Bank of Ireland Group plc

Interim Report

For the six months ended
30 June 2018

Bank of Ireland Group

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Forward-looking statement

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

Examples of forward-looking statements include, among others: statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment losses, 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 38 and also the discussion of risk in the Group's Annual Report for the year ended 31 December 2017.

Nothing in this document should be considered to be a forecast of future profitability, dividends or financial position of the Group and none of the information in this document is or is intended to be a profit forecast, dividend 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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www.bankofireland.com

Key highlights

Strong Financial Performance	**€500m** *Underlying profit before tax*	• Net interest margin of 2.23% • Net impairment gains of €81m • NPEs reduced by 10% to €5.9bn; NPE ratio now at 7.5%
Growth	**€7.7bn** *16% increase in new lending volumes*	• Net loan book growth of €0.5bn to €76.6bn • New lending up 16% vs H1 2017; New Irish mortgages up 30% • Maintaining strong commercial pricing and risk discipline
Transformation	**3%** *Reduction in costs*	• Costs reduction of €27m (3%) vs H2 2017 • Business model initiatives to drive efficiencies progressing at pace • Phase 1 of Core Banking Programme completed in April 2018
Capital	**14.1%** *Strong CET 1 ratios*	• Organic capital generation of 90bps

Performance summary

As of 1 January 2018, IFRS 9 'Financial instruments' came into effect and the Group's performance summary as set out in the table below and on page 5, has been prepared in accordance with IFRS 9. Comparative figures have not been restated for the impact of IFRS 9 and are presented on an IAS 39 classification and measurement basis.

	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m
Group performance on an underlying[2] basis		
Net interest income	1,076	1,151
Other income (net)	322	381
Operating income (net of insurance claims)	1,398	1,532
Operating expenses (before Transformation Investment and levies and regulatory charges)	(882)	(887)
Transformation Investment charge (page 12)	(51)	(49)
Levies and regulatory charges	(67)	(63)
Operating profit before net impairment gains / (losses) on financial instruments	**398**	**533**
Net impairment gains / (losses) on financial instruments	81	(59)
Share of results of associates and joint ventures (after tax)	21	18
Underlying[2] profit before tax	**500**	**492**
Total non-core items (page 14)	(46)	(32)
Profit before tax	**454**	**460**
Group performance		
Net interest margin[3] (%)	2.23%	2.32%
Net impairment gains / (losses) on loans and advances to customers (bps)	18	(14)
Cost income ratio[4] (%)	66%	64%
Gross new lending volumes (€bn)	7.7	6.6
Return on Tangible Equity	9.6%	9.9%
Return on Tangible Equity (adjusted)	6.8%	8.2%

For further information on measures referred to in the key highlights and performance summary see page 140.

1 Comparative figures have been restated to reflect: (i) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 (see the Group's Annual Report for the year ended 31 December 2017 for further detail) which on an underlying basis has resulted in an increase of €12 million in other income (net) and a €7 million increase in the net charge from non-core items for the six months ended 30 June 2017 and (ii) the reclassification of €6 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) for the six months ended 30 June 2017, see page 12 for further detail.

2 Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 14 for further information.

3 The net interest margin is stated after adjusting for IFRS income classifications. See page 10 for further details.

4 The Group has revised its approach to the calculation of the cost income ratio and the comparative figure has been restated to reflect the revised approach. See page 140 for further details.

	6 months ended 30 June 2018 € cent	Restated[1] 6 months ended 30 June 2017 € cent
Per ordinary share		
Basic earnings per share[2]	32.5	32.8
Underlying earnings per share[2]	36.1	35.7
Tangible Net Asset Value per share	771	740

Divisional performance[4] **Underlying profit before tax**	6 months ended 30 June 2018 €m	Restated[3] 6 months ended 30 June 2017 €m
Retail Ireland	345	309
Wealth and Insurance (formerly Bank of Ireland Life)	34	56
Retail UK	113	70
Retail UK (Stg£ million equivalent)	*99*	*60*
Corporate and Treasury	233	269
Group Centre and other (excluding Transformation Investment & levies and regulatory charges)	(107)	(100)
Transformation Investment charge	(51)	(49)
Levies and regulatory charges	(67)	(63)
Underlying profit before tax	**500**	**492**

Balance sheet and key metrics	30 June 2018 €bn	31 December 2017 €bn
Total assets	122	123
Average interest earning assets	98	98
Ordinary shareholders' equity	9.1	8.9
Loans and advances to customers (after impairment loss allowances)	76.6	76.1
Credit-impaired loans and advances to customers (comparative as at 1 January 2018)	5.3	6.0
Non-performing exposures (NPEs)	5.9	6.5
NPE ratio	*7.5%*	*8.3%*
Customer deposits	76.7	75.9
Wholesale funding	11.4	12.7
- Wholesale market funding	*7.7*	*7.7*
- Drawings from Monetary Authorities	*3.7*	*5.0*
Liquidity		
Liquidity Coverage ratio (LCR)[5]	139%	136%
Net Stable Funding ratio (NSFR)[6]	127%	127%
Loan to deposit ratio (LDR)	100%	100%
Capital		
Common equity tier 1 ratio - fully loaded	14.1%	13.8%
Common equity tier 1 ratio - regulatory rules	15.8%	15.8%
Total capital ratio - regulatory	19.8%	20.2%
Risk weighted assets (RWA) (€bn)	45.8	45.0
RWA as % of total assets	38%	37%
RWA as % of loans and advances to customers	60%	59%

[1] *Comparative figures have been restated to reflect: (i) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 which on an underlying basis has resulted in an increase of €12 million in other income (net) and a corresponding increase of €7 million in the net-charge from non-core items for the six months ended 30 June 2017. This restatement has resulted in a 1 cent increase in basic earnings per share and 1 cent increase in underlying earnings per share for the six months ended 30 June 2017 and (ii) the reclassification of €6 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) for the six months ended 30 June 2017, see page 12 for further detail. The Transformation Investment charge has been booked in Group Centre for the current and comparative period.*

[2] *For basis of calculation of basic earnings per share see note 18 on page 81. Underlying earnings per share excludes non-core items.*

[3] *Comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) to incorporate the Private Banking and Insurance Services business units which were previously reported within Retail Ireland. This has resulted in an increase of €4 million in the underlying profit before tax of Wealth and Insurance and a corresponding decrease in the underlying profit before tax of Retail Ireland for the six months ended 30 June 2017; (ii) the Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in a decrease of €4 million in the underlying profit before tax of Corporate and Treasury and a corresponding increase in Group Centre for the six months ended 30 June 2017; and (iii) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 which on an underlying basis has resulted in an increase of €12 million in the underlying profit before tax of Wealth and Insurance for the six months ended 30 June 2017.*

[4] *For more details on the performance of each division see pages 25 to 34.*

[5] *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.*

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

Group Chief Executive's review

'Our strong financial performance in the first half of 2018 demonstrates good progress in delivering on the growth and transformation strategy we have set out for 2021'

Francesca McDonagh
Group Chief Executive

I am pleased to report a strong financial performance in the first half of 2018. All our trading divisions are profitable, contributing towards an underlying profit of €500 million during the period. The economies in which we operate continue to be supportive, and have enabled us to grow our loan book by €0.5 billion on a constant currency basis while maintaining our commercial pricing and risk discipline. Operating expenses have decreased by c.3%` compared to the second half of 2017 and asset quality continues to improve.

In February 2018, I outlined our ambition, purpose, and values and set out three strategic priorities:

- Transform the bank;
- Serve customers brilliantly; and
- Grow sustainable profits.

At our Investor Day in June 2018, I expanded upon these strategic priorities and our ambition to be the National Champion Bank in Ireland, with UK and selective international diversification. Bank of Ireland's next chapter is about growth and transformation with particular focus on growth in Ireland, accelerated and broadened transformation, a reshaped UK business, and increased profitability.

Unlocking growth in our Irish business will drive expansion in lending volumes and fee income, and increase our revenue on a sustainable basis. We will enable this by reallocating capital and resources to be the leading supporter of house building and home buying in Ireland, and by maximising our wealth management and insurance business. This strategy is supported by strong underlying fundamentals in the Irish economy and, in particular, the demand for housing and Ireland's changing demographics.

We are committed to investing in our multi-year transformation programme. This will support our growth ambitions, improve customer service, and drive efficiency while also building a truly customer focussed organisation which positively impacts the communities we serve and delivers attractive sustainable returns to our shareholders.

We are committed to the UK market but with a strategic focus on increasing returns. This means investing in the growth of our more profitable businesses in the UK; improving as quickly as possible those businesses that have potential but need to deliver better returns; and repositioning those parts of the UK business where we have less certainty about achieving our expectations.

Execution and delivery of the Group's strategic plan will enable us to generate a return on tangible equity of in excess of 10%, to reduce our cost income ratio to c.50% by 2021, and to prudently and progressively increase our dividend per share, over time building to a payout ratio of around 50% of sustainable earnings.

Strong financial performance in first half of 2018

The Group generated an underlying profit before tax of €500 million in the first half of 2018. All trading divisions are profitable.

Economic growth in our two key markets is supporting our businesses. The strong performance of the Irish economy is translating into job gains and falling unemployment. Over 2 million people are now in work and the unemployment rate is down to 5.1% from a peak of 16%. The UK labour market is also doing well, with the unemployment rate at 4.2% - its lowest level since 1975. Brexit uncertainties remain a headwind for both countries in the period ahead, but, this aside, the economic backdrop is supportive.

In the first half of 2018, new lending volumes of €7.7 billion were €1.1 billion or 16% higher than the same period in 2017 on a constant currency basis, with growth across all our business divisions. We provided over €3.8 billion in lending to personal, business and corporate customers across Ireland. New mortgage lending in Ireland grew by 30% compared to the same period in 2017, with a market share of 28% in the first half of 2018. We are currently funding the construction of almost 3,000 residential units and 1,700 student accommodation beds in Ireland, and are supporting development on 130 sites across Ireland, including c.40 large scale development projects. We anticipate further loan book growth in the second half of the year.

The average net interest margin (NIM) for the Group was 2.23%. This reflects the positive impact from new lending margins and our continued strong commercial pricing discipline, offset by the impact of the ongoing low interest rate environment and NAMA sub debt reclassification due to the introduction of IFRS 9. We expect NIM for the second half of 2018 to be broadly in line with full year 2018 guidance of 2.24%.

Fees and other income arise from diversified business activities including bancassurance, foreign exchange and transactional banking fees, and included sustainable business income of €323 million for the first half of 2018, which was broadly in line with the same period in 2017.

Operating expenses (excluding levies and regulatory charges) of €933 million in the first half of 2018 decreased by c.3% compared to the second half of 2017 and were broadly in line with the first half of 2017. This included €51 million, or c.36%, of the €141 million we invested in our transformation programme during the period. We expect operating expenses to further reduce in the second half of 2018 and every year to 2021. Levies and regulatory charges of €67 million were also incurred. Non-core charges of €46 million for the period primarily reflect restructuring costs related to the implementation of business model changes as part of our transformation programme.

Our asset quality continues to improve. Reflecting ongoing improvement in the credit quality of our loan portfolios, our actions to manage our non-performing portfolios, and the positive economic environment and outlook particularly in our home market in Ireland, we had net impairment gains of €81 million for the first half of 2018. Absent a deterioration in the economic environment or outlook, we expect net impairment gains for the full year 2018. Non-performing exposures (NPEs) reduced over the period by €0.6 billion to €5.9 billion, which is c.7.5% of gross customer loans. We expect further reductions in NPEs in the second half of 2018 and beyond. NPE reduction strategies will be kept under review in response to the associated and evolving regulatory capital framework.

The Group continued to generate strong organic capital. Our fully loaded CET 1 ratio increased by 30 basis points during the first half of 2018 to 14.1%, and our regulatory CET 1 ratio was unchanged at 15.8%. The increase in our fully loaded capital ratio primarily reflects organic capital generation from profits earned during the period and the reduction in our IAS 19 pension deficit, partly offset by investments in the growth of our loan book and in our transformation programme, the impact of the transition to IFRS 9 and a deduction for a potential full year dividend.

In July 2018, the Central Bank of Ireland announced its intention to increase the countercyclical capital buffer (CCyB) in Ireland from its current level of 0% to 1.0% effective from 5 July 2019. The CCyB will be applied in proportion to the Group's credit risk weighted assets in Ireland, resulting in a c.60 basis points Irish CCyB requirement for the Group from July 2019. Separately, as the ECB's Targeted Review of Internal Models (TRIM) process with respect to Irish mortgages is largely complete, we expect to make changes to our Irish mortgage credit risk models in the second half of this year. The estimated capital impact is a reduction of c.70 basis points and a range of potential options are available for consideration to offset this capital impact. The Group continues to expect to maintain a CET 1 ratio in excess of 13%, on a regulatory basis and on a fully loaded basis by the end of the O-SII buffer phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

Customers, Colleagues and Communities

During the first half of 2018, we have made good progress on initiatives to support our ambition, purpose and values.

Over 6,000 colleagues attended 50 culture roadshows in the first half of 2018 with our staff engagement levels across the group steadily improving. We also continue to invest in training, upskilling and professional development for our employees to equip them with the capabilities needed to support and serve our customers and further improve our culture.

We are reducing the number of layers between head office and our frontline to ensure senior managers are closer to our customers, to empower our people, to speed up decision making, and to be more agile and responsive to customer needs.

Our extensive branch network operates in 265 locations in communities across Ireland, the largest reach of any bank. This network is connecting and supporting the communities we work and live in. Within this footprint, we are increasing the number of full-service branches by more than 160% while also reallocating staff to the frontline, increasing customer-facing roles by more than 16%.

Our investment in technology, replacing legacy systems with simpler, state of the art technology, and improving our digital channels, services and security, is designed to support how our customers bank today and into the future. Phase 1 of our core banking programme was completed in April 2018, delivering a single customer record for over 2 million customers across all products. We expect to deliver our first end-to-end use of the Temenos platform with a pilot phase test launch of our personal loan and deposit origination later this year.

Looking Forward

After a prolonged period of contraction following the global financial crisis, credit growth in Ireland for both consumers and businesses is now turning positive. Our ambition to be the National Champion Bank will see Bank of Ireland strongly supporting and enabling this growth and investment in Ireland. Our transformation programme, and the investments we are making in our business, will further support growth, improve customer service and drive efficiency.

We are confident of making further progress against our strategic objectives during the second half of 2018. We expect our loan book to grow again while maintaining commercial pricing and risk discipline. We expect further reductions in operating expenses, in line with our target of reducing our cost base every year to €1.7 billion in 2021, and asset quality to continue to improve, with further reductions in NPEs by the end of 2018

The implementation of our growth and transformation strategy, as outlined at our Investor Day in June, will ensure we 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.

Francesca McDonagh
Group Chief Executive
27 July 2018

Operating and financial review *(incorporating risk management)*

Basis of presentation

This operating and financial review (OFR) is presented on an underlying basis. For an explanation of underlying see page 14.

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 2018 compared to the six months ended 30 June 2017. The balance sheets are presented for 30 June 2018 compared to 31 December 2017.

As of 1 January 2018, IFRS 9 'Financial instruments' came into effect; the Group's operating and financial review as set out in the table below and on pages 9 to 47, has been prepared in accordance with IFRS 9. Comparative figures have not been restated for the impact of IFRS 9 and are presented on an IAS 39 classification and measurement basis. See note 43 on page 111 of the consolidated interim financial statements.

Principal rates of exchange used in the preparation of the Interim Financial Statements are set out on page 139.

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

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	**6 months ended 30 June 2018 €m**	Restated[2] 6 months ended 30 June 2017 €m	Change %
Net interest income	1	1,076	1,151	(7%)
Net other income	2	322	381	(15%)
Operating income (net of insurance claims)		**1,398**	**1,532**	**(9%)**
Operating expenses (before Transformation Investment and levies and regulatory charges)	3	(882)	(887)	1%
Transformation Investment charge	3	(51)	(49)	(4%)
Levies and regulatory charges	3	(67)	(63)	(7%)
Operating profit before net impairment gains / (losses) on financial instruments		**398**	**533**	**(25%)**
Net impairment gains / (losses) on financial instruments	4	81	(59)	n/m
Share of results of associates and joint ventures (after tax)		21	18	17%
Underlying[1] profit before tax		**500**	**492**	**2%**
Non-core items	5	(46)	(32)	(44%)
Profit before tax		**454**	**460**	**(1%)**
Tax charge		(77)	(78)	1%
Profit for the period		**377**	**382**	**(1%)**
Profit attributable to shareholders		350	382	(8%)
Profit attributable to non-controlling interests		27	-	100%
Profit for the period		**377**	**382**	**(1%)**
Key metrics				
Net interest margin[3] (%)		2.23%	2.32%	
Cost income ratio[4] (%)		66%	64%	
Net impairment gains / (losses) on loans and advances to customers (bps)	4	18	(14)	
Return on Tangible Equity		9.6%	9.9%	
Return on Tangible Equity (adjusted)		6.8%	8.2%	

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 14 for further information.*

[2] *Comparative figures have been restated to reflect: (i) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 (see the Group's Annual Report for the year ended 31 December 2017 for further detail) which on an underlying basis has resulted in an increase of €12 million in other income (net) and a €7 million increase in the net charge from non-core items for the six months ended 30 June 2017; and (ii) the reclassification of €6 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) for the six months ended 30 June 2017, see page 12 for further detail.*

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

[4] *The Group has revised its approach to the calculation of the cost income ratio. The 30 June 2017 cost income ratio has been restated to reflect this change in approach. See page 140 for further details.*

Summary consolidated income statement on an underlying basis (continued)

Profit before tax of €454 million for the six months ended 30 June 2018, is €6 million lower than the same period in 2017.

Underlying profit before tax of €500 million for the six months ended 30 June 2018, is €8 million or 2% higher compared to the same period in 2017 primarily due to net impairment gains on financial instruments in 2018 of €81 million compared to a net impairment loss of €59 million in 2017, partially offset by lower operating income of €134 million.

Operating income has decreased by €134 million compared to the same period in 2017 primarily due to:

- a net interest income reduction of €75 million, primarily reflecting Tier 2 issuance, bond sales / maturities in 2017, the removal of the amortisation of the NAMA subordinated debt (on transition to IFRS 9) and foreign exchange (FX) impacts; and
- a net other income reduction of €59 million, primarily reflecting lower gains on asset disposals and adverse movements arising on valuation items due to market movements.

Operating expenses (before Transformation Investment and levies and regulatory charges) of €882 million for the six months ended 30 June 2018 are €5 million or 1% lower than the same period in 2017 and €27 million or 3% lower than the second half of 2017. The Group has continued to focus on controlling its operational costs, while maintaining its investment in regulatory compliance, technology and business growth. Our **transformation programme** continues to make progress and we invested a further €141 million in this programme in the first six months of 2018, of which €39 million is capitalised on the balance sheet (six months ended 30 June 2017: €56 million), with an income statement charge of €51 million (six months ended 30 June 2017: €49 million) and €51 million of restructuring programme costs recognised through non-core items.

The Group has incurred **levies and regulatory charges** of €67 million in the six months ended 30 June 2018 (six months ended 30 June 2017: €63 million).

Net impairment gain on financial instruments of €81 million under IFRS 9 for the six months ended 30 June 2018, gives a €140 million benefit compared to the €59 million charge under IAS 39 in the same period of 2017. The net impairment gain reflects the strong performance of the Group's loan portfolios, ongoing resolution of non-performing exposures (including credit-impaired loans), and a continued positive economic environment and outlook in key markets, including increasing property collateral values particularly in the Republic of Ireland.

Share of results of associates and joint ventures (after tax) is €21 million for the six months ended 30 June 2018 (six months ended 30 June 2017: €18 million).

Non-core items are a net charge of €46 million for the six months ended 30 June 2018, primarily reflecting costs associated with the Group's restructuring programme of €51 million, partially offset by a gain of €7 million on the disposal of a property.

The Group has announced as part of its Investor Day a target to increase **Return on Tangible Equity (RoTE)** to in excess of 10% by 2021. For the six months ended 30 June 2018, RoTE on an adjusted basis is 6.8% (30 June 2017: 8.2%). This adjusted basis reflects the exclusion of other gains and other valuation items and uses a 'normalised' impairment charge of 20 basis points for the period. On a reported basis RoTE for the six months ended 30 June 2018 is 9.6% (30 June 2017: 9.9%).

Operating income (net of insurance claims)

Net interest income

Table: 1 Net interest income / net interest margin	**6 months ended 30 June 2018 €m**	6 months ended 30 June 2017 €m	Change %
Net interest income	1,076	1,151	(7%)
IFRS income classifications[1]	19	(8)	n/m
Net interest income after IFRS income classifications	**1,095**	**1,143**	**(4%)**
Average interest earning assets (€bn)[2]			
Loans and advances to customers	76	78	(3%)
Other interest earning assets	23	21	10%
Total average interest earning assets	**99**	**99**	**-**
Net interest margin[3] (annualised)	**2.23%**	**2.32%**	
Gross yield - customer lending[4]	3.26%	3.28%	
Gross yield - liquid assets[4]	0.32%	0.62%	
Average cost of funds - interest bearing liabilities and current accounts[4]	(0.42%)	(0.41%)	
ECB base rate (average)	0.00%	0.00%	
3 month Euribor rate (average)	(0.33%)	(0.33%)	
Bank of England base rate (average)	0.50%	0.25%	
3 month Libor rate (average)	0.62%	0.33%	

Net interest income after IFRS income classifications of €1,095 million for the six months ended 30 June 2018 is €48 million lower when compared to the same period in 2017, primarily reflecting credit risk transfer transactions, Tier 2 issuance, bond sales / maturities in 2017, the removal of the amortisation of the NAMA subordinated debt (on transition to IFRS 9) and FX impacts.

