

Bank of Ireland Group plc
Interim Report for the six months
ended 30 June 2019

Enabling our customers,
colleagues and communities
to thrive

Bank of Ireland 

Interim Report

for the six months ended 30 June 2019

Our Ambition is to be the National Champion Bank in Ireland, with UK and selective international diversification.

Our Purpose is to enable our customers, colleagues and communities to thrive.

Inside this report

Key performance highlights	3
Chief Executive's review	4
Strategic progress	6
Operating and financial review <i>(incorporating risk management)</i>	7
Basis of presentation	7
Summary consolidated income statement	7
Summary consolidated balance sheet	13
Divisional review	17
Principal risks and uncertainties	27
Asset quality	28
Capital management	32
Responsibility statement	36
Independent review report	37
Consolidated interim financial statements and notes <i>(unaudited)</i>	38
Other information	88

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www.bankofireland.com



The Group's forward looking statement can be found on page 111.

Key performance highlights

Profitability

€376m

(H1 2018: €500m)

Underlying profit before tax

- Profit before tax €315m (H1 2018: €454m).
- Net interest margin of 2.16% (H1 2018: 2.23%).
- Reduction in operating expenses (before levies and regulatory charges) continues, €30m (3%) lower vs. H1 2018.
- NPE ratio improved by 100bps to 5.3% (31 December 2018: 6.3%).

Growth

€1.2bn

(H1 2018: €0.5bn)

Net lending growth

- New lending €7.7bn (H1 2018: €7.7bn).
- Irish mortgage market share of 23%; increased SME market share.
- Corporate Banking net lending growth €1.0bn.

Transformation

3% / €30m

(H1 2018: <1% / €27m)

Reduction in operating expenses
(before levies and regulatory charges)

- Continue to create a leaner and more agile organisation.
- Foundations of the new core banking platform have been built; now prioritising channel experience and customer migration.
- UK Business being enhanced – exit from UK cards, unprofitable ATMs and current accounts; attractive loan growth in Consumer and Northridge; costs reduced.


Capital

13.6%

(31 December 2018: 13.4%)

CET 1 ratio

- Organic capital generation of c.90bps (31 December 2018: 180 bps).
- Securitisation of Rol mortgage NPEs unlocking 30bps of CET 1 capital.
- Foreseeable dividend deduction of €100m (31 December 2018: €173m).

 Further information on measures referred to in our key performance highlights is found in Alternative performance measures on page 113.

Chief Executive's review

The Group has made continued progress in 2019 to deliver against our strategic priorities of growth and transformation.



Francesca McDonagh
Group Chief Executive

I am pleased to report a solid financial performance in the first half of 2019, and strong progress in delivery of our strategy that we set out a year ago. Progress in delivering on our strategy of growth and transformation has contributed to an underlying profit before tax of €376 million during the period. Our loan book has grown with net lending growth of €1.2 billion as we support our retail and corporate customers across all our markets while maintaining our commercial pricing and risk discipline. Operating expenses have reduced by 3% compared to the same period in 2018. Asset quality continues to improve with our non-performing exposures (NPEs) ratio now at 5.3% and the Group continues to generate strong organic capital, 90 basis points in the first half of 2019.

Strategic ambition

Our ambition is to be the National Champion bank in Ireland, with UK and selective international diversification. Delivering on our strategic priorities to transform the bank, serve customers brilliantly and grow sustainable profits is key to achieving our ambition.

At our Investor Day in June 2018, we set out our strategic plan to enable us by 2021 to generate a return on tangible equity in excess of 10%, reduce our costs to c.€1.7 billion, and prudently and progressively increase our dividend per share over time, building to a payout ratio of around 50% of sustainable earnings.

One year on, we have made good progress in delivering on this plan. In particular we:

- are growing our loan book while maintaining our risk and commercial discipline;
- are growing our Wealth and Insurance business;
- are reducing our costs;
- have met key milestones on our culture, systems and business model transformation programme; and
- are making tangible progress in the delivery of our UK strategy, focused on increasing returns.

We also recognise that our operating environment has changed since we set out our strategic plan a year ago. There has been a change and material lowering in interest rate expectations, extended Brexit uncertainty continues to influence the pace

of credit formation in Ireland, and competition in the UK mortgage market has intensified. These external headwinds present challenges to our ability to generate the income and loan growth that we set out at our Investor Day. In response, management is focused on a range of actions to mitigate these effects. Notwithstanding these challenges, the economic fundamentals underpinning our strategic ambition remain supportive. Economic growth in our core home market of Ireland is stronger today than when we set our strategy a year ago, while moderate growth has continued in the UK. The labour market in both countries is performing well with the unemployment rate down to 4.5% in Ireland and 3.8% in the UK; the two economies are now effectively at full employment.

We are committed to the delivery of our strategic plan which will unlock the potential in our businesses, and deliver attractive and sustainable returns to our shareholders.

Solid performance in first half 2019

The Group generated an underlying profit before tax of €376 million in the first half of 2019 with underlying pre-impairment operating profit increasing by 9%.

The Group's loans increased by €1.0 billion primarily due to net new lending of €1.2 billion together with our acquisition of a portfolio of loans of c.€0.2 billion. Offsetting this was the impact of our successful securitisation of c.€0.3 billion of non-performing Irish mortgage loans (buy to let). Our market share in the Irish mortgage market was 23% in the first half of 2019. We continue to invest and build out in the mortgage broker channel following our re-entry last November. We are the leading business bank in Ireland, supporting our customers, local communities and enterprise. We are currently funding the construction of 6,100 new homes, including c.770 social housing

units and a further c.2,000 student beds which are due for completion.

We have a clear strategy in the UK to invest, improve or reposition the various parts of our business portfolio. We are pleased with the progress being made. We have achieved growth in our consumer lending businesses, with a changing mix in new business to support increased returns and launched our new 'Bespoke' mortgage proposition. We are reducing our cost base by simplifying our UK business model. We are repositioning the less profitable parts of our portfolio, including the recent sale of our UK credit cards portfolio, and we are also exiting current accounts and unprofitable ATMs. Excluding UK cards we expect further loan book growth in our UK business in the second half of the year and remain focused on the risk and return profile of this growth over volume.

The Group's NIM for the first half of 2019 was 2.16% and is in line with our expectations. This reflects the positive impact from new lending margins and our continued strong commercial pricing discipline, offset by the sale of our UK credit card portfolio, and on-going competitive pressures in the UK mortgage market. The interest rate environment has recently changed materially and, as a result, lower interest rates are now expected for longer which is a headwind to our NIM. Relative to the NIM of 2.16% that we reported in the first half of 2019, we now expect the current interest rate outlook to lead to our full year 2019 NIM being slightly lower and our 2020 and 2021 NIM to be mid to high single digit basis points lower.

Fees and other income arise from diversified business activities including wealth, bancassurance, foreign exchange (FX) and transactional banking fees. This includes business income of €311 million for the first half of 2019, which was 3% higher than the same period in 2018 after excluding the impact of UK income relating to credit cards and ATMs which have been reclassified as non-core.

We are transforming our culture, systems and business model and this is delivering planned efficiencies across the Group as we make progress to simplify our business. We took actions to reduce our operating expenses (excluding levies and regulatory charges) to €903 million in the first half of 2019, a decrease of 3% compared to the same period in 2018. We expect our operating expenses for 2019 as a whole to be lower than last year and to reduce further in 2020 and again in 2021. Levies and regulatory charges of €73 million were also incurred. Non-core charges of €61

million includes charges relating to our customer redress programme (the Tracker Mortgage Examination) together with restructuring charges related to our cost reduction programmes.

Asset quality continues to improve. This reflects ongoing improvement in the credit quality of our loan portfolios, our actions to manage our non-performing loans, and the positive economic environment and outlook particularly in our Irish home market. NPEs reduced over the period by €0.8 billion to €4.2 billion, which equates to an NPE ratio of 5.3% of gross customer loans. A portfolio of non-performing Irish mortgages are prioritised for alternative resolution strategies in the second half of 2019. NPE reduction strategies will remain under review given the evolving regulatory framework and we expect to achieve an NPE ratio below 5% by the end of 2019. We had a net impairment charge of €79 million for the first half of 2019 which reflects provisions for a small number of discrete cases in Corporate Banking and reflects an increase in coverage ratio on Irish mortgage NPEs. Absent a deterioration in the economic environment, we continue to expect the impairment charge to be in the range of 20-30 basis points between now and 2021.

Transformation of our technology remains a key enabler to support growth, improve customer experience, and further efficiencies in our businesses. The investments we are making in our systems, including core banking, will deliver simpler, modern solutions, and improve our digital channels, services and security. In the first half of 2019 we achieved important milestones including ATM and debit cards being successfully migrated to a new, more resilient platform. Digital investments in our Wealth and Insurance business are also underpinning our business growth. We will start to roll out the new mobile app to customers in Q4 2019, with the migration of our Irish mobile customers continuing into 2020.

The Group continues to generate strong organic capital with 90 basis points generated in the first half of 2019. In addition, the Group unlocked 30 basis points of capital from the securitisation of non-performing Irish mortgages. We allocated 30 basis points to support the growth in our loan book, we invested 25 basis points of capital in our technology transformation programme, and we accrued 20 basis points of capital to support the 2019 dividend that the Board will ultimately decide upon at the time of the full year results. Our fully loaded CET 1 capital ratio at June is a robust 13.6%.

Customers, Colleagues and Communities

Serving our customers brilliantly is a key strategic priority. We will do this as we transform our businesses by providing products and services which meet their financial requirements through easy, simple and accessible processes aligned to their digital expectations. We continued to invest in our branch network, contact centre and digital channels during the first half of 2019. We launched our new brand 'Begin' strategy earlier in the year and we are helping our customers to navigate Brexit through our tailored €2 billion Brexit fund and FX facilities. We launched Ireland's first Financial Wellbeing programme designed to help customers to better understand, plan and improve their finances, and established a Vulnerable Customer Relationship Unit, a first for a bank in Ireland. Customers are increasingly choosing digital and self-serve channels with 75% of digital logins now via a mobile device. These investments are tangibly improving our customers experience and are helping to increase colleague engagement scores further.

We are improving the culture in the Bank. In the first half of 2019, our Group People Strategy was launched, c.1,700 people managers attended 75 Values in Action workshops and our staff engagement scores are continuing to improve, up 7% since 2017 to 57%. We continue to focus on attracting and retaining talent across the organisation. We have a strong bench strength of skills and expertise, enabling senior management movement and development.

Looking forward

The first half of 2019 has seen continued growth in our lending, improved efficiency, and progress in the transformation of our culture, systems and business model. We continue to reduce our NPEs and generate strong organic capital. We are mindful of the risks, challenges and uncertainties relating to the interest rate outlook, Brexit and the global economy. We are committed to making further progress against our strategic objectives during the second half of 2019 and beyond.

Our primary financial target is to generate a return on tangible equity in excess of 10%. We will continue to responsibly develop our profitable, long term franchises, and achieve our ambition to serve our customers brilliantly in a way that delivers attractive, sustainable returns to our shareholders.

Strategic progress

The Group has three strategic priorities: to transform the bank, to serve customers brilliantly and to grow sustainable profits

Key highlights during the first six months of 2019 are set out below:

Transform the Bank



Culture



Systems



Business model

Target outcomes

- Strengthened culture.
- Cost base to reduce to c.€1.7 billion in 2021.
- Absolute cost level declining year on year to 2021.
- Income growth.

2019 highlights

- Colleague engagement continuing to improve, up 7% since 2017.
- Continue to create a leaner, simplified and agile organisation with 70% of end state spans and layers structure completed to date.
- ATM and debit cards successfully migrated to new platform.
- Technical version of the new mobile app was delivered in H1 2019 and roll out to customers to commence in Q4 2019.
- Automated over 100 business processes through robotics, reducing operational risk and processing times, improving efficiency and customer experience.
- Repositioning the UK business, exiting from credit cards, unprofitable ATMs and current accounts.

Serve Customers Brilliantly



Embedding voice of customer in our businesses



Investing in digital and physical channels



New brand strategy

Target outcomes

- Significant improvement in customer satisfaction and advocacy.
- Straight through processing; digital journeys.
- Application Programming Interface (API) foundation for 'Open Banking'.
- #1 for customer experience and brand in Ireland.

2019 highlights

- Leading supporter of home building and home buying in Ireland:
 - approved €750 million in development financing;
 - €1 billion 'Green Fund' launched; and
 - expanding mortgage distribution platform through mortgage broker network.
- Supporting and partnering with customers in preparation for Brexit:
 - €2 billion Brexit fund and foreign exchange facilities.
- Launched Ireland's first 'Financial Wellbeing Programme' designed to help customers to better understand, plan and improve their finances.
- Established a 'Vulnerable Customer Relationship Unit'.
- Continued investment in our branch network, contact centre and digital channels is improving our customer experience.
- Digital application tracker launched, initially for personal loans, facilitating real-time order tracking for customers.
- New brand strategy launched, supported by multi-year customer strategies.

Grow Sustainable Profits



Improved profitability



Efficient business



Robust capital position



Sustainable dividends

Improved profitability

H1 2019 Progress:
Headline RoTE of 6.8%
Adjusted RoTE of 6.5%

2021 Target:
RoTE in excess of 10%

Efficient business

H1 2019 Progress:
Cost reduction of €30 million (3%)
vs H1 2018

2021 Target:

- Cost base of c.€1.7 billion
- Costs reduce every year: 2018-2021
- Cost income ratio of c.50%

Robust capital position

H1 2019 Progress:
Fully loaded CET1 ratio of 13.6%

2021 Target:
CET1 ratio in excess of 13%

Sustainable dividends

H1 2019 Progress:
Regulatory deduction of €100 million for foreseeable dividend; equivalent to an annualised dividend of 18.5c per share.

2021 Target:
Increase prudently and progressively; over time will build towards a payout ratio of around 50% of sustainable earnings.

Operating and financial review

(incorporating risk management)

The Group generated an underlying profit before tax of €376 million for the six months ended 30 June 2019 (six months ended 30 June 2018: €500 million). All trading divisions are profitable and have contributed positively to our financial performance during the period.

Basis of presentation

This operating and financial review (OFR) is presented on an underlying basis. For an explanation of underlying see page 12.

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 2019 compared to the six months ended 30 June 2018. The balance sheets are presented for 30 June 2019 compared to 31 December 2018.

Principal rates of exchange used in the preparation of the Interim Financial Statements are set out on page 112.

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

Further information on measures referred to in the OFR is found in Alternative performance measures on page 113.

Summary consolidated income statement on an underlying basis

Profit before tax of €315 million for the six months ended 30 June 2019 is €139 million lower than the same period in 2018.

Operating profit before net impairment (losses) / gains for the six months ended 30 June 2019 is €37 million higher than the same period in 2018 reflecting a growth in operating income (net of insurance claims) of €13 million and lower operating expenses of €24 million.

Net impairment losses for the period are €79 million whereas in the same period in 2018 the Group benefitted from a net impairment gain of €81 million. This movement is the key driver of underlying profit before tax decreasing from €500 million to €376 million.

Operating income (net of insurance claims) has increased by €13 million compared to the same period in 2018 primarily due to:

- **net interest income** of €1,069 million for the six months ended 30 June 2019 was €7 million lower than the same period in 2018, primarily reflecting the repositioning of the United Kingdom (UK) cards portfolio as non-core in 2019 due to classification as held for sale; and

Table	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Net interest income	1,069	1,076
Net other income	342	322
Operating income (net of insurance claims)	1,411	1,398
Operating expenses (before levies and regulatory charges)	(903)	(933)
Levies and regulatory charges	(73)	(67)
Operating profit before net impairment (losses) / gains on financial instruments	435	398
Net impairment (losses) / gains on financial instruments	(79)	81
Share of results of associates and joint ventures (after tax)	20	21
Underlying profit before tax	376	500
Non-core items	(61)	(46)
Profit before tax	315	454
Tax charge	(89)	(77)
Profit for the period	226	377

- a **net other income** increase of €20 million which largely reflects the positive impact on valuation items of market movements.

Operating expenses (before levies and regulatory charges) of €903 million are €30 million or 3% lower than the same period in 2018. The Group continues to focus on reducing its operational costs while absorbing increased cost from wage inflation and depreciation arising from technology investment.

Summary consolidated income statement on an underlying basis *(continued)*

Our transformation programme continues to make progress and a further €138 million was invested in this programme in the first six months of 2019, of which €54 million is capitalised on the balance sheet (six months ended 30 June 2018: €39 million), with an income statement charge of €63 million (six months ended 30 June 2018: €51 million), and €21 million (six months ended 30 June 2018: €51 million) recognised through non-core items.

Net impairment losses on financial instruments of €79 million for the six months ended 30 June 2019 compared to a net impairment gain of €81 million for the same period in 2018. The net impairment loss was in line with expectations and

reflects the impact of impairment losses on a small number of large corporate exposures, more normalised outcomes from the ongoing resolution of Non-Performing Exposures (NPEs) (including credit impaired loans), increased coverage on Retail Ireland mortgage NPEs and it reflects the growth in UK personal lending.

The Group increased its **Non-core charge** by €15 million to €61 million for the period. The non-core charge for the six months ended 30 June 2019 primarily reflects customer redress charges of €62 million and restructuring costs of €27 million, partially offset by income of €22 million relating to gross-up for policyholder tax in the Wealth and Insurance business.

The **taxation charge** for the Group is €89 million for the six months ended 30 June 2019 with an effective taxation rate on a statutory basis of 28% (six months ended 30 June 2018: €77 million and 17%, respectively). The increased rate is primarily due to the tax impact of the gross-up for policyholder tax in the Wealth and Insurance business. On an underlying basis, the effective taxation rate for the six months ended 30 June 2019 is 19% (six months ended 30 June 2018: 17%). The effective tax rate is influenced by changes in the geographic mix of profits and losses.

Net interest income

Table: 1	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net interest income / net interest margin			
Net interest income	1,069	1,076	(1%)
IFRS income classifications ¹	10	19	(47%)
- Interest income on Life loan mortgage products ²	7	8	(13%)
- Other	3	11	(73%)
Net interest income after IFRS income classifications	1,079	1,095	(1%)
Average interest earning assets (€bn)³			
Loans and advances to customers	78	76	3%
Other interest earning assets	23	23	-
Total average interest earning assets	101	99	2%
Net interest margin⁴	2.16%	2.23%	
Gross yield - customer lending ⁵	3.26%	3.26%	
Gross yield - liquid assets ⁵	0.29%	0.32%	
Average cost of funds - interest bearing liabilities and current accounts ⁵	(0.47%)	(0.42%)	

Net interest income after International Financial Reporting Standards (IFRS) income classifications of €1,079 million for the six months ended 30 June 2019 is €16 million lower than the same period in 2018, primarily reflecting the repositioning of the UK cards portfolio as non-core in 2019 due to re-classification as held for sale.

The Group's average net interest margin has decreased from 2.23% to 2.16% reflecting the impact of the competitive pressure in the UK mortgage market (-3 basis points) and the repositioning of the UK cards portfolio (-3 basis points).

Average interest earning assets for the six months ended 30 June 2019 have increased by €2 billion compared to the same period in 2018, primarily due to positive net new lending growth. For further information on loans and advances to customers see page 14.

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

² In the six months ended 30 June 2019, there was €7 million (six months ended 30 June 2018: €8 million) of interest income on 'Life loan mortgage products' which are mandatorily classified at FVTPL, with all income on such loans reported in 'net other income'. This IFRS income classification moves the income back to 'net interest income'.

³ Average interest earning assets at 30 June 2019 includes €441 million (31 December 2018: €551 million) of interest bearing assets carried at FVTPL.

⁴ The net interest margin is stated after adjusting for IFRS income classifications.

⁵ 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 pages 114 and 115 respectively for further information.

Summary consolidated income statement on an underlying basis *(continued)*

Net other income

Table: 2	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net other income			
Net other income	342	322	6%
IFRS income classifications ¹	(10)	(19)	(47%)
- Interest income on Life loan mortgage products ²	(7)	(8)	13%
- Other	(3)	(11)	73%
Net other income after IFRS income classifications	332	303	10%
Analysed as:			
Business income³			
Retail Ireland	129	131	(2%)
Wealth and Insurance	119	115	3%
Retail UK	(11)	6	n/m
Corporate and Treasury	77	72	7%
Group Centre and other	(3)	(1)	n/m
Total business income	311	323	(4%)
Other gains			
Transfers from debt instruments at fair value through other comprehensive income reserve on asset disposal	1	2	(50%)
Net gain on disposal and revaluation of investments	2	8	(75%)
Other valuation items			
Financial instrument valuation adjustments (CVA, DVA, FVA) ⁴ and other	(18)	(19)	(5%)
Unit-linked investment variance - Wealth and Insurance	21	(7)	n/m
Interest rate movements - Wealth and Insurance	15	(4)	n/m
Net other income after IFRS income classifications	332	303	10%

Net other income after IFRS income classifications for the six months ended 30 June 2019 is €332 million, an increase of €29 million or 10% compared to the same period in 2018.

Business income for the six months ended 30 June 2019 has decreased by €12 million or 4% compared to the same period in 2018. Income in Retail UK decreased by €17 million due to the repositioning of the UK cards and ATM

portfolios as non-core in 2019 following its classification as held for sale. Income in Retail Ireland was broadly in line with the prior period and Corporate and Treasury income increased by €5 million.

Other gains are €3 million for the six months ended 30 June 2019. The prior period gain includes the impact of the partial disposal of National Asset Management Agency (NAMA) subordinated debt.

Other valuation items are €48 million higher compared to the same period in 2018 and were positively impacted in the six months ended 30 June 2019 by higher than expected growth in investment markets, tightening of credit spreads and changes in interest rates. The 2018 results reflected negative market movements in these areas.

¹ The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. See page 8 for further information.

² In the six months ended 30 June 2019, there was €7 million (six months ended 30 June 2018: €8 million) of interest income on 'Life loan mortgage products' which are mandatorily classified at FVTPL, with all income on such loans reported in 'net other income'. This IFRS income classification moves the income back to 'net interest income'.

³ Business income is net other income after IFRS income classifications before other gains and other valuation items. This is a measure monitored by management as part of the review of divisional performance.

⁴ Credit Valuation Adjustment (CVA); Debit Valuation Adjustment (DVA); Funding Valuation Adjustment (FVA).

Summary consolidated income statement on an underlying basis *(continued)*

Operating expenses

Table: 3	6 months ended	6 months ended	
	30 June 2019	30 June 2018	Change
Operating expenses	€m	€m	%
Staff costs (excluding pension costs)	350	369	(5%)
Pension costs	64	73	(12%)
- Retirement benefit costs (defined benefit plans)	49	59	(17%)
- Retirement benefit costs (defined contribution plans)	15	14	7%
Depreciation and amortisation	149	101	48%
Other costs	277	339	(18%)
Operating expenses (before Transformation Investment and levies and regulatory charges)	840	882	(5%)
Transformation Investment charge	63	51	24%
Operating expenses (before levies and regulatory charges)	903	933	(3%)
Levies and regulatory charges	73	67	9%
Operating expenses	976	1,000	(2%)

Operating expenses (before levies and regulatory charges) are €903 million and 3% lower than the same period in 2018 as the Group continued to focus on reducing its operational costs while maintaining its investment in regulatory compliance, technology and business growth.

Staff costs (excluding pension costs) of €350 million are €19 million lower compared to the same period in 2018 primarily reflecting lower staff numbers. Average staff numbers employed by the Group for the six months ended 30 June 2019 were 10,368 and have decreased by 4% compared to 10,752 in the same period in 2018. The Group paid a salary increase averaging c.2.6% effective 1 January 2019 which partially offset the impact of lower staff numbers.

Depreciation and amortisation has increased by €48 million primarily reflecting the impact of transition to IFRS 16 on 1

January 2019 and the creation of new Right of Use (RoU) assets. See note 36 for further information.

Other costs including technology, property, outsourced services and other non-staff costs are €62 million lower than the same period in 2018. This is due to the impact of transition to IFRS 16 on 1 January 2019 which resulted in a reduction of lease charges in other costs of €42 million (see note 36 for further information) and the Group's continuing progress in generating cost savings through strategic sourcing and efficiencies across its businesses whilst investing in strategic initiatives, technology and regulatory compliance.

Transformation Investment charge
Our transformation programme continues to make progress and a further €138 million was invested in this programme in the six months ended 30 June 2019, of

which €54 million is capitalised on the balance sheet (six months ended 30 June 2018: €39 million), with an income statement charge of €63 million (six months ended 30 June 2018: €51 million) and €21 million recognised through non-core items.

Levies and regulatory charges
The Group has incurred levies and regulatory charges of €73 million in the six months ended 30 June 2019 (six months ended 30 June 2018: €67 million). The higher charge is driven by increases in certain levies including the European Central Bank (ECB) supervisory fees and the Financial Services and Pensions Ombudsman (FSPO) levy.

Summary consolidated income statement on an underlying basis *(continued)*

Net impairment losses / (gains) on financial instruments

Table: 4	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net impairment losses / (gains) on financial instruments			
Net impairment losses / (gains) on loans and advances to customers at amortised cost			
Residential mortgages	31	(31)	n/m
- Retail Ireland	25	(24)	n/m
- Retail UK	6	(7)	n/m
Non-property SME and corporate	37	(44)	n/m
- Republic of Ireland SME	(3)	(46)	n/m
- UK SME	(3)	(10)	n/m
- Corporate	43	12	n/m
Property and construction	(11)	(2)	n/m
- Investment	(8)	1	n/m
- Land and development	(3)	(3)	-
Consumer	24	5	n/m
Total net impairment losses / (gains) on loans and advances to customers at amortised cost	81	(72)	n/m
Net impairment losses / (gains) on other financial instruments (excluding loans and advances to customers at amortised cost)¹	(2)	(9)	n/m
Total net impairment losses / (gains) on financial instruments	79	(81)	n/m
Net impairment losses / (gains) on loans and advances to customers (bps) (annualised)	21	(18)	n/m

The Group recognised a net impairment loss of €79 million, including a net impairment loss of €81 million on loans and advances to customers at amortised cost, compared to a net impairment gain of €81 million for the six months ended 30 June 2018.

The net impairment loss was in line with expectations and reflects the impact of impairment losses on a small number of large corporate exposures, more normalised outcomes from the ongoing resolution of Non-Performing Exposures (NPEs) (including credit impaired loans), increased coverage on Retail Ireland mortgage NPEs and it reflects the growth in UK personal lending. While Brexit uncertainty resulted in muted demand for credit, it had no material impact on credit quality.

A net impairment loss on the Retail Ireland mortgage portfolio of €25 million during the six months ended 30 June 2019 is €49

million lower than the gain of €24 million for the same period in 2018. The book continued to perform strongly reflecting growth in residential property prices and improvements in economic outlook. Retail Ireland credit-impaired and non-performing mortgages reduced by 23% and 22% respectively during the six months ended 30 June 2019 with reductions achieved in both the owner occupied and buy to let (BTL) market segments.

A net impairment loss of €37 million on the non-property Small and Medium Enterprises (SME) and corporate loan portfolio for the six months ended 30 June 2019 is €81 million adverse to the gain of €44 million for the same period in 2018, primarily reflecting net impairment loss allowances on a small number of Corporate cases.

A net impairment gain of €11 million on the Property and construction loan portfolio for the six months ended 30 June 2019 is €9

million favourable to the gain of €2 million for the same period in 2018. The gain related primarily to property investment loans in the Republic of Ireland.

A net impairment loss of €24 million on the Consumer loans portfolio for the six months ended 30 June 2019 is €19 million higher than the loss of €5 million for the same period in 2018. The impairment loss was primarily driven by strong volume growth in UK personal lending with an associated increase in impairment loss allowances.

¹ At 30 June 2019, net impairment losses / (gains) on other financial instruments (excluding loans and advances to customers at amortised cost) included €2.9 million on loan commitments and €nil on guarantees and irrevocable letters of credit (30 June 2018: €7.9 million and €0.8 million respectively).

Summary consolidated income statement on an underlying basis *(continued)*

Non-core items

Table: 5	6 months ended 30 June 2019	6 months ended 30 June 2018	Change
Non-core items	€m	€m	%
Customer redress charges	(62)	-	n/m
Cost of restructuring programme	(27)	(51)	47%
- Transformation Investment costs	(21)	(51)	59%
- Other restructuring charges	(6)	-	n/m
Gross-up for policyholder tax in the Wealth and Insurance business	22	(2)	n/m
UK portfolio divestments	8	-	n/m
- Operating income	29	-	n/m
- Operating expenses ¹	(23)	-	n/m
- Impairment gains on other financial instruments	2	-	n/m
Loss on liquidation of business activities	(3)	-	n/m
Investment return on treasury shares held for policyholders	1	-	n/m
Gain on disposal of property	-	7	n/m
Total non-core items	(61)	(46)	(33%)

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:

Customer redress charges

The Group has set aside a further €55 million provision in respect of the Tracker Mortgage Examination to cover the additional redress and compensation costs for a number of customers, operational costs associated with the length and nature of the review and costs of closing out the Tracker Mortgage Examination review. In addition, a further €7 million has been provided in respect of other customer redress.

Cost of restructuring programme

During the six months ended 30 June 2019, the Group recognised a charge of €27 million. Transformation Investment costs of €21 million primarily relate to a reduction in employee numbers (€17 million), programme management costs (€2 million) and costs related to the implementation of the Group's property strategy (€2 million). Other restructuring

charges of €6 million primarily relate to costs associated with UK portfolio divestments. A restructuring charge of €51 million was incurred in the same period in 2018, primarily related to changes in employee numbers.

Gross-up for policyholder tax in the Wealth and Insurance business

Accounting standards require that the income statement be grossed up in respect of the total tax payable by Wealth and Insurance, comprising both policyholder and shareholder tax. The tax gross-up relating to policyholder tax is included within non-core items. During the six months ended 30 June 2019, the Group recognised a credit of €22 million (six months ended 30 June 2018: €2 million charge). The period on period movement is mainly due to favourable investment market performance in 2019.

UK portfolio divestments

Where the Group has made a strategic decision to exit an area of a business, the related income and expenses are treated as non-core. As a result, during the six months ended 30 June 2019, €29 million of operating income, €23 million of operating

costs and €2 million of impairment gains on other financial instruments from the UK portfolio that are in the process of being divested has been recognised as non-core (30 June 2018: €nil).

Loss on liquidation of business activities

During the six months ended 30 June 2019, a loss of €3 million was recognised relating to the recycling of cumulative unrealised FX gains and losses through the income statement following the liquidation of subsidiaries in the UK. There was no such gain / loss in the same period of 2018.

