	-	273
Past due but not impaired	**418**	**82**	**153**	**1**	**654**
Impaired	841	1,522	1,824	33	4,220
Total forborne loans and advances to customers - past due and / or impaired[1]	**1,259**	**1,604**	**1,977**	**34**	**4,874**

[1] *The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.*

Past due and / or impaired (continued)

The Group's total loans and advances to customers which are past due and / or impaired of €8.4 billion at 31 December 2016 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

31 December 2016 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	318	82	11	35	446
Past due 31 - 60 days	377	11	51	17	456
Past due 61 - 90 days	110	18	81	6	215
Past due greater than 90 days but not impaired	213	46	19	-	278
Past due but not impaired	1,018	157	162	58	1,395
Impaired	713	419	214	66	1,412
Total non-forborne loans and advances to customers - past due and / or impaired	1,731	576	376	124	2,807
Forborne loans and advances to customers					
Past due up to 30 days	135	8	18	-	161
Past due 31 - 60 days	78	4	44	1	127
Past due 61 - 90 days	42	3	8	-	53
Past due greater than 90 days but not impaired	172	84	140	-	396
Past due but not impaired	427	99	210	1	737
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	2,665	39	5,561

At 30 June 2017, forborne loans and advances to customers classified as 'past due and / or impaired' amounted to €4.9 billion or 66% of the Group's forborne loan book at 30 June 2017 compared to €5.6 billion or 66% at 31 December 2016.

Forborne Residential mortgages classified as 'past due and / or impaired' remained broadly unchanged at €1.3 billion.

Forborne Property and construction loans classified as 'past due and / or impaired' decreased by €0.7 billion from €2.7 billion at 31 December 2016 to €2.0 billion at 30 June 2017.

Forborne Non-property SME and corporate loans classified as 'past due and / or impaired' increased by €0.1 billion from €1.5 billion at 31 December 2016 to €1.6 billion at 30 June 2017.

Forborne Consumer loans that are 'past due and / or impaired' decreased by €5 million from €39 million at 31 December 2016 to €34 million at 30 June 2017.

[1] *In line with the revised asset reporting methodology as set out on pages 41 and 42, 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

TABLE: 3

30 June 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	601	257	253	64	1,175
Past due greater than 90 days but not impaired	201	53	43	-	297
Neither impaired nor past due greater than 90 days	39	10	2	-	51
Total non-forborne loans and advances to customers	**841**	**320**	**298**	**64**	**1,523**
Forborne loans and advances to customers					
Impaired	841	1,522	1,824	33	4,220
Past due greater than 90 days but not impaired	155	50	68	-	273
Neither impaired nor past due greater than 90 days	1,508	211	331	1	2,051
Total forborne loans and advances to customers	**2,504**	**1,783**	**2,223**	**34**	**6,544**

31 December 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 forborne loans and advances to customers	2,683	1,722	3,238	39	7,682

As described on pages 41 and 42, 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.

Impairment provisions on forborne loans and advances to customers

The total impairment provisions on loans and advances to customers for the six months ended 30 June 2017 were €3,210 million (31 December 2016: €3,885 million) (see pages 48 and 49 in the asset quality disclosures). Of this, the impairment provisions on forborne loans amounted to €2,483 million (31 December 2016: €3,004 million) as set out in the tables below:

TABLE: 4

30 June 2017 **Impairment provision on forborne loan and advances Composition**	**Specific provisions individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment provision on forborne loans €m**
Residential mortgages	331	154	485
- Retail Ireland	*331*	*152*	*483*
- Retail UK	*-*	*2*	*2*
Non-property SME and corporate	867	16	883
- Republic of Ireland	*647*	*8*	*655*
- UK SME	*53*	*3*	*56*
- Corporate	*167*	*5*	*172*
Property and construction	1,079	35	1,114
- Investment	*831*	*33*	*864*
- Land and development	*248*	*2*	*250*
Consumer	-	1	1
Total impairment provision on forborne loans	**2,277**	**206**	**2,483**

31 December 2016 Impairment provision on forborne loan and advances Composition	Specific provisions individually and collectively assessed[1] €m	Incurred but not reported €m	Total impairment provision on forborne loans €m
Residential mortgages	363	204	567
- Retail Ireland	*363*	*202*	*565*
- 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 provision on forborne loans	2,723	281	3,004

Impairment provision on forborne loans

The decrease in specific provisions on forborne loans in the period reflects the impact of provisions utilised, partially offset by new, and increases to existing, specific provisions attaching to Residential mortgage, Non-property SME and corporate and Property and construction exposures.

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 pages 41 and 42, 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.*

2 Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the six months ended 30 June 2017 and the year ended 31 December 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 11.