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

The Group's average net interest margin for the six months ended 30 June 2018 has decreased by 9 basis points to 2.23% from 30 June 2017 and is broadly in line with the 2017 exit net interest margin of 2.24%.

The Group's average cost of funds is stable at 42 basis points in the first half of 2018 compared to the same period in 2017, primarily reflecting the impact of credit risk transfer transactions and Tier 2 issuance undertaken in the second half of 2017, partially offset by lower deposit costs.

The Group's gross customer lending yield reduced by 2 basis points over the same period in 2017, primarily reflecting the impact of the low interest rate environment on certain portfolios.

Average interest earning assets have remained stable compared to the same period in 2017.

[1] The period on period changes in 'net interest income' and 'net other income' (see table 2) are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at, or mandatorily included at 'fair value through profit or loss' (FVTPL). Where the Group hold 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] Average interest earning assets includes €551 million of interest bearing assets carried at FVTPL.

[3] The net interest margin is stated after adjusting for IFRS income classifications.

[4] Gross yield and average cost of funds represents the interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. See page 138 for further information.

Operating income (net of insurance claims) (continued)

Net other income

Table: 2 Net other income	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m	Change %
Net other income	322	381	(15%)
IFRS income classifications[2]	(19)	8	n/m
Net other income after IFRS income classifications	**303**	**389**	**(22%)**
Analysed as:			
Business income[3]			
Retail Ireland	131	143	(8%)
Wealth and Insurance	115	99	16%
Retail UK	6	3	100%
Corporate and Treasury	72	86	(16%)
Group Centre and other	(1)	(4)	n/m
Total business income	**323**	**327**	**(1%)**
Other gains			
Transfers from reserves on asset disposal[4]	2	15	(87%)
Net gain on disposal and revaluation of investments	8	-	100%
Gain on disposal and revaluation of investment properties	-	1	n/m
Other valuation items			
Financial instrument valuation adjustments (CVA, DVA, FVA)[5] and other	(19)	29	n/m
Unit-linked investment variance - Wealth and Insurance	(7)	7	n/m
Interest rate movements - Wealth and Insurance	(4)	10	n/m
Net other income after IFRS income classifications	**303**	**389**	**(22%)**

Net other income after IFRS income classifications for the six months ended 30 June 2018 is €303 million, a decrease of €86 million or 22% on the same period in 2017, primarily reflecting adverse movements of €76 million arising on other valuation items compared to the same period in 2017 and slightly lower business income.

Business income for the six months ended 30 June 2018 has decreased by €4 million or 1% compared to the same period in 2017:

- business income in Retail Ireland of €131 million, which includes personal and business current account fees, FX income and interchange income on credit and debit cards is €12 million lower than the same period in 2017;
- business income in Wealth and Insurance of €115 million increased by €16 million reflecting an increase in single premium, Group pension and Group risk sales;
- business income in Retail UK, which includes transactional banking fees and interchange income on credit cards less commissions payable to strategic partners was €6 million; and
- business income in Corporate and Treasury of €72 million is €14 million lower than the same period in 2017.

Other gains included in net other income are as follows:

- a gain of €15 million arising on the partial disposal of NAMA subordinated debt and the disposal of equity investments, partially offset by a loss of €7 million relating to the revaluation of an equity investment.

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

- a charge of €19 million due to valuation adjustments on financial instruments (CVA, DVA, FVA) and other which primarily relates to market movements such as widening of credit spreads and changes in interest rates during the period;
- a negative €7 million unit-linked investment variance in Wealth and Insurance in the six months ended 30 June 2018 reflecting lower than expected growth in investment markets during the period; and
- a charge of €4 million as a result of interest rate movements in Wealth and Insurance for the six months ended 30 June 2018 compared to a gain of €10 million in the same period in 2017, primarily due to the negative impact of wider credit spreads.

[1] As outlined on page 5, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) which resulted in a decrease of €14 million in business income in Retail Ireland and a corresponding increase in Wealth and Insurance for the six months ended 30 June 2017; and (ii) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 which resulted in a €1 million decrease in business income in Wealth and Insurance and a €13 million increase in 'other valuation items' for the six months ended 30 June 2017.

[2] The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. See page 10 for further information.

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

[4] Transfer from reserves on asset disposal includes transfers from the available for sale (AFS) reserve under IAS 39 and from the debt instruments at fair value through other comprehensive income (FVOCI) under IFRS 9.

[5] Credit Valuation Adjustment (CVA); Debit Valuation Adjustment (DVA); Funding Valuation Adjustment (FVA).

Operating expenses

Table: 3 Operating expenses	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m	Change %
Staff costs (excluding pension costs)	369	378	(2%)
Pension costs	73	74	(1%)
- Retirement benefit costs (defined benefit plans)	*59*	*62*	*(5%)*
- Retirement benefit costs (defined contribution plans)	*14*	*12*	*17%*
Depreciation and amortisation	101	75	35%
Other costs	339	360	(6%)
Operating expenses (before Transformation Investment and levies and regulatory charges)	**882**	**887**	**(1%)**
Transformation Investment charge	51	49	(4%)
Levies and regulatory charges	67	63	6%
Operating expenses	**1,000**	**999**	**-**

			Change
Staff numbers at period end	**10,660**	**11,355**	**(695)**
Average staff numbers during the period	**10,752**	**11,261**	**(509)**

Operating expenses (before Transformation Investment and levies and regulatory charges) of €882 million for the six months ended 30 June 2018 are €5 million or 1% lower than the same period in 2017 and €27 million or 3% lower than the second half of 2017.

The Group has continued to focus on controlling its operational costs during the year, while maintaining its investment in regulatory compliance, technology and business growth. Foreign currency movements provided a €5 million translation benefit during the period.

Staff costs (excluding pension costs) of €369 million for the six months ended 30 June 2018 are €9 million lower than the same period in 2017. On a constant currency basis, staff costs have decreased by €6 million or 2%. The Group paid a salary increase averaging c.2.5% effective 1 January 2018 which has partially offset the impact of lower staff numbers. The average number of staff employed by the Group has decreased by 5% to 10,752 in the six months ended 30 June 2018 compared to 11,261 in the same period in 2017. Staff numbers at 30 June 2018 were 10,660 (31 December 2017: 10,892).

Pension costs of €73 million for the six months ended 30 June 2018 are €1 million lower than the same period in 2017. The decrease in defined benefit (DB) costs of €3 million from €62 million to €59 million is due to lower service costs and higher interest cost. New joiners are added to the Group's defined contribution plans. The cost of defined contribution plans increased by €2 million from €12 million to €14 million.

Depreciation and amortisation of €101 million for the six months ended 30 June 2018 is €26 million or 35% higher than the same period in 2017. The increase is a result of technology investments made in recent years.

Other costs including technology, property, outsourced services and other non-staff costs are €339 million for the six months ended 30 June 2018, compared with €360 million for the same period in 2017. Other costs have decreased by €19 million on a constant currency basis. The Group continues to generate cost savings 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 we invested a further €141 million in this programme in the first six months of 2018, of which €39 million is capitalised on the balance sheet (six months ended 30 June 2017: €56 million), with an income statement charge of €51 million (six months ended 30 June 2017: €49 million) and €51 million of restructuring programme costs recognised through non-core items.

The total income statement charge of €51 million (six months ended 30 June 2017: €49 million) also includes €6 million for associated application and infrastructure costs which will be included as part of the Transformation Investment charge until it is customer supporting.

Levies and regulatory charges
The Group has incurred levies and regulatory charges of €67 million in the six months ended 30 June 2018 (six months ended 30 June 2017: €63 million). The higher charge is primarily driven by an increase in the Deposit Guarantee Scheme (DGS) of €6 million and Single Resolution Fund (SRF) of €3 million, which was partially offset by a decrease in Financial Services Compensation Scheme (FSCS) levy of €4 million and other levies of €1 million.

[1] *Comparative figures for the Transformation Investment charge (formerly the Core Banking Platform Investment charge) have been restated to align with the revised scope of the programme which now includes culture, systems and business model resulting in a decrease of €6 million in the 'Transformation Investment charge' and a corresponding increase in Other costs' (€5 million) and 'Depreciation and amortisation' (€1 million).*

Net impairment (gains) / losses on financial instruments

Table: 4 Net impairment (gains) / losses on financial instruments	**6 months ended 30 June 2018 €m**	6 months ended 30 June 2017 €m	Change %
Net impairment (gains) / losses on loans and advances to customers at amortised cost			
Residential mortgages	(31)	(53)	(42%)
- Retail Ireland	*(24)*	*(52)*	*(54%)*
- Retail UK	*(7)*	*(1)*	*n/m*
Non-property SME and corporate	(44)	48	n/m
- Republic of Ireland SME	*(46)*	*21*	*n/m*
- UK SME	*(10)*	*10*	*n/m*
- Corporate	*12*	*17*	*(29%)*
Property and construction	(2)	63	n/m
- Investment	*1*	*48*	*(98%)*
- Land and development	*(3)*	*15*	*n/m*
Consumer	5	1	n/m
Total net impairment (gains) / losses on loans and advances to customers at amortised cost	**(72)**	**59**	**n/m**
Net impairment (gains) / losses on other financial instruments (excluding loans and advances to customers at amortised cost)[1,2]	**(9)**	**-**	**100%**
Total net impairment (gains) / losses on financial instruments	**(81)**	**59**	**n/m**
Net impairment (gains) / losses on loans and advances to customers (bps)	(18)	14	

IFRS 9 'Financial instruments' came into effect on 1 January 2018 and has changed the basis under which the Group calculates and measures impairment on financial instruments. The asset quality section of the OFR (pages 39 to 47) provides definitions of the significant categories now used by the Group under IFRS 9, along with information on NPEs and the composition and impairment of the Group's loans and advances to customers at amortised cost. In addition the revisions to the Group's credit risk methodologies are described in this section.

The impact of IFRS 9 on the Group's accounting policies and critical accounting estimates and judgements can be found in notes 1 and 2 to the consolidated interim financial statements. The detail of the changes to the Group's balance sheet as a result of reclassification and remeasurement on transition from IAS 39 to IFRS 9 can be found in note 43. Further details of the impact of IFRS 9 on loans and advances to customers can be found in note 24, while note 25 'Credit risk exposures' provides quantitative information about credit risk arising from financial instruments held by the Group.

A net impairment gain of €81 million under IFRS 9 for the six months ended 30 June 2018, including a net impairment gain of €72 million for loans and advances to customers at amortised cost, gives a €140 million benefit compared to the €59 million charge under IAS 39 for the same period of 2017. The net impairment gain reflects the strong performance of the Group's loan portfolios, ongoing resolution of non-performing exposures (including credit-impaired loans), and a continued positive economic environment and outlook in key markets, including increasing property values particularly in the Republic of Ireland.

A net impairment gain under IFRS 9 on Residential mortgages of €31 million for the period ended 30 June 2018 was €22 million lower than the gain of €53 million under IAS 39 for the same period of 2017.

A net impairment gain under IFRS 9 on the Retail Ireland mortgage portfolio of €24 million during the period is €28 million lower than the gain of €52 million under IAS 39 for the same period in 2017. The impairment gain incorporates the impact of strong book performance and better than expected house price growth. Retail Ireland credit-impaired and non-performing exposures reduced by 7% and 6% respectively during the first half of 2018 with reductions achieved in both the Owner occupied and Buy to let market segments.

A net impairment gain of €44 million under IFRS 9 on the Non-property SME and corporate loan portfolio for the six months ended 30 June 2018 is €92 million favourable to the loss of €48 million under IAS 39 for the same period of 2017. The impairment gain was aided by more positive than expected outcomes on resolution of certain credit-impaired loans in the Republic of Ireland business banking portfolio.

A net impairment gain of €2 million under IFRS 9 on the Property and construction loan portfolio for the six months ended 30 June 2018 is €65 million favourable to the loss of €63 million under IAS 39 for the same period of 2017. The impairment gain was aided by continued improvement in Irish property markets.

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

[2] *The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for the six months ended 30 June 2017 was €nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 30 June 2017 were €10 million, this was recognised in net other income.*

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

A net impairment loss of €5 million under IFRS 9 on the Consumer loans portfolio for the six months ended 30 June 2018 is €4 million higher than the loss of €1 million under IAS 39 for the same period of 2017. It incorporates the impact of improving economic conditions particularly in Retail Ireland partially offset by strong growth in UK personal lending with an associated increase in stage 1 impairment loss allowance.

Non-core items

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

Table: 5

Non-core items	**6 months ended 30 June 2018 €m**	Restated[1] 6 months ended 30 June 2017 €m	Change %
Cost of restructuring programme	(51)	(17)	n/m
Gain on disposal of property	7	-	n/m
Gross-up for policyholder tax in the Wealth and Insurance business	(2)	1	n/m
Cost of corporate reorganisation and establishment of a new holding company	-	(7)	n/m
Loss on disposal / liquidation of business activities	-	(5)	n/m
Charge arising on the movement in the Group's credit spreads	-	(4)	n/m
Total non-core items	**(46)**	**(32)**	**(44%)**

Cost of restructuring programme
During the six months ended 30 June 2018, the Group recognised a charge of €51 million in relation to its restructuring programme, primarily related to a reduction in employee numbers (€45 million) and programme management costs (€6 million). A restructuring charge of €17 million was incurred in the same period of 2017, primarily related to changes in employee numbers.

Gain on disposal of property
During the six months ended 30 June 2018, the Group recognised a gain of €7 million in relation to the disposal of a property (see note 27 on page 94).

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.

Cost of corporate reorganisation and establishment of a new holding company
During 2017, the Group implemented a corporate reorganisation which resulted in BOIG plc being introduced as the listed holding company of the Group. For the six months ended 30 June 2017, the Group recognised a charge of €7 million in relation to the reorganisation. No such charges were incurred in 2018.

Loss on disposal / liquidation of business activities
In the six months ended 30 June 2017, a loss of €5 million was recognised relating to the recycling of cumulative unrealised FX gains and losses through the income statement following the liquidation of two subsidiaries. There was no such gain or loss in the current period.

Charge arising on the movement in the Group's credit spreads
A charge of €4 million was recognised in the six months ended 30 June 2017 as previously, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges on financial liabilities are now accounted for through other comprehensive income (OCI).

Taxation

The taxation charge for the Group is €77 million for the six months ended 30 June 2018 with an effective taxation rate on a statutory basis of 17% (six months ended 30 June 2017: €78 million and 17% respectively).

On an underlying basis, the effective taxation rate is 17% for the six months ended 30 June 2018 (six months ended 30 June 2017: 16%). The effective tax rate is influenced by changes in the geographic mix of profits and losses.

As set out in note 17 on page 79, the deferred tax asset has reduced by €46 million in the period due to the utilisation of brought forward trading losses against current period taxable profits which reduces the amount of tax payable on those profits.

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017.*

Group balance sheet *(incorporating liquidity and funding)*

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

Summary consolidated balance sheet

Summary consolidated balance sheet	Table	30 June 2018 €bn	31 December 2017 €bn	Change %
Assets (after impairment loss allowances)				
Loans and advances to customers[1]	6	77	76	1%
Liquid assets	7	23	24	(4%)
Wealth and Insurance assets		17	17	-
Other assets	10	5	6	(17%)
Total assets		**122**	**123**	**(1%)**
Liabilities				
Customer deposits	8	77	76	1%
Wholesale funding	9	11	13	(15%)
Wealth and Insurance liabilities		17	17	-
Other liabilities	10	5	5	-
Subordinated liabilities	11	2	2	-
Total liabilities		**112**	**113**	**(1%)**
Shareholders' equity	12	9	9	-
Non-controlling interests - Other equity instruments		1	1	-
Total liabilities and shareholders' equity		**122**	**123**	**(1%)**
LCR[2]		139%	136%	
NSFR[3]		127%	127%	
LDR		100%	100%	
Common equity tier 1 ratio - fully loaded		14.1%	13.8%	
Common equity tier 1 ratio - regulatory		15.8%	15.8%	
Total capital ratio - regulatory		19.8%	20.2%	

[1] *Includes €0.3 billion of loans and advances to customers at 30 June 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.*
[2] *The Group's LCR is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*
[3] *The Group's NSFR is calculated based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.*

Loans and advances to customers

Table: 6

Loans and advances to customers Composition	**30 June 2018 €m**	**30 June 2018 %**	31 December 2017 €m	31 December 2017 %
Residential mortgages	45,985	59%	46,659	60%
- Retail Ireland	*23,702*	*30%*	*24,069*	*31%*
- Retail UK	*22,283*	*28%*	*22,590*	*29%*
Non-property SME and corporate	19,123	24%	18,763	24%
- Republic of Ireland SME	*7,722*	*10%*	*8,213*	*11%*
- UK SME	*1,567*	*2%*	*1,703*	*2%*
- Corporate	*9,834*	*13%*	*8,847*	*11%*
Property and construction	8,457	11%	8,747	11%
- Investment	*7,795*	*10%*	*8,277*	*10%*
- Land and development	*662*	*1%*	*470*	*1%*
Consumer	4,856	6%	4,318	5%
Total loans and advances to customers at amortised cost	**78,421**	**100%**	**78,487**	**100%**
Less impairment loss allowance on loans and advances to customers at amortised cost	(2,084)		(2,359)	
Net loans and advances to customers at amortised cost	**76,337**		**76,128**	
Loans and advances to customers at FVTPL[1]	267		-	
Total loans and advances to customers	**76,604**		**76,128**	
Credit-impaired loans (comparative as at 1 January 2018)	5,253		5,972	
NPEs	5,863		6,521	
NPE ratio		7.5%		8.3%

The Group's **loans and advances to customers (after impairment loss allowances)** of €76.6 billion are €0.5 billion higher than 31 December 2017.

Gross new lending of €7.7 billion is €1.1 billion or 16% higher than the same period in 2017 primarily due to increases in new lending of €0.7 billion or 32% in Retail UK (mortgages and consumer portfolios), a €0.2 billion or 8% increase in Retail Ireland (mortgages) and an increase of €0.2 billion or 9% in Corporate new lending.

Redemptions and repayments of €7.1 billion are €0.1 billion lower than the same period in 2017. The Group's success in reducing (through resolution or restructure / cure) credit-impaired assets, and redemptions as part of the run-down of the GB business banking / GB corporate banking book together accounted for €0.5 billion of this figure.

The composition of the Group's loans and advances to customers by portfolio at 30 June 2018 is consistent with 31 December 2017.

Our asset quality continues to improve and NPEs reduced over the period to €5.9 billion. 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, including increasing property values particularly in the Republic of Ireland. 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 corresponding loan amounts. NPE reduction strategies will be kept under review in response to the associated and evolving regulatory capital framework.

The stock of impairment loss allowances on loans and advances to customers increased by €0.1 billion to €2.5 billion on transition to IFRS9 on 1 January 2018. During the six month ended 30 June 2018 the stock of impairment loss allowances decreased by €0.4 billion to €2.1 billion primarily due to the utilisation of impairment loss allowances and the net impairment gain recognised during the period.

[1] Loans and advances to customers at FVTPL include Retail Ireland mortgages of €0.3 billion which on transition to IFRS 9 were mandatorily classified as FVTPL. At 31 December 2017, these were included in Residential mortgages in Retail Ireland.

Liquid assets

Table: 7

Liquid assets (after impairment loss allowance)[1]	30 June 2018 €bn	31 December 2017 €bn
Cash at banks	3	3
Cash and balances at central banks	5	7
- Bank of England	*2*	*2*
- Central Bank of Ireland	*3*	*4*
- US Federal Reserve	*-*	*1*
Government bonds	9	8
- Financial assets at FVOCI	*6*	*-*
- AFS	*-*	*8*
- Debt securities at amortised cost	*3*	*-*
Covered bonds	4	3
Senior bank bonds and other	2	3
	23	**24**

The Group's portfolio of liquid assets at 30 June 2018 of €22.8 billion has decreased by c.€0.8 billion since 31 December 2017, primarily due to lower cash balances, partially offset by higher holdings of Government bonds.

During 2018, the Group made a partial disposal of NAMA subordinated debt with a nominal value of €0.2 billion (remaining holding of €70 million at 30 June 2018).

Customer deposits

Table: 8

Customer deposits	30 June 2018 €bn	31 December 2017 €bn
Retail Ireland	46	44
- Deposits	*22*	*22*
- Current account credit balances	*24*	*22*
Retail UK	22	22
Retail UK (Stg£bn equivalent)	*19*	*19*
- UK Post Office	*14*	*14*
- Other Retail UK	*5*	*5*
Corporate and Treasury	9	10
Total customer deposits	**77**	**76**
Loan to deposit ratio	**100%**	**100%**

In the Retail UK division, customer deposits of €21.6 billion (£19.0 billion) at 30 June 2018 are in line with 31 December 2017.

In the Corporate and Treasury division, customer deposits of €9.0 billion at 30 June 2018 have decreased by €1.3 billion since 31 December 2017 due to a targeted reduction in deposit volumes.

The Group's LDR was 100% at 30 June 2018 (31 December 2017: 100%).