Investment return on treasury shares held for policyholders

Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland Group plc ('BOIG plc') shares held by Wealth and Insurance for policyholders. In the six months ended 30 June 2019, there was a gain of €1 million (30 June 2018: €nil). At 30 June 2019, there were 3.7 million shares (31 December 2018: 3.3 million shares) held by Wealth and Insurance for policyholders.

¹ Includes staff costs of €5 million.

Summary consolidated balance sheet

Summary consolidated balance sheet	Table	30 June 2019 €bn	31 December 2018 €bn
Assets (after impairment loss allowances)			
Loans and advances to customers (including held for sale) ^{1,2}	6	78	77
Liquid assets	7	23	25
Wealth and Insurance assets		18	17
Other assets	8	7	5
Total assets		126	124
Liabilities			
Customer deposits	9	80	79
Wholesale funding	10	10	11
Wealth and Insurance liabilities		18	17
Other liabilities	8	7	5
Subordinated liabilities		1	2
Total liabilities		116	114
Shareholders' equity		9	9
Non-controlling interests - Other equity instruments		1	1
Total liabilities and shareholders' equity		126	124
Liquidity Coverage Ratio ³		134%	136%
Net Stable Funding Ratio ⁴		128%	130%
Loan to Deposit Ratio		97%	97%
Gross new lending volumes (€bn)		7.7	15.9
Average interest earning assets		101	99
Return on Tangible Equity ⁵ (%)		6.8%	8.5%
Return on Tangible Equity ⁵ (adjusted) (%)		6.5%	7.2%
Common equity tier 1 ratio - fully loaded		13.6%	13.4%
Common equity tier 1 ratio - regulatory		14.9%	15.0%
Total capital ratio - regulatory		17.9%	18.8%

During the six months ended 30 June 2019, the Group's **loans and advances to customers (after impairment loss allowances)** and including loans and advances to customers classified as held for sale increased to €78.0 billion from €77.0 billion as at 31 December 2018. Gross new lending €7.7 billion is largely in line with the same period in 2018.

The Group's **asset quality** continues to improve. **NPEs** reduced by €0.8 billion to €4.2 billion for the six months ended 30 June 2019, and represented 5.3% of gross loans at 30 June 2019.

At 30 June 2019, overall Group **customer deposit** volumes are €1.3 billion higher than at 31 December 2018. The main driver of this movement was a €1.3 billion growth in Retail Ireland, reflecting strong economic activity which was principally in credit balances due to the low interest rate environment, along with an increase in Corporate and Treasury of €0.2 billion. This was partially offset by a decrease in the Retail UK Division. The Loan to Deposit Ratio (LDR) at 30 June 2019 is 97% (31 December 2018: 97%).

Wholesale funding balances are €1.1 billion lower than 31 December 2018 primarily due to an Asset Covered Securities (ACS) maturity and part repayment of Monetary Authority borrowings. Total Monetary Authority borrowings at 30 June 2019 are €1.9 billion compared to €2.7 billion at 31 December 2018.

The defined benefit (DB) pension deficit has increased by c.€0.1 billion since 31 December 2018. The primary drivers of the movement in the pension deficit were the net negative impact of assumption changes, partially offset by positive asset returns and experience changes.

The balance sheet remains strong with the Group generating **strong organic capital**. The Group's fully loaded Common equity tier 1 (CET 1) ratio increased by c.20 basis points during the six months ended 30 June 2019 to 13.6% and the regulatory CET 1 ratio decreased by c.10 basis points to 14.9%. The decrease of c.10 basis points is primarily due to organic capital generation (c.90 basis points) and the impact of the disposal of NPEs (c.30 basis points) offset by RWA growth (c.-30 basis points), the impact of CRD phasing for 2019 and IFRS 16 impacts (c.-50 basis points), investment in the Group's transformation programmes (c.-25 basis points), an accrual for a proposed dividend (c.-20 basis points) and other net movements (c.-5 basis points). For further information on capital see Capital Management on pages 32 to 35.

Further information on measures referred to in the OFR, including gross new lending, NPE's, wholesale funding and organic capital is found in Alternative performance measures on page 113.

¹ Includes €0.3 billion of loans and advances to customers at 30 June 2019 (31 December 2018: €0.3 billion) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.

² Includes €0.6 billion of loans and advances to customers classified as held for sale at 30 June 2019 (31 December 2018: €0.6 billion).

³ 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.

⁴ 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.

⁵ For basis of calculation of Return on Tangible Equity (ROTE), see page 117.

Summary consolidated balance sheet (continued)

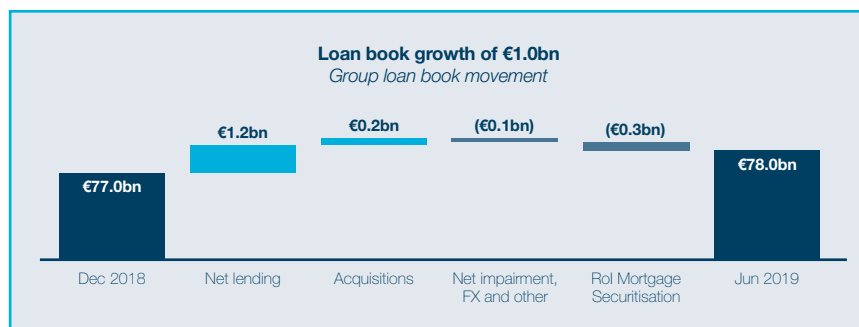
Loans and advances to customers

Table: 6	30 June 2019		31 December 2018	
	€m	%	€m	%
Loans and advances to customers - Composition^{1,2}				
Residential mortgages	44,837	56%	45,437	58%
- Retail Ireland	23,178	29%	23,716	30%
- Retail UK	21,659	27%	21,721	28%
Non-property SME and corporate	20,279	26%	19,465	25%
- Republic of Ireland SME	7,493	9%	7,601	10%
- UK SME	1,630	2%	1,570	2%
- Corporate	11,156	14%	10,294	13%
Property and construction	8,488	11%	8,354	11%
- Investment	7,682	10%	7,718	10%
- Land and development	806	1%	636	1%
Consumer	5,701	7%	5,174	6%
Total loans and advances to customers at amortised cost	79,305	100%	78,430	100%
Less impairment loss allowance on loans and advances to customers at amortised cost	(1,581)		(1,728)	
Net loans and advances to customers at amortised cost	77,724		76,702	
Loans and advances to customers at FVTPL	256		261	
Total loans and advances to customers	77,980		76,963	
Credit-impaired loans	3,773		4,485	
NPEs	4,187		4,984	
NPE ratio		5.3%		6.3%

The Group's **loans and advances to customers (after impairment loss allowances)** of €78.0 billion are €1.0 billion higher than 31 December 2018, primarily due to net new lending of €1.2 billion, offset by the impact of the securitisation of non-performing Rol mortgages of €0.3 billion.

Gross new lending of €7.7 billion is largely in line with the same period in 2018. Redemptions and repayments of €6.5 billion are €0.6 billion or 8% lower than the same period in 2018.

Against the backdrop of an overall positive economic environment, the Group's loan portfolios continued to perform strongly and NPEs (including credit-impaired) have continued to reduce reflecting ongoing resolution activities. While Brexit uncertainty resulted in muted demand for



credit, it had no material impact on credit quality. Group NPEs reduced by €0.8bn or 16% to €4.2bn at June 2019 and represent 5.3% of gross loans to customers.

During 2019, the stock of impairment loss allowances decreased by €0.1 billion to

€1.6 billion primarily due to the utilisation of impairment loss allowances against credit-impaired assets for which there was considered to be no reasonable expectation of recovery.

¹ Includes €0.3 billion of loans and advances to customers at 30 June 2019 (31 December 2018: €0.3 billion) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.

² Includes €0.6 billion of loans and advances to customers classified as held for sale at 30 June 2019 (31 December 2018: €0.6 billion).

Summary consolidated balance sheet (continued)

Liquid assets (after impairment loss allowance)

Table: 7	30 June 2019 €bn	31 December 2018 €bn
Liquid assets (after impairment loss allowance)		
Cash at banks	3	3
Cash and balances at central banks	3	6
- Bank of England	2	3
- Central Bank of Ireland	1	3
Government bonds	10	9
- Financial assets at FVOCI	6	6
- Debt securities at amortised cost	4	3
Covered bonds	4	4
Senior bank bonds and other	3	3
	23	25

The Group's portfolio of liquid assets at 30 June 2019 of €23 billion has decreased by c.€2 billion since 31 December 2018 primarily due to a reduction in cash balances arising from the repayment of Tier 2 and ACS funding (€1.5 billion) and repayment of Monetary Authority borrowings (€0.8 billion), partially offset by an increase in customer deposits.

Other assets and other liabilities

Table: 8	30 June 2019 €bn	31 December 2018 €bn
Other assets and other liabilities		
Other assets	6.6	4.8
- Derivative financial instruments	2.4	1.7
- Deferred tax asset	1.1	1.2
- Other assets	3.1	1.9
Other liabilities	6.5	4.5
- Derivative financial instruments	2.3	1.8
- Pension deficit (net)	0.3	0.2
- Notes in circulation	1.2	1.2
- Lease liabilities	0.6	-
- Other liabilities	2.1	1.3

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 equity markets, interest rates and FX rates during the six months ended 30 June 2019.

The defined pension deficit has increased by c.€0.1 billion since 31 December 2018. The primary drivers of the movement in the pension deficit were the net negative impact of assumption changes, partially offset by positive asset returns and experience changes.

Lease liabilities of €0.6 billion (31 December 2018: €nil) arise from the transition to IFRS 16 on 1 January 2019.

Summary consolidated balance sheet (continued)

Customer deposits

Table: 9	30 June 2019 €bn	31 December 2018 €bn
Customer deposits		
Retail Ireland	50	48
- Deposits	23	22
- Current account credit balances	27	26
Retail UK	21	22
Retail UK (Stg£bn equivalent)	19	20
- UK Post Office	14	14
- Other Retail UK	5	6
Corporate and Treasury	9	9
Total customer deposits	80	79

At 30 June 2019, Group customer deposits (including current accounts with credit balances) have increased by €1.3 billion to €80.2 billion since 31 December 2018. The main driver of this movement was due to €1.3 billion growth in Retail Ireland, reflecting strong economic activity, which was principally in credit balances due to the low interest rate environment, along with an increase in the Corporate and Treasury Division of €0.2 billion. This is partially offset by a decrease in the Retail UK Division primarily due to pricing optimisation.

Wholesale funding sources

Table: 10	30 June 2019		31 December 2018	
Wholesale funding sources	€bn	%	€bn	%
Secured funding	7	75%	9	77%
- Monetary Authority	2	19%	3	23%
- Covered bonds	4	43%	5	45%
- Securitisations	1	13%	1	9%
Unsecured funding	3	25%	2	23%
- Senior debt	2	17%	2	19%
- Bank deposits	1	8%	-	4%
Total wholesale funding	10	100%	11	100%
Wholesale market funding < 1 year to maturity	2	22%	2	22%
Wholesale market funding > 1 year to maturity	6	78%	6	78%
Monetary Authority funding < 1 year to maturity	-	-	1	-
Monetary Authority funding > 1 year to maturity	2	-	2	-

Wholesale funding usage has decreased by €1.2 billion to €10.2 billion, primarily due to an ACS maturity and the part repayment of Monetary Authority borrowings.

Divisional review

Retail Ireland

Retail Ireland offers a broad range of financial products and services including current accounts, savings, mortgages, credit cards, motor finance and loans to personal and business banking customers.

Highlights

Launched Ireland's first Financial Wellbeing programme for consumers and businesses.

Increase of 19% in mid-market and Small Business and Agri (SB&A) new lending volumes compared to same period in 2018.

Continued growth in penetration of wealth product holdings for bank customers – 29% at June 2019, up from 26% at December 2018 and 23% at June 2018

Transform the Bank

- Launch of phase one of Ireland's first automated digital advice & fulfilment platform for wealth and protection products.
- Launch of the first in a series of digital auto-finance applications in commercial partners' websites.
- Digital application tracker launched, initially for Personal Loans, facilitating real-time order tracking for customers.

Serve customers brilliantly

- Launched Ireland's first Financial Wellbeing programme designed to help customers to better understand, plan and improve their finances.
- Established a Vulnerable Customer Relationship Unit. A first for a bank in Ireland, supporting frontline colleagues with case by case advice to meet the needs of our more vulnerable customers.
- Expanded Bank of Ireland's Youth Financial Literacy Programme to over 500 secondary schools and 3,000 primary schools.
- Approved €750 million in development finance supporting construction of 6,100 new homes, including c.770 social housing units and a further 2,000 student beds over the next 18 months.
- Improved call centre experience and a continuing downward trend in complaints volumes.

Grow sustainable profits

- Operating profit before net impairment losses of €260 million for the first six months ended 30 June 2019 is 8% higher than the same period in 2018.
- Following the benefit in 2018 of an impairment gain of €101 million in the first 6 months of 2018 a modest impairment charge of €1 million for 2019 is the primary cause of a decline in Underlying profit before tax to €263 million from €345 million in the same period in 2018.
- Both net interest income of €497 million and net other income of €137 million are broadly in line with the same period in 2018.
- Operating expenses of €374 million are 6% lower than the same period in 2018 due to continued emphasis on cost reductions.
- Loans and advances to customers (after impairment loss allowances) at 30 June 2019 of €34.1 billion were €0.6 billion lower than 31 December 2018. This decrease includes the derecognition of €0.3 billion following the securitisation of a portfolio of non-performing Irish mortgages, offset by an acquisition of a €0.2 billion portfolio of performing commercial loans during the period.
- Customer deposits of €49.5 billion at 30 June 2019 were €1.8 billion higher than 31 December 2018 primarily due to increases in current account credit balances.

Wealth and Insurance

Wealth and Insurance is a long established, market leading, life and pension and general insurance provider in the Irish market. The Group is the only bancassurer in the Irish market

Highlights

Increased new business volumes by 10% overall in Wealth and Insurance with a 12% increase in life and pensions new business.

Increased share of the life and pension market to 20.5% (2018: 20.1%).

Transform the Bank

- Ongoing investment to digitise Wealth and Insurance platforms to deliver a modern digital business of scale.
- Investment Markets relaunched iFunds and brought the PBIS funds, previously with Private Banking, into the iFunds range.

Serve customers brilliantly

- Improved customer offerings across a range of products including critical illness and savings options. Enhancing the customer journey through 'Life Advice' a digital platform facilitating customer self-service.

Grow sustainable profits

- Operating profit of €48 million for the six months ended 30 June 2019 was €3 million or 7% higher than the same period in 2018 due to higher operating income.
- Underlying profit before tax was €84 million for the six months ended 30 June 2019 (six months ended 30 June 2018: €34 million). The increase compared to the previous period is due to the positive performance of investment markets during the six months ended 30 June 2019.
- Annual Premium Equivalent (APE) new business sales in the Life business was €168 million for the six months ended 30 June

- 2019, consisting of €67 million of new single premium business and €101 million of regular premium business. Non-Life new business was €11 million of single premium business.
- Operating income of €115 million for the six months ended 30 June 2019 was €5 million higher than the same period in 2018 mainly reflecting strong new business growth offset by some margin reduction due to business mix and an increase in the existing book profits.
- Operating expenses of €67 million for the six months ended 30 June 2019 were €2 million higher than the same period in 2018.
- Unit-linked fund prices increased in aggregate during the six months ended 30 June 2019, particularly impacted by growth in equity markets. The positive variance relative to assumed growth led to a positive investment variance of €21 million (six months ended 30 June 2018: adverse investment variance of €7 million).
- Interest rates at 30 June 2019 were lower than those at the end of 2018 while the spread on corporate bonds also narrowed. The overall impact of the change in yields resulted in a €15 million gain for the six months ended 30 June 2019 (six months ended 30 June 2018: €4 million loss).

Divisional review *(continued)*

Retail UK

Retail UK provides consumer banking in Great Britain and universal banking in Northern Ireland. Retail UK incorporates Northridge Finance, the financial services partnerships with the UK Post Office and the AA and our FX joint venture (FRES).

Highlights

Underlying profit before tax of £80 million.

Strong volume in Asset Finance with Northridge Finance gross new lending at £0.7 billion during the six months ended 30 June 2019, an increase of c.32% period on period.

Retail UK delivered new personal lending of £0.4 billion, up 14% on the same period in 2018.

Focused on increasing returns in the UK

In transforming the Bank and serving customers brilliantly the UK is focused on increasing returns by:

Investing in:

- Higher margin lending initiatives while maintaining disciplined risk focus.
- Distribution expanded through Post Office Branch and in NI with growth in consumer lending.
- Continuing to invest in digitisation / automation with improvements to mortgage journey.
- Northridge distribution broadened; Marshall Leasing providing further diversification and growth opportunities.

Improving:

- Margin optimisation across lending and deposit book.
- Cost programme established; driving out business efficiencies.

Repositioning:

- Sale of UK consumer credit cards portfolio agreed in June and completed on 11 July 2019.
- Exiting from unprofitable Post Office ATMs and Post Office Current Accounts.
- Continuing to wind down legacy portfolios.

Grow sustainable profits

- Underlying profit before tax of £80 million for the six months ended 30 June 2019 (30 June 2018: £99 million) which excludes the performance of the UK consumer credit card

and ATM portfolios which are treated as a non-core activity in 2019 (30 June 2018: £9 million).

- Net interest income of £250 million has decreased by £20 million, primarily due to credit card and ATM income for the six months ended 30 June 2019 being treated as non-core and margin pressures in the mortgage and personal lending portfolios. This is partially offset by favourable funding costs and the impact of growth in asset finance and personal lending businesses.
- Operating expenses of £147 million are £34 million lower, partly as a result of the continued focus on cost management while still continuing to invest in new customer propositions along with certain costs being classified as non-core.
- Impairment losses of £31 million have increased by £23 million compared to the prior period.
- Loans and advances to customers (after impairment loss allowances) at 30 June 2019 of £24.8 billion were £0.4 billion higher than 31 December 2018 and includes £0.5 billion of credit card balances classified as held for sale. This reflects an overall increase in consumer lending of £0.5 billion which includes Northridge and personal lending offset by net repayments and redemptions in commercial lending and mortgage portfolios of £0.1 billion.
- Customer deposits of £19.2 billion at 30 June 2019 were £0.6 billion lower than 31 December 2018.

Corporate and Treasury

Corporate and Treasury is Ireland's #1 Corporate Bank and leading treasury service provider.

Highlights

Corporate Banking delivered strong lending growth with volumes up 8% since December 2018.

Corporate banking Ireland retained its position as Ireland's number one corporate bank and continued to bank two out of every three new foreign direct investments in Ireland.

Markets and Treasury delivered the securitisation of a portfolio of non-performing RoI mortgage loans resulting in a reduction in NPE ratio of c.0.4% and c.0.3% increase in CET 1 position.

Transform the Bank

- Markets and Treasury successfully concluded the securitisation of a portfolio of non-performing RoI mortgage loans secured on buy-to-let investment properties in April.

Serve customers brilliantly

- Acquisition Finance opened an office in Madrid to support its private equity relationships who transact in the Spanish market.
- Unsecured FX facility increased to €50 million (31 December 2018: €20 million) to support businesses trading internationally.
- Continued investment in customer proposition and experience improvements, including simplifying account opening and documentation as well as enhancing the ability for customers to self-serve.
- Launch of Bank of Ireland's Financial Wellbeing Programme for businesses with initiatives such as the new Bank of Ireland Treasury Academy in partnership with Trinity Business School.

Grow sustainable profits

- Underlying profit before tax of €207 million for the six months ended 30 June 2019, a decrease of €26 million compared to the same period in 2018.

- Business net interest and other income of €369 million is €26 million higher than the same period in 2018, predominantly driven by increased lending activity.
- Financial instruments valuation adjustments are a charge of €24 million for the six months ended 30 June 2019, an increase of €16 million compared to the same period in 2018. The 2019 result is due to less favourable market moves on derivative valuations.
- Operating expenses of €96 million are €2 million lower than the same period in 2018.
- Net impairment losses on financial instruments of €43 million are €32 million higher than the same period in 2018.
- Loans and advances to customers at 30 June 2019 of €16.2 billion are €1.2 billion higher than 31 December 2018, of which net lending was €1.0 billion with €0.2 billion of acquisitions and transfers.
- Customer deposits increased by €0.2 billion to €9.3 billion at 30 June 2019.
- The euro liquid asset bond portfolio of €14.9 billion at 30 June 2019 has increased by €0.3 billion compared to 31 December 2018.

Divisional review *(continued)*

Group Centre

Group Centre comprises Group Technology and Customer Solutions, Group Finance, Group Risk, Group Marketing, Group Human Resources and Group Internal Audit. The Group's central functions establish and oversee policies, and provide and manage processes and delivery platforms for the divisions.

Highlights

First Data migration completed, the largest in the Bank's history, will enable further capability enhancements.

Modernised payments infrastructure established, providing greater capacity, improved stability and higher speed processing.

New digital Life Assurance underwriting system delivering faster decisions.

Strengthened security and cyber defences.

Business operations

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

Grow sustainable profits

- Negative operating income of €3 million for the six months ended 30 June 2019, represents a decrease of €21 million from the same period in 2018. This variance was primarily due to a gain on disposal of NAMA subordinated debt in 2018 which did not reoccur in 2019.
- Operating expenses (before Transformation Investment and levies and regulatory charges) of €140 million for the six months ended 30 June 2019 were €20 million higher than the same period in 2018. The increase is reflective of increased investment costs in strategic initiatives, including higher amortisation charges arising from technology and infrastructure, along with costs associated with compliance and meeting regulatory expectations, partially offset by reduced staff costs and centralisation of business activities.
- Our Transformation programme continues to make good progress and a further €138 million was invested in this programme during the six months ended 30 June 2019,

of which €54 million is capitalised on the balance sheet (six months ended 30 June 2018: €39 million), with an income statement charge of €63 million (six months ended 30 June 2018: €51 million) and €21 million recognised through non-core items.

- Total Transformation Investment costs recognised through non-core items were €21 million for the Group. €17 million reflects a reduction in employee numbers, €2 million relates to programme management costs and other costs were €2 million.
- Group Centre levies and regulatory charges were €70 million for the six months ended 30 June 2019 compared with €64 million in the same period in 2018, an increase of €6 million.

Divisional review *(continued)*

Financial results

The tables below and on the following pages, provide further information on the financial performance of the Group's divisions during the six months ended 30 June 2019 as well as some key performance metrics. A business review for each division can be

found on pages 21 to 26 of the OFR. Information on the financial performance of the Group as a whole can be found on pages 7 to 16.

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Underlying¹ profit before tax by division		
Retail Ireland	263	345
Wealth and Insurance	84	34
Retail UK	92	113
Corporate and Treasury	207	233
Group Centre	(275)	(217)
Other reconciling items ²	5	(8)
Underlying profit before tax	376	500
Non-core items	(61)	(46)
Profit before tax	315	454
Per ordinary share		
Basic earnings per share ³ (€ cent)	18.1	32.5
Underlying earnings per share ³ (€ cent)	25.2	36.1
Tangible Net Asset Value per share (€ cent)	788	771
Cost income ratio (%)	65%	66%

¹ These financial results are presented on an underlying basis. Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 12 for further information.

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

³ For basis of calculation of basic earnings per share see note 17 on page 60. Underlying earnings per share excludes non-core items for further information see page 118.

Divisional review *(continued)*

Retail Ireland results

Retail Ireland Income statement	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net interest income ¹	497	500	(1%)
Net other income ¹	137	138	(1%)
Operating income	634	638	(1%)
Operating expenses	(374)	(398)	(6%)
Operating profit before net impairment (losses) / gains on financial instruments	260	240	8%
Net impairment (losses) / gains on financial instruments	(1)	101	n/m
Share of results of associates and joint ventures (after tax)	4	4	-
Underlying profit before tax	263	345	(24%)
Net impairment losses / (gains) on financial instruments			
Loans and advances to customers at amortised cost	1	(97)	102%
- Residential mortgages	25	(24)	n/m
- Non-property SME and corporate	(3)	(46)	n/m
- Property and construction	(18)	(18)	-
- Consumer	(3)	(9)	67%
Other financial instruments (excluding loans and advances to customers at amortised cost) ²	-	(4)	100%
Net impairment losses / (gains) on financial instruments	1	(101)	101%
	30 June 2019 €bn	31 December €bn	Change %
Loans and advances to customers (net)	34.1	34.7	(2%)
Customer deposits	49.5	47.7	4%

¹ 'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 8 and 9. The impact on Retail Ireland is to increase 'net interest income' for the six months ended 30 June 2019 by €8 million to €505 million (post IFRS income classification) (six months ended 30 June 2018: €511 million) with fully offsetting changes to 'net other income' in both periods. In the six months ended 30 June 2019, this included €7 million (six months ended 30 June 2018: €nil) of interest income on 'Life loan mortgage products' which on transition to IFRS 9 were mandatorily classified at FVTPL, with all income on such loans reported in 'net other income'. This IFRS income classification moves the income back to 'net interest income' in line with how it was reported in prior periods.

² At 30 June 2019, other financial instruments (excluding loans and advances to customers at amortised cost) include a net impairment gain of €nil (30 June 2018: €4 million) on loan commitments.

Divisional review *(continued)*

Wealth and Insurance results

Wealth and Insurance Income statement	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net interest (expense) / income	(4)	(5)	20%
Net other income	119	115	3%
Operating income	115	110	5%
Operating expenses	(67)	(65)	(3%)
Operating profit	48	45	7%
Unit-linked investment variance	21	(7)	n/m
Interest rate movement	15	(4)	n/m
Underlying profit before tax	84	34	n/m

Wealth and Insurance Income statement (Market Consistent Embedded Value performance)	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
New business profits	8	7	14%
Existing business profits	41	39	5%
- Expected return	30	30	-
- Experience variance	7	9	(22%)
- Assumption changes	4	-	n/m
Interest payments	(3)	(4)	(25%)
Operating profit	46	42	10%
Unit-linked investment variance	39	(11)	n/m
Interest rate movements	12	(4)	n/m
Underlying profit before tax	97	27	n/m

Embedded value

The table above outlines the Market Consistent Embedded Value (MCEV) performance using market consistent assumptions. The MCEV principles are closely aligned to the Solvency II principles and are consistent with the approach used for insurance contracts in the IFRS basis.

Operating profit of €46 million for the six months ended 30 June 2019 (six months ended 30 June 2018: €42 million) was €4 million or 10% higher than the same period in 2018 due to higher operating income.

As outlined in the IFRS results, unit-linked fund performance (€39 million positive) and interest rate movements (€12 million gain) were positive in the period resulting in a total profit of €97 million (six months ended 30 June 2018: €27 million).

The table below summarises the overall balance sheet of Wealth and Insurance on an MCEV basis at 30 June 2019 compared to the value at 31 December 2018. The Value of in Force (ViF) asset represents the after tax value of future income from the existing book.

Wealth and Insurance Summary balance sheet (MCEV)	30 June 2019 €m	31 December 2018 €m
Net assets	522	471
ViF	675	640
Less Tier 2 subordinated capital / debt	(165)	(162)
Less pension scheme deficit	(135)	(107)
Total embedded value	897	842

Divisional review *(continued)*

Retail UK results

Retail UK			
Income statement	6 months ended	6 months ended	Change
	30 June 2019	30 June 2018	%
	£m	£m	
Net interest income	250	270	(7%)
Net other income	(6)	3	n/m
Operating income	244	273	(11%)
Operating expenses	(147)	(181)	19%
Operating profit before impairment losses on financial instruments	97	92	5%
Net impairment losses on financial instruments	(31)	(8)	n/m
Share of results of associates and joint ventures (after tax)	14	15	(7%)
Underlying profit before tax	80	99	(19%)
Underlying profit before tax (£m equivalent)	92	113	(19%)
Net impairment (gains) / losses on financial instruments			
Loans and advances to customers at amortised cost	32	11	n/m
- Residential mortgages	5	(6)	n/m
- Non-property SME and corporate	(3)	(9)	n/m
- Property and construction	6	13	(54%)
- Consumer	24	13	85%
Other financial instruments (excluding loans and advances to customers at amortised cost) ¹	(1)	(3)	(67%)
Net impairment (gains) / losses on financial instruments	31	8	n/m
	30 June 2019	31 December 2018	Change
	£bn	£bn	%
Loans and advances to customers ² (net)	24.8	24.4	2%
Customer deposits	19.2	19.8	(3%)

¹ At 30 June 2019, other financial instruments (excluding loans and advances to customers at amortised cost) includes a net impairment gain of £2 million (30 June 2018: gain £3 million) on loan commitments.

² Includes £0.5 billion (31 December 2018: £0.5 billion) of loans and advances to customers classified as held for sale.

Divisional review *(continued)*

Corporate and Treasury results

Corporate and Treasury Income statement	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net interest income ¹	291	266	9%
Net other income ¹	55	76	(28%)
Operating income	346	342	1%
- Business - net interest and other income	369	343	8%
- Financial Instruments valuation adjustments	(24)	(8)	n/m
- Other debt instruments at FVOCI	1	7	(86%)
Operating expenses	(96)	(98)	2%
Operating profit before impairment losses on financial instruments	250	244	2%
Net impairment losses on financial instruments	(43)	(11)	n/m
Underlying profit before tax	207	233	(11%)
Net impairment (gains) / losses on financial instruments			
Loans and advances to customers at amortised cost	43	11	n/m
- Non-property SME and corporate	43	10	n/m
- Property and construction	-	1	n/m

	30 June 2019 €bn	31 December 2018 €bn	Change %
Loans and advances to customers (net)	16.2	15.0	8%
Customer deposits	9.3	9.1	(2%)
Euro liquid asset bond portfolio	14.9	14.6	2%

Group Centre results

Group Centre Income statement	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m	Change %
Net operating (expense) / income	(3)	18	n/m
Operating expenses (before Transformation Investment and levies and regulatory charges)	(140)	(120)	(17%)
Transformation Investment charge	(63)	(51)	(24%)
Levies and regulatory charges	(70)	(64)	(9%)
Operating loss before impairment gains on financial instruments	(276)	(217)	(27%)
Net impairment gains on financial instruments	1	-	n/m
Underlying loss before tax	(275)	(217)	(27%)

¹ 'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 8 and 9. The impact on Corporate and Treasury 'net interest income' for the six months ended 30 June 2019 was €nil (six months ended 30 June 2018: €nil) with fully offsetting changes to 'net other income' in both periods.