	Six months ended 30 June 2017			Year ended 31 December 2016		
	Average Balance €m	**Interest[1,2] €m**	**Rate %**	Average Balance €m	Interest[1,2] €m	Rate %
Assets						
Loans and advances to banks	7,849	-[3]	-	8,470	14	0.17%
Loans and advances to customers	77,700	1,264	3.28%	80,693	2,678	3.32%
Available for sale financial assets and NAMA senior bonds	11,842	51	0.87%	11,182	125	1.12%
Held to maturity financial assets	1,860	15	1.63%	1,896	31	1.64%
Total interest earning assets	**99,251**	**1,330**	**2.70%**	**102,241**	**2,848**	**2.79%**
Non interest earning assets	23,000	-	-	22,400	-	-
Total assets	**122,251**	**1,330**	**2.19%**	**124,641**	**2,848**	**2.28%**
Liabilities and stockholders' equity						
Deposits from banks	5,083	4[4]	0.16%	2,604	1	0.04%
Customer accounts[5]	45,931	100[4]	0.44%	51,917	343	0.66%
Debt securities in issue	9,264	40[4]	0.87%	10,912	80	0.73%
Subordinated liabilities	1,366	35	5.17%	1,957	139	7.10%
- Convertible Contingent Capital Note (CCCN) 2016	*-*	*-*	*-*	*577*	*67*	*11.61%*
- Other subordinated liabilities	*1,366*	*35*	*5.17%*	*1,380*	*72*	*5.22%*
Total interest bearing liabilities	**61,644**	**179**	**0.59%**	**67,390**	**563**	**0.83%**
Current accounts	27,055	-	-	24,559	2	0.01%
Total interest bearing liabilities and current accounts	**88,699**	**179**	**0.41%**	**91,949**	**565**	**0.61%**
Non interest bearing liabilities[6]	24,448	-	-	23,999	-	-
Stockholders' equity	9,104	-	-	8,693	-	-
Total liabilities and stockholders' equity	**122,251**	**179**	**0.30%**	**124,641**	**565**	**0.45%**
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			0.25%			0.40%
3 month Libor rate			0.33%			0.50%

Loans and advances to banks includes cash and balances at central banks.

[1] *Represents interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.*
[2] *Excludes the cost of the ELG Scheme of €nil (31 December 2016: €20 million) which is included within interest expense.*
[3] *Interest expense of €7 million arising from assets subject to negative interest rates has been reclassified to interest income, whereas in the Consolidated income statement it is presented as interest expense.*
[4] *Interest income of €5 million arising from liabilities subject to negative interest rates has been reclassified to interest expense, whereas in the Consolidated income statement it is presented as interest income.*
[5] *Excludes deposits carried at fair value through profit and loss.*
[6] *Includes liabilities carried at fair value through profit and loss.*

3 Rates of exchange

Principal rates of exchange used in the preparation of the Interim Financial Statements are as follows:

	30 June 2017		30 June 2016		31 December 2016	
	Closing	**Average**	Closing	Average	Closing	Average
€ / US$	1.1412	1.0830	1.1102	1.1159	1.0541	1.1069
€ / Stg£	0.8793	0.8606	0.8265	0.7788	0.8562	0.8195

4 Credit ratings

Ireland - Senior debt	**30 June 2017**	31 December 2016
Standard & Poor's	A+ (Stable)	A+ (Stable)
Moody's	A3 (Positive)	A3 (Positive)
Fitch	A (Stable)	A (Stable)
DBRS	A (High) (Stable Trend)	A (High) (Stable Trend)

Governor and Company of Bank of Ireland - Senior debt	**30 June 2017**	31 December 2016
Standard & Poor's	BBB (Stable)	BBB- (Positive)
Moody's	Baa1 (Positive)	Baa2 (Positive)
Fitch	BBB- (Positive)	BBB- (Positive)
DBRS	A (Low) (Stable)	BBB (High) (Positive trend)

Bank of Ireland Group plc (Holding Company of the Group)	**At date of publication**
Standard & Poor's	BBB- (Stable) [1]
Moody's	Baa3 (Positive) [1]
Fitch	BBB- (Positive) [2]

5 Stock Exchange Listings

On 7 July 2017, Bank of Ireland Group plc became the new parent company of the Group. The ordinary shares of nominal value €1.00 each, being the entire issued ordinary share capital of Bank of Ireland Group plc, 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 UK Financial Conduct Authority on 10 July 2017.

[1] *Standard & Poor's and Moody's assigned BBB- and Baa3 ratings to Bank of Ireland Group plc on 14 July 2017.*
[2] *Fitch assigned a BBB- rating to Bank of Ireland Group plc on 10 July 2017.*

6 Glossary

Further information related to certain measures referred to in the Key Highlights and Performance Summary

Average cost of funds represents the interest expense recognised on interest bearing liabilities, net of interest on derivatives which are in a hedge relationship with the relevant liability. See page 11 and page 124 for further information.

Business income is net other income after IFRS income classifications before other gains and other valuation items. See page 12 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.

Growth in core loan book is gross new lending volumes less redemptions & repayments, excluding those 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. See page 18 for further details.

Gross new lending volumes represent loans and advances to customers drawn down during the period and portfolio acquisitions.

Gross yield represents the interest income recognised on interest bearing assets, net of interest on derivatives which are in a hedge relationship with the relevant asset. See page 11 and page 124 for further information.

Impairment charge on loans and advances to customers (bps) is the net impairment charge on loans and advances to customers divided by average gross loans and advances to customers (including held for sale).

Liquid assets are comprised of cash and balances at central banks, loans and advances to banks (excluding balances in Bank of Ireland Life), held to maturity financial assets, NAMA senior bonds and certain available for sale financial assets. See page 19 for further details.

Liquid asset spread is calculated as gross yield on interest bearing liquid assets less the average cost of funds. See page 11 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 11 for further detail.

Loan to deposit ratio is calculated as being net loans and advances to customers divided by customer deposits.

Net interest margin is stated before ELG fees and after adjusting for IFRS income classifications. See page 11 for further details.

Non-performing exposures consist of impaired loans, loans greater than 90 days in arrears and 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.

Glossary (continued)

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 stockholder equity excluding amounts not attributable to ordinary stockholders and intangible assets divided by the number of ordinary shares in issue as adjusted for the stock consolidation implemented on 7 July 2017 and for own stock held for the benefit of life assurance policyholders.

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 15 for further information.

Wholesale funding is comprised of deposits by banks (including collateral received) and debt securities in issue.

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