Group customer deposits (including current accounts with credit balances) have increased by €0.8 billion to €76.7 billion since 31 December 2017. On a constant currency basis, Group customer deposits increased by €0.7 billion.

In the Retail Ireland division, customer deposits of €46.1 billion at 30 June 2018 have increased by €1.9 billion since 31 December 2017 due to growth in current account credit balances, reflecting strong economic activity.

[1] *IFRS 9 allows an entity, subject to certain conditions, to assume that the credit risk on an asset has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. At 30 June 2018, the Group considered €22.5 billion liquid assets to be low credit risk.*

Wholesale funding

Table: 9

Wholesale funding sources	30 June 2018 €bn	30 June 2018 %	31 December 2017 €bn	31 December 2017 %
Secured funding	10	87%	11	86%
- Monetary Authority	*4*	*32%*	*5*	*39%*
- Covered bonds	*5*	*46%*	*5*	*38%*
- Securitisations	*1*	*9%*	*1*	*9%*
Unsecured funding	1	13%	2	14%
- Senior debt	*1*	*13%*	*1*	*8%*
- Bank deposits	*-*	*-*	*1*	*6%*
Total wholesale funding	**11**	**100%**	**13**	**100%**
Wholesale market funding < 1 year to maturity	1.8	19%	1.5	19%
Wholesale market funding > 1 year to maturity	5.9	81%	6.2	81%
Monetary Authority funding < 1 year to maturity	1.5	-	1.6	-
Monetary Authority funding > 1 year to maturity	2.2	-	3.4	-
Liquidity metrics				
LCR[1]		139%		136%
NFSR[2]		127%		127%

The Group's wholesale funding of €11.4 billion has decreased by c.€1.3 billion since 31 December 2017, primarily due to the repayment of the European Central Bank's (ECB) Targeted Longer Term Refinancing Operation (TLTRO), funding of €1.3 billion.

The Group's funding from Monetary Authorities of €3.7 billion at 30 June 2018 consists of c.€2.0 billion of funding drawn under the TLTRO, €1.5 billion from the Bank of England (BoE) Term Funding Scheme (TFS) and €0.2 billion from the BoE Indexed Long-Term Repo (ILTR) operation.

At 30 June 2018, €5.9 billion or 77% of wholesale market funding had a term to maturity of greater than one year (31 December 2017: €6.2 billion or 81%). Wholesale market funding with a maturity of less than one year was €1.8 billion (31 December 2017: €1.5 billion) of which €0.9 billion is secured.

The Group's LCR was 139% at 30 June 2018 (31 December 2017: 136%). Based on the Group's interpretation of the final Basel standard, the Group's NSFR was 127% at 30 June 2018 (31 December 2017: 127%).

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

Other assets and other liabilities

Table: 10

Other assets and other liabilities	30 June 2018 €bn	31 December 2017 €bn
Other assets	5.0	5.7
- Derivative financial instruments	*1.8*	*2.3*
- Net deferred tax asset	*1.2*	*1.2*
- Other assets	*2.0*	*2.2*
Other liabilities	4.7	5.2
- Derivative financial instruments	*1.8*	*2.0*
- Pension deficit (net)	*0.3*	*0.5*
- Notes in circulation	*1.2*	*1.2*
- Other liabilities	*1.4*	*1.5*

Other assets at 30 June 2018 include derivative financial instruments with a positive fair value of €1.8 billion compared to a positive fair value of €2.3 billion at 31 December 2017. **Other liabilities** at 30 June 2018 include derivative financial instruments with a negative fair value of €1.8 billion compared to a negative fair value of €2.0 billion at 31 December 2017. 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 period to 30 June 2018.

At 30 June 2018, the Group's **net deferred tax asset** is substantially unchanged at €1.2 billion with the utilisation of the deferred tax asset against current period profits (€46 million) being offset by an increase in the deferred tax asset associated with the transition to IFRS 9 on 1 January 2018. The net deferred tax asset of €1.2 billion at 30 June 2018 includes €1.2 billion in respect of trading losses which are available to relieve future profits from tax. Of these losses, €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses. For further details on movements in the net deferred tax asset in the period see note 28 on page 95.

At 30 June 2018, the IAS 19 net defined benefit **pension deficit** was €0.3 billion (comprising schemes in deficit of €0.3 billion and schemes in surplus of €0.1 billion), a net decrease of c.€0.2 billion from the position at 31 December 2017. The primary drivers of the movement in the pension deficit were:

- the increase in asset values which include a deficit reducing contribution of €25 million;

offset by;

- the decrease in liabilities due to the net impact of positive assumption changes and positive experience since 31 December 2017. The positive assumption changes are a combination of an increase in the UK discount rate to 3.0% (+25 basis points), a decrease in UK inflation to 3.1% (-10 basis points) and a decrease in RoI inflation to 1.6% (-5 basis points), offset by a decrease in the euro discount rate to 2.05% (-5 basis points).

The significant financial assumptions used in measuring the deficit are set out in note 34 on page 98, together with the sensitivity of the deficit to changes in those assumptions.

Subordinated liabilities

Table: 11

Subordinated liabilities	30 June 2018 €m	31 December 2017 €m
€750 million 4.25% Fixed Rate Notes 2024	756	759
US$500 million Fixed Rate Reset Notes 2027	408	406
Stg£300 million Fixed Rate Reset Notes 2027	331	332
€250 million 10% Fixed Rate Notes 2022	264	264
€1,002 million 10% Fixed Rate Notes 2020	218	222
Undated loan capital	122	122
Other dated capital	2	2
Total	**2,101**	**2,107**

There have been no significant movements in subordinated liabilities during the six months ended 30 June 2018.

The principal terms and conditions of all subordinated liabilities are set out in note 45 of the Group's Annual Report for the year ended 31 December 2017.

Shareholders' equity

Table: 12 Movements in shareholders' equity	6 months ended 30 June 2018 €m	Year ended 31 December 2017 €m
Shareholders' equity at beginning of period	**8,859**	**8,678**
Impact of adopting IFRS 9 (note 43)	(113)	-
Restated balance at 1 January 2018	**8,746**	**8,678**
Movements:		
Profit attributable to shareholders	350	664
Dividends on preference equity interests	-	(4)
Distribution on other equity instruments - Additional tier 1 (AT1) coupon (net of tax)	-	(24)
Dividend paid to ordinary shareholders	(124)	-
Remeasurement of the net DB pension liability	159	(113)
Debt instruments at FVOCI reserve movements	(58)	-
AFS reserve movements	-	(9)
Cash flow hedge reserve movement	(37)	(115)
Liability credit reserve movements	11	-
Foreign exchange reserve movements	19	(147)
Transfer to non-controlling interests - preference stock	-	(66)
Other movements	8	(5)
Shareholders' equity at end of period	**9,074**	**8,859**

Shareholders' equity increased from €8,746 million on 1 January 2018, following the €113 million reduction in shareholders equity on transition to IFRS 9, to €9,074 million at 30 June 2018.

The **profit attributable to shareholders** of €350 million for the six months ended 30 June 2018 compares to the profit attributable to shareholders of €664 million for the year ended 31 December 2017, preference stock dividend of €4 million and €27 million (after tax impact €24 million) AT1 coupon. Following the 2017 corporate reorganisation, whereby BOIG plc became the ultimate parent company of the Group, these have been reclassified to non-controlling interests.

On 24 May 2018, the Group paid **dividends** to ordinary shareholders of €124 million (11.5 cent per ordinary share).

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

Debt instruments at FVOCI reserve movements primarily reflects movements in the fair value of the instruments, partially offset by transfers to the income statement on disposal.

The **AFS reserve** movement during 2017 was primarily due to transfers from the AFS reserve on asset disposals which were partially offset by the gain recognised in the AFS reserve on the reclassification of assets from the held to maturity portfolio. Since 1 January 2018, following adoption of IFRS 9, the AFS classification no longer exists. Details of the transition adjustments from the AFS reserve can be found on page 111 in note 43.

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

Liability credit reserve movements primarily reflects movements in the fair value of liabilities designated at fair value through profit or loss due to own credit risk offset by deferred tax on reserve movements

Foreign exchange reserve movements are driven by the translation of the Group's net investments in foreign operations. The movement in the period was primarily due to the weakening of the euro against the US dollar (3%) in the six months ended 30 June 2018. The movement in the prior period was primarily due to the strengthening of the euro against sterling (4%) and the US dollar (14%).

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

Capital

CRD IV - 31 December 2017 Regulatory €m	CRD IV - 31 December 2017 Fully loaded €m		CRD IV - 30 June 2018[1] Regulatory €m	CRD IV - 30 June 2018[1] Fully loaded €m
		Capital Base		
9,667	9,667	Total equity	9,882	9,882
(124)	(124)	*- less 2017 dividend / 2018 foreseeable dividend deduction[2]*	(75)	(75)
(750)	(750)	*- less AT1 capital*	(750)	(750)
8,793	**8,793**	**Total equity less foreseeable dividend deduction and equity instruments not qualifying as CET 1**	**9,057**	**9,057**
(614)	**(1,479)**	**Regulatory adjustments being phased in / out under CRD IV**	**(647)**	**(1,473)**
(345)	*(1,150)*	*- Deferred tax assets[3]*	*(447)*	*(1,119)*
-	*(78)*	*- 10% / 15% threshold deduction[4]*	*(6)*	*(81)*
95	-	*- Retirement benefit obligations[5]*	-	-
(68)	-	*- AFS reserve[6]*	-	-
(10)	-	*- Pension supplementary contributions[5]*	-	-
-	-	*- IFRS 9 transitional adjustment*	*79*	-
(286)	*(251)*	*- Other adjustments[7]*	*(273)*	*(273)*
(1,057)	**(1,119)**	**Other regulatory adjustments**	**(1,179)**	**(1,179)**
(247)	*(309)*	*- Expected loss deduction[8]*	*(378)*	*(378)*
(723)	*(723)*	*- Intangible assets and goodwill*	*(729)*	*(729)*
(2)	*(2)*	*- Coupon expected on AT1 instrument*	*(2)*	*(2)*
(41)	*(41)*	*- Cash flow hedge reserve*	*(4)*	*(4)*
22	*22*	*- Own credit spread adjustment (net of tax)*	*8*	*8*
(66)	*(66)*	*- Securitisation deduction*	*(74)*	*(74)*
7,122	**6,195**	**Common equity tier 1**	**7,231**	**6,405**
		AT1		
-	-	AT1 instruments (issued by parent entity[9])	-	-
534	480	Instruments issued by subsidiaries that are given recognition in AT1 capital[10]	505	505
(31)	**-**	**Regulatory adjustments**	**-**	**-**
(31)	-	*- Expected loss deduction[8]*	-	-
7,625	**6,675**	**Total tier 1 capital**	**7,736**	**6,910**
		Tier 2		
785	785	Tier 2 instruments (issued by parent entity[9])	798	798
799	699	Instruments issued by subsidiaries that are given recognition in Tier 2 capital[10]	706	706
(31)	**-**	**Regulatory adjustments**	**-**	**-**
(31)	-	*- Expected loss deduction[8]*	-	-
9	-	Standardised incurred but not reported (IBNR) provisions	-	-
(106)	(160)	Other adjustments	(160)	(160)
1,456	**1,324**	**Total tier 2 capital**	**1,344**	**1,344**
9,081	**7,999**	**Total capital**	**9,080**	**8,254**
45.0	**44.8**	**Total risk weighted assets (€bn)**	**45.8**	**45.6**
		Capital ratios		
15.8%	13.8%	Common equity tier 1	15.8%	14.1%
17.0%	14.9%	Tier 1[10]	16.9%	15.2%
20.2%	17.9%	Total capital[10]	19.8%	18.1%
7.0.%	6.2%	Leverage ratio[10]	7.2%	6.4%

[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 €75m has been deducted as required under Article 2 of EU Regulation No. 241/2014.
[3] Deduction relates to deferred tax assets on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 40% in 2018, increasing annually at a rate of 10% thereafter.
[4] The 10% / 15% threshold deduction was phased in at 80% in 2017, increased to 100% in 2018 and is deducted in full from CET 1 under fully-loaded rules.
[5] Regulatory deductions applicable under CRD and phased out under CRD IV relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules.
[6] CRD IV transitional rules in 2017 require phasing in 80% of unrealised losses and 80% of unrealised gains. In 2018 unrealised losses and gains are phased in at 100%. The reserve is recognised in capital under fully loaded CRD IV rules.
[7] Includes technical items such as non-qualifying CET 1 items, PVA and pension asset deductions.
[8] Under CRD IV transitional rules, expected loss is phased in at 80% in 2017 and increased to 100% in 2018. Expected loss not deducted from CET 1 is deducted 50:50 from Tier 1 and Tier 2 capital. It is deducted in full from CET 1 under fully loaded rules.
[9] The parent entity refers to BOIG plc.
[10] The calculation of the Group's Tier 1, Total Capital and related ratios (including Leverage ratio) at June 2018 are stated after a prudent application of the requirements of Articles 85 and 87 of CRR (further details are provided on page 23). 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.

Capital (continued)

Risk weighted assets (RWA)[1,2]

CRD IV - 31 December 2017 Regulatory €bn	CRD IV - 31 December 2017 Fully loaded €bn		**CRD IV - 30 June 2018[3] Regulatory €bn**	**CRD IV - 30 June 2018[3] Fully loaded €bn**
35.6	35.6	Credit risk	36.5	36.5
0.7	0.7	Counterparty credit risk	0.7	0.7
0.5	0.5	Securitisation	0.4	0.4
0.5	0.5	Market risk	0.6	0.6
4.6	4.6	Operational risk	4.6	4.6
3.1	2.9	Other assets / 10% / 15% threshold deduction	3.0	2.8
45.0	**44.8**	**Total RWA**	**45.8**	**45.6**

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

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

In December 2017, the Basel Committee announced revisions to the Basel Framework. The revisions focus on the standardised and internal ratings based (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 the standardised approach.

The revised standards will take effect from 1 January 2022, with a phase-in period of five years for the aggregate output floor. The Group is currently assessing the impact of these revisions although any impact will depend on the implementation at EU level.

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

Targeted Review of Internal Models
The Group has been engaging with the ECB as part of the ECB's Targeted Review of Internal Models (TRIM) process and the review with respect to Irish mortgages is largely complete. As a result, the Group expects to make changes to its Irish mortgage credit risk models in the second half of 2018. On a pro-forma basis, the estimated impact is a reduction of c.70 basis points in the Group's fully loaded CET 1 ratio based on the 30 June 2018 balance sheet. A range of potential options are available for consideration to offset this capital impact.

IFRS 9 capital impact
The impact of the adoption of IFRS 9, which came into effect on 1 January 2018, resulted in an increase in the stock of impairment provisions upon transition, which reduced the Group's CET 1 ratio by c.20 basis points, before the application of the regulatory transitional arrangement.

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

EU-wide stress tests
The European Banking Authority (EBA) is due to publish the results of the EU-wide stress test by 2 November 2018. While no pass / fail threshold has been set, the results will be used to inform the 2018 Supervisory Review and Evaluation Process (SREP) and will be an input into the Group's 2019 capital requirements.

Capital requirements / buffers
The table on page 23 sets out the Group's CET 1 capital requirements for 2018 and the authorities responsible for setting those requirements.

Following the 2017 SREP, the Group is required to maintain a CET 1 ratio of 8.625% on a transitional basis from 1 January 2018. This includes a Pillar I requirement of 4.5%, a Pillar II requirement (P2R) of 2.25% and a capital conservation buffer for 2018 of 1.875%. Pillar II guidance (P2G) is not disclosed in accordance with regulatory preference.

In addition, the Group is required to maintain a countercyclical capital buffer (CCyB) for relevant exposures in countries where a countercyclical buffer rate has been set. For 2018, the Group is required to maintain a CCyB of c.0.15% from June 2018 increasing to c.0.30% from

[1] *RWA reflect the application of certain Central Bank of Ireland (CBI) required Balance Sheet Assessment (BSA) adjustments and the updated treatments of expected loss.*
[2] *Further details on RWA as at 31 December 2017 can be found in the Group's Pillar III disclosures for the year ended 31 December 2017 available on the Group's website.*
[3] *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.*

Capital (continued)

November 2018. The CCyB arises primarily from the introduction of a 1% countercyclical buffer rate by the Financial Policy Committee (FPC) in the UK.

In July 2018, the Central Bank of Ireland (CBI) announced its intention to increase the CCyB in Ireland. The RoI CCyB will increase from its current level of 0% to 1.0% effective from 5 July 2019. This will increase the Group's capital requirement by c. 0.60% from July 2019. Countercyclical buffer 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, which will be 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.

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
In May 2018, the Single Resolution Board (SRB) advised that the binding MREL for the Group had been set at €13.3 billion (representing 26.39% of RWA at 31 December 2016), to be met by 1 January 2021. The Group's MREL position at 30 June 2018 is 19.6% (based on December 2016 RWA).

MREL issuance of c.€4 billion - €5 billion, allowing for redemptions and an appropriate buffer is expected to meet MREL requirement by 1 January 2021.

Risk weighted assets
Risk weighted assets (RWA) at 30 June 2018 of €45.8 billion compares to RWA of €45.0 billion at 31 December 2017. The increase of €0.8 billion is primarily as a result of an increase in Credit RWA due to changes in book size and quality (€0.7 billion) and the impact of FX movements (€0.1 billion).

Minimum CET 1 Regulatory Requirements	Set By:	2018
Pillar I	CRR	4.50%
Pillar II Requirement	SSM	2.25%
Capital Conservation Buffer (CCB)[1]	CRD	1.875%
RoI Countercyclical Buffer (RoI CCyB)[2]	CBI	0.00%
UK Countercyclical Buffer (UK CCyB)[3]	FPC (UK)	0.30%
O-SII (Other Systemically Important Institutions Buffer)[4]	CBI	0.00%
Total Minimum CET 1 Regulatory Requirement		**8.925%**
Pillar II Guidance	SSM[5]	Not disclosed

Regulatory ratio
The CET 1 ratio was 15.8% at 30 June 2018 (31 December 2017: 15.8%). Increases due to organic capital generation (c.+80 basis points) and a reduction in the defined benefit pension deficit (c.+35 basis points), are offset by the annual phasing of CRD and IFRS 9 (c.-40 basis points), Group Transformation Investment (c.-30 basis points), increases in RWA (c.-25 basis points) as outlined above and a foreseeable dividend deduction (c.-20 basis points) in line with regulatory requirements.

Fully loaded ratio
The Group's fully loaded CET 1 ratio is estimated at 14.1% at 30 June 2018 (31 December 2017: 13.8%). The increase of c.30 basis points is primarily due to organic capital generation (c.+90 basis points) and a reduction in the defined benefit pension scheme deficit (c.+35 basis points), partially offset by Group Transformation Investment (c.-30 basis points), a foreseeable dividend deduction (c.-20 basis points) in line with regulatory requirements, the impact of the implementation of IFRS9 (c.-20 basis points) and increases in RWA (c.-25 basis points) as outlined above.

Leverage ratio
The leverage ratio is 7.2% at 30 June 2018 on a CRD IV regulatory basis (31 December 2017: 7.0%), 6.4% on a pro forma fully loaded basis (31 December 2017: 6.2%). The European Commission has proposed the introduction of a binding leverage requirement of 3% as part of the revised CRR proposals. It is anticipated that the binding leverage requirement will be applicable from 2019 at the earliest pending final agreement of the proposals at EU level. The Group expects to remain well in excess of this requirement.

Distribution policy
The Group recommenced the payment of dividends with a payment of €124 million, equivalent to 11.5 cents per share, in respect of the 2017 financial year which was approved at the Annual General Meeting on 20 April 2018 and paid on 24 May 2018. 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 €75 million, equivalent to an annualised dividend per share of 14 cents.

[1] *CCB is phasing in at 0.625% p.a. and will be fully phased in at 2.5% from 1 January 2019.*
[2] *RoI CCyB will increase from its current level of 0% to 1.0% effective from 5 July 2019. This will increase the Group's capital requirements by c.0.6% from this date.*
[3] *UK CCyB is currently set at 0.5%, increasing to 1.0% from 28 November 2018. The Group's UK CCyB requirement is currently c.0.15%, increasing to c.0.3% from November 2018.*
[4] *O-SII will be phased in at 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021.*
[5] *Single Supervisory Mechanism.*

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Divisional performance

Divisional performance - on an underlying basis

Income statement - underlying profit / (loss) before tax	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m	Change %
Retail Ireland	345	309	12%
Wealth and Insurance (formerly Bank of Ireland Life)	34	56	(39%)
Retail UK	113	70	61%
Corporate and Treasury	233	269	(13%)
Group Centre	(217)	(215)	(1%)
Other reconciling items[2]	(8)	3	n/m
Underlying profit before tax	**500**	**492**	**2%**
Non-core items	(46)	(32)	(44%)
Profit before tax	**454**	**460**	**(1%)**

[1] As outlined on page 5, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life); (ii) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017; and (iii) the Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which were previously reported in Group Centre.

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

Retail Ireland

Retail Ireland: Income statement	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m	Change %
Net interest income[2]	500	531	(6%)
Net other income[2]	138	144	(4%)
Operating income	**638**	**675**	**(5%)**
Operating expenses	(398)	(395)	(1%)
Operating profit before net impairment gains on financial instruments	**240**	**280**	**(14%)**
Net impairment gains on financial instruments	101	29	n/m
Share of results of associates and joint ventures (after tax)	4	-	100%
Underlying profit before tax	**345**	**309**	**12%**
Staff numbers at period end	2,892	3,258	

	30 June 2018 €bn	31 December 2017 €bn
Loans and advances to customers (net)	34.7	34.7
Customer deposits	46.1	44.2

Retail Ireland offers a broad range of financial products and services. With the largest branch network in Ireland, Bank of Ireland is active in communities across Ireland. Today, over 40% of the Irish population has a relationship with us, with one in every three payments in Ireland being processed through our systems.