Divisional review (continued)

Income statement - operating segments

	Net interest income / (expense) €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 net impairment gains / (losses) on financial instruments €m	Net impairment (losses) / gains on financial instruments €m	Share of results of associates and joint ventures (after tax) €m	Gain on disposal / liquidation of business activities and property €m	Profit / (loss) before taxation €m
6 months ended 30 June 2019												
Retail Ireland	497	-	137	634	-	634	(374)	260	(1)	4	-	263
Wealth and Insurance	(4)	700	911	1,607	(1,456)	151	(67)	84	-	-	-	84
Retail UK	287	-	(7)	280	-	280	(168)	112	(36)	16	-	92
Corporate and Treasury	291	-	55	346	-	346	(96)	250	(43)	-	-	207
Group Centre	(5)	(2)	8	1	(4)	(3)	(273)	(276)	1	-	-	(275)
Other reconciling items	3	-	-	3	-	3	2	5	-	-	-	5
Group - underlying¹	1,069	698	1,104	2,871	(1,460)	1,411	(976)	435	(79)	20	-	376
Total non-core items												
Customer redress charges	(5)	-	-	(5)	-	(5)	(57)	(62)	-	-	-	(62)
Cost of restructuring programme	-	-	-	-	-	-	(27)	(27)	-	-	-	(27)
Gross-up for policyholder tax in the Wealth and Insurance business	-	-	22	22	-	22	-	22	-	-	-	22
Gain on liquidation of business activities	-	-	-	-	-	-	-	-	-	-	(3)	(3)
UK portfolio divestments	13	-	16	29	-	29	(23)	6	2	-	-	8
Investment return on treasury shares held for policy holders	-	-	1	1	-	1	-	1	-	-	-	1
Group total	1,077	698	1,143	2,918	(1,460)	1,458	(1,083)	375	(77)	20	(3)	315

¹ Underlying performance excludes the impact of non-core items (see page 12).

Divisional review (continued)

Income statement - operating segments (continued)

6 months ended 30 June 2018	Net interest income / (expense) €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 profit / (loss) before net impairment gains / (losses) on financial instruments €m	Net impairment gains / (losses) on financial instruments €m	Share of results of associates and joint ventures (after tax) €m	Gain on disposal / liquidation of business activities and property €m	Profit / (loss) before taxation €m
Retail Ireland	500	-	138	638	-	638	240	101	4	-	345
Wealth and Insurance	(5)	702	41	738	(639)	99	34	-	-	-	34
Retail UK	307	-	3	310	-	310	105	(9)	17	-	113
Corporate and Treasury	266	-	76	342	-	342	244	(11)	-	-	233
Group Centre	7	2	11	20	(2)	18	(217)	-	-	-	(217)
Other reconciling items	1	-	(10)	(9)	-	(9)	(8)	-	-	-	(8)
Group - underlying¹	1,076	704	259	2,039	(641)	1,398	398	81	21	-	500
Total non-core items											
- Cost of restructuring programme	-	-	-	-	-	-	(51)	-	-	-	(51)
- Gain on disposal of property	-	-	-	-	-	-	-	-	-	7	7
- Gross-up for policyholder tax in the Wealth and Insurance business	-	-	(2)	(2)	-	(2)	(2)	-	-	-	(2)
Group total	1,076	704	257	2,037	(641)	1,396	345	81	21	7	454

¹ Underlying performance excludes the impact of non-core items (see page 12).

Principal Risks and Uncertainties

Principal risks and uncertainties facing the Group for the remaining six months of 2019 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 products and services and / or future strategy. This risk includes the risk that the Group does not make appropriate strategic decisions, does not successfully execute these decisions, or that strategic decisions do not have the intended effect. It also includes risks relating to i) business model appropriateness; ii) the Group's multi-year transformation programme; iii) people risks, which are impacted by transformation and also by ongoing market competitiveness and remuneration restrictions; and iv) Brexit risks.

The Group is undergoing significant transformation across culture, business and systems, which presents challenges and risks, and significant customer considerations. Failure to transform successfully could prevent the Group from realising its strategic priorities.

Ongoing uncertainty following the UK vote to exit the European Union (EU), relating to the nature and impact of withdrawal, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity. Other effects may include changes in official interest rate policy in both the UK and Eurozone, which can impact the Group's revenues and also the Group's International Accounting Standard (IAS) 19 defined benefit pension deficit, and FX rate volatility, which can impact the translation of the Group's UK net assets and profits.

Certain key benchmark interest rates (such as Euribor, Libor, Eonia) are being significantly reformed. A Group-wide Benchmark Reform Programme has been mobilised to manage the Group transition to new regulatory compliant benchmarks.

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. The Group manages the following key conduct risks:

- the risk of not delivering fair outcomes to customers;
- the risk of the design and development of products and services that do not continue to be suitable over the lifetime of the product and do not respond to changing customer needs; and
- the risk of staff not meeting set standards of behaviour that has a material negative outcome for stakeholders.

Ongoing focus on conduct risk is expected to continue in the second half of the year as the Group delivers on its Culture strategy.

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes, but is not limited to, default risk, concentration risk, country risk,

migration risk and collateral risk. Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions. The Group has in place a range of initiatives to manage challenged and vulnerable credit risk and the continued reduction in the Group's NPEs portfolio is dependent on its ability to restructure / resolve these loans. The pace of reduction is materially dependent on the continuation of favourable or benign economic conditions in our main markets and effective and efficient regulatory, insolvency and foreclosure processes.

Funding and liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven by, amongst other things, the maturity structure of loans and investments held by the Group, while cash outflows are driven by items such as the term maturity of debt issued by the Group and outflows from customer deposit accounts. Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities.

Life insurance risk is the risk 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, FX rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and includes discretionary risk-taking.

Operational risk reflect risks which may result in financial loss, disruption of services to customers, and damage to our reputation, including the availability, resilience and security of our core IT systems and the potential for failings in our customer processes. It includes the risks associated with the current important stage of the Group's multi-year investment programme to replace our core banking platforms as well as 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 DB pension schemes that the assets are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities. This risk crystallises for the sponsor when a deficit emerges of a size which implies a material probability that the liabilities will not be met. The DB pension schemes are subject to market fluctuations and these movements impact the Group's capital position.

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

Principal Risks and Uncertainties *(continued)*

regulatory landscape continues to evolve and the banking sector is subject to increasing scrutiny. This requires the Group to adapt to, and operate within, a dynamic and challenging environment. In addition, uncertainty surrounding the outcome of disputes, legal proceedings and regulatory investigations (e.g. the Tracker Mortgage Examination), as well as potential adverse judgements in litigation or regulatory proceedings remains a risk.

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's reputation may also be affected by matters that affect the wider banking and financial services industry.

Capital adequacy risk is the risk that the Group breaches or may breach regulatory capital requirements and internal targets. The Group's business and financial condition would be negatively affected if the Group was, or was considered to be, insufficiently capitalised. While all material risks impact on the Group's capital adequacy to some extent, capital adequacy is primarily impacted by significant increases in credit risk or risk weighted assets, materially worse than expected financial performance and changes to minimum regulatory requirements.

The Group also faces other significant and emerging risks and further detail on risks facing the Group, including key mitigating considerations, may be found in the principal risks and uncertainties section on pages 61 to 67 of the Group's Annual Report for the year ended 31 December 2018.

Asset quality

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 46.

The Group's asset quality reporting methodology is as set out on pages 77 and 78 of the Group's Annual Report for the year ended 31 December 2018.

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposure note on page 64 in the consolidated financial statements.

Composition and impairment

The table below summarises the composition, credit-impaired volumes and related impairment loss allowance of the Group's loans and advances to customers at amortised cost (including loans classified as held for sale) as at 30 June 2019.

30 June 2019	Advances (pre-impairment loss allowance) €m	Credit impaired loans ³ €m	Credit impaired loans as % of advances %	Impairment loss allowance ⁴ €m	Impairment loss allowance as % of credit impaired loans %
Total loans and advances to customers at amortised cost - Composition and impairment^{1,2}					
Residential mortgages	44,837	2,003	4.5%	462	23%
- Retail Ireland	23,178	1,566	6.8%	412	26%
- Retail UK	21,659	437	2.0%	50	11%
Non-property SME and corporate	20,279	1,003	4.9%	451	45%
- Republic of Ireland SME	7,493	614	8.2%	288	47%
- UK SME	1,630	105	6.4%	34	32%
- Corporate	11,156	284	2.5%	129	45%
Property and Construction	8,488	649	7.6%	282	43%
- Investment	7,682	605	7.9%	254	42%
- Land and development	806	44	5.5%	28	64%
Consumer	5,701	118	2.1%	79	67%
Total	79,305	3,773	4.8%	1,274	34%

¹ Excludes €256 million of loans and advances to customers at 30 June 2019 (31 December 2018: €261 million) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.

² Includes €606 million (31 December 2018: €630 million) of loans and advances to customers classified as held for sale.

³ Credit-impaired loans include stage 3 and credit-impaired Purchased or Originated Credit Impaired assets.

⁴ Impairment loss allowance on credit impaired loans and Purchased or Originated Credit Impaired assets.

Asset quality (continued)

Asset quality - Loans and advances to customers (continued)

31 December 2018	Advances (pre-impairment loss allowance) €m	Credit impaired loans ³ €m	Credit impaired loans as % of advances %	Impairment loss allowance ⁴ €m	Impairment loss allowance as % of credit impaired loans %
Total loans and advances to customers at amortised cost - Composition and impairment^{1,2}					
Residential mortgages	45,437	2,466	5.4%	492	20%
- Retail Ireland	23,716	2,026	8.5%	444	22%
- Retail UK	21,721	440	2.0%	48	11%
Non-property SME and corporate	19,465	1,068	5.5%	501	47%
- Republic of Ireland SME	7,601	730	9.6%	340	47%
- UK SME	1,570	79	5.0%	37	47%
- Corporate	10,294	259	2.5%	124	48%
Property and Construction	8,354	843	10.1%	369	44%
- Investment	7,718	760	9.8%	321	42%
- Land and development	636	83	13.1%	48	58%
Consumer	5,174	108	2.1%	70	65%
Total	78,430	4,485	5.7%	1,432	32%

At 30 June 2019, loans and advances to customers (pre-impairment loss allowance) of €79.3 billion were €0.9 billion higher than 31 December 2018, reflecting the combined impacts of net new lending, utilisation of impairment loss allowance and currency translation.

Credit-impaired loans decreased to €3.8 billion or 4.8% of customer loans at 30 June 2019 from €4.5 billion or 5.7% at 31 December 2018. This reduction reflects the Group's continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty; and a continued positive economic environment and outlook in key markets. Resolution strategies include the

realisation of cash proceeds from property sales activity and, where appropriate, have given rise to utilisation of impairment loss allowance against loan amounts for which there is no reasonable expectation of recovery.

The stock of impairment loss allowance on credit-impaired loans decreased to €1.3 billion at 30 June 2019 from €1.4 billion at 31 December 2018. This reduction incorporates the impact of impairment loss allowance utilisation totalling c.€0.3 billion. Impairment loss allowance as a percentage of credit impaired loans increased to 34% at 30 June 2019 from 32% at 31 December 2018, principally due to higher coverage on Residential mortgages.

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 46.

Included in the table on the preceding page is €31.9 billion of UK customer exposure⁵ at 30 June 2019. Of this, €21.6 billion relates to UK mortgages, €4.8 billion Non-property SME and corporate, €2 billion Property and construction, and €3.5 billion Consumer.

Of the €4.8 billion UK Non-property SME and corporate exposure (€1.6 billion SME and €3.2 billion corporate) at 30 June 2019, €0.3 billion was credit-impaired, primarily related to UK corporate. UK Non-property SME and corporate credit-impaired loans impairment loss allowance coverage ratio is 38% at 30 June 2019.

Of the €2 billion UK Property and construction exposure at 30 June 2019, €0.2 billion is credit-impaired. At 30 June 2019, UK Property and construction credit-impaired loans impairment loss allowance coverage ratio was 54%.

Of the €3.5 billion UK Consumer lending at 30 June 2019, €60 million is credit-impaired, with a credit-impaired loans impairment loss allowance coverage ratio of 76% reflecting the unsecured nature of this lending.

¹ Excludes €256 million of loans and advances to customers at 30 June 2019 (31 December 2018: €261 million) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.

² Includes €606 million (31 December 2018: €630 million) of loans and advances to customers classified as held for sale.

³ Credit-impaired loans include stage 3 and credit-impaired Purchased or Originated Credit Impaired assets.

⁴ Impairment loss allowance on credit impaired loans and Purchased or Originated Credit Impaired assets.

⁵ The geographical breakdown is primarily based on the location of the customer.

Asset quality *(continued)*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 46.

NPEs

The table below provides an analysis of loans and advances to customers that are non-performing by asset classification and includes loans classified as held for sale.

30 June 2019					
Risk profile of loans and advances to customers - NPEs	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Credit-impaired	2,003	1,003	649	118	3,773
Not credit-impaired ¹	242	106	64	2	414
Total	2,245	1,109	713	120	4,187

31 December 2018					
Risk profile of loans and advances to customers - NPEs	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Credit-impaired	2,466	1,068	843	108	4,485
Not credit-impaired ¹	277	144	75	3	499
Total	2,743	1,212	918	111	4,984

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 46.

In addition to the NPEs 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 2018: €0.1 billion).

NPEs decreased to €4.2 billion at 30 June 2019 from €5.0 billion at 31 December 2018, with reductions evident across all portfolios with elevated levels of NPEs. NPEs at 30 June 2019 comprise credit-impaired loans of €3.8 billion and other NPEs of €0.4 billion.

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

Asset quality (continued)

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 46.

The table below summarises the composition, NPEs and related impairment loss allowance of the Group's loans and advances to customers and includes loans classified as held for sale at 30 June 2019.

30 June 2019					
Total loans and advances to customers Composition and impairment ^{1,2}	Advances (pre-impairment loss allowance) €m	NPEs €m	NPEs as % of advances %	Total impairment loss allowance €m	Total impairment loss allowance as % of NPEs %
Residential mortgages	44,837	2,245	5.0%	509	23%
- Retail Ireland	23,178	1,763	7.6%	434	25%
- Retail UK	21,659	482	2.2%	75	16%
Non-property SME and corporate	20,279	1,109	5.5%	576	52%
- Republic of Ireland SME	7,493	695	9.3%	354	51%
- UK SME	1,630	111	6.8%	46	41%
- Corporate	11,156	303	2.7%	176	58%
Property and Construction	8,488	713	8.4%	329	46%
- Investment	7,682	660	8.6%	299	45%
- Land and development	806	53	6.6%	30	57%
Consumer	5,701	120	2.1%	167	139%
Total	79,305	4,187	5.3%	1,581	38%

31 December 2018					
Total loans and advances to customers Composition and impairment ^{1,2}	Advances (pre-impairment loss allowance) €m	NPEs €m	NPEs as % of advances %	Total impairment loss allowance €m	Total impairment loss allowance as % of NPEs %
Residential mortgages	45,437	2,743	6.0%	537	20%
- Retail Ireland	23,716	2,254	9.5%	464	21%
- Retail UK	21,721	489	2.3%	73	15%
Non-property SME and corporate	19,465	1,212	6.2%	625	52%
- Republic of Ireland SME	7,601	848	11.2%	412	49%
- UK SME	1,570	96	6.1%	51	53%
- Corporate	10,294	268	2.6%	162	60%
Property and Construction	8,354	918	11.0%	411	45%
- Investment	7,718	829	10.7%	363	44%
- Land and development	636	89	14.0%	48	54%
Consumer	5,174	111	2.1%	155	140%
Total	78,430	4,984	6.3%	1,728	35%

The movements in NPEs in the year are broadly consistent with the movements in credit-impaired loans as set out on page 28. At 30 June 2019, the Group's NPE impairment loss allowance cover ratio was 38% (31 December 2018: 35%).

¹ Excludes €256 million of loans and advances to customers at 30 June 2019 (31 December 2018: €261 million) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.

² Includes €606 million (31 December 2018: €630 million) of loans and advances to customers classified as held for sale.

Capital management

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 46.

CRD IV - 31 December 2018			CRD IV - 30 June 2019 ¹	
Regulatory €m	Fully loaded €m		Regulatory €m	Fully loaded €m
Capital Base				
10,051	10,051	Total equity	10,065	10,065
(173)	(173)	- less 2019 dividend / foreseeable dividend deduction ²	(100)	(100)
(750)	(750)	- less AT1 capital	(750)	(750)
9,128	9,128	Total equity less foreseeable dividend deduction and equity instruments not qualifying as CET 1	9,215	9,215
(354)	(1,127)	Regulatory adjustments being phased in / out under CRD IV	(459)	(1,121)
(439)	(1,097)	- Deferred tax assets ³	(536)	(1,072)
-	(30)	- 10% / 15% threshold deduction	-	(49)
85	-	- IFRS 9 transitional adjustment	77	-
(1,623)	(1,623)	Other regulatory adjustments	(1,450)	(1,450)
(589)	(589)	- Expected loss deduction	(410)	(410)
(738)	(738)	- Intangible assets and goodwill	(743)	(743)
(2)	(2)	- Coupon expected on AT1 instrument	(2)	(2)
9	9	- Cash flow hedge reserve	1	1
(22)	(22)	- Own credit spread adjustment (net of tax)	(27)	(27)
(58)	(58)	- Securitisation deduction	(40)	(40)
(223)	(223)	- Other adjustments ⁴	(229)	(229)
7,151	6,378	Common equity tier 1	7,306	6,644
Additional tier 1 (AT1)				
499	499	Instruments issued by subsidiaries that are given recognition in AT1 capital ⁵	584	584
7,650	6,877	Total tier 1 capital	7,890	7,228
Tier 2				
803	803	Tier 2 instruments (issued by Parent entity ⁶)	805	805
678	678	Instruments issued by subsidiaries that are given recognition in Tier 2 capital ⁵	258	258
Regulatory adjustments				
(160)	(160)	Other adjustments	(160)	(160)
1,321	1,321	Total tier 2 capital	903	903
8,971	8,198	Total capital	8,793	8,131
47.8	47.6	Total risk weighted assets (€bn)	48.9	48.7
Capital ratios				
15.0%	13.4%	Common equity tier 1	14.9%	13.6%
16.0%	14.4%	Tier 1 ⁵	16.1%	14.8%
18.8%	17.2%	Total capital ⁵	18.0%	16.7%
7.0%	6.3%	Leverage ratio ⁵	7.2%	6.6%

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 foreseeable dividend of €100 million has been deducted as required under Article 2 of EU Regulation No. 241/2014.

³ Deduction relates to DTAs on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 50% in 2019, increasing annually at a rate of 10% thereafter.

⁴ Includes technical items such as non-qualifying CET 1 items, PVA and pension asset deductions.

⁵ The calculation of the Group's Tier 1, Total Capital and related ratios (including Leverage ratio) at 30 June 2019 are stated after a prudent application of the requirements of Articles 85 and 87 of CRR (further details are provided on pages 33 to 35). As a result of the establishment of BOIG plc, and due to the requirements of Articles 85 and 87 of the CRR, regulatory capital instruments issued by subsidiaries (i.e. The Governor and Company of the Bank of Ireland) cannot be recognised in full in the prudential consolidation.

⁶ The Parent entity refers to BOIG plc.

Capital management *(continued)*

CRD IV - 31 December 2018			CRD IV - 30 June 2019 ¹	
Regulatory €bn	Fully loaded €bn		Regulatory €bn	Fully loaded €bn
		Risk weighted assets (RWA)^{2,3}		
38.7	38.7	Credit risk	39.1	39.0
0.6	0.6	Counterparty credit risk	0.7	0.7
0.5	0.5	Securitisation	0.6	0.6
0.6	0.6	Market risk	0.4	0.4
4.5	4.5	Operational risk	4.5	4.5
2.9	2.7	Other assets / 10% / 15% threshold deduction	3.6	3.5
47.8	47.6	Total RWA	48.9	48.7

Capital Requirements Directive (CRD) IV

Implementation of the CRD IV legislation commenced on a phased basis from 1 January 2014. The CRD IV transition rules resulted in a number of deductions from CET 1 capital being introduced on a phased basis, all of which are now fully implemented, with the exception of the DTAs (dependent on future profitability) deduction which in the case of the Group is phased to 2024. The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including ECB regulation 2016/445 on the exercise of options and discretions.

Regulatory Capital Developments

CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards. On 7 June 2019, the amendments to the existing CRD and the Capital Requirements Regulation (CRR), as well as the related EU BRRD and the SRM Regulation, were published in the Official Journal of the EU and entered into force on 27 June 2019. The majority of the changes impacting capital contained in the amended CRR (e.g. binding leverage requirement and amended SME supporting factor) will become applicable from 28 June 2021. The amendments to CRD IV and the BRRD require transposition into Irish law by 28 December 2020.

In December 2017, the Basel Committee announced revisions to the Basel Framework. The revisions focus on the standardised and IRB approaches to measuring credit risk and include the

introduction of an aggregate output floor to ensure banks' RWAs calculated via internal models are no lower than 72.5% of RWAs calculated under TSA.

The revised standards will take effect from 1 January 2022, with a phase-in period of five years for the aggregate output floor. The Group continues to monitor developments with any impact dependent on the implementation at EU level.

In addition to the new Basel rules, there are a number of changes to ECB / EBA regulatory requirements planned for the coming years that will impact the Bank's regulatory capital and RWA calculations. These include new ECB and EBA NPL Guidelines; EBA standards and guidelines on Definition of Default and PD / LGD Estimates.

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

IFRS 16 capital impact

IFRS 16, Leases, was effective from 1 January 2019 and required lessees to recognise assets and liabilities for all leases where previously lessees could recognise a lease as either an operating or finance lease. The impact of the adoption of IFRS 16 increased the Group's RWAs by c.€600 million, which reduced the fully loaded CET 1 ratio by c.20 basis points.

¹ Capital ratios have been presented including the benefit of the retained profit in the year. 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 RWA reflect the application of certain CBI required Balance Sheet Assessment (BSA) adjustments and the prescribed treatments of expected loss.

³ Further details on RWA as at 31 December 2018 can be found in the Group's Pillar 3 disclosures for the year ended 31 December 2018 available on the Group's website.

Capital management *(continued)*

Pro forma CET 1 Regulatory Capital Requirements	Set by	Range	2017	2018	2019	2020	2021
Pillar 1 - CET 1	CRR	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Pillar 2 Requirement (P2R)	SSM	1% - 2.25% ¹	2.25%	2.25%	2.25%	2.25%	2.25%
Capital Conservation Buffer (CCB)	CRD	2.50%	1.25%	1.88%	2.50%	2.50%	2.50%
Countercyclical buffer (CCyB)							
Ireland (c.60% of RWA) (from 5 July 2019)	CBI	0% - 2.50%	-	-	0.60%	0.60%	0.60%
UK (c.30% of RWA)	FPC (UK)	0% - 2.50%	-	0.30%	0.30%	0.30%	0.30%
US and other (c.10% of RWA)	Fed / Various	0% - 2.50%	-	-	-	-	-
O-SII Buffer (from 1 July 2019)	CBI	0% - 2.00%	-	-	0.50%	1.00%	1.50%
Systemic Risk Buffer - Ireland	Minister for Finance	0% - 3.00%	-	-	-	TBC	TBC
Pro forma Minimum CET 1 Regulatory Requirements			8.00%	8.93%	10.65%	11.15%	11.65%
Pillar 2 Guidance (P2G)				Not disclosed in line with regulatory preference			

Capital requirements / buffers

The table above sets out the Group's CET 1 capital requirements for 2019 and the authorities responsible for setting those requirements.

The Group is required to maintain a CET 1 ratio of 9.55% on a regulatory basis from 1 January 2019, increasing to 10.65% from July 2019. This includes a Pillar 1 requirement of 4.5%, a P2R of 2.25%, a CCB of 2.50%, a UK Countercyclical Buffer of 0.3%, O-SII Buffer of 0.5% (from 1 July 2019) and a RoI Countercyclical Buffer of 0.6% (from 5 July 2019). P2G is not disclosed in accordance with regulatory preference.

The countercyclical capital buffers (CCyBs) are independently set in each country by the relevant designated authority. CCyBs are applied in proportion to an institution's risk weighted asset exposures in the particular country. The Financial Policy Committee (FPC) in the UK has set a CCyB of 1.0% in the UK (from November 2018). In RoI, the CBI has set a 1.0% CCyB from 5 July 2019.

CCyB rates are subject to quarterly review by the relevant designated authority.

The CBI has advised that the Group will be required to maintain an O-SII buffer of 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. The O-SII buffer is subject to annual review by the CBI.

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

The Central Bank of Ireland has requested the power to introduce a Systemic Risk Buffer (SyRB) in Ireland, which could increase capital demand. The timing, size and application of any potential SyRB are unknown.

Minimum requirement for own funds and eligible liabilities

In May 2018, the SRB advised that the binding MREL for the Group had been set at €13.3 billion (representing 26.4% of RWA at 31 December 2016), to be met by 1 January 2021. The Group's MREL position at 30 June 2019 is 21.1% (based on June 2019 RWA). Modest MREL eligible issuance of c.€1 billion to €2 billion per annum is anticipated to meet the MREL requirement.

Risk weighted assets

RWA on a regulatory basis, were €48.9 billion at 30 June 2019 (31 December 2018: €47.8 billion). The increase of €0.5 billion in Credit RWA is primarily due to net loan book growth and changes in asset quality and book mix offset by the impact of the disposal of NPEs.

Regulatory ratio

The CET 1 ratio was 14.9% at 30 June 2019 (31 December 2018: 15.0%). The decrease since 31 December 2018 of c.10 basis points is primarily due to organic capital generation (c.90 basis points) and the impact of the disposal of NPEs (c.30 basis points) offset by RWA growth (c.-30 basis points), the impact of CRD phasing for 2019 and IFRS 16 impacts (c.-50 basis points), investment in the Group's transformation programmes (c.-25 basis points), an accrual for a proposed dividend (c.-20 basis points) and other net movements (c.-5 basis points).

Fully loaded ratio

The Group's fully loaded CET 1 ratio is 13.6% at 30 June 2019 (31 December 2018: 13.4%). The increase of c.20 basis points since 31 December 2018 is primarily due to organic capital generation (c.90 basis points) and the impact of the disposal of NPEs (c.30 basis points) offset by RWA growth (c.-30 basis points), investment in the Group's transformation programmes (c.-25 basis points), an accrual for a proposed dividend (c.-20 basis points), the impact of IFRS 16 implementation (c.-20 basis points) and other net movements (c.-5 basis points).

¹ Expected range, subject to annual review.

Capital management *(continued)*

Leverage ratio

The leverage ratio at 30 June 2019 is 7.2% on a CRD IV regulatory basis (31 December 2018: 7.0%) and 6.6% on a proforma fully loaded basis (31 December 2018: 6.3%).

The EC has introduced a binding leverage requirement of 3% as part of the revised CRD proposals. It will be applicable from 28 June 2021. The Group expects to remain well in excess of this requirement.

Distribution policy

The Group proposed the payment of a dividend of €173 million, equivalent to 16 cents per share in respect of the 2018 financial year which was approved at the Annual General Meeting on 14 May 2019 and paid on 10 June 2019. The dividend represented a payout of 30% of sustainable earnings.

The Group expects that dividends will increase on a prudent and progressive basis and, over time, will build towards a payout ratio of around 50% of sustainable earnings.

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

Other means of capital distribution will be considered to the extent the Group has excess capital.

Regulatory rules require that a deduction is made at the half year in respect of foreseeable dividends; in that regard the Group has made a deduction of €100 million (c.20 basis points), equivalent to an annualised dividend per share of 18.5 cents.

Impediments to the transfer of funds

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

At 30 June 2019, own funds were in excess of the required minimum requirement.

Responsibility statement

for the six months ended 30 June 2019

The Directors listed below (being all the Directors of Bank of Ireland Group plc) are responsible for preparing the Interim Report in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' 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 27);
- details of any related parties' transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2019; and
- details of any changes to related parties' transactions described in the Group's Annual Report for the year ended 31 December 2018 that could have a material effect on the financial position or performance of the Group in the six months ended 30 June 2019.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group'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 Board by
26 July 2019

Patrick Kennedy
Chairman

Patrick Haren
Deputy Chairman

Francesca McDonagh
Group Chief Executive

Executive Directors: Francesca McDonagh (Group Chief Executive), Andrew Keating (Group Chief Financial Officer).

Non-executive Directors: Patrick Kennedy (Chairman), Patrick Haren (Deputy Chairman), Evelyn Bourke, Ian Buchanan, Eileen Fitzpatrick, Richard Goulding, Fiona Muldoon, Patrick Mulvihill, Steve Pateman.

Independent review report to the members of Bank of Ireland Group plc

Introduction

We have been engaged by Bank of Ireland Group plc (the 'Company') to review the condensed set of consolidated financial statements in the interim financial report for the six months ended 30 June 2019 which comprises the consolidated condensed income statement, consolidated condensed statement of comprehensive income, consolidated condensed balance sheet, consolidated condensed statement of changes in equity, consolidated condensed cash flow statement and the related explanatory notes. Our review was conducted having regard to the Financial Reporting Council's (FRC's) International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU, the Transparency (Directive 2004/109/EC) Regulations 2007 ('TD Regulations'), and the Transparency Rules of the Central Bank of Ireland.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the TD Regulations and the Transparency Rules of the Central Bank of Ireland. As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the EU. The Directors are responsible for ensuring that the condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the interim financial report based on our review.

Scope of review

We conducted our review having regard to the FRC's International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. 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 read the other information contained in the interim financial report to identify material inconsistencies with the information in the condensed set of consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the review. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the TD Regulations and the Transparency Rules of the CBI. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

KPMG

Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

26 July 2019

Consolidated interim financial statements and notes *(unaudited)*

Consolidated condensed income statement

(for the six months ended 30 June 2019) (unaudited)

	Note	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Interest income calculated using the effective interest method	4	1,181	1,188
Interest income on finance leases and hire purchase receivables	4	84	78
Interest income		1,265	1,266
Interest expense	5	(188)	(190)
Net interest income		1,077	1,076
Net insurance premium income	6	698	704
Fee and commission income	7	254	263
Fee and commission expense	7	(103)	(105)
Net trading income	8	78	29
Life assurance investment income, gains and losses	9	848	28
Other leasing income	10	27	24
Other leasing expense	10	(22)	(20)
Other operating income	11	61	38
Total operating income		2,918	2,037
Insurance contract liabilities and claims paid	12	(1,460)	(641)
Total operating income, net of insurance claims		1,458	1,396
Other operating expenses	13	(1,056)	(1,000)
Cost of restructuring programme	14	(27)	(51)
Operating profit before impairment gains / (losses) on financial instruments		375	345
Net impairment (losses) / gains on financial instruments	15	(77)	81
Operating profit		298	426
Share of results of associates and joint ventures (after tax)		20	21
Gain on disposal of asset held for sale		-	7
Loss on liquidation of business activities		(3)	-
Profit before tax		315	454
Taxation charge	16	(89)	(77)
Profit for the period		226	377
Attributable to shareholders		195	350
Attributable to non-controlling interests		31	27
Profit for the period		226	377
Earnings per ordinary share	17	18.1c	32.5c
Diluted earnings per ordinary share	17	18.1c	32.5c

Consolidated condensed statement of comprehensive income

(for the six months ended 30 June 2019) (unaudited)

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Profit for the period	226	377
Other comprehensive income, net of tax		
Items that may be reclassified to profit or loss in subsequent periods		
- Debt instruments at fair value through other comprehensive income, net of tax	48	(58)
- Cash flow hedge reserve, net of tax	8	(37)
- Foreign exchange reserve	(2)	19
Total items that may be reclassified to profit or loss in subsequent periods	54	(76)
Items that will not be reclassified to profit or loss in subsequent periods		
- Remeasurement of the net defined benefit pension liability, net of tax	(61)	159
- Net change in liability credit reserve	-	11
Total items that will not be reclassified to profit or loss in subsequent periods	(61)	170
Other comprehensive income for the period, net of tax	(7)	94
Total comprehensive income for the period, net of tax	219	471
Total comprehensive income attributable to equity shareholders	188	444
Total comprehensive income attributable to non-controlling interests	31	27
Total comprehensive income for the period, net of tax	219	471

The effect of tax on these items is shown in note 16.

Consolidated condensed balance sheet

(as at 30 June 2019) (unaudited)

	Note	30 June 2019 €m	31 December 2018 €m
Assets			
Cash and balances at central banks		3,281	6,033
Items in the course of collection from other banks		240	259
Trading securities		178	29
Derivative financial instruments		2,367	1,724
Other financial assets at FVTPL		15,599	14,135
Loans and advances to banks		3,423	2,625
Debt securities at amortised cost		4,621	3,928
Financial assets at FVOCI		11,792	12,048
Assets classified as held for sale	18	582	602
Loans and advances to customers	19	77,400	76,363
Interest in associates		52	53
Interest in joint ventures		84	69
Intangible assets and goodwill	22	811	802
Investment properties		999	1,037
Property, plant and equipment		1,020	438
Current tax assets		21	33
Deferred tax assets	23	1,146	1,165
Other assets		2,316	2,280
Retirement benefit assets	30	50	46
Total assets		125,982	123,669
Equity and liabilities			
Deposits from banks	24	2,471	2,482
Customer accounts	25	80,204	78,899
Items in the course of transmission to other banks		516	268
Derivative financial instruments		2,312	1,819
Debt securities in issue	26	7,799	8,904
Liabilities to customers under investment contracts		5,693	5,239
Insurance contract liabilities		12,019	11,003
Other liabilities		2,372	2,460
Lease liabilities	36	599	-
Current tax liabilities		22	11
Provisions	27	110	84
Loss allowance provision on loan commitments and financial guarantees	29	26	29
Deferred tax liabilities	23	63	42
Retirement benefit obligations	30	341	274
Subordinated liabilities	31	1,370	2,104
Total liabilities		115,917	113,618
Equity			
Share capital		1,079	1,079
Share premium account		456	456
Retained earnings		7,872	7,975
Other reserves		(123)	(242)
Own shares held for the benefit of life assurance policyholders		(27)	(25)
Shareholders' equity		9,257	9,243
Non-controlling interests		808	808
Total equity		10,065	10,051
Total equity and liabilities		125,982	123,669

Consolidated condensed statement of changes in equity

(for the six months ended 30 June 2019) (unaudited)

	Other reserves											Total €m		
	Share capital €m	Share premium €m	Retained earnings €m	Debt instruments at FVOCI reserve €m	Cash flow hedge reserve €m	Liability credit reserve €m	Foreign exchange reserve €m	Capital reserve €m	Merger reserve €m	Revaluation reserve €m	Own shares held for benefit of life assurance policyholders €m		Attributable to equity holders of Parent €m	Non- controlling interests €m
Balance at 1 January 2019	1,079	456	7,975	133	(10)	24	(833)	396	17	31	(25)	9,243	808	10,051
Profit for the period	-	-	195	-	-	-	-	-	-	-	-	195	31	226
Other comprehensive income	-	-	(61)	48	8	-	(2)	-	-	-	-	(7)	-	(7)
Total comprehensive income for the period	-	-	134	48	8	-	(2)	-	-	-	-	188	31	219
Transactions with owners														
Contributions by and distributions to owners of the Group														
- Dividends on ordinary shares (note 35)	-	-	(173)	-	-	-	-	-	-	-	-	(173)	-	(173)
- Dividends paid to NCI - preference stock	-	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)
- Distribution paid to NCI - AT1 coupon	-	-	-	-	-	-	-	-	-	-	-	-	(28)	(28)
- Changes in value and amount of shares held	-	-	-	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Total transactions with owners	-	-	(173)	-	-	-	-	-	-	-	(2)	(175)	(31)	(206)
Transfer to capital reserve from retained earnings	-	-	(65)	-	-	-	-	65	-	-	-	-	-	-
Other movements	-	-	1	-	-	-	-	-	-	-	-	1	-	1
Balance at 30 June 2019	1,079	456	7,872	181	(2)	24	(835)	461	17	31	(27)	9,257	808	10,065

Consolidated condensed statement of changes in equity (continued)

(for the six months ended 30 June 2018) (unaudited)

	Other reserves											Total €m		
	Share capital €m	Share premium account €m	Retained earnings €m	Debt instruments at FVOCI reserve €m	Cash flow hedge reserve €m	Liability credit reserve €m	Foreign exchange reserve €m	Capital reserve €m	Merger reserve €m	Revaluation reserve €m	Own shares held for benefit of life assurance policyholders €m		Attributable to equity holders of Parent €m	Non- controlling interests €m
Balance at 1 January 2018	1,079	456	7,302	272	41	(13)	(843)	433	17	35	(33)	8,746	808	9,554
Profit for the period	-	-	350	-	-	-	-	-	-	-	-	350	27	377
Other comprehensive income	-	-	159	(58)	(37)	11	19	-	-	-	-	94	-	94
Total comprehensive income for the period	-	-	509	(58)	(37)	11	19	-	-	-	-	444	27	471
Transactions with owners														
Contributions by and distributions to owners of the Group														
- Dividends on ordinary shares (note 35)	-	-	(124)	-	-	-	-	-	-	-	-	(124)	-	(124)
- Dividends paid to NCI - preference stock	-	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)
- Distribution paid to NCI - AT1 coupon, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	(24)	(24)
- Changes in value and amount of shares held	-	-	-	-	-	-	-	-	-	-	5	5	-	5
Total transactions with owners	-	-	(124)	-	-	-	-	-	-	-	5	(119)	(27)	(146)
Transfer from capital reserve to retained earnings	-	-	16	-	-	-	-	(16)	-	-	-	-	-	-
Transfer from revaluation reserve to retained earnings	-	-	9	-	-	-	-	-	-	(9)	-	-	-	-
Other movements	-	-	3	-	-	-	-	-	-	-	-	3	-	3
Balance at 30 June 2018	1,079	456	7,715	214	4	(2)	(824)	417	17	26	(28)	9,074	808	9,882

Consolidated condensed statement of changes in equity (continued)

(for the year ended 31 December 2018) (audited)

	Other reserves											Non-controlling interests	Total	
	Share capital	Share premium account	Retained earnings	Debt instruments at FVOCI	Cash flow hedge reserve	Liability credit reserve	Foreign exchange reserve	Capital reserve	Merger reserve	Revaluation reserve	Own shares held for benefit of life assurance policyholders			Attributable to equity holders of Parent
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
Balance at 1 January 2018	1,079	456	7,302	272	41	(13)	(843)	433	17	35	(33)	8,746	808	9,554
Profit for the period	-	-	620	-	-	-	-	-	-	-	-	620	55	675
Other comprehensive income	-	-	129	(139)	(51)	37	10	-	-	5 ¹	-	(9)	-	(9) ¹
Total comprehensive income for the period	-	-	749	(139)	(51)	37	10	-	-	5 ¹	-	611	55	666 ¹
Transactions with owners														
Contributions by and distributions to owners of the Group														
- Dividends on ordinary shares (note 35)	-	-	(124)	-	-	-	-	-	-	-	-	(124)	-	(124)
- Dividends paid to NCI - preference stock	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
- Distribution paid to NCI - AT1 coupon, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	(48)	(48)
- Changes in value and amount of shares held	-	-	-	-	-	-	-	-	-	-	8	8	-	8
Total transactions with owners	-	-	(124)	-	-	-	-	-	-	-	8	(116)	(55)	(171)
Transfer from capital reserve to retained earnings														
	-	-	37	-	-	-	-	(37)	-	-	-	-	-	-
Transfer from revaluation reserve to retained earnings														
	-	-	9	-	-	-	-	-	-	(9)	-	-	-	-
Other movements														
	-	-	2	-	-	-	-	-	-	-	-	2	-	2
Balance at 31 December 2018	1,079	456	7,975	133	(10)	24	(833)	396	17	31	(25)	9,243	808	10,051

¹ The change in revaluation reserve in other comprehensive income has been increased by €10 million from a charge of €5 million to a gain of €5 million. Other comprehensive income has increased by €10 million to €9 million (expense) from €19 million (expense) and total comprehensive income has been increased by €10 million to €666 million from €656 million.

Consolidated condensed cash flow statement

(for the six months ended 30 June 2019) (unaudited)

Note	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Cash flows from operating activities		
Profit before tax	315	454
Share of results of associates and joint ventures	(20)	(21)
Loss on disposal / liquidation of business activities	3	-
Gain on disposal of asset held for resale	-	(7)
Depreciation and amortisation	10,13	163
Net impairment losses / (gains) on financial instruments, excluding cash recoveries	15	94
Revaluation of investment property	9	(8)
Interest expense on subordinated liabilities	57	58
Interest expense on lease liabilities	6	-
Charge for pension and similar obligations	13	49
Net change in accruals and interest payable	(42)	(41)
Net change in prepayments and interest receivable	51	(15)
Charge for provisions	27	77
Net change in operating expenses accrued	57	23
Non-cash and other items	44	43
Cash flows from operating activities before changes in operating assets and liabilities	863	619
Net cash flow from operating assets and liabilities	(1,558)	(689)
Net cash flow from operating activities before tax	(695)	(70)
Tax paid	(16)	(14)
Net cash flow from operating activities	(711)	(84)
Investing activities (section a below)	(219)	(2,063)
Financing activities (section b below)	(1,065)	(211)
Effect of exchange translation and other adjustments	28	2
Net change in cash and cash equivalents	(1,967)	(2,356)
Opening cash and cash equivalents	8,349	10,201
Closing cash and cash equivalents	6,382	7,845
(a) Investing activities		
Additions to financial assets at FVOCI	(805)	(2,226)
Disposals / redemptions of financial assets at FVOCI	1,247	1,000
Additions to debt securities at amortised cost	(705)	(931)
Disposals / redemptions of debt securities at amortised cost	144	259
Additions to property, plant and equipment, intangible assets and investment property	(144)	(183)
Disposal of property, plant and equipment, intangible assets and investment property	38	7
Net change in interest in associates	6	11
Cash flows from investing activities	(219)	(2,063)
(b) Financing activities		
Repayment of subordinated liabilities	(750)	-
Interest paid on subordinated liabilities	(66)	(57)
Interest paid on lease liability	(6)	-
Payment of lease liability	(39)	-
Dividend paid to ordinary shareholders	(173)	(124)
Distribution to non-controlling interests - Additional tier 1 coupon	(28)	(27)
Dividend paid to non-controlling interests - preference stock	(3)	(3)
Cash flows from financing activities	(1,065)	(211)

Notes to the consolidated interim financial statements *(unaudited)*

Index	Page
1 Group accounting policies	46
2 Critical accounting estimates and judgements	48
3 Operating segments	50
4 Interest income	54
5 Interest expense	54
6 Net insurance premium income	54
7 Fee and commission income and expense	55
8 Net trading income	55
9 Life assurance investment income, gains and losses	56
10 Other leasing income and expense	56
11 Other operating income	56
12 Insurance contract liabilities and claims paid	57
13 Other operating expenses	57
14 Cost of restructuring programme	58
15 Net impairment losses / (gains) on financial instruments	58
16 Taxation	59
17 Earnings per share	60
18 Assets classified as held for sale	61
19 Loans and advances to customers	61
20 Credit risk exposures	64
21 Modified financial assets	71
22 Intangible assets and goodwill	72
23 Deferred tax	72
24 Deposits from banks	73
25 Customer accounts	73
26 Debt securities in issue	74
27 Provisions	75
28 Contingent liabilities and commitments	75
29 Loss allowance provision on loan commitments and financial guarantees	76
30 Retirement benefit obligations	77
31 Subordinated liabilities	78
32 Summary of relations with the State	79
33 Liquidity risk and profile	79
34 Fair values of assets and liabilities	80
35 Dividend per ordinary share	85
36 Impact of adopting new accounting standard IFRS 16 'Leases'	86
37 Post balance sheet events	87
38 Approval of interim report	87

1 Group accounting policies

Basis of preparation

The interim financial statements of the Bank of Ireland Group plc (the 'Company' or 'BOIG plc') and its subsidiaries (collectively the 'Group' or 'BOIG plc Group') for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 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 2018, 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 Statements) Regulations 2015.

Statutory financial statements

These interim financial statements do not comprise statutory financial statements within the meaning of the Companies Act 2014. The statutory financial statements for the year ended 31 December 2018 were approved by the Board of Directors on 22 February 2019, contained an unqualified audit report and did not include a reference to any matters to which the statutory auditor drew attention by way of emphasis. The statutory financial statements were filed with the Companies Registration Office on 27 May 2019.

Interim financial statements

The interim financial statements comprise the consolidated condensed income statement, consolidated condensed statement of comprehensive income, consolidated condensed balance sheet, consolidated condensed statement of changes in equity, consolidated condensed cash flow statement and the notes to the consolidated interim financial statements on pages 46 to 87. 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 section on pages 28 to 31 of the OFR. The interim financial statements also include the tables in Other Information - Supplementary asset quality and forbearance disclosures on pages 89 to 109 described as being an integral part of the interim financial statements.

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 2019 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, together with a range of other factors such as the outlook for the Irish economy, along with ongoing developments in EU economies. The matters of primary consideration by the Directors are set out below:

Capital

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

Funding and liquidity

The Directors have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment.

Conclusion

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

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 disclosure as appropriate.

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 175 to 191 of the Group's Annual Report for the year ended 31 December 2018, except for the application of IFRS 16 'Leases' and amendments to other standards as set out below, as of 1 January 2019.

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' and related interpretations. It addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases are accounted for on balance sheet for lessees. The accounting for lessors has not materially changed.

As permitted under IFRS 16, the Group has elected to apply the standard under the modified retrospective application rather than full retrospective application. Under the modified retrospective application, the Group as a lessee has not restated comparative information, instead recognising the cumulative effect of initially applying the standard as an adjustment to retained earnings (€nil effect).

As permitted, the Group has availed of the following exemptions:

- short-term leases (lease term of 12 months or less);
- leases for which the underlying asset is of low value; and
- for certain computer equipment where the Group is lessee, it has elected not to separate the non-lease components and accounts for lease and non-lease components as a single lease.

The Group recognises the lease payments associated with those leases as an expense on a straight line basis over the lease term.

The principal impact on the Group is in relation to property leases that the Group, as the lessee, previously classified as operating leases under IAS 17. These include primarily branches and office premises. The commercial leases typically run for an original period of 25 to 35 years (from inception) with five-yearly rent

1 Group accounting policies (continued)

reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group has recognised a lease liability for leases previously classified as operating leases, measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate (IBR). The Group has recognised a Right of Use (RoU) asset equal to the lease liability, adjusted by the amounts of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately prior to date of initial application.

In addition the Group relied on its assessment of whether leases were onerous immediately before the date of initial application. Consequently the Group adjusted the RoU asset by the amount of any such provision for onerous leases recognised in the balance sheet immediately prior to date of initial application.

The Group leases a number of items of computer equipment which were previously classified as finance leases under IAS 17. For these leases, the initial carrying amounts of RoU asset and lease liability at 1 January 2019 were determined to be the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

The Group reassessed contracts that were not identified as leases under IAS 17. As a result of this assessment service contracts for computer equipment were deemed to meet the definition of a lease under IFRS 16 resulting in the recognition of a lease liability and RoU asset.

The effect of adoption of IFRS 16 is explained further in note 36.

The Group's accounting policy for leases has been updated for the application of IFRS 16 as follows:

Identifying a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A Group company is the lessee

The Group recognises a RoU asset and lease liability at the lease commencement date.

RoU assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities. The recognised RoU assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of assets'.

RoU assets which do not meet the definition of investment properties are presented in property, plant and equipment. RoU assets which meet the definition of investment properties are presented within investment properties.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate if the interest rate implicit in the lease is not readily determinable. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost

on the lease liability and decreased by lease payments made. It is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised.

A Group company is the lessor

The accounting policies applicable to a Group company as a lessor are not different to those under IAS 17. Therefore the accounting policies set out on page 185 of the Group's Annual Report for the year ended 31 December 2018 are still applicable. However, where the Group is an intermediate lessor the subleases are classified with reference to the RoU asset arising from the head lease, not with reference to the underlying asset. Where the Group continues to retain the risks and rewards of ownership as the intermediate lessor, it retains the lease liability and the RoU asset relating to the head lease in its balance sheet. If the Group does not retain the risks and rewards of ownership as the intermediate lessor, these subleases are deemed finance leases. During the term of the sublease, the group recognises both finance lease income on the sublease and interest expense on the head lease.

Annual improvements 2015-2017 – Amendment to IAS 12 'Income Taxes'

This amendment clarifies that the income tax consequences of dividends on a financial instrument classified as equity should be recognised according to where the previous transactions or events that generated distributable profits were recognised. As a result at 30 June 2019, the Group has recognised the income tax effect of the AT1 dividend within the income statement. Comparatives have not been restated, as the impact was not material.

International Financial Reporting Interpretation Committee (IFRIC) 23 'Uncertainty over income tax treatments'

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The introduction of IFRIC 23 has no impact on the Group's financial statements. The Group's approach to accounting for uncertain tax positions heretofore has embodied the clarifications outlined in IFRIC 23. In particular, the Group considers uncertain

1 Group accounting policies *(continued)*

tax positions together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax position, it reflects the effect of the uncertainty using either the 'most likely amount' method or the 'expected value' method, as appropriate for the particular uncertainty.

Amendment to IAS 19 'Plan Amendment, Curtailment or Settlement'

This amendment requires an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. The amendment does not have a significant impact on the Group at 30 June 2019.

The following amendments to standards had no impact on the Group:

Amendments to IAS 28 'Investments in associates'

This narrow scope amendment clarifies that a long term interest in an associate or joint venture to which the equity method is not applied should be accounted for in the first instance under IFRS 9.

Annual improvements 2015-2017 - These amendments include minor changes to the following standards:

- IFRS 3 'Business combinations' - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 'Joint arrangements' - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 23 'Borrowing costs' - a company treats as part of general borrowings, any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

2 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 2018, as set out on pages 192 to 195 of the Group's Annual Report for the year ended 31 December 2018 with the exception of the following:

IFRS 16 'Leases': Judgement in determining the lease term of contracts with extension or break options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (break option), if it is reasonably certain not to be exercised.

The Group has a number of leases which contain break options and applies judgement in evaluating whether it is reasonably certain not to exercise the option. That is, on commencement of a lease the Group considers all relevant factors that create an incentive for it to exercise the option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option.

IFRS 16 'Leases': Judgement in determining the Incremental Borrowing Rate

The Group uses the incremental borrowing rate (IBR) at the lease commencement to calculate the present value of lease payments. The Group derives the IBR from its internal Funds Transfer Pricing

mechanism, as adjusted to reflect the cost of wholesale funding for a similar term, with a similar security and in a similar economic environment to the right-of-use asset. The weighted average incremental borrowing rate applied to lease liabilities recognised on the balance sheet at the date of initial recognition was 2.7%.

Impairment loss allowance on financial assets

The Group's credit risk methodologies are as set out on pages 82 to 87 of the Group's Annual Report for the year ended 31 December 2018.

Forward Looking Information (FLI)

FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the Group Risk Policy Committee (GRPC) and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Group generally uses three RoI FLI scenarios and three UK FLI scenarios, being a central scenario, an upside scenario and a downside scenario, all extending over a five year forecast period.

In each case the central scenario is based on internal and external information and management judgement. The Group keeps under review the need for FLI for other economies. Further detail on the Group's FLI model is set out on pages 86 and 87 of the Group's Annual Report for the year ended 31 December 2018.

The table on the following page shows the mean average forecast values for some of the key macroeconomic variables under each scenario for the forecast period 2019 to 2023 together with the associated percentiles and probability weightings.

2 Critical accounting estimates and judgements (continued)

	Republic of Ireland			United Kingdom		
	Downside	Central	Upside	Downside	Central	Upside
Percentile	85 th	50 th	15 th	85 th	50 th	15 th
Scenario probability weighting	30%	39%	31%	29%	40%	31%
GDP growth	1.6%	3.0%	5.5%	0.5%	1.5%	1.8%
GNP growth	1.1%	2.7%	5.2%	n/a	n/a	n/a
Unemployment rate	6.5%	5.1%	4.3%	5.1%	4.2%	4.2%
Residential property price growth	(3.0%)	2.1%	8.0%	(2.1%)	0.4%	4.9%
Commercial property price growth	(7.6%)	1.2%	7.7%	(5.7%)	(0.2%)	0.7%

The quantum of impairment loss allowance is impacted by the application of three probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance, excluding Group management adjustments, at 30 June 2019 was increased by virtue of applying multiple scenarios rather than only a central scenario.

Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance		Additional impairment loss allowance on stage 1 and 2 financial instruments	
	Impact €m	% Impact	Impact €m	% Impact
Residential Mortgages	7	2%	5	13%
Non-property SME and Corporate	7	1%	7	6%
Property and construction	5	2%	5	11%
Consumer	2	1%	2	3%
Total	21	1%	19	7%

The following table indicates the approximate extent to which impairment loss allowance, excluding Group management adjustments, would be higher or lower than reported were a 100% weighting applied to the upside and downside future macroeconomic scenarios respectively:

Impact of applying only an upside or downside scenario rather than applying multiple probability-weighted scenarios	Impact of applying a 100% weighting to the upside scenario		Impact of applying a 100% weighting to the downside scenario	
	€m	%	€m	%
Residential Mortgages	(122)	(29%)	166	40%
Non-property SME and Corporate	(37)	(6%)	56	10%
Property and construction	(26)	(8%)	49	15%
Consumer	(12)	(8%)	17	10%
Total	(197)	(13%)	288	19%

Group management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a 'Group management adjustment' to the outputs of the Group's staging and impairment measurement methodologies

is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late-breaking event.

At 30 June 2019, the impairment loss allowance for Residential Mortgages of €509 million includes a management adjustment of €92 million which is unchanged from 31 December 2018.

3 Operating segments

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

Retail Ireland

Retail Ireland is one of the largest providers of financial services in Ireland with a network of 265 branches, phone contact centre, c.1,600 self-serve devices, and online, smartphone and tablet banking applications. Retail Ireland offers a broad range of financial products and services including current accounts, savings, mortgages, credit cards, motor finance and loans to personal and business banking customers and is managed through a number of business units, namely Distribution Channels, Customer Segments and Propositions, Products (including Bank of Ireland Mortgage Bank (BoIMB)) and Business Banking (including Bank of Ireland Finance).

Wealth and Insurance

Wealth and Insurance includes the Group's life assurance subsidiary New Ireland Assurance Company plc (NIAC) which distributes protection, investment and pension products to the Irish market, across three core channels made up of the Group's distribution channels, independent financial brokers and its own financial advisor network and corporate partners. It also includes Investment markets and the Group's general insurance brokerage Bank of Ireland Insurance Services, which offers home and car insurance cover through its agency with insurance providers.

Retail UK

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

Corporate and Treasury (C&T)

C&T incorporates the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business, across the RoI, UK and internationally, with offices in Ireland, the UK, the United States (US), Germany, France and Spain.

Group Centre

Group Centre comprises Group Technology and Customer Solutions (formerly Group Manufacturing), Group Finance, Group Risk, Group Internal Audit (GIA), Group Marketing and Group Human Resources. These Group central functions establish and oversee policies and provide and manage certain processes and delivery platforms for the divisions.

Other reconciling items

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

Basis of preparation of segmental information

The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are considered to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management structures. The CEO and CFO review the Group's internal reporting based around these segments to assess performance and allocate resources. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

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

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

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

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, other leasing 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:

- customer redress charges;
- cost of restructuring programme;
- gross-up for policyholder tax in the Wealth and Insurance business;
- UK portfolio divestments;
- loss on liquidation of business activities;
- investment return on treasury shares held for policyholders; and
- gain on disposal of property.

3 Operating segments (continued)

6 months ended 30 June 2019	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items ¹ €m	Group €m
Net interest income	497	(4)	287	291	(5)	3	1,069
Other income, net of insurance claims	137	155	(7)	55	2	-	342
Total operating income, net of insurance claims	634	151	280	346	(3)	3	1,411
Other operating expenses	(336)	(64)	(145)	(89)	(195)	2	(827)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	(336)	(64)	(142)	(89)	(62)	2	(691)
- Transformation Investment charge	-	-	-	-	(63)	-	(63)
- Levies and regulatory charges	-	-	(3)	-	(70)	-	(73)
Depreciation and amortisation	(38)	(3)	(23)	(7)	(78)	-	(149)
Total operating expenses	(374)	(67)	(168)	(96)	(273)	2	(976)
Underlying operating profit / (loss) before impairment charges on financial instruments	260	84	112	250	(276)	5	435
Net impairment gains / (losses) on financial instruments	(1)	-	(36)	(43)	1	-	(79)
Share of results of associates and joint ventures	4	-	16	-	-	-	20
Underlying profit / (loss) before tax	263	84	92	207	(275)	5	376

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	376
Customer redress charges	(62)
Cost of restructuring programme	(27)
Gross-up for policyholder tax in the Wealth and Insurance business	22
UK portfolio divestments	8
Loss on disposal / liquidation of business activities	(3)
Investment return on treasury shares held for policyholders	1
Profit before tax	315

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

3 Operating segments (continued)

6 months ended 30 June 2018	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items ¹ €m	Group €m
Net interest income	500	(5)	307	266	7	1	1,076
Other income, net of insurance claims	138	104	3	76	11	(10)	322
Total operating income, net of insurance claims	638	99	310	342	18	(9)	1,398
Other operating expenses	(369)	(62)	(189)	(92)	(188)	1	(899)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	(369)	(61)	(187)	(92)	(73)	1	(781)
- Transformation Investment charge	-	-	-	-	(51)	-	(51)
- Levies and regulatory charges	-	(1)	(2)	-	(64)	-	(67)
Depreciation and amortisation	(29)	(3)	(16)	(6)	(47)	-	(101)
Total operating expenses	(398)	(65)	(205)	(98)	(235)	1	(1,000)
Underlying operating profit / (loss) before impairment charges on financial instruments	240	34	105	244	(217)	(8)	398
Net impairment gains / (losses) on financial instruments	101	-	(9)	(11)	-	-	81
Share of results of associates and joint ventures	4	-	17	-	-	-	21
Underlying profit / (loss) before tax	345	34	113	233	(217)	(8)	500

Included in underlying profit before tax of Retail UK for the period ended 30 June 2018 is an underlying profit before tax of €10 million comprising operating income of €36 million, impairment gains on financial instruments of €4 million and operating expenses of €30 million relating to portfolios from which the Group has made a strategic decision to exit. For the period ended 30 June 2019, income and expense from the portfolios has been excluded from underlying profit before tax of Retail UK and presented within the reconciliation table on page 51 as 'UK portfolio divestments'.

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	500
Cost of restructuring programme	(51)
Gain on disposal of property	7
Gross-up for policyholder tax in the Wealth and Insurance business	(2)
Profit before tax	454

30 June 2019 Analysis by operating segment	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	52	-	84	-	-	-	136
External assets ²	35,133	18,562	33,632	35,193	3,465	(3)	125,982
Inter segment assets	66,734	751	2,261	80,912	21,982	(172,640)	-
Total assets	101,867	19,313	35,893	116,105	25,447	(172,643)	125,982
External liabilities ²	53,386	18,277	25,851	14,531	3,872	-	115,917
Inter segment liabilities	46,545	291	7,361	100,746	17,693	(172,636)	-
Total liabilities	99,931	18,568	33,212	115,277	21,565	(172,636)	115,917

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

² As outlined in note 1, the Group has applied IFRS 16 'Leases' at 1 January 2019, which requires the recognition of RoU assets and lease liabilities. These assets and liabilities are included in all of the operating segments as at 30 June 2019.

3 Operating segments (continued)

31 December 2018 Analysis by operating segment	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	53	-	69	-	-	-	122
External assets	35,507	17,062	33,755	32,643	4,705	(3)	123,669
Inter segment assets	63,747	727	2,580	86,609	25,316	(178,979)	-
Total assets	99,254	17,789	36,335	119,252	30,021	(178,982)	123,669
External liabilities	52,124	16,830	26,236	14,243	4,180	5	113,618
Inter segment liabilities	44,936	257	7,486	103,958	22,334	(178,971)	-
Total liabilities	97,060	17,087	33,722	118,201	26,514	(178,966)	113,618

6 months ended 30 June 2019 Revenue by operating segments	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	687	1,613	602	357	8	(16)	3,251
Inter segment revenues	228	49	(23)	165	123	(542)	-
Revenue before claims paid	915	1,662	579	522	131	(558)	3,251
Insurance contract liabilities and claims paid	-	(1,456)	-	-	(4)	-	(1,460)
Revenue	915	206	579	522	127	(558)	1,791
Interest expense	(41)	-	(116)	62	(97)	4	(188)
Capital expenditure	12	9	27	-	96	-	144

6 months ended 30 June 2018 Revenue by operating segments	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	693	783	534	337	32	1	2,380
Inter segment revenues	241	(9)	29	203	110	(574)	-
Revenue before claims paid	934	774	563	540	142	(573)	2,380
Insurance contract liabilities and claims paid	-	(641)	-	-	-	-	(641)
Revenue	934	133	563	540	142	(573)	1,739
Interest expense	(47)	-	(95)	30	(82)	4	190
Capital expenditure	1	3	37	3	74	-	118

4 Interest income

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as an offset against interest expense.