Retail Ireland is one of the largest providers of financial services in Ireland, with c.1.7 million consumer banking customers, c.500,000 Wealth customers and c.200,000 SME customers.

Retail Ireland continues to focus on serving our customers brilliantly in all of their experiences, understanding them better, and supporting them in their local communities and enterprises.

Improving our Customers' Experience

- **Continuous improvements to our customers' most important journeys** are a key focus. In the home buying journey, we continue to make improvements to reduce the average cycle time and improve customer experience; our mortgage approval journey Net Promoter Score (NPS) has increased by +12 points in the first half of 2018 compared with the second of 2017. For our personal loan customers, borrowing for a new car or a home improvement, we've reduced the average handling time from application to funds issued from 5 business days to 1 business day.
- **We're also improving the everyday things.** Over the last 6 months, we have reduced our processing time for changing address from 5 days to 1 day. We have halved the average time to close daily customer requests, reducing the average time to well under 1 day and we are resolving more customer queries first time.
- **We are investing in our people.** Over 2,800 frontline colleagues have gone through service excellence training supporting them to more positively handle their day to day interactions with customers.

Understanding our customers better

- **Life Moment customer propositions** enables Bank of Ireland to play a more relevant role in the lives of our customers, helping them with advice, access, and the information at times when they need to make key decisions in life's significant moments, with new Life Moments content and services launched on our website during the first half of 2018.
- **Services for more Vulnerable Customers:** During the first half of 2018, a dedicated, free-phone service was launched to support more vulnerable customers and their advocates who may have queries or concerns on how to protect themselves or their relatives from risk of fraud or financial abuse, and to support the management of their financial needs.
- **Our customers are increasingly doing their banking digitally.** In the first half of 2018, digital logins increased by 13% and digital payments increased by 4%. We have also seen branch counter transactions reduce by 24% in the first half of 2018, with a corresponding increase in self-serve cash lodgement services of 17% during the same period.
- **We are responding to customer preferences to adopt new payments methods,** in particular their usage of contactless payments. In the first half of 2018, contactless payments numbers were up by 78%, now accounting for 35% of all debit card transaction values.

[1] *As outlined on page 5, comparative figures have been restated to reflect: (i) the impact of the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life). On an underlying basis, this has resulted in a decrease of €14 million in other income (net) and a decrease of €10 million in operating expenses for the six months ended 30 June 2017 in Retail Ireland with a corresponding increase in Wealth and Insurance; and (ii) the impact of the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life), this has resulted in a transfer of 64 full time employees (FTEs) from Retail Ireland to Wealth and Insurance at 30 June 2017. Also as part of the Group's re-organisation, 961 FTEs were transferred from Retail Ireland to Group Manufacturing (Group Centre) at 30 June 2017. The related costs continued to be borne by Retail Ireland on a recharge basis.*

[2] *'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 10 and 11. The impact on Retail Ireland was to increase 'net interest income' in the six months ended 30 June 2018 by €11 million to €511 million (six months ended 30 June 2017: €nil) with fully offsetting changes to 'net other income' in both periods.*

Retail Ireland (continued)

Support for Local Communities

- **We continue to encourage enterprise in local communities.** In the first half of 2018, our Enterprise programme hosted 66 events across 120 communities, connecting c.12,000 people, business and ideas.
- **Our Innovation programme is supporting Irish entrepreneurs.** We hosted 26 companies in our Innovation Lab programmes in New York, Dublin and Galway in the first half of 2018. Customers use our workbenches every single day in branches in Galway, Limerick, Cork, Kilkenny, Grand Canal, Trinity and Montrose in addition to scholarship desks in both Boxworks in Waterford and Republic of Work in Cork.
- **The National Startup Awards**, co-partnered by Enterprise Ireland and Bank of Ireland, were held in May 2018 with c.1,000 entries across 15 different categories.
- The **Bank of Ireland National Enterprising Town Awards 2018** received c.100 applications from towns and communities across Ireland. The award winners will be announced in November 2018.

Financial performance
Retail Ireland reported an underlying profit before tax of €345 million for the six months ended 30 June 2018 which is an increase of €36 million or 12% on the same period in 2017. The increase is primarily due to an improvement of €72 million in net impairment gains, offset by a decrease of €31 million in net interest income and €6 million in net other income.

Net interest income of €500 million for the six months ended 30 June 2018 is 6% lower than the same period in 2017. Net interest income (after IFRS income classifications) is €511 million compared to €531 million for the same period in 2017, primarily reflecting the reduction in average lending volumes, lower mortgage income due to both the continued trend of customers choosing fixed rate mortgage products and higher funding costs[1]. While the lending book has been stable during the period, growth in new lending has been partly offset through reductions in lower yielding books e.g. tracker mortgages, or through the reduction in NPEs. Deposit pay rates have reduced in line with the general trend in market deposit rates.

Net other income of €138 million for the six months ended 30 June 2018 is €6 million lower than the same period in 2017. Net other income (after IFRS income classifications) is €127 million compared to €144 million for the same period in 2017, primarily driven by lower business income of €12 million, a €7 million adjustment to the valuation of our preference shareholding in VISA (Europe) Inc., partially offset by other valuation adjustments of €3 million. Business income of €131 million is €12 million lower than the previous period, primarily due to lower FX income in branches and lower current account fees due to the Proactive Care Programme which helps customers avoid unpaid fees on their accounts.

Operating expenses of €398 million for the six months ended 30 June 2018 are 1% higher than the same period in 2017, as lower staff costs are more than offset by higher IT depreciation and change costs.

Net impairment (gains) / losses on financial instruments	**6 months ended 30 June 2018 €m**	6 months ended 30 June 2017 €m	Change %
Loans and advances to customers at amortised cost	(97)	(29)	n/m
- Residential mortgages	*(24)*	*(52)*	*n/m*
- Non-property SME and corporate	*(46)*	*21*	*n/m*
- Property and construction	*(18)*	*6*	*n/m*
- Consumer	*(9)*	*(4)*	*n/m*
Other financial instruments (excluding loans and advances to customers at amortised cost)[2,3]	(4)	-	n/m
Net impairment (gains) / losses on financial instruments	**(101)**	**(29)**	**n/m**

Net impairment gains on financial instruments were €101 million for the six months ended 30 June 2018 (six months ended 30 June 2017: €29 million), an improvement of €72 million. Further analysis and commentary on changes in impairment, loan portfolios and asset quality is set out in the asset quality section on pages 39 to 47, notes 16, 24 and 25 of the consolidated interim financial statements and in the supplementary asset quality and forbearance disclosures section on pages 120 to 137.

Loans and advances to customers (after impairment loss allowances) of €34.7 billion at 30 June 2018 were in line with 31 December 2017. Mortgage drawdowns of €1.0 billion during 2018 have increased by 30% and the Group continues to retain a 28% market share of new mortgage lending. This has been offset by a c.€0.5 billion gross reduction in Retail Ireland's tracker mortgage book and a further reduction in Retail Ireland's NPEs.

Customer deposits of €46.1 billion were €1.9 billion higher than 31 December 2017. Retail Ireland has a strong customer deposit franchise with 28% market share. Within deposits, current account credit balances have grown by €3.6 billion while other deposits have increased marginally.

[1] *From 1 January 2018, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net decrease in net interest income for the six months ended 30 June 2018 in the Retail Ireland division of €6 million and in the Corporate and Treasury division of €2 million, with a corresponding increase in net interest income in the Retail UK division of €8 million, compared to the former basis. The impact of these changes, if applied to the prior period, would be to decrease the six months ended 30 June 2017 net interest income by €5 million in Retail Ireland, by €2 million in Corporate and Treasury with a corresponding increase in Retail UK of €7 million.*
[2] *At 30 June 2018, other financial instruments (excluding loans and advances to customers at amortised cost) include net impairment gain of €4 million on loan commitments.*
[3] *The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for the six months ended 30 June 2017 was €nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 30 June 2017 were €nil.*

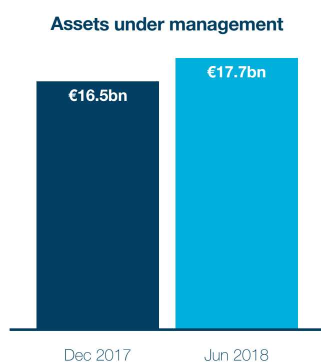
Wealth and Insurance (formerly Bank of Ireland Life)

Wealth and Insurance: Income statement (IFRS performance)	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m	Change %
Net interest income	(5)	8	n/m
Net other income	115	99	16%
Operating income	**110**	**107**	**(3%)**
Operating expenses	(65)	(68)	(4%)
Operating profit	**45**	**39**	**15%**
Unit-linked investment variance	(7)	7	n/m
Interest rate movement	(4)	10	n/m
Underlying profit before tax	**34**	**56**	**(39%)**
Staff numbers at period end	951	973	

Wealth and Insurance (formerly the Bank of Ireland Life operating segment) now incorporates Private Banking and Bank of Ireland Insurance Services both of which were previously reported within Retail Ireland.

The Group, through Wealth and Insurance, is a market leading life and pension provider and general insurance provider in the Irish market. The Life company distributes across three core channels made up of the Group's distribution channels, independent financial brokers and its own tied financial advisor network. It is the only bancassurer in the Irish market.

Wealth and Insurance, which includes New Ireland Assurance Company plc (NIAC), is focused predominantly on the retail and SME market. Wealth and Insurance provides a range of protection, investment and pension products offering customers access to a wide range of investment markets and fund managers across its fund platform through its Life company and provides access to home and car insurance through the appointments it holds with various underwriters.



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

The growing labour market, the ageing population and reducing levels of State and employer led pension provision mean that the underlying individual investment and protection needs of the working population will continue to grow. Wealth and Insurance, with a 21% share of the life and pension market and €17.7 billion in assets under management, is well positioned to benefit from the growing investment and pension market.

Of the €17.7 billion assets under management, €14.8 billion is in unit-linked funds where investment risk is borne by policyholders, and where a change in the value of the underlying asset is accompanied by a corresponding change in the liability.

Financial performance

Wealth and Insurance reported an underlying profit before tax of €34 million for the six months ended 30 June 2018 (six months ended 30 June 2017: €56 million). The decrease in profits of €22 million or 39% reflects less positive investment returns in 2018 to date and some widening of credit spreads. Annual Premium Equivalent (APE) new business sales in the six months ended 30 June 2018 consisted of €62 million of new lump sum business (six months ended 30 June 2017: €63 million) and €88 million of new regular premium business (six months ended 30 June 2017: €75 million). New business levels are 8% higher benefiting from strong single premium, Group pension and Group risk sales. Single premium life and protection sales were lower compared to the same period in 2017.

Operating profit of €45 million for the six months ended 30 June 2018 is €6 million or 15% higher than the same period in 2017 due to higher operating income and lower operating expenses.

Operating income of €110 million for the six months ended 30 June 2018 is €3 million higher than the same period in 2017 on the back of positive experience profits.

Operating expenses of €65 million for the six months ended 30 June 2018 are €3 million or 4% lower than the same period in 2017. Increased staff costs arising from Group-wide salary increases were offset by a reduction in the number of staff and other cost savings.

During the six months ended 30 June 2018, unit-linked fund prices reduced in aggregate and the adverse variance relative to assumed growth led to an adverse investment variance of €7 million (six months ended 30 June 2017: gain €7 million).

[1] *As outlined on page 5, comparative figures have been restated to reflect: (i) the impact of the Group's decision to re-organise the Wealth and Insurance operating segment which has also resulted in the transfer of 64 FTEs from Retail Ireland to Wealth and Insurance at 30 June 2017; and (ii) the impact of the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017.*

Wealth and Insurance (continued)

Interest rates have remained broadly at the same level as December 2017 but credit spreads have widened. The overall impact of the change in yields, was adverse, resulting in a €4 million loss for the six months ended 30 June 2018 (six months ended 30 June 2017: gain of €10 million).

Wealth and Insurance: **Income statement (Market Consistent Embedded Value performance)**	**6 months ended 30 June 2018 €m**	Restated[1] 6 months ended 30 June 2017 €m	Change %
New business profits	7	11	(36%)
Existing business profits	39	35	11%
- Expected return	*30*	*27*	*11%*
- Experience variance	*9*	*10*	*(10%)*
- Assumption changes	*-*	*(2)*	*n/m*
Intercompany payments	-	(5)	n/m
Interest payments	(4)	(2)	n/m
Operating profit	**42**	**39**	**7%**
Unit-linked investment variance	(11)	6	n/m
Interest rate movements	(4)	9	n/m
Underlying profit before tax	**27**	**54**	**(50%)**

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

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

Operating profit for the six months ended 30 June 2018 of €42 million is €3 million or 5% higher than the same period in 2017.

New business profits of €7 million are lower than the prior period, as a result of the change in the mix of business sold.

Existing business profits of €39 million are €4 million higher than the same period in 2017.

The **underlying profit before tax**, on an MCEV basis, of €27 million for the six months ended 30 June 2018 compares to €54 million in the same period in 2017.

The underlying profit before tax has been impacted by an adverse investment variance arising from investment fund performance and the widening of credit spreads.

This table summarises the overall balance sheet of Wealth and Insurance on an MCEV basis at 30 June 2018 compared to the value at 31 December 2017. 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 2018 €m**	31 December 2017 €m
Net assets	522	512
Value of in Force	641	644
Less Tier 2 subordinated capital / debt	(164)	(184)
Less pension scheme deficit	(99)	(94)
Total embedded value	**900**	**878**

[1] *As outlined on page 5, comparative figures have been restated to reflect: (i) the impact of the Group's decision to re-organise the Wealth and Insurance operating segment; and (ii) the impact of the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017. The impact on the MCEV performance has resulted in an increase to the underlying profit before tax of €14 million for the six months ended 30 June 2017, comprised of increases in operating profit of €5 million, the interest rate movements gain of €5 million and the unit-linked investment variance of €4 million. The impact on the MCEV balance sheet has resulted in an increase of €20 million for the year ended 31 December 2017.*

Retail UK (Sterling)

Retail UK: Income statement	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Change %
Net interest income	270	273	(1%)
Net other income	3	7	(57%)
Operating income	**273**	**280**	**(3%)**
Operating expenses	(181)	(177)	(2%)
Operating profit before impairment losses on financial instruments	**92**	**103**	**(11%)**
Net impairment losses on financial instruments	(8)	(58)	86%
Share of results of associates and joint ventures (after tax)	15	15	-
Underlying profit before tax	**99**	**60**	**65%**
Underlying profit before tax (€m equivalent)	**113**	**70**	
Staff numbers at period end	1,603	1,707	

	30 June 2018 £bn	31 December 2017 £bn
Loans and advances to customers (net)	24.7	24.8
Customer deposits	19.0	19.0

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, which includes Marshall Leasing Limited, a subsidiary acquired in November 2017. The Group also has a business banking business in GB which is being run-down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

Through our partnerships with the Post Office, AA and other intermediaries we have a substantial UK consumer banking franchise with c.3 million customers. Our longstanding relationship with the Post Office is an important part of the UK strategy with shared ambition for a sustainable business that continues to add value. Our foreign exchange joint venture with the Post Office, which provides retail and wholesale FX services, remains the largest provider of retail travel money in the UK. Through our financial services partnership with the AA, we have seen good volume growth via the AA brand across personal loans and savings products.

The Retail UK strategy is to invest in the growth of our profitable high performing businesses, whilst improving returns through increased focus on cost of funding and product delivery, as well as repositioning less profitable portfolios. Our consumer banking propositions continue to grow through our strategic partnerships, building upon the progress we have made in recent years. Gross new mortgage lending grew to £1.6 billion for the six months ended 30 June 2018 compared with £1.3 billion for the same period in 2017. Gross new consumer lending increased by c.£200 million across the AA, Post Office and Northridge brands to c.£750 million for the six months ended 30 June 2018, compared with the same period in 2017.

Financial performance
Retail UK reported an underlying profit before tax of £99 million for the six months ended 30 June 2018 (six months ended 30 June 2017: £60 million). The increase of £39 million is primarily driven by decreases in impairment losses of £50 million, partly offset by a decrease in operating income of £7 million and an increase in operating expenses of £4 million.

Net interest income of £270 million for the six months ended 30 June 2018 has decreased by 1% compared to the same period in 2017. This is primarily driven by reduced interest income due to net mortgage redemptions, the deleveraging of the commercial banking business and margin pressure on the consumer lending portfolios, offset by the impact of volume growth in the consumer lending portfolios and improved deposits and other funding costs[1].

Net other income for the six months ended 30 June 2018 is a gain of £3 million (six months ended 30 June 2017: £7 million). The net reduction of £4 million is primarily due to a gain of £5 million in the prior period on the disposal of the Group's interest in account-based payment systems provider Vocalink.

Operating expenses of £181 million for the six months ended 30 June 2018 are £4 million higher than the same period in 2017. This primarily reflects increased depreciation from ongoing product and capability development and higher pension costs.

The **share of results of associates and joint ventures (after tax)** of £15 million for the six months ended 30 June 2018 relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, and is in line with the same period in 2017.

[1] *From 1 January 2018, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net increase in net interest income for the six months ended 30 June 2018 in the Retail UK division of £7 million (€8 million), with a corresponding decrease in net interest income in the Retail Ireland division of €6 million and in the Corporate and Treasury division of €2 million, compared to the former basis. The impact of these changes, if applied to the prior period, would be to increase the six months ended 30 June net interest income by €7 million in Retail UK, with a corresponding decrease in Retail Ireland by €5 million and in Corporate and Treasury of €2 million.*

Retail UK (Sterling) (continued)

Net impairment losses / (gains) on financial instruments	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Change %
Loans and advances to customers at amortised cost	11	58	(81%)
- Residential mortgages	*(6)*	*(1)*	*n/m*
- Non-property SME and corporate	*(9)*	*9*	*n/m*
- Property and construction	*13*	*45*	*(71%)*
- Consumer	*13*	*5*	*160%*
Other financial instruments (excluding loans and advances to customers at amortised cost)[1,2]	(3)	-	n/m
Net impairment losses / (gains) on financial instruments	**8**	**58**	**(86%)**

Net impairment losses on financial instruments of £8 million for the six months ended 30 June 2018 are £50 million or 86% lower compared to the same period in 2017.

Further analysis and commentary on changes in impairment, loan portfolios and asset quality is set out in the asset quality section on pages 39 to 47, notes 16, 24 and 25 of the consolidated interim financial statements and in the supplementary asset quality and forbearance disclosures section on pages 120 to 137.

Loans and advances to customers (after impairment loss allowances) of £24.7 billion have reduced by £0.1 billion since 31 December 2017. This reflects repayments and redemptions in commercial lending portfolios including the ongoing reduction in the GB business banking portfolio, which is being run-down, and a reduction in net mortgage volumes, partially offset by an overall increase in consumer lending, which includes personal loans and the motor and asset finance business.

Customer deposits of £19.0 billion at 30 June 2018 are in line with 31 December 2017 volumes. The Group utilised £1.3 billion from the BoE TFS facility before the scheme closed in February 2018 (31 December 2017: £1.2 billion).

[1] *At 30 June 2018, other financial instruments (excluding loans and advances to customers at amortised cost) include net impairment gain of £3 million on loan commitments.*

[2] *The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for the six months ended 30 June 2017 was £nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 30 June 2017 were £nil.*

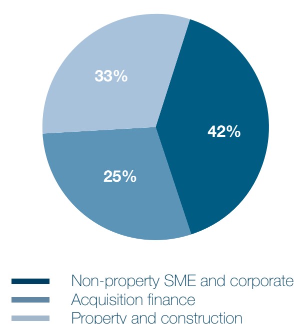
Corporate and Treasury

Corporate and Treasury: Income statement	**6 months ended 30 June 2018 €m**	Restated[1] 6 months ended 30 June 2017 €m	Change %
Net interest income[2,3]	266	280	(5%)
Net other income[2]	76	118	(36%)
Operating income	**342**	**398**	**(14%)**
- Business - net interest and other income	*343*	*366*	*(6%)*
- Financial Instruments valuation adjustments	*(8)*	*22*	*n/m*
- Other debt instruments at FVOCI / AFS gains	*7*	*10*	*(30%)*
Operating expenses	(98)	(108)	9%
Operating profit before impairment losses on financial instruments	**244**	**290**	**(16%)**
Net impairment losses on financial instruments[4]	(11)	(21)	48%
Underlying profit before tax	**233**	**269**	**(13%)**
Staff numbers at period end	612	661	

	30 June 2018 €bn	31 December 2017 €bn
Loans and advances to customers (net)	13.9	13.3
Customer deposits	9.0	10.3
Euro liquid asset bond portfolio	13.3	11.3

Corporate and Treasury incorporates the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business, across the Republic of Ireland, UK and internationally, with offices in Ireland, the United Kingdom, the United States, Germany and France. During 2018, Group Treasury (which manages funding & liquidity risk) joined the division.