Interest income on loans and advances to customers for the six months ended 30 June 2019 is shown net of a charge of €5 million (six months ended 30 June 2018: €nil) related to redress arising from the Tracker Mortgage Examination review.

For the six months ended 30 June 2019, €40 million of interest was recognised on credit-impaired loans and advances to customers at the period end (six months ended 30 June 2018: €52 million).

For the six months ended 30 June 2019, €42 million of interest income was received on credit-impaired loans and advances to customers at the period end (six months ended 30 June 2018: €55 million).

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Financial assets measured at amortised cost		
Loans and advances to customers	1,134	1,134
Loans and advances to banks	15	13
Debt securities at amortised cost	6	6
Interest income on financial assets measured at amortised cost	1,155	1,153
Debt securities at FVOCI	16	23
	1,171	1,176
Negative interest on financial liabilities	10	12
Interest income calculated using the effective interest method	1,181	1,188
Interest income on finance leases and hire purchase receivables	84	78
Interest income	1,265	1,266

5 Interest expense

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Customer accounts	71	85
Subordinated liabilities	49	49
Debt securities in issue	49	41
Deposits from banks	9	8
Lease liabilities	6	-
Interest expense from financial liabilities measured at amortised cost	184	183
Negative interest on financial assets	4	7
Interest expense	188	190

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as an offset against interest income.

6 Net insurance premium income

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Premiums written	768	779
Ceded reinsurance premiums	(68)	(73)
Net premium written	700	706
Change in provision for unearned premiums	(2)	(2)
Net insurance premium income	698	704

7 Fee and commission income and expense

6 months ended 30 June 2019 Income	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Group €m
Retail banking customer fees	137	-	48	21	-	206
Credit related fees	4	-	3	11	-	18
Insurance commissions	-	6	1	-	-	7
Asset management fees	-	1	-	-	-	1
Brokerage fees	1	-	-	-	-	1
Other	5	3	2	11	-	21
Fee and commission income	147	10	54	43	-	254

6 months ended 30 June 2018 Income	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Group €m
Retail banking customer fees	136	-	54	21	-	211
Credit related fees	5	-	3	10	-	18
Insurance commissions	-	6	1	-	-	7
Asset management fees	-	2	-	-	-	2
Brokerage fees	1	-	1	-	-	2
Other	5	3	2	13	-	23
Fee and commission income	147	11	61	44	-	263

Expense

Fee and commission expense of €103 million (six months ended 30 June 2018: €105 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

8 Net trading income

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Financial liabilities designated at fair value	(104)	-
Related derivatives held for trading	101	(9)
	(3)	(9)
Net income from financial instruments mandatorily measured at fair value through profit or loss ¹		
- Loans and advances	6	7
- Equities ²	26	13
- Securities and non-trading debt	6	15
- Other financial instruments held for trading	45	4
	80	30
Net fair value hedge ineffectiveness	(2)	(1)
Net trading income	78	29

¹ Net income from other financial assets mandatorily measured at FVTPL includes interest income from debt instruments and dividend income from equities. It also includes realised and unrealised gains and losses.

² Non-trading equities and debt securities mandatorily measured at FVTPL are reported in the balance sheet under the caption 'Other financial assets at FVTPL'. The income from life assurance investments which also comprise 'Other financial assets at FVTPL' is reported in note 9 'Life assurance investment income, gains and losses'.

8 Net trading income (continued)

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 €10 million (six

months ended 30 June 2018: charge of €4 million) of a net gain arising from foreign exchange.

Net fair value hedge ineffectiveness reflects a net charge from hedged items of €13 million (six months ended 30 June 2018: charge of €51 million) offsetting a net gain from hedging instruments of €11 million (six months ended 30 June 2018: gain of €50 million).

9 Life assurance investment income, gains and losses

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Gains on other financial assets held on behalf of Wealth and Insurance policyholders	825	5
Gains on investment property held on behalf of Wealth and Insurance policyholders	23	23
Life assurance investment income, gains and losses	848	28

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 the Wealth and Insurance division, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts. These instruments are mandatorily measured at FVTPL.

Life assurance investment income and gains of €848 million for the six months ended 30 June 2019 is consistent with favourable investment market performance. Movement in insurance contract liabilities (note 12) is consistent with the higher investment returns in the period.

10 Other leasing income and expense

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Other leasing income	27	24
Other leasing expense	(22)	(20)
Net other leasing income	5	4

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL), a wholly owned subsidiary of the Group. MLL is a car and commercial leasing and fleet management company based in the UK. Other leasing

income includes €7 million arising from the sale of leased assets (six months ended 30 June 2018: €7 million). Other leasing expense includes depreciation of €14 million related to rental vehicles (six months ended 30 June 2018: €12 million).

11 Other operating income

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Movement in Value of in Force asset	30	4
Other insurance income	26	27
Transfer from debt instruments at FVOCI reserve on asset disposal	1	2
Dividend income	1	1
Other income	3	4
Other operating income	61	38

12 Insurance contract liabilities and claims paid

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Claims paid		
Policy surrenders	444	436
Death and critical illness claims	86	85
Annuity payments	45	39
Other claims	25	19
Gross claims paid	600	579
Recovered from reinsurers	(58)	(52)
Net claims paid	542	527
Change in insurance contract liabilities		
Change in gross liabilities	1,015	133
Change in reinsured liabilities	(97)	(19)
Net change in insurance contract liabilities	918	114
Insurance contract liabilities and claims paid	1,460	641

13 Other operating expenses

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Administrative expenses and staff costs		
Staff costs excluding restructuring and Transformation Investment staff costs	419	442
Amortisation of intangible assets (note 22)	96	83
Levies and regulatory charges	73	67
Transformation Investment charge	63	51
Depreciation of property, plant and equipment	53	18
Lease expenses - short-term leases	2	-
Other administrative expenses excluding cost of restructuring programme	350	339
Total	1,056	1,000
Total staff costs are analysed as follows:		
Wages and salaries	310	329
Retirement benefit costs (defined benefit plans)	49	59
Social security costs	37	38
Retirement benefit costs (defined contribution plans)	15	14
Other staff expenses	8	2
Staff costs excluding restructuring and Transformation Investment staff costs	419	442
Additional restructuring and Transformation Investment staff costs:		
Included in cost of restructuring programme (note 14)	17	45
Included in Transformation Investment charge	11	7
Total staff costs recognised in the income statement	447	494

The Group has incurred levies and regulatory charges of €73 million in the six months ended 30 June 2019 (six months ended 30 June 2018: €67 million). The higher charge is driven by an increase in certain levies including the FSPO levy and the ECB supervisory fees.

Transformation Investment income statement charge of €63 million (six months ended 30 June 2018: €51 million) includes €15 million for associated application and infrastructure costs. From 1 January 2019, the Group adopted IFRS 16 'Leases'. In the six months ended 30 June 2019, there was €40 million

depreciation of RoU assets under IFRS 16 included within depreciation of property, plant and equipment and a charge of €2 million under the short-term lease exemption.

In the six months ended 30 June 2018, other administrative expenses included an amount of €29 million relating to operating lease expenses under IAS 17 and €15 million relating to expenses on service contracts classified as leases under IFRS 16 from 1 January 2019. The effect of adoption of IFRS 16 is further explained in note 36.

13 Other operating expenses (continued)

During the six months ended 30 June 2019, the Group incurred a charge of €50 million (six months ended 30 June 2018: €nil) in other administrative expenses relating to the Tracker Mortgage Examination Review.

Staff numbers

At 30 June 2019, the number of staff (full time equivalents) was 10,405 (30 June 2018: 10,660). During the six months ended 30 June 2019, the average number of staff (full time equivalents) was 10,368 (six months ended 30 June 2018: 10,752).

14 Cost of restructuring programme

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Transformation Investment costs	21	51
- Staff costs (note 13)	17	45
- Property related costs	2	-
- Programme management costs	2	6
Other restructuring charges	6	-
Total	27	51

During 2019, the Group recognised a charge of €27 million (30 June 2018: €51 million) of which €21 million (30 June 2018: €51 million) relates to Transformation Investment costs and €6 million (30 June 2018: €nil) relates to other restructuring charges.

15 Net impairment losses / (gains) on financial instruments

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Loans and advances to customers	81	(72)
- Movement in impairment loss allowance / impairment provision (note 19)	98	(39)
- Cash recoveries	(17)	(33)
Loan commitments	(3)	(8)
Guarantees and irrevocable letters of credit	-	(1)
Other financial assets	(1)	-
Net impairment losses / (gains) on financial instruments	77	(81)

15 Net impairment losses / (gains) on financial instruments (continued)

Loans and advances to customers at amortised cost

Net impairment losses / (gains)

The Group's net impairment losses / (gains) on loans and advances to customers at amortised cost is set out in the table below.

Net impairment losses / (gains) on loans and advances to customers - composition	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Residential mortgages	31	(31)
- Retail Ireland	25	(24)
- Retail UK	6	(7)
Non-property SME and corporate	37	(44)
- Republic of Ireland SME	(3)	(46)
- UK SME	(3)	(10)
- Corporate	43	12
Property and construction	(11)	(2)
- Investment	(8)	1
- Land and development	(3)	(3)
Consumer	24	5
Total	81	(72)

Expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where the following conditions are met:

- selling the loan is one of the recovery methods that the Group expects to pursue in a default scenario;
- the Group is neither legally nor practically prevented from realising the loan using that recovery method; and
- the Group has reasonable and supportable information upon which to base its expectations and assumptions.

For the six months ended 30 June 2019, net impairment losses / (gains) on financial instruments includes an impairment gain of €5 million arising on the disposal of a portfolio of residential mortgages as outlined in note 19. The portfolio met the conditions set out above and at the time the expected net sale proceeds, including costs of sale, were included in the IFRS 9 Expected Credit Loss (ECL) calculation.

16 Taxation

The effective taxation rate on a statutory profit basis for the six months ended 30 June 2019 is 28% (six months ended 30 June 2018: 17%). The increased rate is primarily due to the tax impact of the gross-up for policyholder tax in the Wealth and Insurance business (see note 3).

Between 2009 and 2011, the Group conducted a series of liability management exercises in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel, that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HM Revenue & Customs (HMRC), over the last number of years as it considers these transactions. HMRC has concurred with the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. HMRC has challenged the tax treatment of gains in the amount of £168 million (€189 million) arising in respect of one transaction. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made.

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Current tax		
Irish Corporation Tax		
- Current period	23	11
- Adjustments in respect of prior periods	-	1
Foreign tax		
- Current period	27	33
- Adjustments in respect of prior periods	(2)	(1)
	48	44
Deferred tax		
Current period profits	21	46
Origination and reversal of temporary differences	16	(12)
Adjustments in respect of prior periods	4	(1)
	41	33
Taxation charge	89	77

16 Taxation (continued)

	6 months ended 30 June 2019			6 months ended 30 June 2018		
	Pre-tax €m	Tax €m	Net of Tax €m	Pre-tax €m	Tax €m	Net of Tax €m
Debt instruments at FVOCI reserve						
Changes in fair value	55	(6)	49	(64)	8	(56)
Transfer to income statement						
- Asset disposal	(1)	-	(1)	(2)	-	(2)
Net change in debt instruments at FVOCI reserve	54	(6)	48	(66)	8	(58)
Remeasurement of the net defined benefit pension liability	(72)	11	(61)	197	(38)	159
Cash flow hedge reserve						
Changes in fair value	(27)	(2)	(29)	(39)	6	(33)
Transfer to income statement	42	(5)	37	(4)	-	(4)
Net change in cash flow hedge reserve	15	(7)	8	(43)	6	(37)
Net change in foreign exchange reserve	(2)	-	(2)	19	-	19
Liability credit reserve						
Changes in fair value of liabilities designated at fair value through profit or loss due to own credit risk	-	-	-	13	(2)	11
Other comprehensive income for the period	(5)	(2)	(7)	120	(26)	94

17 Earnings per share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding own shares held for the benefit of life assurance policyholders.

Diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares (own shares held for the benefit of life assurance policyholders) adjusted for the effect of all dilutive potential ordinary shares.

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Basic and diluted earnings per share		
Profit attributable to shareholders	195	350
Profit attributable to ordinary shareholders	195	350
	Shares (millions)	Shares (millions)
Weighted average number of shares in issue excluding treasury shares (own shares held for the benefit of life assurance policyholders)	1,075	1,075
Basic and diluted earnings per share (cent)	18.1c	32.5c

18 Assets classified as held for sale

Following a strategic review carried out in 2018, Retail UK began the process of disposing of its UK credit card loan portfolio. As a result, these assets in the amount of €580 million, net of impairment loss allowance, have been reclassified from loans and advances to customers together with €2 million of related interest receivable reclassified from other assets to assets classified as held for sale. The assets continue to be measured at amortised cost net of the related impairment loss allowance using the effective interest rate method at 30 June 2019. The disposal was completed in July 2019 as outlined in note 37.

	30 June 2019 €m	31 December 2018 €m
UK credit card portfolio	582	602
Total	582	602

19 Loans and advances to customers

Loans and advances to customers includes cash collateral of €25 million (31 December 2018: €57 million) placed with derivative counterparties in relation to net derivative liability positions.

Loans and advances to customers at FVTPL represent the Life Loan mortgage product, which was offered by the Group until November 2010. The cash flows of the Life Loans are not considered to consist solely of payments of principal and interest, and as such are classified at FVTPL.

On 18 April 2019, the Group entered into a securitisation arrangement for a portfolio of residential mortgage NPEs through an unconsolidated special purpose vehicle named Mulcair Securities DAC ('Mulcair Securities'). The portfolio had a gross carrying value of €370 million (before ECL allowance) and a net carrying value of €326 million (after ECL allowance).

The Group has transferred the beneficial interest in the loans to Mulcair Securities which in turn has issued notes backed by these loans. The Group holds 5% of each class of notes issued by Mulcair Securities as a retained issuance; these notes are held as debt securities at amortised cost with the exception of notes with a nominal value of €2 million which are held at FVTPL.

In accordance with IFRS 9 the residential mortgage assets have been derecognised from the balance sheet.

The Group has recognised an impairment gain of €5 million relating to the disposal of these loans which has been reported

	30 June 2019 €m	31 December 2018 €m
Loans and advances to customers at amortised cost	74,929	74,428
Finance leases and hire purchase receivables	3,770	3,372
	78,699	77,800
Less allowance for impairment charges on loans and advances to customers	(1,555)	(1,698)
Loans and advances to customers at amortised cost	77,144	76,102
Loans and advances to customers at fair value through profit or loss ¹	256	261
Total loans and advances to customers	77,400	76,363

through net impairment losses / (gains) on financial instruments, as required by IFRS 9, see note 15.

On 21 June 2019, the Group purchased a €265 million portfolio of commercial loans predominantly in the Republic of Ireland.

The Group's portfolios of loans and advances to customers at amortised cost at 30 June 2019 are classified as follows:

	30 June 2019			31 December 2018		
	Gross carrying amount at amortised cost €m	Impairment loss allowance €m	Total loans and advances to customers at amortised cost €m	Gross carrying amount at amortised cost €m	Impairment loss allowance €m	Total loans and advances to customers at amortised cost €m
Loans and advances to customers at amortised cost	78,699	(1,555)	77,144	77,800	(1,698)	76,102
Loans and advances to customers classified as held for sale (note 18)	606	(26)	580	630	(30)	600
Total	79,305	(1,581)	77,724	78,430	(1,728)	76,702

¹ Loans and advances to customers at FVTPL are not subject to impairment under IFRS 9.

19 Loans and advances to customers (continued)

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowance subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost for the six months ended 30 June 2019 and for the year ended 31 December 2018.

30 June 2019	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Gross carrying amount at amortised cost (before impairment loss allowance) including held for sale					
Stage 1 - 12 month ECL (not credit impaired)	41,137	17,352	6,471	5,353	70,313
Stage 2 - Lifetime ECL (not credit impaired)	1,695	1,924	1,306	230	5,155
Stage 3 - Lifetime ECL (credit impaired)	2,002	978	649	118	3,747
Purchased / originated credit-impaired	3	25	62	-	90
Gross carrying amount at 30 June 2019	44,837	20,279	8,488	5,701	79,305

31 December 2018	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Gross carrying amount at amortised cost (before impairment loss allowance) including held for sale					
Stage 1 - 12 month ECL (not credit impaired)	41,096	16,547	6,343	4,816	68,802
Stage 2 - Lifetime ECL (not credit impaired)	1,873	1,850	1,102	250	5,075
Stage 3 - Lifetime ECL (credit impaired)	2,465	1,067	843	108	4,483
Purchased / originated credit-impaired	3	1	66	-	70
Gross carrying amount at 31 December 2018	45,437	19,465	8,354	5,174	78,430

30 June 2019	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Gross carrying amount (before impairment loss allowance) including held for sale					
Opening balance 1 January 2019	45,437	19,465	8,354	5,174	78,430
Net changes in exposure	(495)	857	209	566	1,137
Impairment loss allowances utilised ¹	(65)	(103)	(78)	(19)	(265)
Exchange adjustments	(49)	(4)	(1)	(20)	(74)
Measurement reclassification and other movements	9	64	4	-	77
Gross carrying amount at 30 June 2019	44,837	20,279	8,488	5,701	79,305

31 December 2018	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Gross carrying amount (before impairment loss allowance) including held for sale					
Opening balance 1 January 2018	46,365	18,623	8,724	4,318	78,030
Net changes in exposure	(685)	1,148	(28)	910	1,345
Impairment loss allowances utilised ¹	(76)	(329)	(350)	(35)	(790)
Exchange adjustments	(177)	2	(9)	(26)	(210)
Measurement reclassification and other movements	10	21	17	7	55
Gross carrying amount at 31 December 2018	45,437	19,465	8,354	5,174	78,430

¹ Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2019 includes €146 million (31 December 2018: €352 million) of contractual amounts outstanding that are still subject to enforcement activity.

19 Loans and advances to customers (continued)

30 June 2019	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impairment loss allowance including held for sale					
Stage 1 - 12 month ECL (not credit impaired)	16	53	6	53	128
Stage 2 - Lifetime ECL (not credit impaired)	31	72	41	35	179
Stage 3 - Lifetime ECL (credit impaired)	462	451	282	79	1,274
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 30 June 2019	509	576	329	167	1,581

31 December 2018	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impairment loss allowance including held for sale					
Stage 1 - 12 month ECL (not credit impaired)	14	50	4	52	120
Stage 2 - Lifetime ECL (not credit impaired)	31	74	38	33	176
Stage 3 - Lifetime ECL (credit impaired)	492	501	369	70	1,432
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2018	537	625	411	155	1,728

30 June 2019	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impairment loss allowance including held for sale					
Opening balance 1 January 2019	537	625	411	155	1,728
Net impairment losses / (gains) in income statement	33	43	(6)	28	98
- <i>Re-measurement</i>	16	64	33	32	145
- <i>Net changes in exposure</i>	(26)	(21)	(45)	5	(87)
- <i>ECL model parameter and / or methodology changes</i>	43	-	6	(9)	40
Impairment loss allowance utilised	(65)	(103)	(79)	(18)	(265)
Exchange adjustments	-	-	-	(1)	(1)
Other movements	4	11	3	3	21
Impairment loss allowance at 30 June 2019	509	576	329	167	1,581

31 December 2018	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impairment loss allowance including held for sale					
Opening balance 1 January 2018	642	935	735	138	2,450
Net impairment losses / (gains) in income statement	(40)	7	(4)	50	13
- <i>Re-measurement</i>	(45)	82	49	45	131
- <i>Net changes in exposure</i>	(33)	(78)	(57)	20	(148)
- <i>ECL model parameter and / or methodology changes</i>	38	3	4	(15)	30
Impairment loss allowance utilised	(76)	(329)	(350)	(35)	(790)
Exchange adjustments	(1)	-	(1)	-	(2)
Other movements	12	12	31	2	57
Impairment loss allowance at 31 December 2018	537	625	411	155	1,728

20 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the Group's credit risk methodologies are set out on pages 82 to 87 of the Group's Annual Report for the year ended 31 December 2018.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: funding and liquidity risk, market risk and life insurance risk. The Group's approach to

the management of these risks, together with its approach to Capital management, are set out in the Risk Management Report included on pages 60 to 111 of the Group's Annual Report for the year ended 31 December 2018.

The table below illustrates the relationship between the Group's internal credit risk rating grades and Probability of Default (PD) percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings

PD Grade	PD %	Indicative S&P type external ratings
1-4	$0\% \leq PD < 0.26\%$	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5-7	$0.26\% \leq PD < 1.45\%$	BBB, BBB-, BB+, BB
8-9	$1.45\% \leq PD < 3.60\%$	BB-, B+
10-11	$3.60\% \leq PD < 100\%$	B, Below B
12 (credit-impaired)	100%	n/a

Financial assets

Composition and risk profile

The tables below summarise the composition and risk profile of the Group's financial assets subject to impairment including loans and advances to customer held for sale at 30 June 2019 and 31 December 2018.

30 June 2019	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Purchased / originated credit- impaired ¹ €m	Total €m
Financial assets exposure by stage (before impairment loss allowance) including held for sale					
Financial assets measured at amortised cost					
Loans and advances to customers	70,313	5,155	3,747	90	79,305
Loans and advances to banks	3,094	5	-	-	3,099
Debt securities	4,622	-	-	-	4,622
Other financial assets	3,522	-	-	-	3,522
Total financial assets measured at amortised cost	81,551	5,160	3,747	90	90,548
Debt instruments at FVOCI	11,792	-	-	-	11,792
Total	93,343	5,160	3,747	90	102,340

31 December 2018	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Purchased / originated credit- impaired ¹ €m	Total €m
Financial assets exposure by stage (before impairment loss allowance) including held for sale					
Financial assets measured at amortised cost					
Loans and advances to customers	68,802	5,075	4,483	70	78,430
Loans and advances to banks	2,302	6	-	-	2,308
Debt securities	3,929	-	-	-	3,929
Other financial assets	6,294	-	-	-	6,294
Total financial assets measured at amortised cost	81,327	5,081	4,483	70	90,961
Debt instruments at FVOCI	12,048	-	-	-	12,048
Total	93,375	5,081	4,483	70	103,009

¹ At 30 June 2019, Purchased or Originated Credit Impaired assets included €64 million (31 December 2018: €68 million) of assets with an impairment loss allowance of €nil which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as Purchased or Originated Credit Impaired until derecognition.

20 Credit risk exposures *(continued)*

At 30 June 2019, Purchased or Originated Credit Impaired assets included €64 million (31 December 2018: €68 million) of assets which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as Purchased or Originated Credit Impaired until derecognition.

Loans and advances to customers excludes €256 million (31 December 2018: €261 million) of loans mandatorily at FVTPL at 30 June 2019 which are not subject to impairment under IFRS 9 and are therefore excluded from impairment related tables (note 19).

At 30 June 2019, other financial assets (before impairment loss allowance) includes: cash and balances at central banks of €3,282 million (31 December 2018: €6,035 million) and items in the course of collection from other banks of €240 million (31 December 2018: €259 million).

The tables on the preceding page exclude loan commitments, guarantees and letters of credit of €15,852 million at 30 June 2019 (31 December 2018: €15,505 million) that are subject to impairment (note 29).

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the tables below.

30 June 2019	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Purchased / originated credit- impaired ¹ €m	Total €m
Impairment loss allowance on financial assets including held for sale					
Financial assets measured at amortised cost					
Loans and advances to customers	128	179	1,274	-	1,581
Loans and advances to banks	1	-	-	-	1
Debt securities	1	-	-	-	1
Other financial assets	1	-	-	-	1
Total financial assets measured at amortised cost	131	179	1,274	-	1,584
Debt instruments at FVOCI	3	-	-	-	3
Total	134	179	1,274	-	1,587

31 December 2018	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Purchased / originated credit- impaired ¹ €m	Total €m
Impairment loss allowance on financial assets including held for sale					
Financial assets measured at amortised cost					
Loans and advances to customers	120	176	1,432	-	1,728
Loans and advances to banks	1	-	-	-	1
Debt securities	1	-	-	-	1
Other financial assets	2	-	-	-	2
Total financial assets measured at amortised cost	124	176	1,432	-	1,732
Debt instruments at FVOCI	3	-	-	-	3
Total	127	176	1,432	-	1,735

¹ At 30 June 2019, Purchased or Originated Credit Impaired assets included €64 million (31 December 2018: €68 million) of assets with an impairment loss allowance of €nil, which while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as Purchased or Originated Credit Impaired until derecognition.

20 Credit risk exposures (continued)

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Group's loans and advances to customers at amortised cost.

Loans and advances to customers including held for sale Composition and risk profile (before impairment loss allowance) ¹	30 June 2019				31 December 2018			
	Not credit-impaired €m	Credit-impaired €m	Total		Not credit-impaired €m	Credit-impaired €m	Total	
			€m	%			€m	%
Residential mortgages	42,832	2,002	44,834	56%	42,969	2,465	45,434	58%
- Retail Ireland	21,610	1,565	23,175	29%	21,688	2,025	23,713	30%
- Retail UK	21,222	437	21,659	27%	21,281	440	21,721	28%
Non-property SME and corporate	19,276	978	20,254	26%	18,397	1,067	19,464	25%
- Republic of Ireland SME	6,879	613	7,492	10%	6,871	729	7,600	10%
- UK SME	1,525	105	1,630	2%	1,491	79	1,570	2%
- Corporate	10,872	260	11,132	14%	10,035	259	10,294	13%
Property and construction	7,777	649	8,426	11%	7,445	843	8,288	11%
- Investment	7,015	605	7,620	10%	6,892	760	7,652	10%
- Land and development	762	44	806	1%	553	83	636	1%
Consumer	5,583	118	5,701	7%	5,066	108	5,174	6%
Total	75,468	3,747	79,215	100%	73,877	4,483	78,360	100%
Impairment loss allowance on loans and advances to customers	307	1,274	1,581	2%	296	1,432	1,728	2%

¹ Excluded from the table above are Purchased or Originated Credit Impaired assets of €90 million (31 December 2018: €70 million), €64 million (31 December 2018: €68 million) of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.

20 Credit risk exposures (continued)

Asset quality - not credit-impaired

The tables below summarise the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are not credit-impaired.

30 June 2019	Stage 1				Stage 2			
	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	ILA as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	ILA as % of loans %
Not credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance								
Residential mortgages	41,137	52%	16	0.04%	1,695	2%	31	1.83%
- Retail Ireland	20,462	26%	6	0.03%	1,148	1%	16	1.39%
- Retail UK	20,675	26%	10	0.05%	547	1%	15	2.74%
Non-property SME and corporate	17,352	22%	53	0.31%	1,924	2%	72	3.74%
- Republic of Ireland SME	5,961	7%	30	0.50%	918	1%	36	3.92%
- UK SME	1,323	2%	3	0.23%	202	-	9	4.46%
- Corporate	10,068	13%	20	0.20%	804	1%	27	3.36%
Property and construction	6,471	8%	6	0.09%	1,306	2%	41	3.14%
- Investment	5,745	7%	5	0.09%	1,270	2%	40	3.15%
- Land and development	726	1%	1	0.14%	36	-	1	2.78%
Consumer	5,353	7%	53	0.99%	230	-	35	15.22%
Total	70,313	89%	128	0.18%	5,155	6%	179	3.47%

31 December 2018	Stage 1				Stage 2			
	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	ILA as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	ILA as % of loans %
Not credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance								
Residential mortgages	41,096	52%	14	0.03%	1,873	2%	31	1.66%
- Retail Ireland	20,403	26%	5	0.02%	1,285	1%	15	1.17%
- Retail UK	20,693	26%	9	0.04%	588	1%	16	2.72%
Non-property SME and corporate	16,547	22%	50	0.30%	1,850	2%	74	4.00%
- Republic of Ireland SME	5,890	8%	29	0.49%	981	1%	43	4.38%
- UK SME	1,232	2%	3	0.24%	259	-	11	4.25%
- Corporate	9,425	12%	18	0.19%	610	1%	20	3.28%
Property and construction	6,343	8%	4	0.06%	1,102	1%	38	3.45%
- Investment	5,820	7%	4	0.07%	1,072	1%	38	3.54%
- Land and development	523	1%	-	0.00%	30	-	-	-
Consumer	4,816	6%	52	1.08%	250	-	33	13.20%
Total	68,802	88%	120	0.17%	5,075	5%	176	3.47%

20 Credit risk exposures (continued)

The tables below provide analysis of the asset quality of loans and advances to customers at amortised cost that are not credit-impaired based on mapping the IFRS 9 twelve month PD of each loan to a PD grade based on the table provided on page 64.