Customer lending portfolio composition



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

Corporate Banking

- Continuing strong new business.
- Retained position as Ireland's number one corporate bank and continued to win in excess of 65% of banking relationships arising from new foreign direct investment in Ireland.
- Supporting growth in the Irish economy while selectively growing our UK corporate business through a focused sector strategy.
- Acquisition finance business delivered strong fee income and important earnings diversification.
- Corporate Banking won three awards in the Finance Dublin Deals of the year awards in May 2018 ('Loans and Financing - Large Corporate', 'Loans and Financing - MBO', and 'Loans and Financing - Infrastructure').

Markets and Treasury

The Global Markets business area was joined by Group Treasury during 2018 to form Markets and Treasury (M&T). M&T responsibilities include customer treasury service provider, balance sheet risk and euro liquid asset bond portfolio management on behalf of the Group:

- Continued focus on enhancing customers' experience. There has also been increased customer adoption

[1] Comparative figures have been restated to reflect the impact of the: (i) Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which was previously reported within Group Centre. This has resulted in an increase of €4 million in operating expenses in Corporate and Treasury and an increase of 41 FTEs, with a corresponding decrease in operating expenses and FTEs in Group Centre for the six months ended 30 June 2017; and (ii) the transfer of 31 FTEs from Corporate and Treasury to Group Centre. The related costs continued to be borne by Corporate and Treasury on a recharge basis.

[2] 'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 10 and 11. The impact on Corporate and Treasury was to increase 'net interest income' in the six months ended 30 June 2018 by €1 million to €267 million (six months ended 30 June 2017 reduced by €16 million to €264 million) with fully offsetting changes to 'net other income' in both periods.

[3] From 1 January 2018, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net decrease in net interest income for the six months ended 30 June 2018 in the Corporate and Treasury division of €2 million and in the Retail Ireland division of €6 million, with a corresponding increase in net interest income of Retail UK of € 8 million, compared to the former basis. The impact of these changes, if applied to the prior period, would be to decrease the six months ended 30 June net interest income by €2 million in Corporate, by €5 million in Retail Ireland with a corresponding increase in Retail UK of €7 million.

[4] The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for the six months ended 30 June 2017 was €nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 30 June 2017 were €10 million, this was recognised in net other income.

Corporate and Treasury (continued)

and usage of Bank of Ireland FXPay, our online FX payments platform.

- M&T saw strong customer activity across treasury product lines for the six months ended 30 June 2018. This was underpinned by growth in the underlying Irish and UK economies and in international trade.
- Supporting customers and the Bank of Ireland Group in evaluating and managing FX, interest rate hedging and other treasury needs.

Financial performance
The division reported an underlying profit before tax of €233 million for the six months ended 30 June 2018 a decrease of €36 million or 13% compared to the same period of 2017, primarily due to the adverse impact of market movements on valuation adjustments.

Business - net interest and other income of €343 million is €23 million lower than the same period in 2017, predominantly due to a reduction in transfer pricing income arising from lower deposit volumes and lower income in the Markets Group, due to a strong prior period not repeated in the current period.

Financial instruments valuation adjustments are an €8 million charge compared to a €22 million gain in the same period in 2017. The 2017 result was due to favourable market moves on derivative valuations not repeated in 2018.

Operating expenses of €98 million for the six months 30 June 2018 are €10 million lower than the same period in 2017, due to lower staff costs and the disposal of IBI Corporate Finance during 2017.

Net impairment losses on financial instruments of €11 million for the six months ended 30 June 2018 are €10 million or 48% lower than the same period in 2017. Further analysis and commentary on changes in impairment, loan portfolios and asset quality is set out in the asset quality section on pages 39 to 47, notes 16, 24 and 25 of the consolidated interim financial statements and in the supplementary asset quality and forbearance disclosures section on pages 120 to 137.

Loans and advances to customers (after impairment provisions) of €13.9 billion at 30 June 2018 are €0.6 billion higher than 31 December 2017, €0.5 billion on a constant currency basis.

Customer deposits of €9.0 billion at 30 June 2018 are €1.3 billion lower than 31 December 2017 due to a targeted reduction in deposit volumes. The deposit book primarily comprises a mixture of corporate, State, SME and retail customer accounts.

The **euro liquid asset bond portfolio** of €13.3 billion at 30 June 2018 is €2.0 billion higher than 31 December 2017 due to increased holdings of primarily sovereign and covered bonds.

Group Centre

Group Centre: Income statement	6 months ended 30 June 2018 €m	Restated[1] 6 months ended 30 June 2017 €m	Change %
Net operating income	18	6	n/m
Operating expenses (before Transformation Investment and levies and regulatory charges)	(120)	(111)	(8%)
Transformation Investment charge	(51)	(49)	(4%)
Levies and regulatory charges	(64)	(61)	(5%)
Underlying loss before tax	**(217)**	**(215)**	**(1%)**
Staff numbers at period end	4,602	4,756	

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

Group Centre's income and costs comprises income from capital and other management activities, unallocated Group support costs and the costs associated with the Irish bank levy and the UK FSCS along with contributions to the SRF and the DGS fund.

Financial performance
Group Centre reported an underlying loss before tax of €217 million for the six months ended 30 June 2018 (six months ended 30 June 2017: €215 million).

Net operating income is a gain of €18 million for the six months ended 30 June 2018 (six months ended 30 June 2017: €6 million). The increase of €12 million in the period is driven primarily by valuation and fair value adjustments, and includes a gain of €9 million from the partial disposal of NAMA subordinated debt.

Operating expenses (before Transformation Investment and levies and regulatory charges) of €120 million for the six months ended 30 June 2018 are €15 million higher than the same period in 2017. The increase is reflective of an average salary increase of c.2.5% awarded to staff in the first half of 2018, investment in strategic initiatives, including higher amortisation charges arising from technology and infrastructure, along with costs associated with compliance and regulatory expectations.

Transformation Investment charge
Our transformation programme continues to make progress and we invested a further €141 million in this programme in the first six months of 2018, of which €39 million is capitalised on the balance sheet (six months ended 30 June 2017: €56 million), with an income statement charge of €51 million (six months ended 30 June 2017: €49 million) and €51 million of restructuring programme costs recognised through non-core items.

The total income statement charge of €51 million (six months ended 30 June 2017: €49 million) also includes €6 million for associated application and infrastructure costs which will be included as part of the Transformation Investment charge until it is customer supporting.

Levies and regulatory charges
Group Centre has incurred levies and regulatory charges of €64 million in the six months ended 30 June 2018 (six months ended 30 June 2017: €61 million). The charge in the six months to 30 June 2018 primarily reflects the Group's contributions to the SRF and the DGS fund.

[1] *Comparative figures have been restated to reflect: (i) the impact of the Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which was previously reported within Group Centre. This has resulted in a decrease of €4 million in operating expenses in Group Centre and a decrease of 41 FTEs, with a corresponding increase in operating expenses and FTEs in Corporate and Treasury for the six months ended 30 June 2017; (ii) the reclassification of €6 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) for the six months ended 30 June 2017, see page 12 for further detail; and (iii) the transfer of 961 FTEs from Retail Ireland to Group Manufacturing (Group Centre) and 31 FTEs from Corproate and Treasury to Group Centre. The related costs continued to be borne by Retail Ireland and Corporate and Treasury respectively, on a recharge basis.*

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Income statement - Operating segments

6 months ended 30 June 2018	Net interest income €m	Net insurance premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	**Operating profit / (loss) before 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 €m	**Profit / (loss) before taxation €m**
Retail Ireland	500	-	138	**638**	-	**638**	(398)	**240**	101	4	-	**345**
Wealth and Insurance	(5)	702	41	**738**	(639)	**99**	(65)	**34**	-	-	-	**34**
Retail UK	307	-	3	**310**	-	**310**	(205)	**105**	(9)	17	-	**113**
Corporate and Treasury	266	-	76	**342**	-	**342**	(98)	**244**	(11)	-	-	**233**
Group Centre	7	2	11	**20**	(2)	**18**	(235)	**(217)**	-	-	-	**(217)**
Other reconciling items	1	-	(10)	**(9)**	-	**(9)**	1	**(8)**	-	-	-	**(8)**
Group - underlying[1]	**1,076**	**704**	**259**	**2,039**	**(641)**	**1,398**	**(1,000)**	**398**	**81**	**21**	**-**	**500**
Total non-core items												
- Cost of restructuring programme	-	-	-	**-**	**-**	**-**	(51)	**(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 profit before tax	**1,076**	**704**	**257**	**2,037**	**(641)**	**1,396**	**(1,051)**	**345**	**81**	**21**	**7**	**454**

[1] *Underlying performance excludes the impact of non-core items (see page 14).*

Income statement - Operating segments (continued)

Restated[1] 6 months ended 30 June 2017	Net interest income €m	Net insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charge on loans and advances to customers €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	Profit / (loss) before taxation €m
Retail Ireland	531	-	144	675	-	675	(395)	280	29	-	-	309
Wealth and Insurance	8	657	336	1,001	(877)	124	(68)	56	-	-	-	56
Retail UK	317	-	9	326	-	326	(207)	119	(67)	18	-	70
Corporate and Treasury	280	-	118	398	-	398	(108)	290	(21)	-	-	269
Group Centre	16	4	(12)	8	(2)	6	(221)	(215)	-	-	-	(215)
Other reconciling items	(1)	-	4	3	-	3	-	3	-	-	-	3
Group - underlying[2]	1,151	661	599	2,411	(879)	1,532	(999)	533	(59)	18	-	492
Total non-core items												
- Cost of restructuring programme	-	-	-	-	-	-	(17)	(17)	-	-	-	(17)
- Gross-up for policyholder tax in the Wealth and Insurance business	-	-	1	1	-	1	-	1	-	-	-	1
- Cost of corporate reorganisation and establishment of a new holding company	-	-	-	-	-	-	(7)	(7)	-	-	-	(7)
- Loss on disposal / liquidation of business activities	-	-	-	-	-	-	-	-	-	-	(5)	(5)
- (Charge) / gain arising on the movement in the Group's credit spreads	-	-	(3)	(3)	(1)	(4)	-	(4)	-	-	-	(4)
Group profit before tax	1,151	661	597	2,409	(880)	1,529	(1,023)	506	(59)	18	(5)	460

[1] *As outlined on page 5, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life); (ii) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017; and (iii) the Group's decision to re-organise the Corporate and Treasury segment.*

[2] *Underlying performance excludes the impact of non-core items (see page 14).*

Principal risks and uncertainties

Principal risks and uncertainties facing the Group for the remaining six months of 2018 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 including new fintech) 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 or that strategic decisions do not have the intended effect. It also includes risks relating to: (i) business model sustainability; (ii) the Group's multi-year transformation programme with implications for business model; (iii) people risks, which are impacted by transformation and also by ongoing remuneration restrictions; and (iv) Brexit risks.

Conduct risk is the risk that the Group, and / or its staff, conducts business in an inappropriate or negligent manner that leads to adverse stakeholder outcomes. Stakeholders include customers, communities, colleagues, shareholders, suppliers and regulators. Conduct risk also comprises the failure to provide ongoing support and service to customers, and to recognise and respond to customer complaints, providing appropriate rectification in a timely manner. Ongoing focus on conduct risk is expected to continue in the second half of the year, given that the supervisory Behaviour and Culture Assessment across the five main lenders has now completed.

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 may arise from a sudden and significant withdrawal of customer deposits, disruption to the access of funding from wholesale markets, or a deterioration in either the Group or the Irish sovereign credit ratings which could adversely impact the Group's funding and liquidity position. Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven by, amongst other things, the maturity structure of loans and investments held by the Group, while cash outflows are driven by items such as the term maturity of debt issued by the Group and outflows from customer deposit accounts.

Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer life expectancy, health or behaviour characteristics, may be short or long term in nature.

Market risk is the risk of loss arising from movements in interest rates, 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 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. Also included here are risks associated with the current important stage of the Group's multi-year investment programme to replace our core banking platforms. It also includes the risk of cybersecurity attacks which target financial institutions and corporates as well as governments and other institutions. The risk of these attacks remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world.

Pension risk is the risk in the Group's 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 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, 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 43 to 48 of the Group's Annual Report for the year ended 31 December 2017.

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 60.

The Group has revised its asset quality reporting methodology to reflect the adoption of IFRS 9.

Under the new methodology, the Group has allocated financial instruments into one of the following categories at the reporting date:

- **Stage 1 – 12 month Expected Credit Loss (ECL) (not credit-impaired):** Financial instruments which have not experienced a significant increase in credit risk since initial recognition and are not credit-impaired. An impairment loss allowance equal to 12-month ECL is recognised, which is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

- **Stage 2 – Lifetime ECL (not credit-impaired):** Financial instruments which have experienced a 'significant increase in credit risk since initial recognition' and are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised, being the ECL resulting from all possible default events over the expected life of the financial instrument.

- **Stage 3 – Lifetime ECL (credit-impaired):** Credit-impaired financial instruments, other than Purchased or originated credit-impaired financial assets. An impairment loss allowance equal to lifetime ECL is recognised. The manner in which the Group identifies financial assets as credit-impaired results in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets (in accordance with Article 178 of the CRR) in scope for the impairment requirements of IFRS 9. This encompasses loans where: (i) the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security (including 'forborne collateral realisation' loans); and / or (ii) the borrower is greater than 90 days past due and the arrears amount is material. A broader population of loans is captured than under the discontinued classification of 'impaired' which comprised exposures carrying a specific provision under IAS 39.

- **Purchased or originated credit-impaired financial asset (POCI):** Financial assets that were credit-impaired at initial recognition. A POCI is not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition. A POCI remains classified as such until it is derecognised, even if assessed as no longer credit-impaired at a subsequent reporting date.

Further information on the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in the Credit risk methodologies section on pages 44 to 47.

The Group continued to apply the following classifications at the reporting date.

Forborne loans:
Loans where a forbearance measure has been granted and where the criteria to exit a forborne classification, in line with EBA guidance[1], are not yet met. Loans that have never been forborne or loans that are no longer required to be reported as 'forborne' are classified as 'non-forborne'.

'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.

'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

(ii) **other / probationary loans** that have yet to satisfy exit criteria in line with EBA guidance[1] to return to performing.

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

Asset quality - Loans and advances to customers (continued)

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposure note on page 87 in the consolidated financial statements.

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

Comparative figures for the period have not been restated and are presented on an IAS 39 classification and measurement basis.

30 June 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	2,654	1,302	1,199	98	5,253
Not credit-impaired[1]	307	205	95	3	610
Total	**2,961**	**1,507**	**1,294**	**101**	**5,863**

31 December 2017 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
Impaired	1,314	1,339	1,301	89	4,043
Past due greater than 90 days but not impaired	304	94	66	-	464
Neither impaired nor past due greater than 90 days	1,467	244	302	1	2,014
Total	3,085	1,677	1,669	90	6,521

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 60.

In addition to the non-performing exposures on loans and advances to customers shown above, the Group has total non-performing off-balance sheet exposures amounting to €0.1 billion (31 December 2017: €0.1 billion).

NPEs decreased to €5.9 billion at 30 June 2018 from €6.5 billion at 31 December 2017, with reductions evident across the Group's portfolios. NPEs at 30 June 2018 comprise credit-impaired loans of €5.3 billion and other non-performing exposures[1] of €0.6 billion.

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

Asset quality - Loans and advances to customers (continued)

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the basis of preparation on page 60.

Composition and impairment

The table below summarises the composition, credit-impaired loans and related impairment loss allowance of the Group's loans and advances to customers at 30 June 2018 and at 1 January 2018. Comparative figures for 31 December 2017 have not been restated and are presented on an IAS 39 classification and measurement basis.

30 June 2018 **Total loans and advances to customers at amortised cost - Composition and impairment[1]**	**Advances (pre-impairment loss allowance) €m**	**Credit impaired loans €m**	**Credit impaired loans as % of advances %**	**Impairment loss allowance[2] €m**	**Impairment loss allowance as % of credit impaired loans %**
Residential mortgages	45,985	2,654	5.8%	546	21%
- Retail Ireland	*23,702*	*2,218*	*9.4%*	*511*	*23%*
- Retail UK	*22,283*	*436*	*2.0%*	*35*	*8%*
Non-property SME and corporate	19,123	1,302	6.8%	663	51%
- Republic of Ireland SME	*7,722*	*923*	*11.9%*	*448*	*49%*
- UK SME	*1,567*	*106*	*6.7%*	*53*	*51%*
- Corporate	*9,834*	*273*	*2.8%*	*162*	*59%*
Property and construction	8,457	1,199	14.2%	544	45%
- Investment	*7,795*	*1,084*	*13.9%*	*476*	*44%*
- Land and development	*662*	*115*	*17.4%*	*68*	*59%*
Consumer	4,856	98	2.0%	62	63%
Total	**78,421**	**5,253**	**6.7%**	**1,815**	**35%**

1 January 2018 Total loans and advances to customers at amortised cost - Composition and impairment[1]	Advances (pre-impairment loss allowance) €m	Credit impaired loans €m	Credit impaired loans as % of advances %	Impairment loss allowance[2] €m	Impairment loss allowance as % of credit impaired loans %
Residential mortgages	46,365	2,876	6.2%	599	21%
- Retail Ireland	*23,775*	*2,398*	*10.1%*	*558*	*23%*
- Retail UK	*22,590*	*478*	*2.1%*	*41*	*9%*
Non-property SME and corporate	18,623	1,505	8.1%	791	53%
- Republic of Ireland SME	*8,211*	*1,130*	*13.8%*	*577*	*51%*
- UK SME	*1,702*	*125*	*7.3%*	*59*	*47%*
- Corporate	*8,710*	*250*	*2.9%*	*155*	*62%*
Property and construction	8,724	1,494	17.1%	685	46%
- Investment	*8,257*	*1,328*	*16.1%*	*591*	*45%*
- Land and development	*467*	*166*	*35.5%*	*94*	*57%*
Consumer	4,318	97	2.2%	64	66%
Total	78,030	5,972	7.7%	2,139	36%

[1] Excludes €267 million of loans and advances to customers at 30 June 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.
[2] Impairment loss allowance on credit impaired loans and purchased or originated credit impaired assets.

Asset quality - Loans and advances to customers (continued)

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

At 30 June 2018, loans and advances to customers (pre-impairment loss allowance) of €78.4 billion were €0.4 billion higher than 1 January 2018, reflecting the combined impacts of net new lending, utilisation of impairment loss allowance and currency translation.

Credit-impaired loans decreased to €5.3 billion or 6.7% of customer loans at 30 June 2018 from €6.0 billion or 7.7% at 1 January 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, including increasing property collateral values particularly in Retail Ireland. 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 corresponding loan amounts.

The stock of impairment loss allowance on credit-impaired loans decreased to €1.8 billion at 30 June 2018 from €2.1 billion at 1 January 2018. This reduction incorporates the impact of impairment loss allowance utilisation totalling c.€0.3 billion.

Impairment loss allowance as a % of credit-impaired loans has remained broadly stable across the Group's loan portfolios in the first half of 2018 and reflects a combination of the reduction in credit-impaired loans, impairment loss allowance utilisation and a net impairment gain during the period.

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 60.

Included in the preceding table is €31.7 billion of UK customer exposure[1] at 30 June 2018. Of this, €22.2 billion relates to Retail UK mortgages, €4.3 billion non-property SME and corporate, €2.4 billion Property and construction, and €2.8 billion Consumer.

Of the €4.3 billion UK Non-property SME and corporate exposure (€1.6 billion SME and €2.7 billion corporate) at 30 June 2018, €0.2 billion was credit-impaired, primarily related to UK SME. UK Non-property SME and corporate credit-impaired loans impairment loss allowance coverage ratio is 29% at 30 June 2018.

Of the €2.4 billion UK Property and construction exposure at 30 June 2018, €0.3 billion is credit-impaired. At 30 June 2018, UK Property and construction credit-impaired loans impairment loss allowance coverage ratio was 45%.

Of the €2.8 billion UK Consumer lending at 30 June 2018, €30 million is credit-impaired, with a credit-impaired loans impairment loss allowance coverage ratio of 73%. High impairment loss allowance cover reflects the unsecured nature of this lending.

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

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 60.

The table below summarises the composition, NPEs and related impairment loss allowance of the Group's loans and advances to customers. Comparative figures for the period have not been restated and are presented on an IAS 39 classification and measurement basis.

30 June 2018 **Total loans and advances to customers at amortised cost - Composition and impairment[1]**	**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	45,985	2,961	6.4%	582	20%
- Retail Ireland	*23,702*	*2,480*	*10.5%*	*526*	*21%*
- Retail UK	*22,283*	*482*	*2.2%*	*56*	*12%*
Non-property SME and corporate	19,123	1,507	7.9%	780	52%
- Republic of Ireland SME	*7,722*	*1,128*	*14.6%*	*521*	*46%*
- UK SME	*1,567*	*194*	*12.4%*	*64*	*33%*
- Corporate	*9,834*	*185*	*1.9%*	*195*	*105%*
Property and construction	8,457	1,294	15.3%	589	46%
- Investment	*7,795*	*1,160*	*14.9%*	*519*	*45%*
- Land and development	*662*	*134*	*20.2%*	*70*	*52%*
Consumer	4,856	101	2.1%	133	132%
Total	**78,421**	**5,863**	**7.5%**	**2,084**	**36%**

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

The movements in NPEs in the period are broadly consistent with the movements in credit-impaired loans as set out on page 41. At 30 June 2018, the Group's NPE impairment loss allowance cover ratio was 36% (31 December 2017: 36%).