30 June 2019 Not credit-impaired loans and advances to customers including held for sale Asset quality ¹ - PD grade	Residential mortgages		Non-property SME and corporate		Property and construction		Consumer		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%
Stage 1										
1-4	18,592	43%	5,765	29%	4,501	58%	144	3%	29,002	38%
5-7	20,068	47%	7,121	37%	1,891	24%	2,720	48%	31,800	43%
8-9	1,732	4%	3,998	21%	62	1%	1,379	25%	7,171	10%
10-11	745	1%	468	2%	17	-	1,110	20%	2,340	3%
Total stage 1	41,137	95%	17,352	89%	6,471	83%	5,353	96%	70,313	94%
Stage 2										
1-4	79	-	130	1%	91	1%	-	-	300	-
5-7	233	1%	511	3%	878	12%	5	-	1,627	2%
8-9	274	1%	577	3%	183	2%	38	1%	1,072	1%
10-11	1,109	3%	706	4%	154	2%	187	3%	2,156	3%
Total stage 2	1,695	5%	1,924	11%	1,306	17%	230	4%	5,155	6%
Not credit-impaired										
1-4	18,671	43%	5,895	30%	4,592	59%	144	3%	29,302	38%
5-7	20,301	48%	7,632	40%	2,769	36%	2,725	48%	33,427	45%
8-9	2,006	5%	4,575	24%	245	3%	1,417	26%	8,243	11%
10-11	1,854	4%	1,174	6%	171	2%	1,297	23%	4,496	6%
Total not credit-impaired	42,832	100%	19,276	100%	7,777	100%	5,583	100%	75,468	100%

31 December 2018 Not credit-impaired loans and advances to customers including held for sale Asset quality ¹ - PD grade	Residential mortgages		Non-property SME and corporate		Property and construction		Consumer		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%
Stage 1										
1-4	22,622	52%	5,421	30%	5,244	70%	84	2%	33,371	45%
5-7	16,185	38%	6,505	35%	1,038	14%	2,208	44%	25,936	35%
8-9	1,535	4%	4,076	22%	56	1%	1,590	31%	7,257	10%
10-11	754	2%	545	3%	5	-	934	18%	2,238	3%
Total stage 1	41,096	96%	16,547	90%	6,343	85%	4,816	95%	68,802	93%
Stage 2										
1-4	96	-	191	1%	69	1%	-	-	356	1%
5-7	227	-	356	2%	696	10%	7	-	1,286	2%
8-9	377	1%	521	3%	157	2%	22	1%	1,077	1%
10-11	1,173	3%	782	4%	180	2%	221	4%	2,356	3%
Total stage 2	1,873	4%	1,850	10%	1,102	15%	250	5%	5,075	7%
Not credit-impaired										
1-4	22,718	52%	5,612	31%	5,313	71%	84	2%	33,727	46%
5-7	16,412	38%	6,861	37%	1,734	24%	2,215	44%	27,222	37%
8-9	1,912	5%	4,597	25%	213	3%	1,612	32%	8,334	11%
10-11	1,927	5%	1,327	7%	185	2%	1,155	22%	4,594	6%
Total not credit-impaired	42,969	100%	18,397	100%	7,445	100%	5,066	100%	73,877	100%

¹ Excluded from the tables above are Purchased or Originated Credit Impaired loans of €64 million (31 December 2018: €68 million) with impairment loss allowances of €nil, which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.

20 Credit risk exposures (continued)

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are credit-impaired (i.e. stage 3).

Credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance	30 June 2019				31 December 2018			
	Credit-impaired loans €m	CI loans as % of total advances %	Impairment loss allowance €m	ILA as % of loans %	Credit-impaired loans €m	CI loans as % of total advances %	Impairment loss allowance €m	ILA as % of loans %
Residential mortgages	2,002	3%	462	23%	2,465	3%	492	20%
- Retail Ireland	1,565	2%	412	26%	2,025	2%	444	22%
- Retail UK	437	1%	50	11%	440	1%	48	11%
Non-property SME and corporate	978	1%	451	46%	1,067	1%	501	47%
- Republic of Ireland SME	613	1%	288	47%	729	1%	340	47%
- UK SME	105	-	34	32%	79	-	37	47%
- Corporate	260	-	129	50%	259	-	124	48%
Property and construction	649	1%	282	43%	843	1%	369	44%
- Investment	605	1%	254	42%	760	1%	321	42%
- Land and development	44	-	28	64%	83	-	48	58%
Consumer	118	-	79	67%	108	-	70	65%
Total credit-impaired	3,747	5%	1,274	34%	4,483	5%	1,432	32%

All loans and advances to customers that are greater than 90 days past due are classified as being credit-impaired. All credit-impaired loans and advances to customers are risk rated PD grade 12.

Geographical and industry analysis of loans and advances to customers

The following table provides a geographical and industry breakdown of total loans including loans held for sale (before impairment loss allowances).

Geographical / industry analysis ¹	30 June 2019				31 December 2018			
	Rol €m	UK €m	RoW €m	Total €m	Rol €m	UK €m	RoW €m	Total €m
Personal	25,352	25,186	-	50,538	25,875	24,736	-	50,611
- Residential mortgages	23,178	21,659	-	44,837	23,716	21,721	-	45,437
- Other consumer lending	2,174	3,527	-	5,701	2,159	3,015	-	5,174
Property and construction	7,305	1,183	-	8,488	7,099	1,255	-	8,354
- Investment	6,563	1,119	-	7,682	6,518	1,200	-	7,718
- Land and development	742	64	-	806	581	55	-	636
Business and other services	6,829	1,423	478	8,730	6,191	1,487	413	8,091
Manufacturing	4,167	354	548	5,069	3,935	415	458	4,808
Distribution	2,202	188	77	2,467	2,234	195	51	2,480
Agriculture	1,672	226	-	1,898	1,653	233	-	1,886
Transport	950	112	58	1,120	891	129	61	1,081
Financial	475	43	23	541	498	59	22	579
Energy	398	56	-	454	467	58	15	540
Total	49,350	28,771	1,184	79,305	48,843	28,567	1,020	78,430

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

20 Credit risk exposures (continued)

Asset quality - other financial assets

The table below summarises the asset quality of debt instruments at FVOCI by IFRS 9 twelve month PD grade.

Debt instruments at FVOCI Asset quality	30 June 2019						31 December 2018					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	10,908	93%	-	-	10,908	93%	11,115	92%	-	-	11,115	92%
5-7	884	7%	-	-	884	7%	933	8%	-	-	933	8%
8-9	-	-	-	-	-	-	-	-	-	-	-	-
10-11	-	-	-	-	-	-	-	-	-	-	-	-
Total	11,792	100%	-	-	11,792	100%	12,048	100%	-	-	12,048	100%

The table below summarises the asset quality of debt securities at amortised cost by IFRS 9 twelve month PD grade.

Debt securities at amortised cost (before impairment loss allowance) Asset quality	30 June 2019						31 December 2018					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	4,608	100%	-	-	4,608	100%	3,917	100%	-	-	3,917	100%
5-7	3	-	-	-	3	-	12	-	-	-	12	-
8-9	-	-	-	-	-	-	-	-	-	-	-	-
10-11	11	-	-	-	11	-	-	-	-	-	-	-
Total	4,622	100%	-	-	4,622	100%	3,929	100%	-	-	3,929	100%

The table below summarises the asset quality of loans and advances to banks at amortised cost by IFRS 9 twelve month PD grade.

Loans and advances to banks at amortised cost (before impairment loss allowance) Asset quality	30 June 2019						31 December 2018					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
PD Grade												
1-4	3,006	97%	-	-	3,006	97%	2,244	97%	-	-	2,244	97%
5-7	3	-	5	100%	8	-	1	-	-	-	1	-
8-9	85	3%	-	-	85	3%	57	3%	6	100%	63	3%
10-11	-	-	-	-	-	-	-	-	-	-	-	-
Total	3,094	100%	5	100%	3,099	100%	2,302	100%	6	100%	2,308	100%

20 Credit risk exposures (continued)

Other financial instruments with ratings equivalent to:	30 June 2019		31 December 2018	
	€m	%	€m	%
AAA to AA-	3,968	43%	3,693	46%
A+ to A-	3,641	39%	2,773	34%
BBB+ to BBB-	1,094	12%	1,077	13%
BB+ to BB-	243	3%	203	3%
B+ to B-	326	3%	313	4%
Lower than B-	10	-	23	-
Total	9,282	100%	8,082	100%

Asset quality: Other financial instruments

Other financial instruments as set out in the table above include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include trading securities, derivative financial instruments, loans and advances to

banks at fair value, loans and advances to customers at fair value, other financial instruments at FVTPL (excluding equity instruments) and any reinsurance assets. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

21 Modified financial assets

	6 months ended 30 June 2019 €m	Year ended 31 December 2018 €m
Financial assets modified during the period		
Amortised cost before modification	258	923
Net modification gains (i.e. net of impairment gains impact)	-	6
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the period	398	894

The table above provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime ECL, and where the modification did not result in derecognition.

22 Intangible assets and goodwill

	30 June 2019					31 December 2018				
	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost										
At 1 January	34	71	1,768	204	2,077	31	71	1,560	208	1,870
Additions	-	-	105	-	105	-	-	207	-	207
Disposals / write-offs	-	-	-	-	-	-	-	-	(1)	(1)
Reclassifications	-	-	-	-	-	3	-	-	(3)	-
Exchange adjustments	-	-	(1)	-	(1)	-	-	1	-	1
At end of period	34	71	1,872	204	2,181	34	71	1,768	204	2,077
Accumulated amortisation										
At 1 January	-	(71)	(1,060)	(144)	(1,275)	-	(70)	(893)	(128)	(1,091)
Disposals / write-offs	-	-	-	-	-	-	(1)	-	2	1
Impairment	-	-	-	-	-	-	-	(6)	-	(6)
Amortisation charge for the period (note 13)	-	-	(86)	(10)	(96)	-	-	(158)	(20)	(178)
Exchange adjustments	-	-	-	1	1	-	-	(3)	2	(1)
At end of period	-	(71)	(1,146)	(153)	(1,370)	-	(71)	(1,060)	(144)	(1,275)
Net book value	34	-	726	51	811	34	-	708	60	802

The category computer software internally generated includes the Transformation Investment asset with a carrying value of €296 million (31 December 2018: €253 million). This asset reflects investment in software licences, applications and technical infrastructure. €184 million (31 December 2018: €183 million) of

this is an amortising asset with amortisation periods ranging from 3 to 10 years with the majority being amortised over 10 years. The remaining €112 million (31 December 2018: €70 million) represents assets under construction on which amortisation will commence once the assets are put into use.

23 Deferred tax

The deferred tax asset of €1,146 million (31 December 2018: €1,165 million) shown on the balance sheet is after netting by jurisdiction (€1,248 million before netting by jurisdiction (31 December 2018: €1,267 million)). This includes an amount of €1,138 million at 30 June 2019 (31 December 2018: €1,162 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.0 billion relates to Irish tax losses carried forward by The Governor and Company of the Bank of Ireland and €0.1 billion relates to UK tax losses carried forward by Bank of Ireland (UK) plc.

The recognition of a deferred tax asset requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed.

The Group's projections of future taxable profits incorporate estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures

such as loan volumes, margins, costs and impairment losses. The Group projections are based on the current business plan. The Group assumes long-term growth in profitability thereafter.

Based on the Group's projections, the deferred tax asset, in respect of tax losses, is estimated to be recovered in full by the end of 2030 (31 December 2018: 2030).

The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's deferred tax assets, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by two percentage points, the Group estimates that this would respectively decrease or increase the recovery period by one year.

The deferred tax liabilities at 30 June 2019 were €63 million (31 December 2018: €42 million).

24 Deposits from banks

Deposits from banks include cash collateral of €272 million at 30 June 2019 (31 December 2018: €217 million) received from derivative counterparties in relation to net derivative asset positions.

	30 June 2019 €m	31 December 2018 €m
Monetary Authority secured funding	1,647	2,037
Deposits from banks	767	445
Securities sold under agreement to repurchase - private market repos	57	-
Deposits from banks	2,471	2,482

	30 June 2019				31 December 2018			
	TLTRO €m	TFS €m	ILTR €m	Total €m	TLTRO €m	TFS €m	ILTR €m	Total €m
Monetary Authority secured funding								
Deposits from banks	-	1,424	223	1,647	386	1,427	224	2,037
Debt securities in issue (note 26)	251	-	-	251	617	-	-	617
Total	251	1,424	223	1,898	1,003	1,427	224	2,654

The Group's secured funding from the ECB comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). Borrowings of €750 million were repaid during the six months ended 30 June 2019 and the remainder will be repaid by March 2021, in line with the terms and conditions of the TLTRO facility.

Drawings under the Term Funding Scheme (TFS) from the BoE will be repaid between October 2020 and February 2022.

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

The Group's Monetary Authority funding is secured by financial assets at fair value through other comprehensive income and loans and advances to customers.

25 Customer accounts

The movement in own credit risk related to the Group's customer accounts designated at fair value through profit and loss for the period is shown below.

There were no amounts presented in other comprehensive income relating to liabilities that the Group designated at fair value through profit and loss which were derecognised during the period.

The carrying amount of the customer accounts designated as at FVTPL at 30 June 2019 was €20 million lower than the contractual amount due at maturity (31 December 2018: €31 million lower).

At 30 June 2019, the Group's largest 20 customer deposits amounted to 4% (31 December 2018: 4%) of customer accounts on a connected counterparty basis. Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products.

Term deposits and other products include €29 million (31 December 2018: €67 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

	30 June 2019 €m	31 December 2018 €m
Current accounts	34,625	33,127
Demand deposits	26,775	26,828
Term deposits and other products	17,851	18,057
Customer accounts at amortised cost	79,251	78,012
Term deposits at fair value through profit or loss	953	887
Total customer accounts	80,204	78,899

	30 June 2019 €m	31 December 2018 €m
Movement in own credit risk on deposits at FVTPL		
Balance at beginning of the period	(18)	12
Recognised in other comprehensive income	(3)	(30)
Balance at end of the period	(21)	(18)

26 Debt securities in issue

	30 June 2019 €m	31 December 2018 €m
Bonds and medium term notes	5,747	6,792
Monetary Authorities secured funding (note 24)	251	617
Other debt securities in issue	1,318	973
Debt securities in issue at amortised cost	7,316	8,382
Debt securities in issue at fair value through profit or loss	483	522
Total debt securities in issue	7,799	8,904

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

	30 June 2019 €m	31 December 2018 €m
Balance at beginning of the period	8,904	8,390
Issued during the period	392	2,048
Redemptions	(1,601)	(1,501)
Repurchases	-	(42)
Other movements	104	9
Balance at end of the period	7,799	8,904

Other movements primarily relates to the changes in fair value in instruments carried at fair value and the value of fair value hedging adjustments in respect of instruments carried at amortised cost.

There were no amounts presented in other comprehensive income relating to liabilities that the Group designated at fair

value through profit and loss which were derecognised during the period.

The carrying amount of the debt securities in issue designated at fair value through profit and loss at 30 June 2019 was €44 million higher than the contractual amount due at maturity (31 December 2018: €19 million higher).

	30 June 2019 €m	31 December 2018 €m
Movement in own credit risk on debt securities in issue at FVTPL		
Balance at beginning of the period	(10)	3
Recognised in OCI	3	(13)
Balance at end of the period	(7)	(10)

27 Provisions

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

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

At 31 December 2018, the Group held a provision of €42 million in respect of the ongoing industry wide Tracker Mortgage Examination. The provision represented the Group's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Group in connection with the examination.

The Group has set aside a further €55 million provision to cover the additional redress and compensation costs for a number of customers, operational costs associated with the length and nature of the review and costs of closing out the Tracker Mortgage Examination review.

Considerable progress has been made in 2019 in contacting and remediating remaining impacted customers. Since 31 December 2018 €18 million of the provision has been utilised covering redress, compensation and related costs leaving a residual provision of €79 million at 30 June 2019.

	30 June 2019 €m	31 December 2018 €m
Opening balance	84	205
Impact of adopting IFRS 16 on 1 January 2019 (note 36)	(6)	-
	78	205
Utilised during the period	(41)	(193)
Charge to income statement	77	94
Unused amounts reversed during the period	(4)	(22)
Balance at end of the period	110	84

While the Tracker Mortgage review by the Central Bank of Ireland has concluded, the enforcement phase is ongoing and therefore there are still a number of uncertainties as to the final cost of the programme for the Group.

For additional information and details on the key judgement items within the provision, see note 45 of the Group's Annual Report for the year ended 31 December 2018.

28 Contingent liabilities and commitments

The table 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.

Loss allowance provisions of €26 million (31 December 2018: €29 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 29. Provisions on all other commitments are included in note 27.

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

In February 2019, the Group received a letter before claim from investors in Eclipse film finance schemes asserting various claims in connection with the design promotion and operation of such schemes. The Group's involvement in these schemes was limited to the provision of commercial finance. The Group was not the designer, promoter or operator in respect of any of the schemes. The claims asserted are at a very early stage and the matter is ongoing. Based on the facts currently known, it is not practicable to predict the outcome of these claims as alleged, including the timing or possible aggregate impact.

	30 June 2019 €m	31 December 2018 €m
Contingent liabilities		
Guarantees and irrevocable letters of credit	385	354
Acceptances and endorsements	6	6
Other contingent liabilities	215	247
	606	607
Loan commitments		
Documentary credits and short-term trade related transactions	47	59
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	11,390	11,569
- irrevocable with original maturity of over 1 year	4,030	3,523
	15,467	15,151

29 Loss allowance provision on loan commitments and financial guarantees

	30 June 2019		31 December 2018	
	Amount €m	Loss allowance €m	Amount €m	Loss allowance €m
Loan commitments (note 28)	15,467	25	15,151	28
Guarantees and irrevocable letters of credit (note 28)	385	1	354	1
	15,852	26	15,505	29

The loss allowance on loan commitments are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9) and separate from the impairment loss allowance on financial assets. To the extent a facility includes both a loan and an undrawn commitment; it is only the impairment attributable to the undrawn commitment that is presented in the above table. The impairment loss allowance attributable to the loan is shown as part of the financial asset to which the loan commitment relates.

At 30 June 2019, the Group held an impairment loss allowance of €26 million on loan commitments and financial guarantees, of

which €18 million are classified as stage 1, €7 million as stage 2 and €1 million as stage 3.

The following tables summarise the asset quality of loan commitments and financial guarantees by IFRS 9 twelve month PD grade which are not credit-impaired. Credit-impaired loan commitments are €49 million while credit-impaired guarantees and irrevocable letters of credit are €8 million for the six months ended 30 June 2019.

30 June 2019	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
Loan commitments and financial guarantees - Contract amount												
PD Grade												
1-4	6,646	44%	64	19%	6,710	43%	263	74%	-	-	263	70%
5-7	6,553	44%	96	29%	6,649	43%	69	20%	2	9%	71	19%
8-9	1,679	11%	108	32%	1,787	12%	19	5%	5	22%	24	6%
10-11	205	1%	67	20%	272	2%	3	1%	16	69%	19	5%
Total	15,083	100%	335	100%	15,418	100%	354	100%	23	100%	377	100%

31 December 2018	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
Loan commitments and financial guarantees - Contract amount												
PD Grade												
1-4	7,034	48%	187	42%	7,221	48%	81	27%	19	44%	100	29%
5-7	5,539	38%	39	9%	5,578	37%	198	65%	3	7%	201	58%
8-9	1,888	13%	122	27%	2,010	13%	19	6%	4	9%	23	7%
10-11	184	1%	97	22%	281	2%	5	2%	17	40%	22	6%
Total	14,645	100%	445	100%	15,090	100%	303	100%	43	100%	346	100%

30 Retirement benefit obligations

The net IAS 19 pension deficit at 30 June 2019 was €291 million (31 December 2018: €228 million). This is shown on the balance sheet as a retirement benefit obligation of €341 million (31 December 2018: €274 million) and a retirement benefit asset of €50 million (31 December 2018: €46 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 2019 % p.a.	31 December 2018 % p.a.
Irish schemes		
Discount rate	1.30	2.00
Inflation Rate	1.05	1.35
UK schemes		
Discount Rate	2.35	2.95
Consumer Price Inflation	2.20	2.20
Retail Price Inflation	3.20	3.20

Sensitivity of defined benefit obligation to key assumptions

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

Impact on defined benefit obligation	Impact on defined benefit obligation Increase / (decrease) 30 June 2019 €m	Impact on defined benefit obligation Increase / (decrease) 31 December 2018 €m
RoI schemes		
Discount rate		
- Increase of 0.25%	(329)	(288)
- Decrease of 0.25%	353	310
Inflation rate		
- Increase of 0.10%	92	80
- Decrease of 0.10%	(87)	(70)
UK schemes		
Discount rate		
- Increase of 0.25%	(78)	(67)
- Decrease of 0.25%	83	72
RPI inflation		
- Increase of 0.10%	22	19
- Decrease of 0.10%	(19)	(17)

30 Retirement benefit obligations *(continued)*

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

Impact on plan assets - all schemes	Impact on plan assets increase / (decrease) 30 June 2019 €m	Impact on plan assets increase / (decrease) 31 December 2018 €m
Sensitivity of plan assets to movements in global equity markets with allowance for other correlated diversified asset classes		
- Increase of 5.00%	97	90
- Decrease of 5.00%	(97)	(90)
Sensitivity of liability-matching assets to a 25bps movement in interest rates		
- Increase of 0.25%	(305)	(264)
- Decrease of 0.25%	323	280
Sensitivity of liability-matching assets to a 10bps movement in inflation rates		
- Increase of 0.10%	77	71
- Decrease of 0.10%	(76)	(70)

The remeasurement of the net defined benefit pension liability is recognised in other comprehensive income as set out in the following table.

	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Present value of obligation (loss) / gain	(786)	109
Fair value of plan assets gain	714	88
Total (loss) / gain	(72)	197

31 Subordinated liabilities

The principal terms and conditions of all subordinated liabilities are set out in note 48 of the Group's Annual Report for the year ended 31 December 2018.

	30 June 2019 €m	31 December 2018 €m
€750 million 4.25% Fixed Rate Subordinated Notes 2024	-	753
US\$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	438	422
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	332	328
€250 million 10% Fixed Rate Subordinated Notes 2022	266	264
€1,002 million 10% Fixed Rate Subordinated Notes 2020	211	214
Undated loan capital	121	121
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
Total subordinated liabilities	1,370	2,104

€750 million 2024 subordinated debt was redeemed at par on the first available call date of 11 June 2019.

32 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 55 of the Group's Annual Report for the year ended 31 December 2018.

There has been no material change, significant events or transactions with the State with respect to ordinary shares, guarantee schemes or the Irish bank levy during the six months ended 30 June 2019.

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 2019 and 31 December 2018 in respect of these transactions, which are considered individually significant, are set out in this table.

The Group did not dispose of any NAMA subordinated bonds during the period (year ended 31 December 2018: €211 million).

	30 June 2019 €m	31 December 2018 €m
Assets		
Unguaranteed senior bonds issued by AIB	213	232
Unguaranteed subordinated bonds issued by AIB	11	15
NAMA subordinated bonds	73	76
Bonds issued by the State	6,041	5,472
<i>Other financial assets at fair value through profit or loss</i>		
Bonds issued by the State	255	245
<i>Loans and advances to banks</i>		
AIB	26	17
Liabilities		
<i>Customer Accounts</i>		
State (including agencies & entities under its control or joint control)	936	1,070
<i>Debt securities in issue</i>		
State (including agencies & entities under its control or joint control)	145	134

33 Liquidity risk and profile

The following tables summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in the Wealth and Insurance division) at 30 June 2019 and 31 December 2018 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 €5,693 million and €12,019 million respectively (31 December 2018: €5,239 million and €11,003 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 following tables.

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

30 June 2019	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Contractual maturity						
Deposits from banks	82	745	-	-	-	827
Monetary Authorities secured funding	-	3	234	1,688	-	1,925
Customer accounts	66,334	5,930	5,107	2,410	184	79,965
Debt securities in issue	-	82	1,439	3,893	2,793	8,207
Subordinated liabilities	-	20	273	478	1,015	1,786
Contingent liabilities	360	52	99	86	9	606
Lease liabilities	-	20	59	232	432	743
Commitments	14,244	56	1,102	65	-	15,467
Total	81,020	6,908	8,313	8,852	4,433	109,526

33 Liquidity risk and profile (continued)

31 December 2018	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Contractual maturity						
Deposits from banks	78	367	-	-	-	445
Monetary Authorities secured funding	-	254	234	2,197	-	2,685
Customer accounts	65,369	6,135	4,306	2,919	215	78,944
Debt securities in issue	-	1,234	158	5,238	2,370	9,000
Subordinated liabilities	-	30	88	844	1,814	2,776
Contingent liabilities	364	49	70	109	15	607
Commitments	14,206	36	852	57	-	15,151
Total	80,017	8,105	5,708	11,364	4,414	109,608

34 Fair values of assets and liabilities

A definition of fair value and the fair value hierarchy, along with a description of the methods, assumptions and processes used to calculate fair values of assets and liabilities is set out on pages 271 to 273 of the Group's Annual Report for the year ended 31 December 2018. At 30 June 2019, 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

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 decrease their fair value by up to €2 million with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

Other financial assets at FVTPL

A small number of assets have been valued using Discounted Cash Flow (DCF) models, which incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

Loan and advances to customers held at fair value

These assets are valued incorporating unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these loans and advances to customers would not have a significant impact.

Interest in associates

Investments in associates which are venture capital investments, are measured at FVTPL 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.

Customer accounts

A small number of customer accounts are valued using unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see above), leaving the Group with no net valuation risk due to those unobservable inputs.

Debt securities in issue

A small number of the debt securities in issue are valued using unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these debt securities in issue would not have a significant impact.

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.

34 Fair values of assets and liabilities (continued)

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

	30 June 2019				31 December 2018			
	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	178	-	-	178	29	-	-	29
Derivative financial instruments	-	2,359	8	2,367	1	1,705	18	1,724
Loans and advances to customers	-	-	256	256	-	-	261	261
Loans and advances to banks	-	325	-	325	-	318	-	318
Other financial assets at FVTPL	15,002	459	138	15,599	13,534	478	123	14,135
Financial assets at FVOCI	11,783	9	-	11,792	11,996	52	-	12,048
Interest in associates	-	-	52	52	-	-	53	53
	26,963	3,152	454	30,569	25,560	2,553	455	28,568
Financial liabilities held at fair value								
Customer accounts	-	944	9	953	-	860	27	887
Derivative financial instruments	1	2,304	7	2,312	2	1,810	7	1,819
Liabilities to customers under investment contracts	-	5,693	-	5,693	-	5,239	-	5,239
Insurance contract liabilities	-	12,019	-	12,019	-	11,003	-	11,003
Debt securities in issue	-	481	2	483	-	520	2	522
Short positions in trading securities	4	-	-	4	16	-	-	16
	5	21,441	18	21,464	18	19,432	36	19,486

34 Fair values of assets and liabilities *(continued)*

Movements in level 3 financial assets	Loans and advances to customers €m	Other financial assets at FVTPL €m	Derivative financial instruments €m	Interest in associates €m	Total €m
30 June 2019					
Opening balance 1 January 2019	261	123	18	53	455
Total gains or losses in:					
Profit or loss					
- Net trading income	7	32	5	-	44
- Share of results of associates	-	-	-	5	5
Additions	-	1	-	3	4
Disposals	-	(9)	(8)	(9)	(26)
Redemptions	(12)	(9)	-	-	(21)
Transfers out of level 3					
- from level 3 to level 2	-	-	(8)	-	(8)
Transfers into level 3					
- from level 2 to level 3	-	-	1	-	1
Closing balance 30 June 2019	256	138	8	52	454
Total gains / (losses) for the period included in profit or loss for level 3 financial assets at the end of the reporting period	6	24	1	5	36
- Net trading income / (expense)	6	24	1	-	31
- Share of results of associates	-	-	-	5	5

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 30 June 2019 which were unavailable at 31 December 2018.

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

34 Fair values of assets and liabilities (continued)

Movements in level 3 financial assets					
	Loans and advances to customers €m	Other financial assets at FVTPL €m	Derivative financial instruments €m	Interest in associates €m	Total €m
31 December 2018					
Opening balance 1 January 2018	269	139	44	59	511
Total gains or losses in:					
Profit or loss					
- Net trading income / (expense)	14	14	(4)	-	24
- Share of results of associates	-	-	-	4	4
- Other operating income	-	2	-	-	2
Additions	-	2	-	5	7
Disposals	-	(22)	-	(15)	(37)
Redemptions	(22)	(12)	-	-	(34)
Transfers out of level 3					
- from level 3 to level 2	-	-	(27)	-	(27)
Transfers into level 3					
- from level 2 to level 3	-	-	5	-	5
Closing balance 31 December 2018	261	123	18	53	455
Total gains / (losses) for the year included in profit or loss					
for level 3 financial assets at the end of the reporting year	15	15	(4)	4	30
- Net trading income / (expense)	15	14	(4)	-	25
- Other operating income	-	1	-	-	1
- Share of results of associates	-	-	-	4	4

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2018 which were unavailable at 31 December 2017.

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

34 Fair values of assets and liabilities (continued)

Movements in level 3 financial liabilities	30 June 2019				31 December 2018			
	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	27	7	2	36	3	1	2	6
Total gains or losses in:								
Profit or loss								
- Net trading (income) / expense	-	2	-	2	(2)	9	-	7
Other comprehensive income	(2)	-	-	(2)	(1)	-	-	(1)
Additions	22	-	-	22	30	-	-	30
Disposals	-	(1)	-	(1)	-	-	-	-
Transfers out of level 3								
- from level 3 to level 2	(38)	(1)	-	(39)	(3)	(6)	-	(9)
Transfers into level 3								
- from level 2 to level 3	-	-	-	-	-	3	-	3
Closing balance	9	7	2	18	27	7	2	36
Total gains / (losses) for the period included in profit or loss for level 3 financial liabilities at the end of the reporting period	2	(2)	-	-	1	(6)	-	(5)
<i>Net trading income</i>	2	(2)	-	-	1	(6)	-	(5)

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

There were no transfers between levels 1 and 2.

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

Level 3 financial assets	Valuation technique	Unobservable input	Fair value		Range	
			30 Jun 2019 €m	31 Dec 2018 €m	30 Jun 2019 %	31 Dec 2018 %
Loans and advances to customers	Discounted cash flow	Discount on market rate ¹	256	261	2.75%-4.50%	2.75%-4.50%
		Collateral charges				
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount rate ¹	138	123	Third party pricing	Third party pricing
	Equity Value less discount	Discount				
Derivative financial instruments	Discounted cash flow	Counterparty credit spread ²	8	18	0%-4%	0%-4%
	Option pricing model					
Interest in associates	Market comparable companies	Price of recent investment	52	53	Third party pricing	Third party pricing
		Earnings multiple ³				
		Revenue multiple ³				

¹ The discount rate represents a range of discount rates that market participants would use in valuing these investments.

² The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.

³ The Group's multiples represent multiples that market participants would use in valuing these investments.

34 Fair values of assets and liabilities (continued)

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

Level 3 financial liabilities	Valuation technique	Unobservable input	Fair value		Range	
			30 Jun 2019 €m	31 Dec 2018 €m	30 Jun 2019 %	31 Dec 2018 %
Customer accounts	Discounted cash flow	Own credit spread ¹	9	27	0%-4%	0%-4%
	Option pricing model					
Derivative financial instruments	Discounted cash flow	Counterparty credit spread ¹	7	7	0%-4%	0%-4%
	Option pricing model					
Debt securities in issue	Discounted cash flow	Own credit spread ¹	2	2	0%-0.5%	0%-0.5%

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 2019		31 December 2018	
	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
Assets				
Loans and advances to banks	3,098	3,098	2,307	2,307
Loans and advances to customers (including assets held for sale)	77,724	74,784	76,102	73,220
Debt securities at amortised cost	4,621	4,646	3,928	3,913
Liabilities				
Deposits from banks	2,471	2,471	2,482	2,482
Customer accounts	79,251	79,267	78,012	78,017
Debt securities in issue	7,316	7,346	8,382	8,346
Subordinated liabilities	1,370	1,449	2,104	2,149

35 Dividend per ordinary share

	30 June 2019		30 June 2018	
	Cent per share	€m	Cent per share	€m
Final dividend paid in respect of the years ended 31 December 2018 and 2017	16.0	173	11.5	124

On 25 February 2019, the Board recommended a dividend of 16 cent per ordinary share, €173 million in total, which was approved at the Annual General Meeting on 14 May 2019 and paid on 10 June 2019. This dividend has been accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended 30 June 2019.

¹ The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.

36 Impact of adopting new accounting standard IFRS 16 'Leases'

As outlined in the Group accounting policies note on page 46, from 1 January 2019, the Group adopted IFRS 16 'Leases'. On transition to IFRS 16, the Group recognised Right of Use (RoU) assets and lease liabilities by adjusting the opening balances of the relevant assets and liabilities on the balance sheet, with no adjustment required to opening retained earnings. The impact on transition is summarised below:

	€m
Operating lease commitments as at 31 December 2018	680
Less	
Value added tax included in operating lease commitments as at 31 December 2018	(42)
Operating lease commitments as at 31 December 2018 excluding value added tax	638
<i>Weighted average incremental borrowing rate as at 1 January 2019</i>	<i>2.7%</i>
Discounted operating lease commitments as at 1 January 2019 excluding value added tax under IFRS 16	528
Less	
Commitments relating to contracts outside the scope of IFRS 16	(15)
Add	
Commitments relating to leases previously classified as finance leases	4
Service contracts not previously classified as leases under IAS 17	62
Commitments in optional extension periods not recognised as at 31 December 2018	58
Lease liabilities as at 1 January 2019	637

	Carrying amount under IAS 17 as at 31 December 2018 ¹ €m	Impact of new accounting standard €m	Carrying amount under IFRS 16 as at 1 January 2019 €m
Assets			
Property, plant and equipment	438	617	1,055
Other assets	2,280	(17)	2,263
Liabilities			
Lease liabilities	-	637	637
Other liabilities	2,460	(31)	2,429
Provisions	84	(6)	78

Amounts recognised in the balance sheet and income statement

Set out below are the carrying amounts of the Group's RoU assets and lease liabilities and the movements during the period:

	RoU assets			Lease liabilities €m
	Buildings €m	Computer and other equipment ¹ €m	Total €m	
Balance sheet under IFRS 16				
As at 1 January 2019	555	66	621	637
Payments	-	-	-	(45)
Interest expense (note 5)	-	-	-	6
Remeasurement of lease liabilities	3	-	3	3
Additions	-	2	2	2
Depreciation expense	(23)	(17)	(40)	-
Exchange adjustments	(2)	(1)	(3)	(4)
As at 30 June 2019	533	50	583	599

The Group recognised rent expense from short-term leases of €2 million for the six months ended 30 June 2019.

¹ Includes €4 million of finance lease assets as at 31 December 2018 reclassified as RoU assets under IFRS 16 on 1 January 2019.

36 Impact of adopting new accounting standard IFRS 16 'Leases' (continued)

Summary of amounts recognised in the income statement under IFRS 16 compared to equivalent amounts under IAS 17	6 months ended 30 June 2019 €m	6 months ended 30 June 2018 €m
Amounts recognised in interest expense		
Interest expense on lease liabilities	6	-
Amounts recognised in other operating expenses		
Depreciation of RoU assets in property, plant and equipment	40	-
Depreciation of Finance lease assets in property, plant and equipment	-	2
Operating lease payments	-	29
Short-term lease expenses	2	-
Expenses on service contracts classified as leases under IFRS 16	-	15
	42	46
Total	48	46

37 Post balance sheet events

On 8 July 2019, BOIG issued €600 million of senior unsecured debt with a maturity of five years and which is callable after 4 years at the discretion of BOIG.

On 11 July 2019, the Group sold its Bank of Ireland UK consumer credit cards portfolio consisting of the Post Office, the AA and the Bank of Ireland branded consumer credit cards to CCP Credit Master Lux S.à r.l. and CSCP III Master Lux S.à r.l. which are special purpose investment vehicles advised by affiliates of Centerbridge Partners Europe LLP and Jaja Finance Limited ('Jaja'). At 30 June 2019 the portfolio had a gross balance sheet value of €598 million and a net book value of €573 million included in the 'assets classified as held for sale'. The Group envisages a small loss on this transaction which includes the cost of migration of the portfolio and the costs of servicing until that migration is completed.

38 Approval of interim report

The Board of Directors approved the Interim Report on 26 July 2019

Other Information

Index	Page
Supplementary asset quality and forbearance disclosures	89
Retail Ireland mortgages	
<i>Book composition</i>	
Loan volumes	89
Origination profile	91
Arrears profile	92
Loan to value profiles - total loans	93
Risk profile	95
<i>Asset quality</i>	
Composition and impairment	96
Retail UK mortgages	
<i>Book composition</i>	
Loan volumes	98
Origination profile	100
Arrears profile	101
Loan to value profiles - total loans	101
Risk profile	103
<i>Asset quality</i>	
Composition and impairment	105
Group forbearance disclosures	
<i>Risk profile of forborne loans and advances to customers</i>	107
<i>Risk profile of non-performing exposures</i>	109
Consolidated average balance sheet and interest rates	110
Forward looking statement	111
Rates of exchange	112
Credit ratings	112
Stock exchange listings	112
Alternative performance measures	113

Supplementary asset quality and forbearance disclosures

The tables below (except for tables 3a on pages 92 and 101 and 3a-(i) on page 92) in Other information - Supplementary asset quality and forbearance disclosures on pages 89 to 109 form an integral part of the interim financial statements as described in the basis of preparation on page 46. 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 relate to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

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

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

Lending criteria for the Retail Ireland mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

The tables below summarise the composition and risk profile of the Retail Ireland mortgage loan book.

The following tables reflect the Retail Ireland mortgages at amortised cost at 30 June 2019 and 31 December 2018.

Table: 1a Retail Ireland mortgages - Volumes (before impairment loss allowance) by interest rate type ^{1,2}	30 June 2019		31 December 2018	
	€m	%	€m	%
Tracker	9,304	40%	9,829	42%
Variable rates	3,466	15%	4,355	18%
Fixed rates	10,408	45%	9,532	40%
Total Retail Ireland mortgages	23,178	100%	23,716	100%

¹ Excluded from the above table at 30 June 2019 are €0.3 billion (31 December 2018: €0.3 billion) of loans mandatorily held at FVTPL which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19 on page 61).

² The above table excludes undrawn loan commitments relating to Retail Ireland mortgages of €894 million at 30 June 2019 (31 December 2018: €774 million) that are subject to impairment under IFRS 9.

Book composition (continued)

Loan volumes (continued)

Table: 1b						
30 June 2019						
Retail Ireland mortgages - Volumes (before impairment loss allowance) by product type ¹	Stage 1 (not credit-impaired) €m	Stage 2 (not credit-impaired) €m	Subtotal (not credit-impaired) €m	Stage 3 (credit-impaired) €m	Purchased or originated credit-impaired ² €m	Total ³ €m
Owner occupied mortgages	18,463	893	19,356	943	2	20,301
Buy to let mortgages	1,999	255	2,254	622	1	2,877
Total Retail Ireland mortgages	20,462	1,148	21,610	1,565	3	23,178

Table: 1b

Table: 1b						
31 December 2018						
Retail Ireland mortgages - Volumes (before impairment loss allowance) by product type ¹	Stage 1 (not credit-impaired) €m	Stage 2 (not credit-impaired) €m	Subtotal (not credit-impaired) €m	Stage 3 (credit-impaired) €m	Purchased or originated credit-impaired ² €m	Total ³ €m
Owner occupied mortgages	18,277	1,005	19,282	1,015	2	20,299
Buy to let mortgages	2,126	280	2,406	1,010	1	3,417
Total Retail Ireland mortgages	20,403	1,285	21,688	2,025	3	23,716

At 30 June 2019, Retail Ireland mortgages were €23.2 billion (31 December 2018: €23.7 billion), a decrease of €0.5 billion or 2% of which €0.4 billion relates to the securitisation of non-performing mortgages (see note 19). There was a €0.5 billion decrease in the tracker portfolio, a €0.9 billion decrease in the variable rate portfolio and an increase of €0.9 billion in the fixed rate portfolio. This increase in the fixed rate portfolio reflects the strong take up of fixed interest rate mortgages by both existing and new customers. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments and resolution activity.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'⁴ repayment basis at 30 June 2019 was 97% (31 December 2018: 95%) with the balance of 3% on an 'interest only'⁵ repayment basis (31 December 2018: 5%). Of the Owner occupied mortgages of €20.3 billion, 98% were on a 'full principal and interest' repayment basis (31 December 2018: 97%), while 88% of the Buy to let (BTL) mortgages of €2.9 billion were on a 'full principal and interest' repayment basis (31 December 2018: 79%). It is the Group's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

¹ The above tables exclude undrawn loan commitments relating to Retail Ireland mortgages of €894 million at 30 June 2019 (31 December 2018: €774 million) that are subject to impairment under IFRS 9.

² At 30 June 2019, Purchased or Originated Credit Impaired loans included €2 million (31 December 2018: €2 million) of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvement in credit risk. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

³ Excluded from the above tables at 30 June 2019 are €0.3 billion (31 December 2018: €0.3 billion) of loans mandatorily held at FVTPL which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19 on page 61).

⁴ '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.

⁵ 'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. Interest only periods on Retail Ireland mortgages typically range between three and five years.

Book composition (continued)

Origination profile

Table: 2 Origination ¹ of Retail Ireland mortgage loan book ² (before impairment loss allowance)	30 June 2019				31 December 2018			
	Total Retail Ireland mortgage loan book		Non-performing exposures		Total Retail Ireland mortgage loan book		Non-performing exposures	
	Balance €m	Number of accounts ³	Balance €m	Number of accounts ³	Balance €m	Number of accounts ³	Balance €m	Number of accounts ³
2000 and before	164	6,880	24	610	188	7,903	28	675
2001	141	3,800	16	253	156	3,978	18	290
2002	296	5,546	40	374	327	5,837	47	444
2003	586	8,331	78	696	638	8,728	94	828
2004	1,070	12,255	131	997	1,172	13,070	170	1,242
2005	1,840	16,767	258	1,484	1,999	17,483	326	1,788
2006	2,852	21,451	453	2,357	3,140	22,547	615	3,017
2007	2,571	18,128	422	2,024	2,798	18,942	543	2,490
2008	1,808	13,113	227	1,204	1,943	13,612	289	1,459
2009	971	7,958	64	475	1,024	8,298	72	529
2010	711	5,492	15	113	747	5,666	16	126
2011	631	4,947	8	57	661	5,111	8	55
2012	560	4,479	3	20	587	4,617	3	19
2013	525	3,966	2	17	550	4,079	3	20
2014	841	5,627	1	9	886	5,832	1	9
2015	1,187	9,727	5	73	1,261	10,152	4	66
2016	1,357	8,778	10	76	1,427	9,004	10	74
2017	1,903	9,287	3	24	1,960	9,434	2	18
2018	2,255	10,116	-	2	2,252	10,213	-	1
2019	909	4,247	-	-	-	-	-	-
Total	23,178	180,895	1,760	10,865	23,716	184,506	2,249	13,150

The table above illustrates that at 30 June 2019, €4.1 billion or 18% of the Retail Ireland mortgage loan book originated before 2006, €7.2 billion or 31% between 2006 and 2008 and €11.9 billion or 51% in the years since 2008. At 30 June 2019, total non-performing exposures were €1.8 billion (31 December 2018: €2.2 billion) or 8% of the Retail Ireland mortgage loan book, of which €1.1 billion

originated between 2006 and 2008. There has been a decrease in total NPEs in 2019 reflecting the recent securitisation of €0.4 billion of NPEs (see note 19) and 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 Excluded from the above table at 30 June 2019 are €0.3 billion (31 December 2018: €0.3 billion) of loans mandatorily held at FVTPL which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19 on page 61).

³ The number of accounts does not equate to either the number of customers or the number of properties.

Book composition (continued)

Arrears profile

Table: 3a (not an integral part of the interim financial statements)

Mortgage arrears Greater than 90 days past due	June 2019 %	March 2019 %	December 2018 %	June 2018 %
Number of accounts				
Retail Ireland ¹ Owner occupied mortgages	2.0%	2.1%	2.1%	2.2%
Industry ² Owner occupied (number of accounts)	n/a	7.1%	7.2%	7.5%
Retail Ireland ¹ Buy to let mortgages	5.4%	4.9%	4.9%	4.9%
Industry ² Buy to let (number of accounts)	n/a	17.3%	16.4%	17.4%
Value				
Retail Ireland ¹ Owner occupied mortgages	2.7%	2.7%	2.7%	3.1%
Industry ² Owner occupied (value)	n/a	10.3%	10.4%	11.4%
Retail Ireland ¹ Buy to let mortgages	12.2%	10.7%	10.9%	10.8%
Industry ² Buy to let (value)	n/a	25.1%	24.2%	24.9%

Table: 3a-(i) (not an integral part of the interim financial statements)

Mortgage arrears 720 days past due	June 2019 %	March 2019 %	December 2018 %	June 2018 %
Number of accounts				
Retail Ireland ¹ Owner occupied mortgages	1.1%	1.1%	1.1%	1.2%
Industry ² Owner occupied (number of accounts)	n/a	4.6%	4.6%	4.7%
Retail Ireland ¹ Buy to let mortgages	2.7%	2.4%	2.4%	2.6%
Industry ² Buy to let (number of accounts)	n/a	13.4%	12.1%	13.0%
Value				
Retail Ireland ¹ Owner occupied mortgages	1.7%	1.7%	1.7%	1.9%
Industry ² Owner occupied (value)	n/a	7.4%	7.3%	7.9%
Retail Ireland ¹ Buy to let mortgages	7.0%	5.9%	5.8%	5.8%
Industry ² Buy to let (value)	n/a	20.6%	20.0%	19.9%

The latest information published by the CBI is for the quarter ended 31 March 2019.

This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (30% of industry average) and BTL (28% of industry average) mortgages. At 31 March 2019, 2.1% and 4.9% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 7.1%² and 17.3%² respectively for the industry.

This information also indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears greater than 720 days past due consistently remains significantly below the

industry average for both Owner occupied (24% of industry average) and BTL (18% of industry average) mortgages. At 31 March 2019, 1.1% and 2.4% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than 720 days past due compared to 4.6%² and 13.4%² respectively for the industry.

The increase in the proportion of the Retail Ireland BTL mortgage book in arrears (number of accounts and value) between March 2019 and June 2019 (for both greater than 90 days past due and 720 days past due) is driven by the recent securitisation of €0.4 billion of NPEs (see note 19). The securitisation resulted in a reduction in the BTL mortgage book without a corresponding reduction in the volume of BTL mortgages in arrears given the majority of the securitised mortgages were up to date with their repayments.

¹ The tables above include €0.3 billion of loans mandatorily held at fair value through the profit or loss at 30 June 2019 (31 December 2018: €0.3 billion) which are not subject to impairment under IFRS 9.

² Industry source: CBI Mortgage Arrears Statistics Report, March 2019 - adjusted to exclude Bank of Ireland.

Book composition (continued)

Loan to value profiles - total loans

Table: 3b 30 June 2019 Loan to value (LTV) ratio of total Retail Ireland mortgages ^{1,2}	Owner occupied			Buy to let			Total		
	Not credit- impaired €m	Credit- impaired €m	Total €m	Not credit- impaired €m	Credit- impaired €m	Total €m	Not credit- impaired €m	Credit- impaired €m	Total €m
Less than 50%	7,083	155	7,238	987	39	1,026	8,070	194	8,264
51% to 70%	6,511	153	6,664	737	49	786	7,248	202	7,450
71% to 80%	2,852	89	2,941	206	38	244	3,058	127	3,185
81% to 90%	2,171	96	2,267	180	110	290	2,351	206	2,557
91% to 100%	600	83	683	48	52	100	648	135	783
Subtotal	19,217	576	19,793	2,158	288	2,446	21,375	864	22,239
101% to 120%	87	129	216	47	80	127	134	209	343
121% to 150%	24	94	118	19	64	83	43	158	201
Greater than 151%	28	144	172	30	190	220	58	334	392
Subtotal	139	367	506	96	334	430	235	701	936
Total	19,356	943	20,299	2,254	622	2,876	21,610	1,565	23,175
Weighted average LTV ³ :									
Stock of Retail Ireland mortgages at period end			59%			72%			61%
New Retail Ireland mortgages during the period			75%			54%			74%

¹ Excluded from the above table are Purchased or Originated Credit Impaired loans of €3 million (31 December 2018: €3 million), €2 million (31 December 2018: €2 million) of which were no longer credit-impaired at 30 June 2019 due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

² Excluded from the above table are €0.3 billion (31 December 2018: €0.3 billion) of loans mandatorily held at FVTPL at 30 June 2019 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19).

³ 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)

Table: 3b 31 December 2018	Owner occupied			Buy to let			Total		
	Not credit-impaired €m	Credit-impaired €m	Total €m	Not credit-impaired €m	Credit-impaired €m	Total €m	Not credit-impaired €m	Credit-impaired €m	Total €m
Loan to value (LTV) ratio of total Retail Ireland mortgages ^{1,2}									
Less than 50%	7,165	154	7,319	1,016	54	1,070	8,181	208	8,389
51% to 70%	6,660	168	6,828	797	86	883	7,457	254	7,711
71% to 80%	2,761	100	2,861	229	71	300	2,990	171	3,161
81% to 90%	1,986	105	2,091	205	195	400	2,191	300	2,491
91% to 100%	550	102	652	60	96	156	610	198	808
Subtotal	19,122	629	19,751	2,307	502	2,809	21,429	1,131	22,560
101% to 120%	108	143	251	47	138	185	155	281	436
121% to 150%	30	100	130	20	107	127	50	207	257
Greater than 151%	22	143	165	32	263	295	54	406	460
Subtotal	160	386	546	99	508	607	259	894	1,153
Total	19,282	1,015	20,297	2,406	1,010	3,416	21,688	2,025	23,713
Weighted average LTV ³ :									
Stock of Retail Ireland mortgages at year end			59%			76%			61%
New Retail Ireland mortgages during the year			72%			51%			71%

The tables above set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book.

Property values are determined by reference to the property valuations held, indexed to the RPPI CSO. The indexed LTV profile of the Retail Ireland mortgage loan book contained in the table on the preceding page is based on the RPPI CSO at April 2019.

The RPPI CSO for April 2019 reported that average national residential property prices were 18.5% below peak (31 December

2018: 17.6% below peak), with Dublin residential prices and outside of Dublin residential prices 22.5% and 21.8% below peak respectively (31 December 2018: 20.1% and 22.7% below peak respectively). In the 4 months to April 2019, residential property prices at a national level decreased by 0.4%.

At 30 June 2019, €22.2 billion or 96% of Retail Ireland mortgages were classified as being in positive equity, 98% for owner occupied mortgages and 85% for BTL mortgages.

¹ Excluded from the above table are Purchased or Originated Credit Impaired loans of €3 million, €2 million of which were no longer credit-impaired at 31 December 2018 due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

² Excluded from the above table are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19).

³ Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.

Book composition (continued)

Risk profile

The table below provides an analysis of the Retail Ireland mortgages at amortised cost by IFRS 9 twelve month PD grade.

Table: 3c	30 June 2019						31 December 2018					
	Owner occupied		Buy to let		Total		Owner occupied		Buy to let		Total	
	Performing €m	Non- performing €m	Performing €m	Non- performing €m	Performing €m	Non- performing €m	Performing €m	Non- performing €m	Performing €m	Non- performing €m	Performing €m	Non- performing €m
30 June 2019												
Risk profile of Retail Ireland mortgage loan book (before impairment loss allowance) - PD Grade^{1,2}												
Not credit-impaired												
Stage 1												
1-4	14,759	-	294	-	15,053	-	13,976	-	336	-	14,312	-
5-7	3,101	-	1,371	-	4,472	-	3,632	-	1,468	-	5,100	-
8-9	392	-	213	-	605	-	467	-	188	-	655	-
10-11	211	-	121	-	332	-	202	-	134	-	336	-
Total Stage 1	18,463	-	1,999	-	20,462	-	18,277	-	2,126	-	20,403	-
Stage 2												
1-4	71	2	-	-	71	2	77	2	-	-	77	2
5-7	122	5	18	2	140	7	117	5	22	4	139	9
8-9	180	15	35	5	215	20	267	49	35	2	302	51
10-11	388	110	140	55	528	165	392	96	151	66	543	162
Total Stage 2	761	132	193	62	954	194	853	152	208	72	1,061	224
Not credit-impaired (Stage 1 & Stage 2)												
1-4	14,830	2	294	-	15,124	2	14,053	2	336	-	14,389	2
5-7	3,223	5	1,389	2	4,612	7	3,749	5	1,490	4	5,239	9
8-9	572	15	248	5	820	20	734	49	223	2	957	51
10-11	599	110	261	55	860	165	594	96	285	66	879	162
Subtotal - not credit-impaired	19,224	132	2,192	62	21,416	194	19,130	152	2,334	72	21,464	224
Credit-impaired (Stage 3)												
12	-	943	-	622	-	1,565	-	1,015	-	1,010	-	2,025
Subtotal - credit-impaired	-	943	-	622	-	1,565	-	1,015	-	1,010	-	2,025
Total	19,224	1,075	2,192	684	21,416	1,759	19,130	1,167	2,334	1,082	21,464	2,249

¹ Excluded from the above table are Purchased or Originated Credit Impaired loans of €3 million (31 December 2018: €3 million), €2 million (31 December 2018: €2 million) of which were no longer credit-impaired at 30 June 2019 due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

² Excluded from the above table are €0.3 billion (31 December 2018: €0.3 billion) of loans mandatorily held at FVTPL at 30 June 2019 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19).

Asset quality

Composition and impairment

The table below summarises the composition of NPEs and impairment loss allowance for the Retail Ireland mortgage portfolio.

Table: 4						
30 June 2019	Advances (before impairment loss allowance) €m	Non- performing exposures €m	Non- performing exposures as % of advances %	Impairment loss allowance €m	Impairment loss allowance as % of non- performing exposures %	Impairment loss allowance as % of advances %
Retail Ireland mortgages^{1,2}						
Stage 1 not credit-impaired						
Owner occupied mortgages	18,463	-	-	4	-	-
Buy to let mortgages	1,999	-	-	2	-	-
Total	20,462	-	-	6	-	-
Stage 2 not credit-impaired						
Owner occupied mortgages	893	132	15%	10	8%	1%
Buy to let mortgages	255	62	24%	6	10%	2%
Total	1,148	194	17%	16	8%	1%
Stage 3 credit-impaired						
Owner occupied mortgages	943	943	100%	217	23%	23%
Buy to let mortgages	622	622	100%	195	31%	31%
Total	1,565	1,565	100%	412	26%	26%
Total						
Owner occupied mortgages	20,299	1,075	5%	231	21%	1%
Buy to let mortgages	2,876	684	24%	203	30%	7%
Total	23,175	1,759	8%	434	25%	2%

¹ Excluded from the above table are Purchased or Originated Credit Impaired loans of €3 million (31 December 2018: €3 million), €2 million (31 December 2018: €2 million) of which were no longer credit-impaired at 30 June 2019 due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

² Excluded from the above table are €0.3 billion of loans mandatorily held at FVTPL at 30 June 2019 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19).

Asset quality (continued)

Composition and impairment (continued)

Table 4

31 December 2018	Advances (before impairment loss allowance) €m	Non- performing exposures €m	Non- performing exposures as % of advances %	Impairment loss allowance €m	Impairment loss allowance as % of non- performing exposures %	Impairment loss allowance as % of advances %
Retail Ireland mortgages^{1,2}						
Stage 1 not credit-impaired						
Owner occupied mortgages	18,277	-	-	3	-	-
Buy to let mortgages	2,126	-	-	2	-	-
Total	20,403	-	-	5	-	-
Stage 2 not credit-impaired						
Owner occupied mortgages	1,005	152	15%	9	6%	1%
Buy to let mortgages	280	72	26%	6	8%	2%
Total	1,285	224	17%	15	7%	1%
Stage 3 credit-impaired						
Owner occupied mortgages	1,015	1,015	100%	186	18%	18%
Buy to let mortgages	1,010	1,010	100%	258	26%	26%
Total	2,025	2,025	100%	444	22%	22%
Total						
Owner occupied mortgages	20,297	1,167	6%	198	17%	1%
Buy to let mortgages	3,416	1,082	32%	266	25%	8%
Total	23,713	2,249	9%	464	21%	2%

Total NPEs at 30 June 2019 of €1.8 billion were €0.5 billion lower than at 31 December 2018 with Owner occupied NPEs decreasing from €1.2 billion at 31 December 2018 to €1.1 billion at 30 June 2019 and BTL NPEs decreasing from €1.1 billion at 31 December 2018 to €0.7 billion at 30 June 2019. The reduction in

NPEs reflects the recent securitisation of €0.4 billion of NPEs (see note 19) in addition to the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

¹ Excluded from the above table are Purchased or Originated Credit Impaired loans of €3 million, €2 million of which were no longer credit-impaired at 31 December 2018 due to improvement in credit risk since purchase of origination. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

² Excluded from the above table are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 19).

Retail UK mortgages

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

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

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

Lending criteria for the Retail UK mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

The table below summarises the composition and risk profile of the Retail UK mortgage loan book.

Table: 1a Retail UK mortgages - Volumes (before impairment loss allowance) by interest rate type ¹	30 June 2019		31 December 2018	
	£m	%	£m	%
Tracker	5,977	31%	6,271	32%
Variable rates	2,436	12%	2,711	14%
Fixed rates	11,006	57%	10,452	54%
Total Retail UK mortgages	19,419	100%	19,434	100%

At 30 June 2019, Retail UK mortgages were £19.4 billion (31 December 2018: £19.4 billion). The decrease of £15 million or 0.1% reflects new business generation offset by redemptions in the book.

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

Tracker mortgages were £6.0 billion or 31% of the Retail UK mortgages compared to £6.3 billion or 32% at 31 December 2018, a decrease of £0.3 billion. Variable rate mortgages were £2.4 billion or 12% of the Retail UK mortgages compared to £2.7 billion or 14% at 31 December 2018, a decrease of £0.3 billion.

Fixed rate mortgages were £11.0 billion or 57% of the Retail UK mortgages compared to £10.5 billion or 54% at 31 December 2018, an increase of £0.5 billion.

¹ The above table excludes loan commitments relating to Retail UK mortgages of £988 million at 30 June 2019 (31 December 2018: £763 million) that are subject to impairment.

Book composition *(continued)*

Loan volumes *(continued)*

The tables below summarise the composition and risk profile of the Retail UK mortgage loan book.

Table: 1b						
30 June 2019						
Retail UK mortgages - Volumes (before impairment loss allowance) by product type ¹	Stage 1 (not credit- impaired) £m	Stage 2 (not credit- impaired) £m	Subtotal (not credit- impaired) £m	Stage 3 (credit- impaired) £m	Purchased or originated credit- impaired £m	Total £m
Standard mortgages	10,119	165	10,284	136	-	10,420
Buy to let mortgages	7,041	201	7,242	110	-	7,352
Self certified mortgages	1,377	124	1,501	146	-	1,647
Total Retail UK mortgages	18,537	490	19,027	392	-	19,419

Table: 1b						
31 December 2018						
Retail UK mortgages - Volumes (before impairment loss allowance) by product type ¹	Stage 1 (not credit- impaired) £m	Stage 2 (not credit- impaired) £m	Subtotal (not credit- impaired) £m	Stage 3 (credit- impaired) £m	Purchased or originated credit- impaired £m	Total £m
Standard mortgages	9,908	181	10,089	136	-	10,225
Buy to let mortgages	7,142	214	7,356	110	-	7,466
Self certified mortgages	1,462	132	1,594	149	-	1,743
Total Retail UK mortgages	18,512	527	19,039	395	-	19,434

¹ The above tables exclude loan commitments relating to Retail UK mortgages of £988 million at 30 June 2019 (31 December 2018: £763 million) that are subject to impairment.

Book composition (continued)

Origination profile

Table: 2 Origination of Retail UK mortgage loan book (before impairment loss allowance)	30 June 2019				31 December 2018			
	Total Retail UK mortgage loan book		Non-performing exposures		Total Retail UK mortgage loan book		Non-performing exposures	
	Balance £m	Number of accounts ¹	Balance £m	Number of accounts ¹	Balance £m	Number of accounts ¹	Balance £m	Number of accounts ¹
2000 and before	115	3,625	7	175	131	4,079	9	211
2001	90	1,568	4	35	97	1,656	4	43
2002	117	1,786	3	31	126	1,902	4	36
2003	270	3,390	15	132	286	3,592	15	141
2004	326	3,933	19	160	350	4,236	18	149
2005	944	9,334	43	359	998	9,827	44	366
2006	1,396	13,264	68	521	1,467	13,906	69	501
2007	2,180	19,796	100	772	2,300	20,825	99	772
2008	2,991	26,235	143	1,085	3,142	27,492	150	1,132
2009	298	3,094	9	90	323	3,326	8	81
2010	216	2,090	4	30	230	2,214	4	29
2011	142	1,372	2	19	154	1,463	2	16
2012	146	1,283	1	7	156	1,355	-	4
2013	191	1,544	1	8	215	1,680	1	7
2014	501	3,792	1	12	659	4,603	2	13
2015	1,157	7,981	4	34	1,240	8,439	3	25
2016	1,244	8,675	2	14	1,380	9,503	2	14
2017	2,591	18,172	3	26	2,947	20,425	2	17
2018	3,190	22,852	1	9	3,233	22,956	1	6
2019	1,314	9,474	1	4	-	-	-	-
Total	19,419	163,260	431	3,523	19,434	163,479	437	3,563

The table above illustrates that at 30 June 2019, £1.9 billion or 9% of the Retail UK mortgage loan book originated before 2006, £6.6 billion or 34% between 2006 and 2008 and £11.0 billion or 57% in the years since.

Non-performing Retail UK mortgages were £0.4 billion or 2.2% (31 December 2018: £0.4 billion or 2.3%) of the Retail UK

mortgage loan book in 2019, of which £0.3 billion or 1.6% were originated between 2006 and 2008 (31 December 2018: £0.3 billion or 1.6%).

¹ The number of accounts does not equate to either the number of customers or the number of properties.