[1] *Excludes €267 million of loans and advances to customers at 30 June 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.*

Asset quality - Credit risk methodologies

The information below including referenced footnotes forms an integral part of the interim financial statements as described in the basis of preparation on page 60.

The Group's credit risk methodologies in respect of impairment were revised on adoption of IFRS 9 on 1 January 2018 and are as set out below. The Group's approach to internal credit rating models and rating systems is unchanged and is set out on page 65 of the Group's Annual Report for the year ended 31 December 2017.

Approach to measurement of impairment loss allowances

Impairment is measured in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) 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. Impairment is measured through the use of impairment models, individual discounted cash flow analysis and modelled loss rates; supplemented where necessary by Group management adjustments. In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However this may not be the case for very highly collateralised loans, such as residential mortgages at low loan to value ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the period. The Group's methodologies for valuation of property collateral are set out on page 68 of the Group's Annual Report for the year ended 31 December 2017, noting further that Forward Looking Information (FLI) (see page 46) is applied to RoI and UK property collateral values in measuring impairment loss allowances under IFRS 9.

An analysis of the Group's impairment loss allowances and impairment gain or loss is set out in notes 24 and 16 of the consolidated interim financial statements.

Impairment models

The Group has in place a suite of IFRS 9 compliant impairment models which are executed on a monthly basis and which allocate financial instruments to stage 1, 2 or 3 and measure the appropriate 12 month or lifetime ECL. The characteristics of an exposure determine which impairment model is used, with influencing factors including product type (e.g. Residential Mortgage, unsecured personal loan, business loan) and market segment (e.g. owner occupier, buy-to-let, general corporate lending, general business lending).

ECLs are calculated as the sum of the marginal losses for each time period from the balance sheet date. The key components of the ECL calculation are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD, which is expressed as a percentage of EAD) and are described below. Other components include discount rate and maturity. The current contractual rate is generally used as the discount rate as it is considered a suitable approximation of the effective interest rate determined at initial recognition. For term lending including committed revolving credit facilities, contractual maturity is used in the ECL calculation. For uncommitted retail revolving facilities, behavioural life is generally used while for uncommitted wholesale revolving facilities, 12 months is generally used being the maximum interval allowed between formal risk re-ratings.

IFRS 9 PD

Where available, the ratings or underlying scores from internal credit rating models are used as a starting point for IFRS 9 PD calibration. While calibration techniques are similar to those used for regulatory purposes, the IFRS 9 PD differs from Through-the-Cycle or cyclical estimate PDs as it is an unbiased point-in-time PD based on current conditions and adjusted to reflect FLI.

A current point-in-time IFRS 9 PD is calculated as the expected default rate over the next 12 months. This PD is used in the calculation of 12-month ECL and as a starting point in the calculation of lifetime PD. Future point-in-time IFRS 9 PDs are also calculated, being the expected default rates for each year from the start of year 2 to maturity of the financial instrument. Transition matrices are used to determine how an exposure moves between different PD bands over time.

Together, the current point-in-time IFRS 9 PD and future point-in-time IFRS 9 PDs are used to generate an IFRS 9 lifetime PD expectation for each FLI scenario. The scenario weighted averages are used to generate an overall IFRS 9 lifetime PD expectation. At origination of a new financial instrument, these expectations are stored, together with prepayment estimates where relevant, and allow for comparison at future reporting dates as one of the key determinants as to whether a 'significant increase in credit risk' has occurred. As lifetime PD was not calculated historically, the Group used reasonable and supportable information available without undue cost or effort to approximate the residual IFRS 9 lifetime PD expectations at initial recognition for most financial instruments originated prior to the adoption of IFRS 9 on 1 January 2018.

IFRS 9 EAD

Current point-in-time EAD is the expected exposure at default were the borrower to default within the next 12 months. Future point-in-time EAD also incorporates expected contractual cash flows. IFRS 9 EAD differs from regulatory EAD in that it incorporates expected contractual cash flows and caps the exposure at the contractual limit.

IFRS 9 LGD

Current point-in-time LGD is the loss that would be incurred should default occur in the next 12 months. To facilitate the calculation of lifetime ECL, future point-in-time LGDs are calculated for each year from the start of year 2 to maturity of the exposure. The starting point for individual components of the calculation is historical data. Cure rate is incorporated as appropriate into the calculation and represents the expected propensity of borrowers to return to the non-defaulted book without a loss having been realised. FLI is also incorporated into LGD where RoI or UK property collateral is held. IFRS 9 LGD may differ from regulatory LGD as conservatism and downward assumptions are generally removed.

Individual discounted cash flow analysis

For credit-impaired financial instruments in Business Banking, Corporate Banking and certain other relationship-managed

Asset quality - Credit risk methodologies (continued)

portfolios, an individual discounted cash flow analysis is completed to measure a 'base case impairment loss allowance'. The expected future cash flows are based on the lender's assessment of future recoveries and include forecasted principal and interest payments (not necessarily contractual amounts due) and expected cash flows, if any, from the realisation of collateral / security held, less realisation costs. Where timeframe to realisation of property collateral is such that the collateral recoveries might be impacted by FLI forecasts of residential or commercial property prices, the data entered in the individual discounted cash flow analysis is a key input to an impairment model which applies FLI in measuring the impairment loss allowance.

Modelled loss rates
For some smaller and / or lower risk portfolios, impairment loss allowances are measured by applying modelled loss rates to exposure amounts. Modelled loss rates are generally determined on a component basis taking into account factors such as the nature and credit quality of the exposures and past default and recovery experience on the portfolio or on portfolios with similar risk characteristics. Generally a number of different loss rates will be set for a portfolio to allow differentiation of individual financial instruments within the portfolio based on their credit quality.

Identifying a significant increase in credit risk
The Group's standard criteria to identify financial instruments which have had a 'significant increase in credit risk since initial recognition' are applied to the vast bulk of loans and advances to customers. Credit risk for this purpose relates only to default risk. Unless credit-impaired, a financial instrument is allocated to stage 2 if any of the following criteria are met at the reporting date:

- remaining lifetime PD is more than double the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations);
- a contractual payment is greater than 30 days past due; and / or
- the exposure is a forborne loan or a non-performing exposure, due to events occurring after its initial recognition by the Group.

The above criteria are automatically applied as part of the monthly execution of the Group's impairment models. In addition, management considers whether there is reasonable and supportable information that would not otherwise be taken into account that would indicate that a significant increase in credit risk had occurred.

Where a financial asset has been modified but not derecognised, the quantitative assessment of 'significant increase in credit risk' continues to be based on the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations).

The Group will assess the effectiveness of its staging criteria semi-annually, taking into account considerations such as the extent to which: (i) exposures have moved directly from stage 1 to stage 3; (ii) exposures have moved to stage 3, having spent only a short period in stage 2; (iii) exposures have moved frequently between stages 1 and 2; and (iv) there is potential over-reliance on backstop or qualitative criteria in identifying stage 2 exposures.

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

For some smaller and / or low risk portfolios, the Group identifies a significant increase in 'credit risk since initial recognition' solely by reference to whether a contractual payment is greater than 30 days past due.

Identifying defaulted assets and credit-impaired assets
The Group's definition of default for impairment purposes (i.e. for the purposes of allocating financial instruments to 'stages' and for measuring impairment loss allowances under IFRS 9) is consistent with its application of the definition of default in Article 178 of the CRR noting that IFRS 9 requires the Group to use a definition which is consistent with that used for internal credit risk management purposes. The manner in which the Group identifies financial assets as credit-impaired results in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets in scope for the impairment requirements of IFRS 9. The Group considers certain events as resulting in mandatory default and credit-impaired classification without further assessment. These include:

- greater than 90 days past due and the past due amount is material;
- a forbearance arrangement is put in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged;
- legal action is underway by the Group to enforce repayment or realise security;
- the Group or a receiver takes security into possession; and
- the Group has formally sought an insolvency arrangement in respect of the borrower.

Certain other events necessitate a lender assessment and, if the outcome of the lender assessment is that the contractual amount of principal and interest will not be fully repaid in what is assessed to be the most likely cash flow scenario, default and credit-impaired classification is mandatory. For larger value cases (typically greater than €1 million or £850,000), the lender assessment involves production of an individual discounted cash flow analysis. The events differ by portfolio and include those set out below.

All portfolios:

- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans, including refinancing and renegotiation of facilities where during the renegotiation process, the lender becomes aware that the borrower is under actual or apparent financial distress;
- evidence of fraudulent activity by the borrower or another party connected with the loan;

Asset quality - Credit risk methodologies (continued)

- the contractual maturity date has passed without repayment in full; or
- an insolvency application is known to be underway in respect of the borrower.

Residential mortgage portfolios:
- offer of voluntary surrender of security or sale of security at a possible shortfall; or
- it becomes known that the borrower has become unemployed with no comparable new employment secured.

Larger SME / corporate and property loans:
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;
- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and / or a negative net assets position;
- the borrower has ceased trading;
- a fall in the assessed current value of security such that the loan to value ratio is greater than or equal to 120% (Property and construction only);
- a fall in net rent such that it is inadequate to cover interest with little / no other income to support debt service capacity (investment property exposures only); or
- a fall in the assessed gross development value such that sale proceeds are no longer expected to fully repay debt (development exposures only).

Review of credit-impaired loans
It is Group policy to review credit-impaired loans above agreed thresholds semi-annually or on receipt of material new information, with the review including a reassessment of the recovery strategy and the continued appropriateness of a credit-impaired classification. The minimum requirements for a credit-impaired loan to return to non credit-impaired status are that the borrower must not be greater than 90 days past due on a material amount, the borrower must be considered likely to pay in full without recourse by the Group to actions such as realising security and there must be no forbearance arrangement in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged. Typically, an updated assessment of the borrower's current financial condition and prospects for repayment is required with the borrower to have satisfactorily met repayments required under the original or modified agreement regularly for a reasonable period of time.

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.

The Group's FLI model uses the central scenario, recent actual observed values and historical data to generate many scenarios distributed around the central scenario. The central scenario is at the 50th percentile of the distribution of scenarios (meaning that there is a 50% likelihood of the expected ECL outcome being better and a 50% likelihood of it being worse) and the upside and downside scenarios are those scenarios at chosen lower and higher percentiles respectively. The probability weightings attached to the scenarios are a function of the chosen percentiles, with lower probability weightings attached to scenarios which are at percentiles more distant from the central scenario.

Typically, one or two macroeconomic variables are incorporated into each impairment model, being those determined through macro regression techniques to be most relevant to forecasting default of the credit risk exposures flowing through that model.

The lifetime PD expectation for an exposure generated under each of the scenarios, weighted by the probability of each scenario occurring, is used to generate the lifetime PD expectations used for the assessment of 'significant increase in credit risk'. The overall ECL for an exposure is determined as a probability-weighted average of the ECL calculated for each scenario, weighted by the probability of each scenario occurring.

Beyond the forecast period, default rates are assumed to revert over time to an observed long run average and the value of property collateral for LGD purposes is assumed to grow at an observed long-run rate.

The table below shows the mean average forecast values for some of the key macroeconomic variables under each scenario for the five year forecast period 2018-2022 together with the associated percentiles and probability weightings.

	Republic of Ireland			United Kingdom		
	Downside	Central	Upside	Downside	Central	Upside
Percentile	85th	50th	15th	85th	50th	15th
Scenario probability weighting	30%	39%	31%	29%	39%	32%
GDP growth	2.0%	3.4%	5.6%	0.5%	1.5%	1.7%
GNP growth	1.4%	3.2%	5.2%	-	-	-
Unemployment rate	7.1%	5.3%	3.8%	5.5%	4.5%	4.2%
Residential property price growth	(1.1%)	3.4%	8.5%	(0.3%)	0.4%	4.7%
Commercial property price growth	(4.9%)	1.8%	8.9%	(5.9%)	(0.2%)	0.3%

FLI is generally not applied to exposures to which the low credit risk expedient has been applied given factors such as a lack of internal default history to inform macro regression and that applying FLI would be unlikely to have a material impact given low PDs and that exposures are subject to 12-month rather than lifetime ECL.

Asset quality - Credit risk methodologies (continued)

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.

Control mechanisms for credit rating and impairment models
The Group Model Risk Policy and Group Model Risk Standards, as approved by the GRPC, set out specific requirements for the development, validation and use of impairment models. More detailed model development and model validation standards have been approved by the Risk Measurement Committee (RMC). All model development and redevelopment is approved by the RMC and the findings of model performance monitoring must be reported to the RMC. Impairment models are subject to validation, at minimum, as part of any significant redevelopment, at the direction of the RMC or as part of a rolling three year cycle.

In addition, Group Internal Audit (GIA) regularly reviews the risk control framework, including policies and standards, to ensure that these are being adhered to, meet industry good practices and are compliant with regulatory requirements.

Responsibility Statement
for the six months ended 30 June 2018

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 34 ('IAS 34') as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

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

- important events that have occurred during the first six months of the year;
- the impact of those events on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year (see page 38);
- details of any related parties' transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2018; and
- details of any changes to related parties' transactions described in the Group's Annual Report for the year ended 31 December 2017 that could have a material effect on the financial position or performance of the Group in the six months ended 30 June 2018.

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
27 July 2018

Archie G Kane	***Patrick Kennedy***	***Francesca McDonagh***
Chairman	*Deputy Chairman*	*Group Chief Executive*

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

Non-executive Directors
Archie G Kane (Chairman)
Patrick Kennedy (Deputy Chairman)
Kent Atkinson
Evelyn Bourke *(Appointed 17 May 2018)*
Ian Buchanan *(Appointed 17 May 2018)*
Richard Goulding
Patrick Haren
Davida Marston
Fiona Muldoon
Patrick Mulvihill

Independent Review Report
to the members of Bank of Ireland Group plc

Introduction
We have been engaged by Bank of Ireland Group plc to review the condensed set of consolidated financial statements in the interim financial report for the six months ended 30 June 2018 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 ('FRCs') International Standard on Review Engagements ('ISRE') (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 2018 is not prepared, in all material respects, 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 ('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 International Financial Reporting Standards ('IFRSs') as adopted by the European Union. 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 European Union.

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 Financial Reporting Council'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 Central Bank of Ireland. 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

27 July 2018

Consolidated interim financial statements and notes

(unaudited)

Consolidated condensed income statement (unaudited)

(for the six months ended 30 June 2018)

	Note	6 months ended 30 June 2018 €m	Restated[1,2] 6 months ended 30 June 2017 €m
Interest income calculated using the effective interest method	5	1,188	1,266
Interest income on finance leases and hire purchase receivables	5	78	76
Interest income		**1,266**	**1,342**
Interest expense	6	(190)	(191)
Net interest income		**1,076**	**1,151**
Net insurance premium income	7	704	661
Fee and commission income	8	263	269
Fee and commission expense	8	(105)	(109)
Net trading income	9	29	80
Life assurance investment income, gains and losses	10	28	285
Other leasing income	11	24	-
Other leasing expense	11	(20)	-
Other operating income	12	38	72
Total operating income		**2,037**	**2,409**
Insurance contract liabilities and claims paid	13	(641)	(880)
Total operating income, net of insurance claims		**1,396**	**1,529**
Other operating expenses	14	(1,000)	(1,006)
Cost of restructuring programme	15	(51)	(17)
Operating profit before impairment charges on financial assets		**345**	**506**
Net impairment gains / (losses) on financial instruments	16	81	(59)
Operating profit		**426**	**447**
Share of results of associates and joint ventures (after tax)		21	18
Gain on disposal of asset held for sale	27	7	-
Loss on disposal / liquidation of business activities		-	(5)
Profit before tax		**454**	**460**
Taxation charge	17	(77)	(78)
Profit for the period		**377**	**382**
Attributable to shareholders		350	382
Attributable to non-controlling interests		27	-
Profit for the period		**377**	**382**
Earnings per ordinary share	18	32.5c	32.8c
Diluted earnings per ordinary share	18	32.5c	32.8c

[1] Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017 and for amendments to IAS 1 'Presentation of financial statements'. See notes 1 and 42 for further information.

[2] Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.

Consolidated interim financial statements and notes

(unaudited)

Consolidated condensed statement of comprehensive income (unaudited)

(for the six months ended 30 June 2018)

	6 months ended 30 June 2018 €m	Restated[1,2] 6 months ended 30 June 2017 €m
Profit for the period	**377**	**382**
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	(58)	-
- Available for sale financial assets, net of tax	-	(2)
- Cash flow hedge reserve, net of tax	(37)	(102)
- Foreign exchange reserve	19	(101)
Total items that may be reclassified to profit or loss in subsequent periods	**(76)**	**(205)**
Items that will not be reclassified to profit or loss in subsequent periods		
- Remeasurement of the net defined benefit pension liability, net of tax	159	(70)
- Net change in liability credit reserve[3]	11	-
Total items that will not be reclassified to profit or loss in subsequent periods	**170**	**(70)**
Other comprehensive income for the period, net of tax	**94**	**(275)**
Total comprehensive income for the period, net of tax	**471**	**107**
Total comprehensive income attributable to equity shareholders	444	107
Total comprehensive income attributable to non-controlling interests	27	-
Total comprehensive income for the period, net of tax	**471**	**107**

The effect of tax on these items is shown in note 17.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

[2] *Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.*

[3] *Prior to 1 January 2018, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges are now accounted for through other comprehensive income (OCI).*

Consolidated condensed balance sheet (unaudited)

(as at 30 June 2018)

	Note	30 June 2018 €m	31 December 2017[1] €m
Assets			
Cash and balances at central banks		5,246	7,379
Items in the course of collection from other banks		254	307
Trading securities		38	68
Derivative financial instruments		1,778	2,348
Other financial assets at fair value through profit or loss	19	14,825	14,421
Loans and advances to banks	20	2,672	3,061
Debt securities at amortised cost	21	3,446	-
Financial assets at fair value through other comprehensive income	22	11,269	-
Available for sale financial assets	23	-	13,223
Loans and advances to customers	24	76,604	76,128
Interest in associates		52	59
Interest in joint ventures		86	69
Intangible assets and goodwill	26	786	779
Investment properties		989	912
Property, plant and equipment		424	434
Assets classified as held for sale	27	-	28
Current tax assets		18	50
Deferred tax assets	28	1,204	1,237
Other assets		2,059	1,993
Retirement benefit assets	34	77	58
Total assets		**121,827**	**122,554**
Equity and liabilities			
Deposits from banks	29	3,472	4,339
Customer accounts	30	76,666	75,869
Items in the course of transmission to other banks		447	263
Derivative financial instruments		1,798	1,987
Debt securities in issue	31	7,910	8,390
Liabilities to customers under investment contracts		5,647	5,766
Insurance contract liabilities		11,011	10,878
Other liabilities		2,371	2,482
Current tax liabilities		-	12
Provisions	32	113	205
Loss allowance provision on loan commitments and financial guarantees		27	-
Deferred tax liabilities	28	45	53
Retirement benefit obligations	34	337	536
Subordinated liabilities	35	2,101	2,107
Total liabilities		**111,945**	**112,887**
Equity			
Share capital		1,079	1,079
Share premium account		456	456
Retained earnings		7,715	7,333
Other reserves		(148)	24
Own shares held for the benefit of life assurance policyholders		(28)	(33)
Shareholders' equity		**9,074**	**8,859**
Non-controlling interests		808	808
Total equity		**9,882**	**9,667**
Total equity and liabilities		**121,827**	**122,554**

[1] *Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.*

Consolidated condensed statement of changes in equity (unaudited)

(for the six months ended 30 June 2018)

	Note	**6 months ended 30 June 2018 €m**	Restated[1,2] 6 months ended 30 June 2017 €m	Year ended 31 December 2017 €m
Share capital				
Balance at the beginning of the period		1,079	2,545	2,545
Impact of corporate reorganisation and capital reduction		-	-	(1,466)
Balance at the end of the period		**1,079**	**2,545**	**1,079**
Share premium account				
Balance at the beginning of the period		456	571	571
Impact of corporate reorganisation and capital reduction		-	-	(115)
Balance at the end of the period		**456**	**571**	**456**
Retained earnings				
Balance at the beginning of the period		7,333	5,214	5,214
Impact of adopting IFRS 9 at 1 January 2018	43	(31)	-	-
Restated balance at 1 January 2018		7,302	5,214	5,214
Profit retained		226	354	636
- Profit for period attributable to shareholders		*350*	*382*	*664*
- Dividends on ordinary shares		*(124)*	-	-
- Distributions on other equity instruments - Additional tier 1 coupon, net of tax		-	*(24)*	*(24)*
- Dividends on preference equity interests paid in cash		-	*(4)*	*(4)*
Impact of corporate reorganisation and capital reduction		-	-	1,553
Transfer from capital reserve		16	6	41
Transfer from / (to) revaluation reserve	27	9	-	-
Remeasurement of the net defined benefit pension liability		159	(70)	(113)
Other movements		3	(1)	2
Balance at the end of the period		**7,715**	**5,503**	**7,333**
Other reserves:				
Available for sale reserve				
Balance at the beginning of the period		341	350	350
Impact of adopting IFRS 9 at 1 January 2018	43	(341)	-	-
Restated balance at 1 January 2018		-	350	350
Gain on reclassification from held to maturity portfolio		-	-	52
Net changes in fair value		-	21	24
Transfer to income statement (pre tax)				
- Asset disposal		-	(15)	(69)
- Amortisation		-	(9)	(18)
Deferred tax on reserve movements		-	1	2
Balance at the end of the period		**-**	**348**	**341**

[1] Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.

[2] Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.

Consolidated condensed statement of changes in equity (unaudited) (continued)

(for the six months ended 30 June 2018)

	Note	6 months ended 30 June 2018 €m	Restated[1,2] 6 months ended 30 June 2017 €m	Year ended 31 December 2017 €m
Debt instruments at fair value through other comprehensive income (FVOCI) reserve				
Balance at the beginning of the period		-	-	-
Impact of adopting IFRS 9 at 1 January 2018	43	272	-	-
Restated balance at 1 January 2018		272	-	-
Net changes in fair value		(64)	-	-
Transfer to income statement (pre tax)		(2)	-	-
Deferred tax on reserve movements		8	-	-
Balance at the end of the period		**214**	**-**	**-**
Cash flow hedge reserve				
Balance at the beginning of the period		41	156	156
Changes in fair value, net of transfers (to) / from the income statement		(43)	(117)	(131)
Deferred tax on reserve movements		6	15	16
Balance at the end of the period		**4**	**54**	**41**
Liability credit reserve				
Balance at the beginning of the period		-	-	-
Impact of adopting IFRS 9 at 1 January 2018	43	(13)	-	-
Restated balance at 1 January 2018		(13)	-	-
Changes in fair value of liabilities designated at fair value through profit or loss due to own credit risk		13	-	-
Deferred tax on reserve movements	17	(2)	-	-
Balance at the end of the period		**(2)**	**-**	**-**
Foreign exchange reserve				
Balance at the beginning of the period		(843)	(696)	(696)
Exchange adjustments during the period		19	(106)	(158)
Transfer to income statement on liquidation of non-trading entities		-	5	11
Balance at the end of the period		**(824)**	**(797)**	**(843)**
Capital reserve				
Balance at the beginning of the period (prior to restatement)		433	512	512
Effect of change in Life assurance operations accounting policy	42	-	17	17
Balance at the beginning of the period (restated)		433	529	529
Transfer to retained earnings		(16)	(6)	(41)
Impact of corporate reorganisation and capital reduction		-	-	(55)
Balance at the end of the period		**417**	**523**	**433**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

[2] *Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.*

Consolidated condensed statement of changes in equity (unaudited) (continued)

(for the six months ended 30 June 2018)

	Note	6 months ended 30 June 2018 €m	Restated[1,2] 6 months ended 30 June 2017 €m	Year ended 31 December 2017 €m
Merger reserve				
Balance at the beginning of the period		17	-	-
Impact of corporate reorganisation and capital reduction		-	-	17
Balance at the end of the period		**17**	**-**	**17**
Revaluation reserve				
Balance at the beginning of the period		35	20	20
Transfer to retained earnings	27	(9)	-	-
Revaluation of property		-	-	16
Deferred tax on reserve movements		-	-	(1)
Balance at the end of the period		**26**	**20**	**35**
Total other reserves		**(148)**	**148**	**24**
Own shares held for the benefit of life assurance policyholders				
Balance at the beginning of the period		(33)	(11)	(11)
Changes in value and amount of shares held		5	(12)	(22)
Balance at the end of the period		**(28)**	**(23)**	**(33)**
Total shareholders' equity excluding other equity instruments and non-controlling interests		**9,074**	**8,727**	**8,859**
Other equity instruments				
Balance at the beginning of the period		-	740	740
Transfer to non-controlling interests on date of corporate reorganisation		-	-	(740)
Balance at the end of the period		**-**	**740**	**-**
Non-controlling interests				
Balance at the beginning of the period		808	1	1
Impact of corporate reorganisation and capital reduction		-	-	806
Share of net profit		27	-	28
Dividends paid to non-controlling interests - preference stock		(3)	-	(3)
Distribution to non-controlling interests - Additional tier 1 coupon, net of tax		(24)	-	(24)
Balance at the end of the period		**808**	**1**	**808**
Total equity		**9,882**	**9,468**	**9,667**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

[2] *Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.*

Consolidated condensed cash flow statement (unaudited)

(for the six months ended 30 June 2018)

	Note	6 months ended 30 June 2018 €m	Restated[1,2] 6 months ended 30 June 2017 €m
Cash flows from operating activities			
Profit before tax		454	460
Share of results of associates and joint ventures		(21)	(18)
Loss on disposal / liquidation of business activities		-	5
Gain on disposal of asset held for resale	27	(7)	-
Depreciation and amortisation	11,14	113	74
Net impairment (gains) / losses on financial instruments	16	(81)	59
Revaluation of investment property		(8)	(19)
Interest expense on subordinated liabilities		58	45
Charge for pension and similar obligations	14	59	62
Net change in accruals and interest payable		(41)	(61)
Net change in prepayments and interest receivable		(15)	41
Charge for provisions	32	42	24
Non-cash and other items		66	73
Cash flows from operating activities before changes in operating assets and liabilities		**619**	**745**
Net cash flow from operating assets and liabilities		(689)	216
Net cash flow from operating activities before tax		**(70)**	**961**
Tax paid		(14)	(50)
Net cash flow from operating activities		**(84)**	**911**
Investing activities (section a below)		(2,063)	(1,436)
Financing activities (section b below)		(211)	(121)
Effect of exchange translation and other adjustments		2	116
Net change in cash and cash equivalents		**(2,356)**	**(530)**
Opening cash and cash equivalents		10,201	8,299
Closing cash and cash equivalents		**7,845**	**7,769**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017 and for amendments to IAS 1 'Presentation of financial statements'. See notes 1 and 42 for further information.*

[2] *Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.*

Consolidated condensed cash flow statement (unaudited) (continued)

(for the six months ended 30 June 2018)

	Note	6 months ended 30 June 2018 €m	Restated[1,2] 6 months ended 30 June 2017 €m
(a) Investing activities			
Net additions to financial assets at fair value through other comprehensive income	22	(1,226)	-
Net additions to debt securities at amortised cost		(672)	-
Net additions to available for sale financial assets		-	(1,329)
Additions to property, plant and equipment, intangible assets and investment property		(183)	(171)
Disposal of property, plant and equipment, intangible assets and investment property		7	61
Net change in interest in associates		11	3
Cash flows from investing activities		**(2,063)**	**(1,436)**
(b) Financing activities			
Interest paid on subordinated liabilities		(57)	(58)
Dividend paid to ordinary shareholders		(124)	-
Distribution to non-controlling interests - Additional tier 1 coupon		(27)	-
Dividend paid to non-controlling interests - preference stock		(3)	-
Repayment of subordinated liabilities		-	(32)
Dividend paid on other preference equity interests		-	(4)
Distributions paid on other equity instruments - Additional tier 1 coupon		-	(27)
Cash flows from financing activities		**(211)**	**(121)**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

[2] *Comparative figures have not been restated for the impact of IFRS 9 or IFRS 15.*

Notes to the consolidated interim financial statements

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1 Group accounting policies

Basis of preparation

The interim financial statements of Bank of Ireland Group plc ('BOIG plc') and its subsidiaries (collectively the 'Group') for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34, 'Interim financial reporting', as issued by the International Accounting Standards Board and as adopted by the European Union. These condensed interim financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statement) Regulations, 2015.

Statutory financial statements

These interim financial statements do not comprise statutory financial statements within the meaning of the Companies Act 2014. The statutory financial statements for the year ended 31 December 2017 were approved by the Board of Directors on 23 February 2018, contained an unqualified audit report and did not include a reference to any matters to which the statutory auditors drew attention by way of emphasis. The statutory financial statements were filed with the Companies Registration Office on 28 May 2018.

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 51 to 118. The interim financial statements include certain information that is described as being an integral part of the interim financial statements contained in the Asset quality section on pages 39 to 47 of the Operating and financial review. The interim financial statements also include the tables in Other information - Supplementary asset quality and forbearance disclosures on pages 120 to 137 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 2018 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 quality 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 147 to 159 of the Group's Annual Report for the year ended 31 December 2017, except for the application of IFRS 9 'Financial instruments', the amendment to IFRS 9 'Prepayment features with negative compensation' and IFRS 15 'Revenue from contracts with customers' as of 1 January 2018. As required by IAS 34 the nature and effect of these changes are disclosed below.

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: recognition and measurement'. It sets out requirements relating to recognition and derecognition, classification, measurement and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. Impairment under IFRS 9 is forward-looking and is based on expected rather than incurred losses. For financial liabilities, there is no change to classification and measurement except for recognition of changes in own credit risk in other comprehensive income for certain liabilities designated at fair value through profit or loss. The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

The interim financial statements for the comparative period have not been restated to reflect the change. The effect of adoption of IFRS 9 is explained further in note 43.

Presentation

IFRS 9 amends IAS 1 'Presentation of financial statements' to require certain items to be presented as line items in the income statement, including impairment gains or losses, gains or losses arising from the derecognition of financial assets measured at amortised cost and interest revenue calculated using the effective interest method. Accordingly, interest income on financial assets calculated using the effective interest method is now presented separately from interest income on finance leases, recognised based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

1 Group accounting policies (continued)

IFRS 15 'Revenue from contracts with customers'
IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single principles-based five-step model to be applied to all contracts with customers. The standard does not impact income recognition related to financial instruments within the scope of IFRS 9 and leases within the scope of IAS 17.

The Group has applied this standard retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application. Prior periods have not been restated. For contracts completed before the earliest period presented, the Group has not restated the opening balance of retained earnings. IFRS 15 did not have a material impact on the Group's consolidated financial statements.

The Group's accounting policies have been updated for the application of IFRS 9 and IFRS 15 as follows:

Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for financial instruments measured at amortised cost and financial assets which are debt instruments measured at fair value through other comprehensive income.

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or liability and in the allocation and recognition of interest revenue or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses (except in the case of purchased or originated credit-impaired financial assets where expected credit losses are included in the calculation of a 'credit-adjusted effective interest rate'). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of a financial asset that is neither credit-impaired nor a purchased or originated credit-impaired financial asset, interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

In the case of a financial asset that is not a purchased or originated credit-impaired financial asset but is credit-impaired at the reporting date, interest revenue is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount adjusted for any impairment loss allowance.

In the case of a purchased or originated credit-impaired financial asset, interest revenue is recognised by applying the credit-adjusted effective interest rate to the amortised cost.

Where the Group revises its estimates of payments or receipts on a financial instrument (excluding modifications of a financial asset and changes in expected credit losses), it recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The adjustment is recognised as interest income or expense.

Modifications
Where the contractual cash flows of a financial asset are modified and the modification does not result in derecognition of the financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate and recognises a modification gain or loss in the income statement. Where a modification is a forbearance measure which does not result in derecognition, the modification gain or loss is included in the income statement within net impairment gains or losses. Otherwise, the modification gain or loss is included within interest income.

Interest income and expense excludes interest on financial instruments at fair value through profit or loss which is instead included within the fair value movements recognised within net trading income.

Fee and commission income

The Group accounts for fee and commission income when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable that the Group will collect the consideration to which it is entitled. Fee and commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Fee income on the provision of current accounts to customers is recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan syndication and arrangement fees are recognised at a point in time when the performance obligation is completed. Other fees including interchange income, ATM fees and foreign exchange fees are recognised on completion of the transaction and once the Group has completed its performance obligations under the contract.

Financial assets

(1) Recognition, classification and measurement:
A financial asset is recognised in the balance sheet when, and only when, the Group becomes a party to its contractual provisions. At initial recognition, a financial asset is measured at fair value (plus or minus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs) and is assigned one of the following classifications for the purposes of subsequent measurement:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income; or

1 Group accounting policies (continued)

- financial assets at fair value through profit or loss.

The Group determines the appropriate classification based on the contractual cash flow characteristics of the financial asset and the objective of the business model within which the financial asset is held.

In considering the contractual cash flow characteristics of a financial asset, the Group determines whether the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In this context, 'principal' is the fair value of the financial asset on initial recognition and 'interest' is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In making the determination, the Group assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers contingent events, leverage features, prepayment and term extensions, terms which limit the Group's recourse to specific assets and features that modify consideration of the time value of money.

In determining the business model for a group of financial assets, the Group considers factors such as how performance is evaluated and reported to key management personnel; the risks that affect performance and how they are managed; how managers are compensated; and the expected frequency, value and timing of sales of financial assets.

(a) Financial assets at amortised cost.

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at amortised cost where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held within a business model whose objective is achieved by holding financial assets to collect contractual cash flows.

Purchases and sales of debt securities at amortised cost are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Loans measured at amortised cost are recognised when cash is advanced to the borrowers.

Interest revenue using the effective interest method is recognised in the income statement. An impairment loss allowance is recognised for expected credit losses with corresponding impairment gains or losses recognised in the income statement.

(b) Financial assets at fair value through other comprehensive income

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at fair value through other comprehensive income where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Gains and losses arising from changes in fair value are included in other comprehensive income. Interest revenue using the effective interest method and foreign exchange gains and losses on the amortised cost of the financial asset are recognised in the income statement. The impairment loss allowance for expected credit losses does not reduce the carrying amount but an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Equity instruments

Where an irrevocable election has been made by the Group at initial recognition, an investment in an equity instrument that is neither 'held for trading' nor contingent consideration recognised by the Group in a business combination to which IFRS 3 'Business combinations' applies, is measured at fair value through other comprehensive income. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Regular way purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on trade date.

(c) Financial assets at fair value through profit or loss

All other financial assets are measured, subsequent to initial recognition, at fair value through profit or loss. Financial assets at fair value through profit or loss comprise:

Financial assets mandatorily measured at fair value through profit or loss

Financial assets meeting either of the conditions below are mandatorily measured at fair value through profit or loss (other than in respect of an equity investment designated as at fair value through other comprehensive income):

- financial assets with contractual terms that do not

1 Group accounting policies (continued)

give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- financial assets held within a business model whose objective is achieved neither by collecting contractual cash flows nor both collecting contractual cash flows and selling financial assets. This includes financial assets held within a portfolio that is managed and whose performance is evaluated on a fair value basis, such as investments held by the Group's life assurance business. It further includes portfolios of financial assets which are 'held for trading', which includes financial assets acquired principally for the purpose of selling in the near term and financial assets that on initial recognition are part of an identified portfolio where there is evidence of a recent pattern of short-term profit-taking.

Financial assets designated as measured at fair value through profit or loss
A financial asset may be designated at fair value through profit or loss only if doing so eliminates or significantly reduces measurement or recognition inconsistencies (an 'accounting mismatch') that would otherwise arise from measuring financial assets or liabilities or recognising gains and losses on them on different bases.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date. They are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

(2) Reclassification
When, and only when, the Group changes its business model for managing financial assets, it reclassifies all affected financial assets. Reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification. Any previously recognised gains, losses or interest are not restated.

(3) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of ownership. Where a modification results in a substantial change to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Financial liabilities

The Group classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities mandatorily at fair value through profit or loss such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

A financial liability may be designated as at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The Group designates certain financial liabilities at fair value through profit or loss as set out in note 38 to the financial statements.

The movement in own credit risk related to financial liabilities designated at fair value through profit or loss is recorded in other comprehensive income unless this would create or enlarge an accounting mismatch in profit or loss for the Group (in which case all gains or losses are recognised in profit or loss).

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, an embedded derivative is separated from the host and accounted for as a derivative if, and only if, its economic characteristics and risks are not closely related to those of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

Impairment of financial instruments

Scope
The Group recognises impairment loss allowances for expected credit losses (ECL) on the following categories of financial instruments unless measured at fair value through profit or loss:
- financial assets that are debt instruments;
- loan commitments;

1 Group accounting policies (continued)

- lease receivables recognised under IAS 17 'Leases';
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance contracts';
- receivables and contract assets recognised under IFRS 15 'Revenue from contracts with customers'.

Basis for measuring impairment
The Group allocates financial instruments into the following categories at each reporting date to determine the appropriate accounting treatment.

Stage 1: 12-month ECL (not credit-impaired)
These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL (not credit-impaired)
These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL (credit-impaired)
These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

Purchased or originated credit-impaired financial assets
These are financial assets that were credit-impaired at initial recognition. They are not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition. A purchased or originated credit-impaired financial asset remains classified as such until it is derecognised, even if assessed as no longer credit-impaired at a subsequent reporting date.

With the exception of purchased or originated credit-impaired financial assets, a financial instrument may migrate between stages from one reporting date to the next.

Significant increase in credit risk
In determining if a financial instrument has experienced a significant increase in credit risk since initial recognition, the Group assesses whether the risk of default over the remaining expected life of the financial instrument is significantly higher than had been anticipated at initial recognition, taking into account changes in prepayment expectations where relevant. The Group uses reasonable and supportable information available without undue cost or effort at the reporting date, including forward-looking information. A combination of quantitative, qualitative and backstop indicators are generally applied in making the determination. For certain portfolios, the Group assumes that no significant increase in credit risk has occurred if credit risk is 'low' at the reporting date.

Credit-impaired
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Measurement of ECL and presentation of impairment loss allowances
ECL are measured in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) 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.

ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of the difference between all contractual cash flows due to the Group in accordance with the contract and all the cash flows the Group expects to receive.
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.
- Undrawn loan commitments: the present value difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover, discounted at an appropriate risk-free rate.

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial asset) or an approximation thereof. For undrawn loan commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

Impairment loss allowances for ECLs are presented in the financial statements as follows:

- Financial assets at amortised cost: as a deduction from the gross carrying amount in the balance sheet.
- Loan commitments and financial guarantee contracts: generally, as a provision in the balance sheet.
- Debt instruments at fair value through other comprehensive income: an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount.

Utilisation of impairment loss allowances
The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Indicators that there

1 Group accounting policies (continued)

is no reasonable expectation of recovery include the collection process having been exhausted or it becoming clear during the collection process that recovery will fall short of the amount due to the Group. The Group considers, on a case-by-case basis, whether enforcement action in respect of an amount that has been written off from an accounting perspective is or remains appropriate. Any subsequent recoveries are included in the income statement as an impairment gain.

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

Prior to any decision to grant forbearance, the Group performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to stage 3 (unless a purchased or credit-impaired financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally allocated to stage 2.

Where the cash flows from a forborne loan are considered to have expired, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition are recognised in the income statement. The new financial asset may be initially allocated to stage 1 or, if credit-impaired, be categorised as a purchased or originated credit-impaired financial asset.

Where a forbearance measure represents a modification of the contractual cash flows of a financial asset and does not result in its derecognition, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate (before any modification of terms) and a modification gain or loss is included in the income statement within net impairment gains or losses.

Financial guarantees
A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Where the Group is the holder of such a guarantee and it is considered integral to the contractual terms of the guaranteed debt instrument(s), the guarantee is not accounted for separately but is considered in the determination of the impairment loss allowance for expected credit losses of the guaranteed instrument(s). The Group issues such guarantees to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities and in connection with the performance of customers under payment obligations related to contracts and the payment of import duties. The Group's liability under an issued financial guarantee contract is initially measured at fair value. The liability is subsequently measured at the higher of the initial measurement, less the cumulative amount of income recognised in accordance with the principles of IFRS 15, and the amount of the impairment loss allowance for expected credit losses determined in accordance with the requirements of IFRS 9. Any change in the liability is taken to the income statement and recognised on the balance sheet within provisions.

Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No impairment loss allowance for expected credit losses is recognised on a financial asset, or portion thereof, which has been offset.

Share capital and reserves
Debt instruments at fair value through other comprehensive income reserve
The debt instruments at fair value through other comprehensive income (FVOCI) reserve comprises the cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income together with the impact of fair value hedge accounting, less the ECL allowance recognised in profit or loss.

Liability credit reserve
The liability credit reserve represents the cumulative changes in the fair value of financial liabilities designated as at fair value through profit or loss that are attributable to changes in the credit risk of those liabilities, other than those recognised in profit or loss.

1 Group accounting policies (continued)

Impact of new accounting standards

The following standards will be relevant to the Group but were not effective at 30 June 2018 and have not been applied in preparing these interim financial statements. The Group's current view of the impact of these accounting changes is outlined as follows:

Pronouncement
IFRS 16 'Leases'

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

Effective date
Financial periods beginning on or after 1 January 2019.

Impact
The main impact on the Group will be in relation to property leases that the Group currently accounts for as operating leases. The Group will recognise a right of use asset and a corresponding liability for these leases under IFRS 16. The Group is currently assessing the impact of IFRS 16.

Pronouncement
IFRS 17 'Insurance contracts'

Nature of change
IFRS 17 replaces IFRS 4 'Insurance contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance contract liabilities, ensuring an entity provides relevant information that faithfully represents those contracts.

The standard is still subject to EU endorsement.

Effective date
Financial periods beginning on or after 1 January 2021 with earlier application of the standard permissible.

Impact
The Group intends to conduct a business and financial assessment of the impacts of IFRS 17 in 2018. The Group expects that IFRS 17 is likely to have a significant impact on the recognition, measurement and presentation of the insurance business in the financial statements.

2 Critical accounting estimates and judgements

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. With the exception of changes to impairment charges on financial instruments 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 2017, as set out on pages 160 to 162 of the Group's Annual Report for the year ended 31 December 2017.

Impairment charges on financial assets
The measurement of impairment loss allowance requires significant judgement and is dependent in large part on complex impairment models. In arriving at impairment loss allowances, accounting judgements and estimates which could have a material influence on the quantum of impairment loss allowance and net impairment charge include:

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- generation of forward-looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances;
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as PD and LGD;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- determining the period over which to measure ECL for uncommitted revolving credit facilities;
- valuing collateral and determining timeframe to realisation and likely net sale proceeds;
- the approximation made at transition to IFRS 9 of the residual lifetime PD curves for most exposures originated prior to adoption of IFRS 9; and
- determining what Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late-breaking events.