Book composition (continued)

Arrears profile

Table: 3a (not an integral part of the interim financial statements)			
Mortgage arrears Greater than 90 days past due	30 June 2019 %	31 December 2018 %	30 June 2018 %
Number of accounts			
Standard mortgages	0.76%	0.78%	0.84%
Buy to let mortgages	0.77%	0.82%	0.82%
Self certified mortgages	3.61%	3.88%	3.72%
Value			
Standard mortgages	0.69%	0.69%	0.77%
Buy to let mortgages	0.78%	0.83%	0.83%
Self certified mortgages	4.64%	4.86%	4.83%

Loan to value profiles - total loans

Table: 3b	Standard		Buy to let		Self certified		Total		
	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Total £m
30 June 2019									
Loan to value (LTV) ratio of total Retail UK mortgages									
Less than 50%	2,156	33	2,157	23	513	30	4,826	86	4,912
51% to 70%	3,173	42	3,469	42	640	57	7,282	141	7,423
71% to 80%	2,071	22	1,170	21	199	28	3,440	71	3,511
81% to 90%	2,270	17	407	17	117	17	2,794	51	2,845
91% to 100%	565	12	30	6	20	7	615	25	640
Subtotal	10,235	126	7,233	109	1,489	139	18,957	374	19,331
101% to 120%	28	4	8	1	7	4	43	9	52
121% to 150%	16	3	1	-	5	2	22	5	27
Greater than 150%	5	3	-	-	-	1	5	4	9
Subtotal	49	10	9	1	12	7	70	18	88
Total	10,284	136	7,242	110	1,501	146	19,027	392	19,419
Weighted average LTV¹:									
Stock of Retail UK mortgages at the period ¹	66%	68%	58%	65%	57%	67%	62%	67%	62%
New Retail UK mortgages during the period	77%		64%		n/a		74%		74%

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

Book composition (continued)

Loan to value profiles - total loans (continued)

Table: 3b

31 December 2018	Standard		Buy to let		Self certified		Total		Total £m
	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	
Loan to value (LTV) ratio of total Retail UK mortgages									
Less than 50%	2,125	33	2,192	24	525	30	4,842	87	4,929
51% to 70%	3,210	44	3,464	38	677	56	7,351	138	7,489
71% to 80%	1,896	21	1,174	20	221	29	3,291	70	3,361
81% to 90%	2,096	14	456	19	128	19	2,680	52	2,732
91% to 100%	698	14	59	6	29	8	786	28	814
Subtotal	10,025	126	7,345	107	1,580	142	18,950	375	19,325
101% to 120%	39	5	9	2	7	5	55	12	67
121% to 150%	20	2	2	-	6	1	28	3	31
Greater than 150%	5	3	-	1	1	1	6	5	11
Subtotal	64	10	11	3	14	7	89	20	109
Total	10,089	136	7,356	110	1,594	149	19,039	395	19,434
Weighted average LTV ¹ :									
Stock of Retail UK mortgages at year end ¹	66%	67%	58%	66%	58%	67%	62%	67%	62%
New Retail UK mortgages during year ¹	76%	-	60%	-	n/a	-	72%	-	72%

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 62% at 30 June 2019. The weighted average LTV for new Residential mortgages written during 2019 was 74%, 77% for Standard mortgages and 64% for BTL mortgages.

At 30 June 2019, £19.3 billion or 99% of the Retail UK mortgage book was in positive equity (31 December 2018: £19.3 billion or 99%), comprising £10.4 billion or 99% of Standard mortgages (31

December 2018: £10.2 billion or 99%), £7.3 billion or 99% of BTL mortgages (31 December 2018: £7.5 billion or 99%) and £1.6 billion or 99% of Self certified mortgages (31 December 2018: £1.7 billion or 99%).

The increase in average LTV from 72% to 74% at 30 June 2019 reflects slightly higher LTV lending in the first half of 2019.

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)

Risk profile

The table below provides an analysis of the Retail UK mortgages at amortised cost by IFRS 9 twelve month PD grade.

Table: 3c 30 June 2019 Risk profile of Retail UK mortgage loan book (before impairment loss allowance) PD Grade	Standard		Buy to let		Self certified		Total	
	Performing £m	Non- performing £m	Performing £m	Non- performing £m	Performing £m	Non- performing £m	Performing £m	Non- performing £m
	Not credit-impaired							
Stage 1								
1-4	1,354	-	1,730	-	11	-	3,095	-
5-7	8,620	-	4,592	-	845	-	14,057	-
8-9	56	-	564	-	395	-	1,015	-
10-11	89	-	155	-	126	-	370	-
Total stage 1	10,119	-	7,041	-	1,377	-	18,537	-
Stage 2								
1-4	1	-	3	1	-	-	4	1
5-7	31	6	22	3	12	3	65	12
8-9	12	1	11	3	7	3	30	7
10-11	110	4	152	6	90	9	352	19
Total stage 2	154	11	188	13	109	15	451	39
Not credit-impaired (Stage 1 & Stage 2)								
1-4	1,355	-	1,733	1	11	-	3,099	1
5-7	8,651	6	4,614	3	857	3	14,122	12
8-9	68	1	575	3	402	3	1,045	7
10-11	199	4	307	6	216	9	722	19
Subtotal - not credit-impaired	10,273	11	7,229	13	1,486	15	18,988	39
Credit-impaired (Stage 3)								
12	-	136	-	110	-	146	-	392
Subtotal - credit-impaired	-	136	-	110	-	146	-	392
Total	10,273	147	7,229	123	1,486	161	18,988	431

The change in credit grade distribution within stage 1 since 31 December 2018 is a result of model recalibration and the updated FLI.

Book composition (continued)

Risk profile (continued)

The table below provides an analysis of the Retail UK mortgages at amortised cost by IFRS 9 twelve month PD grade.

Table: 3c

31 December 2018 Risk profile of Retail UK mortgage loan book (before impairment loss allowance) PD Grade	Standard		Buy to let		Self certified		Total	
	Performing £m	Non- performing £m	Performing £m	Non- performing £m	Performing £m	Non- performing £m	Performing £m	Non- performing £m
Not credit-impaired								
Stage 1								
1-4	4,571	-	2,750	-	13	-	7,334	-
5-7	5,186	-	3,674	-	1,158	-	10,018	-
8-9	59	-	556	-	171	-	786	-
10-11	92	-	162	-	120	-	374	-
Total stage 1	9,908	-	7,142	-	1,462	-	18,512	-
Stage 2								
1-4	10	1	3	1	-	-	13	2
5-7	26	5	19	3	15	7	60	15
8-9	10	-	6	1	3	2	19	3
10-11	124	5	172	9	97	8	393	22
Total stage 2	170	11	200	14	115	17	485	42
Not credit-impaired (Stage 1 & Stage 2)								
1-4	4,581	1	2,753	1	13	-	7,347	2
5-7	5,212	5	3,693	3	1,173	7	10,078	15
8-9	69	-	562	1	174	2	805	3
10-11	216	5	334	9	217	8	767	22
Subtotal - not credit-impaired	10,078	11	7,342	14	1,577	17	18,997	42
Credit-impaired (Stage 3)								
12	-	136	-	110	-	149	-	395
Subtotal - credit-impaired	-	136	-	110	-	149	-	395
Total	10,078	147	7,342	124	1,577	166	18,997	437

Asset quality

Composition and impairment

The table below summarises the composition of NPEs and impairment loss allowance for the Retail UK mortgage portfolio.

Table: 4						
30 June 2019	Advances (before impairment loss allowance)	Non- performing exposures	Non- performing exposures as % of advances	Impairment loss allowance	Impairment loss allowance as % of non- performing exposures	Impairment loss allowance as % of advances
Retail UK mortgages	£m	£m	%	£m	%	%
Stage 1 not credit-impaired						
Standard mortgages	10,119	-	-	3	n/a	-
Buy to let mortgages	7,041	-	-	4	n/a	-
Self certified mortgages	1,377	-	-	1	n/a	-
Total	18,537	-	-	8	n/a	-
Stage 2 not credit-impaired						
Standard mortgages	165	11	6.7%	3	27%	2%
Buy to let mortgages	201	13	6.5%	9	69%	4%
Self certified mortgages	124	15	12.1%	2	13%	2%
Total	490	39	8.0%	14	36%	3%
Stage 3 credit-impaired						
Standard mortgages	136	136	100%	16	12%	12%
Buy to let mortgages	110	110	100%	20	18%	18%
Self certified mortgages	146	146	100%	9	6%	6%
Total	392	392	100%	45	11%	11%
Total						
Standard mortgages	10,420	147	1.4%	22	15%	-
Buy to let mortgages	7,352	123	1.7%	33	27%	-
Self certified mortgages	1,647	161	9.8%	12	7%	1%
Total	19,419	431	2.2%	67	16%	-

Asset quality *(continued)*

Composition and impairment *(continued)*

The table below summarises the composition of NPEs and impairment loss allowance for the Retail UK mortgage portfolio.

Table: 4

31 December 2018	Advances (before impairment loss allowance) £m	Non- performing exposures £m	Non- performing exposures as % of advances %	Impairment loss allowance £m	Impairment loss allowance as % of non- performing exposures %	Impairment loss allowance as % of advances %
Retail UK mortgages						
Stage 1 not credit-impaired						
Standard mortgages	9,908	-	-	3	n/a	-
Buy to let mortgages	7,142	-	-	4	n/a	-
Self certified mortgages	1,462	-	-	1	n/a	-
Total	18,512	-	-	8	n/a	-
Stage 2 not credit-impaired						
Standard mortgages	181	11	6.1%	3	27%	2%
Buy to let mortgages	214	14	6.5%	9	64%	4%
Self certified mortgages	132	17	12.9%	2	12%	2%
Total	527	42	8.0%	14	33%	3%
Stage 3 credit-impaired						
Standard mortgages	136	136	100%	14	10%	10%
Buy to let mortgages	110	110	100%	19	17%	17%
Self certified mortgages	149	149	100%	9	6%	6%
Total	395	395	100%	42	11%	11%
Total						
Standard mortgages	10,225	147	1.4%	20	14%	-
Buy to let mortgages	7,466	124	1.7%	32	26%	-
Self certified mortgages	1,743	166	9.5%	12	7%	1%
Total	19,434	437	2.2%	64	15%	-

Total NPEs of £431 million were £6 million lower than at 31 December 2018.

Owner occupied NPEs of £308 million were £5 million lower than at 31 December 2018.

BTL NPEs of £123 million were £1 million lower than at 31 December 2018.

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 amortised cost at 30 June 2019 of €79.3 billion is available in note 20 on page 64. Exposures are before impairment loss allowance.

Table: 1					
30 June 2019					
Loans and advances to customers at amortised cost - Composition	Stage 1 (not credit-impaired) €m	Stage 2 (not credit-impaired) €m	Stage 3 (credit-impaired) €m	Purchased / originated credit-impaired ¹ €m	Total €m
Non-forborne loans and advances to customers					
Residential mortgages	41,128	775	658	2	42,563
- Retail Ireland	20,456	352	317	2	21,127
- Retail UK	20,672	423	341	-	21,436
Non-property SME and corporate	17,351	935	242	25	18,553
- Republic of Ireland SME	5,960	455	197	1	6,613
- UK SME	1,323	165	32	-	1,520
- Corporate	10,068	315	13	24	10,420
Property and construction	6,471	471	21	62	7,025
- Investment	5,745	461	20	62	6,288
- Land and development	726	10	1	-	737
Consumer	5,353	226	103	-	5,682
Total non-forborne loans and advances to customers	70,303	2,407	1,024	89	73,823
Forborne loans and advances to customers					
Residential mortgages	9	920	1,344	1	2,274
- Retail Ireland	6	796	1,248	1	2,051
- Retail UK	3	124	96	-	223
Non-property SME and corporate	1	989	736	-	1,726
- Republic of Ireland SME	1	463	416	-	880
- UK SME	-	37	73	-	110
- Corporate	-	489	247	-	736
Property and construction	-	835	628	-	1,463
- Investment	-	809	585	-	1,394
- Land and development	-	26	43	-	69
Consumer	-	4	15	-	19
Total forborne loans and advances to customers	10	2,748	2,723	1	5,482

¹ At 30 June 2019, forborne Purchased or Originated Credit Impaired loans included €1 million of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvement in credit risk. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

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

Table: 1

31 December 2018	Stage 1 (not credit- impaired) €m	Stage 2 (not credit- impaired) €m	Stage 3 (credit- impaired) €m	Purchased / originated credit- impaired ¹ €m	Total €m
Loans and advances to customers at amortised cost - Composition					
Non-forborne loans and advances to customers					
Residential mortgages	41,088	828	675	1	42,592
- Retail Ireland	20,396	363	336	1	21,096
- Retail UK	20,692	465	339	-	21,496
Non-property SME and corporate	16,543	975	296	1	17,815
- Republic of Ireland SME	5,886	517	208	1	6,612
- UK SME	1,232	203	20	-	1,455
- Corporate	9,425	255	68	-	9,748
Property and construction	6,330	239	45	66	6,680
- Investment	5,808	236	26	66	6,136
- Land and development	522	3	19	-	544
Consumer	4,816	244	89	-	5,149
Total non-forborne loans and advances to customers	68,777	2,286	1,105	68	72,236
Forborne loans and advances to customers					
Residential mortgages	8	1,045	1,790	2	2,845
- Retail Ireland	7	922	1,689	2	2,620
- Retail UK	1	123	101	-	225
Non-property SME and corporate	4	875	771	-	1,650
- Republic of Ireland SME	4	464	521	-	989
- UK SME	-	56	59	-	115
- Corporate	-	355	191	-	546
Property and construction	13	863	798	-	1,674
- Investment	12	836	734	-	1,582
- Land and development	1	27	64	-	92
Consumer	-	6	19	-	25
Total forborne loans and advances to customers	25	2,789	3,378	2	6,194

¹ At 31 December 2018, forborne Purchased or Originated Credit Impaired loans included €2 million of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvement in credit risk. These loans will remain classified as Purchased or Originated Credit Impaired loans until derecognition.

Risk profile of non-performing exposures

Table: 2					
30 June 2019					
Risk profile of loans and advances to customers at amortised cost - 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					
Credit-impaired	658	267	21	103	1,049
Not credit-impaired	25	3	6	2	36
Total non-forborne loans and advances to customers	683	270	27	105	1,085
Forborne loans and advances to customers					
Credit-impaired	1,345	736	628	15	2,724
Not credit-impaired	217	103	58	-	378
Total forborne loans and advances to customers	1,562	839	686	15	3,102

Table: 2					
31 December 2018					
Risk profile of loans and advances to customers at amortised cost - 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					
Credit-impaired	676	297	45	89	1,107
Not credit-impaired	28	16	13	3	60
Total non-forborne loans and advances to customers	704	313	58	92	1,167
Forborne loans and advances to customers					
Credit-impaired	1,790	771	798	19	3,378
Not credit-impaired	249	128	62	-	439
Total forborne loans and advances to customers	2,039	899	860	19	3,817

Consolidated average balance sheet and interest rates

The following table shows the average balances and interest rates of interest earning assets and interest bearing liabilities for the six months ended 30 June 2019 and for the year ended 31 December 2018. 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 (NIM), after adjusting for the impact of IFRS income classifications, is outlined on page 8.

	30 June 2019			31 December 2018		
	Average Balance ¹ €m	Interest ^{2,3} €m	Rate %	Average Balance €m	Interest ^{2,3} €m	Rate %
Assets						
Loans and advances to banks	6,253	12	0.39%	7,802	16	0.21%
Loans and advances to customers at amortised cost including loans and advances to customers held for sale ^{4,5}	77,177	1,249	3.26%	76,184	2,464	3.23%
Debt securities at amortised cost and financial assets at FVOCI	16,651	21	0.25%	14,582	57	0.39%
Total interest earning assets	100,081	1,282	2.58%	98,568	2,537	2.57%
Non interest earning assets	24,461	-	-	23,288	-	-
Total assets	124,542	1,282	2.08%	121,856	2,537	2.08%
Liabilities and shareholders' equity						
Deposits from banks ⁶	2,699	7	0.52%	3,900	7	0.18%
Customer accounts ⁶	44,114	107	0.49%	44,214	203	0.46%
Debt securities in issue	7,592	47	1.25%	7,736	86	1.11%
Subordinated liabilities	2,036	49	4.85%	2,077	100	4.81%
Lease liabilities	621	6	1.95%	-	-	-
Total interest bearing liabilities	57,062	216	0.76%	57,927	396	0.68%
Current accounts	34,451	(3)	(0.02%)	31,637	(5)	(0.02%)
Total interest bearing liabilities and current accounts	91,513	213	0.47%	89,564	391	0.44%
Non interest bearing liabilities ⁷	22,817	-	-	22,456	-	-
Shareholders' equity and non-controlling interests	10,212	-	-	9,836	-	-
Total liabilities and shareholders' equity	124,542	213	0.34%	121,856	391	0.32%
Euro and sterling reference rates (average)						
ECB base rate			0.00%			0.00%
3 month Euribor rate			(0.31%)			(0.32%)
Bank of England base rate			0.75%			0.60%
3 month Libor rate			0.84%			0.72%

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

¹ Average balances are presented on an underlying basis excluding non-core items such as UK portfolio divestments, see page 12 for further details.

² Represents underlying interest income or underlying interest expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. For the six months ended 30 June 2019, interest income of €18 million and interest expense of €5 million relating to UK portfolio divestments, and a charge of €5 million (December 2018: €12 million) to interest income relating to customer redress charges are excluded as non-core items.

³ Interest expense of €4 million (31 December 2018: €12 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. Interest income of €10 million (31 December 2018: €19 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.

⁴ Average loans and advances to customers volumes are presented net of stage 3 impairment loss allowances.

⁵ The Group has availed of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement' as adopted by the EU. In order that yields on products are presented on a consistent basis year on year and are not impacted by the resulting change in hedge accounting designations; net interest flows of €44 million (31 December 2018: €46 million) on all derivatives designated as fair value hedges of current accounts continue to be presented together with gross interest income on 'Loans and advances to customers' and is not included in 'Customer accounts'.

⁶ Excludes deposits carried at FVTPL.

⁷ Includes liabilities carried at FVTPL.

Forward looking statement

This document contains forward-looking statements with respect to certain of Bank of Ireland Group plc (the 'Company' or 'BOIG plc') and its subsidiaries' (collectively the 'Group' or 'BOIG plc Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts.

Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward-looking.

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

Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 27 and also the discussion of risk in the Group's Annual Report for the year ended 31 December 2018.

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

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Rates of exchange

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

	30 June 2019		30 June 2018		31 December 2018	
	Average	Closing	Average	Closing	Average	Closing
€ / US\$	1.1298	1.1380	1.2104	1.1658	1.1810	1.1450
€ / Stg£	0.8736	0.8966	0.8798	0.8861	0.8847	0.8945

Credit ratings

	30 June 2019	31 December 2018
Ireland - Senior debt		
Standard & Poor's	A+ (Stable)	A+ (Stable)
Moody's	A2 (Stable)	A2 (Stable)
Fitch	A+ (Stable)	A+ (Stable)
BOIG plc - Senior debt		
Standard & Poor's	BBB- (Positive)	BBB- (Positive)
Moody's	Baa3 (Positive)	Baa3 (Positive)
Fitch	BBB (Stable)	BBB (Stable)
The Governor and Company of the Bank of Ireland - Senior debt		
Standard & Poor's	BBB+ (Positive)	BBB+ (Positive)
Moody's	A3 (Positive) ¹	A3 (Positive)
Fitch	BBB (Positive)	BBB (Positive)

Stock exchange listings

Bank of Ireland Group plc is a public limited company incorporated in Ireland in 2016 with registration number 593672. Its ordinary shares, of nominal value €1.00 per share, have a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

¹ Moody's upgraded its rating on the Bank's senior debt to A2 from A3 (outlook revised to stable from positive) on 11 July 2019.

Alternative performance measures

Further information related to certain measures referred to in the key performance highlights and OFR

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), excluding other gains and other valuation items.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Other operating expenses	Income statement	1,056	1,000
Cost of restructuring programme	Income statement	27	51
		1,083	1,051
Exclude:			
- cost of restructuring programme	Non-core items (OFR)	(27)	(51)
- customer redress charges	Non-core items (OFR)	(57)	-
- UK portfolio divestments	Non-core items (OFR)	(23)	-
- levies and regulatory charges	Note 13	(73)	(67)
Adjusted costs		903	933
Operating income net of insurance claims	Income statement	1,458	1,396
Exclude:			
- customer redress charges	Non-core items (OFR)	5	-
- UK portfolio divestments	Non-core items (OFR)	(29)	-
- gross up of policyholder tax in the W&I business	Non-core items (OFR)	(22)	2
- investment return on treasury stock held for policyholders	Non-core items (OFR)	(1)	-
- transfers from reserves on asset disposal	Note 11	(1)	(2)
- net gain on disposal and revaluation of investments	Other income (OFR)	(2)	(8)
- financial instrument valuation adjustments (CVA, DVA, FVA) and other	Other income (OFR)	18	19
- unit-linked investment variance - W&I	Other income (OFR)	(21)	7
- Interest rate movements - W&I	Other income (OFR)	(15)	4
Adjusted income		1,390	1,418
Cost / income ratio %		65%	66%

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.

Growth in new lending on a constant currency basis

Calculation	Source	30 June 2019 €m	30 June 2018 €m
New lending in the period	Loans and advances to customers (OFR)	7,712	7,714
Impact of foreign exchange movements		-	20
New lending on a constant currency basis		7,712	7,734
Growth in new lending (%)		-	

Alternative performance measures (continued)

Gross yield represents the underlying interest income recognised on interest earning assets, net of interest on derivatives which are in a hedge relationship with the relevant asset. See pages 8 and 110 for further information.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Interest income	Income statement	1,265	1,266
Exclude negative interest on financial liabilities	Note 4	(10)	(12)
Include negative interest on financial assets	Note 5	(4)	(7)
Exclude customer redress charges	Note 4	5	-
Include impact of FV hedges of current accounts	Average balance sheet	44	16
Exclude interest income related to UK portfolio divestments	Average balance sheet	(18)	-
Underlying interest expense		1,282	1,263
Average interest earning assets	Average balance sheet	100,081	98,057
Average gross yield % (annualised)		2.58%	2.60%

Gross yield - customer lending

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Interest income on loans and advances to customers	Note 4	1,134	1,134
Interest income on finance leases and hire purchase receivables	Note 4	84	78
Exclude customer redress charges	Note 4	5	-
Include impact of FV hedges of current accounts	Average balance sheet	44	16
Exclude interest income related to UK portfolio divestments	Average balance sheet	(18)	-
Underlying interest income on customer lending		1,249	1,228
Average customer lending assets	Average balance sheet	77,177	76,004
Average gross yield on customer lending % (annualised)		3.26%	3.26%

Alternative performance measures (continued)

Gross yield- liquid assets

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Interest income on loans and advances to banks	Note 4	15	13
Interest income on debt securities at amortised cost	Note 4	6	6
Interest income on debt securities at FVOCI	Note 4	16	23
Include negative interest on financial assets	Note 5	(4)	(7)
Underlying interest income on liquid assets		33	35
Loans and advances to banks	Average balance sheet	6,253	8,331
Debt securities at amortised cost and financial assets at FVOCI	Average balance sheet	16,651	13,722
Average interest earning liquid assets		22,904	22,053
Average gross yield on liquid assets % (annualised)		0.29%	0.32%

Average cost of funds represents the underlying interest expense recognised on interest bearing liabilities, net of interest on derivatives which are in a hedge relationship with the relevant liability. See pages 8 and 110 for further information.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Interest expense	Income statement	188	190
Exclude negative interest on financial assets	Note 5	(4)	(7)
Include negative interest on financial liabilities	Note 4	(10)	(12)
Exclude impact of FV hedges of current accounts	Average balance sheet	44	16
Exclude interest expense related to UK portfolio divestments	Average balance sheet	(5)	-
Underlying interest expense		213	187
Average interest bearing liabilities	Average balance sheet	91,450	88,969
Average cost of funds % (annualised)		(0.47%)	(0.42%)

Net interest margin (NIM) is stated on an underlying basis after adjusting for IFRS income classifications. See page 8 for further details.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Net interest income	Income statement	1,077	1,076
Exclude customer redress charges	Note 4	5	-
Exclude net interest income related to UK portfolio divestments	Non-core items (OFR)	(13)	-
IFRS income classifications	Net interest income (OFR)	10	19
Underlying net interest income after IFRS income classifications		1,079	1,095
Average interest earning assets	Average balance sheet	100,081	98,057
IFRS income classifications - average assets	Net interest income (OFR)	441	551
Total average interest earning assets		100,522	98,608
Net interest margin % (annualised)		2.16%	2.23%

Alternative performance measures *(continued)*

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

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Loans and advances to customers	Balance sheet	77,400	76,363
Loans and advances to customers (Held for Sale)	Note 18	580	600
Net loans and advances to customers		77,980	76,963
Customer deposits	Balance sheet	80,204	78,899
Loan to deposit ratio %		97%	97%

Net Impairment losses / gains on loans and advances to customers at amortised cost (bps) is the net impairment loss / gain on loans and advances to customers at amortised cost divided by average gross loans and advances to customers at amortised cost.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Net impairment gain / (loss) on loans & advances to customers at amortised cost	Note 15	81	(72)
Average gross loans and advances to customers		78,931	78,588
Net Impairment gains / (losses) on loans and advances to customers at amortised cost (bps) (annualised)		21	(18)

NPE ratio is calculated as non-performing exposures on loans and advances to customers as a percentage of the gross carrying value of loans and advances to customers.

Calculation	Source	30 June 2019 €m	31 December 2018 €m
Non-performing exposures	Asset quality (OFR)	4,187	4,984
Loans and advances to customers at amortised cost	Note 19	78,699	77,800
Loans and advances to customers at FVTPL	Note 19	256	261
Loans and advances to customers held for sale	Note 19	606	630
Total loans and advances to customers		79,561	78,691
NPE ratio %		5.3%	6.3%

Alternative performance measures (continued)

Tangible Net Asset Value (TNAV) per share is calculated as shareholder equity less intangible assets and goodwill divided by the number of ordinary shares in issue, adjusted for treasury shares held for the benefit of life assurance policyholders.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Shareholder equity	Balance sheet	9,257	9,074
Less - Intangible assets	Note 22	(777)	(755)
Less - Goodwill	Note 22	(34)	(31)
Adjust for own shares held for the benefit of life assurance policyholders	Balance sheet	27	28
Tangible net asset value		8,473	8,316
Number of ordinary shares in issue	Note 17	1,078,822,872	1,078,822,872
Treasury shares held for the benefit of life assurance policyholders	Note 17	(3,693,999)	(3,526,761)
		1,075,128,873	1,075,296,111
Tangible net asset value per share (cent)		788	773

Return on Tangible Equity (ROTE) is calculated as being profit attributable to ordinary shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Return on Tangible Equity (adjusted) is calculated by adjusting the ROTE to exclude other gains and other valuation items (net of tax) and to adjust the impairment gain or loss on financial instruments (net of tax) to a more 'normalised' impairment level of impairment loss, net of tax. The average shareholders tangible equity is adjusted to a maximum CET 1 ratio of 13%, reflecting the Group target CET 1 ratio.

	Reported		Adjusted	
	30 June 2019 €m	31 December 2018 €m	30 June 2019 €m	31 December 2018 €m
Profit for the period attributable to shareholders	195	620	195	620
Non-core items, net of tax (see page 12)	77	78	77	78
Other gains and other valuation items, net of tax (see page 9)	-	-	(18)	38
Adjustment for current period impairment gain, net of tax	-	-	-	(34)
Normalised impairment charge (20 bps), net of tax	-	-	-	(127)
Adjusted profit after tax	272	698	254	575
Annualised adjusted profit after tax	579	-	543	-
Shareholders' equity	9,257	9,243	9,257	9,243
Intangible assets and goodwill	(811)	(802)	(811)	(802)
Shareholders' tangible equity	8,446	8,441	8,446	8,441
Average shareholders' tangible equity	8,576	8,229	8,576	8,229
Adjustment for CET1 ratio at 13.0%	-	-	(196)	(296)
Adjusted average shareholders tangible equity	8,576	8,229	8,380	7,933
Return on Tangible Equity	6.8%	8.5%	6.5%	7.2%

Alternative performance measures *(continued)*

Underlying earnings per share is calculated as profit attributable to shareholders adjusted for non-core items, divided by the number of ordinary shares in issue, adjusted for treasury shares held for the benefit of life assurance policyholders.

Calculation	Source	30 June 2019 €m	30 June 2018 €m
Profit attributable to shareholders	Income statement	195	350
Non-core items	Non-core items (OFR)	61	46
Tax on non-core items		16	(7)
Underlying profit attributable to shareholders		272	389
Number of ordinary shares in issue	Note 17	1,078,822,872	1,078,822,872
Treasury shares held for the benefit of life assurance policyholders	Note 17	(3,594,251)	(3,674,622)
		1,075,228,621	1,075,148,250
Underlying earnings per share (cent)		25.2	36.2

'Annual Premium Equivalent' (APE) is a common metric used by insurance companies. The approach taken by insurance companies is to take 100% of regular premiums, being the annual premiums received for a policy, and 10% of single premiums. This assumes that an average life insurance policy lasts 10 years and therefore taking 10% of single premiums annualises the single lump sum payment received over the 10 year duration.

Business income is net other income after IFRS income classifications before other gains and other valuation items. See page 9 for further details.

'Forborne collateral realisation' loans (FCRs): Loans (primarily residential mortgages) which meet both of the following criteria: (i) not greater than 90 days past due; and (ii) forbearance is in place and future reliance on the realisation of collateral is expected for the repayment in full of the loan when such reliance was not originally envisaged. Such loans are considered credit-impaired and include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

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

Liquid assets are comprised of cash and balances at central banks, loans and advances to banks, debt securities at amortised cost, financial assets at FVOCI and certain financial assets at FVTPL (excluding balances in Wealth and Insurance). See page 15 for further details.

'Non-performing exposures' (NPEs): These are:

- (i) **credit-impaired loans** (which includes loans where the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security, including FCR cases, and loans where the borrower is greater than 90 days past due and the arrears amount is material; and); and
- (ii) **other / probationary loans** that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

Organic capital generation consists of attributable profit and movements in regulatory deductions, including the reduction in deferred tax assets deduction (deferred tax assets that rely on future profitability) and movements in the Expected Loss deduction.

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 12 for further information.

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

For any abbreviations used in this document please refer to the abbreviations listing on pages 328 and 329 of the Group's Annual Report for the year ended 31 December 2018.