The Group's approach to measurement of impairment loss allowances and associated methodologies is set out in the credit risk methodologies section on pages 44 to 47.

Were a 100% weighting assigned to the upside FLI scenario, impairment loss allowance would be approximately €190 million or 9% lower than reported at 30 June 2018. Were a 100% weighting assigned to the downside FLI scenario, impairment loss allowance would be approximately €260 million or 12% higher than reported at 30 June 2018. The downside FLI scenario can be viewed as falling between a moderate and medium stress scenario.

3 Transition from IAS 39 to IFRS 9

	Shareholders' equity €m
As reported under IAS 39 / 37 at 31 December 2017	8,859
Impact of remeasurement (after tax)	(113)
As reported under IFRS 9 at 1 January 2018	**8,746**

As set out in the basis of preparation and accounting policies, the Group has adopted IFRS 9 as endorsed by the EU. The Group has availed of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of the classification and measurement requirements of IFRS 9 and certain new presentation requirements in IAS 1. Accordingly, differences in the carrying amount of financial instruments arising from the adoption of IFRS 9 are recognised in equity as at 1 January 2018.

A description of the IFRS 9 accounting policies is set out in pages 61 to 65 of this document. A reconciliation of the balance sheet classification as at 1 January 2018 under IAS 39 to the classification under IFRS 9 is included in note 43 (separately identifying by measurement category the changes in the carrying amount arising from reclassification and measurement on transition to IFRS 9). In addition, a reconciliation of the closing impairment provision under IAS 39 and provision under IAS 37 at 31 December 2017 to the opening loss allowance at 1 January 2018 determined in accordance with IFRS 9 is included on page 117.

4 Operating segments

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

Retail Ireland
Retail Ireland is managed through a number of business units, namely Distribution Channels, Customer Segments and Propositions, Products (including Bank of Ireland Mortgage Bank (BoIMB)) and Business Banking (including Bank of Ireland Finance).

Wealth and Insurance (formerly Bank of Ireland Life)
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, through independent financial brokers, its own tied Financial Advisor network and the Group's distribution channels, which include Private Banking as a tied agent of NIAC. It also includes the Group's general insurance brokerage Bank of Ireland Insurance Services, which offers home and car insurance cover through its agency with insurance providers. Both the Private Banking and Bank of Ireland Insurance Services businesses transferred from the Retail Ireland division to the Wealth and Insurance division following an organisational restructure during the period.

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
The Corporate and Treasury division comprises Corporate Banking and Markets and Treasury. Following an organisational restructure during the period, the Group Treasury function transferred from the Group Centre division to the Corporate and Treasury division and was combined with the Global Markets business to form Markets and Treasury. It also manages the Group's euro area liquid asset bond portfolio.

Group Centre
Group Centre comprises Group Manufacturing, Group Finance, Group Risk 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. During the six months ended 30 June 2018, the Group amended the basis of allocating funding and liquidity costs across the divisions which resulted in an increase in net interest income for the six months ended 30 June 2018 in the Retail UK division of €8 million with a corresponding decrease in net interest income in the Retail Ireland division of €6 million and the Corporate and Treasury division of €2 million, compared to the former basis.

Gross external revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other operating income, 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:

- cost of restructuring programme;
- gain on disposal of property;
- gross-up for policyholder tax in the Wealth and Insurance business;
- cost of corporate reorganisation and establishment of a new holding company;
- charge arising on the movement in the Group's credit spreads[1]; and
- gain / loss on disposal / liquidation of business activities.

[1] *Prior to 1 January 2018, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges are now accounted for through OCI.*

4 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**

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**

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

4 Operating segments (continued)

Restated[1] 6 months ended 30 June 2017	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items[2] €m	Group €m
Net interest income	531	8	317	280	16	(1)	1,151
Other income, net of insurance claims	144	116	9	118	(10)	4	381
Total operating income, net of insurance claims	675	124	326	398	6	3	1,532
Other operating expenses	(367)	(66)	(194)	(103)	(194)	-	(924)
- Other operating expenses (before Transformation Investment and levies and regulatory charges)	*(367)*	*(66)*	*(192)*	*(103)*	*(84)*	*-*	*(812)*
- Transformation Investment charge	*-*	*-*	*-*	*-*	*(49)*	*-*	*(49)*
- Levies and regulatory charges	*-*	*-*	*(2)*	*-*	*(61)*	*-*	*(63)*
Depreciation and amortisation	(28)	(2)	(13)	(5)	(27)	-	(75)
Total operating expenses	(395)	(68)	(207)	(108)	(221)	-	(999)
Underlying operating profit / (loss) before impairment charges on financial assets	280	56	119	290	(215)	3	533
Impairment (charges) / reversals on financial assets	29	-	(67)	(21)	-	-	(59)
Share of results of associates and joint ventures	-	-	18	-	-	-	18
Underlying profit / (loss) before tax	309	56	70	269	(215)	3	492

Reconciliation of underlying profit before tax to profit before tax	Group €m
Underlying profit before tax	492
Cost of restructuring programme	(17)
Gross-up for policyholder tax in the Life business	1
Cost of corporate reorganisation and establishment of a new holding company	(7)
Charge arising on the movement in the Group's credit spreads	(4)
Loss on disposal / liquidation of business activities	(5)
Profit before tax	460

[1] *Comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) to incorporate the Private Banking and Insurance Services business units which were previously reported within Retail Ireland. This has resulted in an increase of €4 million in the underlying profit before tax of Wealth and Insurance and a corresponding decrease in the underlying profit before tax of Retail Ireland for the six months ended 30 June 2017; (ii) the Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in a decrease of €4 million in the underlying profit before tax of Corporate and Treasury and a corresponding increase in Group Centre for the six months ended 30 June 2017; (iii) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 which on an underlying basis has resulted in an increase of €12 million in other income (net) and a corresponding increase of €7 million in the net charge from non-core items for the six months ended 30 June 2017; and (iv) the reclassification of €6 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) for the six months ended 30 June 2017, see page 12 for further detail. The Transformation Investment charge has been booked in Group Centre for the current and comparative period.*

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

4 Operating segments (continued)

30 June 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	**52**	**-**	**86**	**-**	**-**	**-**	**138**
External assets	35,525	17,470	33,679	29,974	5,181	(2)	121,827
Inter segment assets	62,508	735	2,647	77,803	20,955	(164,648)	-
Total assets	**98,033**	**18,205**	**36,326**	**107,777**	**26,136**	**(164,650)**	**121,827**
External liabilities	50,862	17,175	25,709	15,068	3,129	2	111,945
Inter segment liabilities	45,263	284	7,941	91,866	19,288	(164,642)	-
Total liabilities	**96,125**	**17,459**	**33,650**	**106,934**	**22,417**	**(164,640)**	**111,945**

Restated[1] 31 December 2017 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	59	-	69	-	-	-	128
External assets	36,071	17,318	33,884	28,530	6,754	(3)	122,554
Inter segment assets	60,152	860	3,034	82,723	26,503	(173,272)	-
Total assets	96,223	18,178	36,918	111,253	33,257	(173,275)	122,554
External liabilities	51,636	17,167	25,701	14,947	3,431	5	112,887
Inter segment liabilities	42,631	275	9,162	95,160	26,031	(173,259)	-
Total liabilities	94,267	17,442	34,863	110,107	29,462	(173,254)	112,887

[1] *As outlined on page 5, comparative figures have been restated to reflect the Group's decision to re-organise the Bank of Ireland Life operating segment (now Wealth and Insurance) to incorporate the Private Banking and Bank of Ireland Insurance Services business units which were previously reported within Retail Ireland. On an underlying basis, this has resulted in an increase in the Wealth and insurance division of €47 million in total assets and an increase of €13 million in total liabilities as at 31 December 2017, with a corresponding decrease in the Retail Ireland division.*

4 Operating segments (continued)

6 months ended 30 June 2018 Gross 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**
Gross external revenue	**693**	**783**	**534**	**337**	**32**	**1**	**2,380**
Inter segment revenues	241	(9)	29	203	110	(574)	-
Gross revenue before claims paid	**934**	**774**	**563**	**540**	**142**	**(573)**	**2,380**
Insurance contract liabilities and claims paid	-	(641)	-	-	-	-	(641)
Gross 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**

Restated[1] 6 months ended 30 June 2017 Gross 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
Gross external revenue	689	1,000	561	436	43	(2)	2,727
Inter segment revenues	316	35	25	235	31	(642)	-
Gross revenue before claims paid	1,005	1,035	586	671	74	(644)	2,727
Insurance contract liabilities and claims paid	-	(877)	-	-	(3)	-	(880)
Gross revenue	1,005	158	586	671	71	(644)	1,847
Interest expense	(58)	(1)	(90)	6	(56)	8	(191)
Capital expenditure	8	3	14	2	119	-	146

[1] *As outlined on page 5, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) which resulted in a decrease of €14 million in business income in Retail Ireland and a corresponding increase in Wealth and Insurance for the six months ended 30 June 2017; and (ii) the voluntary change in the Group's accounting policy for Life assurance operations in H2 2017 which resulted in a €1 million increase in gross external revenue and a €4 million reduction in insurance contract liabilities and claims paid, see note 42.*

5 Interest income

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Financial assets measured at amortised cost		
Loans and advances to customers	1,134	1,188
Loans and advances to banks	13	7
Debt securities at amortised cost	6	-
Held to maturity financial assets	-	15
NAMA senior bonds	-	2
Interest income on financial assets measured at amortised cost	**1,153**	**1,212**
Debt securities at fair value through other comprehensive income	23	-
Available for sale financial assets	-	49
	1,176	**1,261**
Negative interest on financial liabilities	12	5
Interest income calculated using the effective interest method	**1,188**	**1,266**
Interest income on finance leases and hire purchase receivables	78	76
Interest income	**1,266**	**1,342**

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

For the six months ended 30 June 2018 €52 million of interest was recognised on credit-impaired loans and advances to customers at the period end. For the six months ended 30 June 2017, €36 million of interest income was recognised on impaired loans and advances to customers on which a specific impairment provision had been recognised at the period end.

For the six months ended 30 June 2018 €55 million of interest income was received on credit-impaired loans and advances to customers at the period end. For the six months ended 30 June 2017, €47 million of interest income was received on impaired loans and advances to customers on which a specific impairment provision had been recognised at the period end.

6 Interest expense

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Customer accounts	85	101
Subordinated liabilities	49	35
Debt securities in issue	41	41
Deposits from banks	8	7
Interest expense from financial liabilities measured at amortised cost	**183**	**184**
Negative interest on financial assets	7	7
Interest expense	**190**	**191**

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

7 Net insurance premium income

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Gross premiums written	779	707
Ceded reinsurance premiums	(73)	(43)
Net premium written	706	664
Change in provision for unearned premiums	(2)	(3)
Net insurance premium income	**704**	**661**

8 Fee and commission income and expense

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**

6 months ended 30 June 2017 Income	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Group €m
Retail banking customer fees	121	-	60	37	-	218
Credit related fees	7	-	4	13	-	24
Insurance commissions	-	6	1	-	-	7
Asset management fees	-	2	-	-	-	2
Brokerage fees	1	-	-	-	-	1
Other	-	4	2	11	-	17
Fee and commission income	129	12	67	61	-	269

There has been no significant changes to any of the line items above as a result of the adoption of IFRS 15 at 30 June 2018. No impairment losses were recognised in relation to the Group's receivables arising from contracts with customers at 30 June 2018.

Expense

Fee and commission expense of €105 million (six months ended 30 June 2017: €109 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

9 Net trading income

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Financial assets designated at fair value	-	6
Financial liabilities designated at fair value	-	(53)
Related derivatives held for trading	(9)	39
	(9)	**(8)**
Net income from financial instruments mandatorily measured at fair value through profit or loss[1]		
- Loans and advances	7	-
- Equities[2]	13	-
- Securities and non-trading debt	15	-
- Other financial instruments held for trading	4	89
	30	**81**
Net fair value hedge ineffectiveness	(1)	-
Cash flow hedge ineffectiveness	-	(1)
Net trading income	**29**	**80**

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 €4 million (six months ended 30 June 2017: net gains €20 million) in relation to net charge arising from foreign exchange.

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €50 million (six months ended 30 June 2017: €30 million) offsetting a net charge from hedged items of €50 million (six months ended 30 June 2017: €30 million).

10 Life assurance investment income, gains and losses

Life assurance investment income, gains and losses	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Gains on investment property held on behalf of Wealth and Insurance policy holders	23	18
Gains on other financial assets held on behalf of Wealth and Insurance policy holders	5	267
Life assurance investment income, gains and losses	**28**	**285**

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.

[1] *Net income from other financial assets mandatorily measured at fair value through profit or loss 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 fair value through profit or loss are reported in the balance sheet under the caption 'Other financial assets at fair value through profit or loss'. The income from life assurance investments which also comprise 'Other financial assets at fair value through profit or loss' is reported in note 10 Life assurance investment income, gains and losses.*

11 Other leasing income and expense

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Other leasing income	24	-
Other leasing expense	(20)	-
Net other leasing income	**4**	**-**

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL), a wholly owned subsidiary of the Group which was acquired on 24 November 2017. MLL is a car and commercial leasing and fleet management company based in the UK.

Other leasing expense includes depreciation of €12 million related to rental vehicles.

12 Other operating income

	6 months ended 30 June 2018 €m	Restated [1] 6 months ended 30 June 2017 €m
Other insurance income	27	34
Movement in Value of in Force asset	4	8
Transfer from debt instruments at fair value through other comprehensive income reserve on asset disposal (note 22)	2	-
Dividend income	1	9
Transfer from available for sale reserve on asset disposal	-	15
Other income	4	6
Other operating income	**38**	**72**

Other income includes gains on investment property disposals and revaluations of €nil (six months ended 30 June 2017: €1 million).

13 Insurance contract liabilities and claims paid

	6 months ended 30 June 2018 €m	Restated [1] 6 months ended 30 June 2017 €m
Claims paid		
Policy surrenders	436	504
Death and critical illness claims	85	78
Annuity payments	39	38
Other claims	20	24
Policy maturities	(1)	1
Gross claims paid	**579**	**645**
Recovered from reinsurers	(52)	(46)
Net claims paid	**527**	**599**
Change in insurance contract liabilities		
Change in gross liabilities	133	250
Change in reinsured liabilities	(19)	31
Net change in insurance contract liabilities	**114**	**281**
Insurance contract liabilities and claims paid	**641**	**880**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

14 Other operating expenses

Administrative expenses and staff costs	**6 months ended 30 June 2018 €m**	Restated [1] 6 months ended 30 June 2017 €m
Staff costs excluding restructuring and Transformation Investment staff costs	442	452
Levies and regulatory charges	67	63
Amortisation of intangible assets (note 26)	83	57
Transformation Investment charge	51	49
Depreciation of property, plant and equipment	18	18
Other administrative expenses excluding cost of restructuring programme	339	367
Total	**1,000**	**1,006**
Total staff costs are analysed as follows:		
Wages and salaries	329	336
Retirement benefit costs (defined benefit plans)	59	62
Social security costs	38	38
Retirement benefit costs (defined contribution plans)	14	12
Other staff expenses	2	4
Staff costs excluding restructuring and Transformation Investment staff costs	**442**	**452**
Additional restructuring and Transformation Investment staff costs:		
Included in cost of restructuring programme (note 15)	45	17
Included in Transformation Investment charge	7	11
Total staff costs recognised in the income statement	**494**	**480**

The Group has incurred levies and regulatory charges of €67 million in the six months ended 30 June 2018 (six months ended 30 June 2017: €63 million). The higher charge is primarily driven by an increase in the Deposit Guarantee Scheme (DGS) (€6 million) and Single Resolution Fund (SRF) (€3 million), which was partially offset by a decrease in FSCS levy (€4 million) and other levies (€1 million).

During the six months ended 30 June 2018 defined benefit (DB) retirement costs were €59 million (six months ended 30 June 2017: €62 million).

Transformation Investment income statement charge of €51 million (six months ended 30 June 2017: €49 million) also includes €6 million for associated application and infrastructure costs.

Other administrative expenses include an amount of €29 million (six months ended 30 June 2017: €30 million) relating to operating lease payments.

Staff numbers

At 30 June 2018, the number of staff (full time equivalents) was 10,660 (30 June 2017: 11,355).

During the six months ended 30 June 2018 the average number of staff (full time equivalents) was 10,752 (six months ended 30 June 2017: 11,261).

15 Cost of restructuring programme

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Staff costs (note 14)	45	17
Other costs	6	-
Total	**51**	**17**

During the six months ended 30 June 2018, the Group recognised a charge of €51 million in relation to its restructuring programme, primarily related to changes in employee numbers (€45 million) and programme management costs (€6 million). A restructuring charge of €17 million was incurred in the same period of 2017, primarily related to changes in employee numbers.

[1] *Comparative figures for the Transformation Investment charge (formerly the Core Banking Platform Investment charge) have been restated to align with the revised scope of the programme which now includes culture, systems and business model resulting in a decrease of €6 million in the 'Transformation Investment charge' and a corresponding increase in 'Other administrative expenses excluding cost of restructuring programme' (€5 million) and 'Depreciation of property, plant and equipment' (€1 million).*

16 Net impairment (gains) / losses on financial instruments

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Loans and advances to customers	(72)	59
Loan commitments	(8)	-
Guarantees and irrevocable letters of credit	(1)	-
Net impairment (gains) / losses on financial instruments	**(81)**	**59**

Loans and advances to customers at amortised cost

Net impairment (gains) / losses

The Group's net impairment (gains) / losses on loans and advances to customers at amortised cost is set out in the table below. The comparative figures for the prior period have not been restated and are presented on an IAS 39 classification and measurement basis.

Net impairment (gains) / losses on loans and advances to customers - composition	**6 months ended 30 June 2018 €m**	6 months ended 30 June 2017 €m
Residential mortgages	(31)	(53)
- Retail Ireland	*(24)*	*(52)*
- Retail UK	*(7)*	*(1)*
Non-property SME and corporate	(44)	48
- Republic of Ireland SME	*(46)*	*21*
- UK SME	*(10)*	*10*
- Corporate	*12*	*17*
Property and construction	(2)	63
- Investment	*1*	*48*
- Land and development	*(3)*	*15*
Consumer	5	1
Total	**(72)**	**59**

17 Taxation

	6 months ended 30 June 2018 €m	Restated [1] 6 months ended 30 June 2017 €m
Current tax		
Irish Corporation Tax		
- Current period	11	14
- Adjustments in respect of prior periods	1	1
Foreign tax		
- Current period	33	39
- Adjustments in respect of prior periods	(1)	-
	44	**54**
Deferred tax		
Current period profits	46	30
Origination and reversal of temporary differences	(12)	(7)
Adjustments in respect of prior periods	(1)	1
	33	**24**
Taxation charge	**77**	**78**

The effective taxation rate on a statutory profit basis for 2018 is 17% (six months ended 30 June 2017: 17% (restated)).

From 2009 to 2011, the Group conducted a series of liability management transactions in order to enhance its equity capital, that 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. The Group understands that HMRC has accepted the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and, hence, it is not probable that a liability will arise. No provisions have therefore been made. However, in respect of one transaction on which a gain of £168 million (€189 million) was recognised, HMRC has challenged the Group's tax assessment. As a result, the Group believes that the possibility that tax will arise in respect of those gains is not remote. HMRC's review with respect to other transactions is ongoing.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

17 Taxation (continued)

	6 months ended 30 June 2018			6 months ended 30 June 2017		
	Pre-tax €m	Tax €m	Net of Tax €m	Pre-tax €m	Tax €m	Net of Tax €m
Debt instruments at fair value through other comprehensive income reserve						
Changes in fair value	(64)	8	(56)	-	-	-
Transfer to income statement						
- Asset disposal	(2)	-	(2)	-	-	-
Net change in debt instruments at fair value through other comprehensive income reserve	**(66)**	**8**	**(58)**	-	-	-
Available for sale reserve						
Changes in fair value	-	-	-	21	(3)	18
Transfer to income statement						
- On asset disposal	-	-	-	(15)	3	(12)
- Amortisation	-	-	-	(9)	1	(8)
Net change in reserve	**-**	-	-	**(3)**	**1**	**(2)**
Remeasurement of the net defined benefit pension liability	**197**	**(38)**	**159**	**(83)**	**13**	**(70)**
Cash flow hedge reserve						
Changes in fair value	(39)	6	(33)	101	(12)	89
Transfer to income statement	(4)	-	(4)	(218)	27	(191)
Net change in cash flow hedge reserve	**(43)**	**6**	**(37)**	**(117)**	**15**	**(102)**
Net change in foreign exchange reserve	**19**	**-**	**19**	**(101)**	**-**	**(101)**
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	**120**	**(26)**	**94**	**(304)**	**29**	**(275)**

18 Earnings per share

	6 months ended 30 June 2018 €m	Restated [1] 6 months ended 30 June 2017 €m
Basic and diluted earnings per share		
Profit attributable to shareholders[2]	350	382
Distributions on other equity instruments - Additional tier 1 coupon, net of tax	-	(24)
Dividend on other preference equity interests	-	(4)
Profit attributable to ordinary shareholders	**350**	**354**

	30 June 2018 Shares (millions)	30 June 2017 Shares (millions)
Weighted average number of shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders	1,075	1,077
Basic and diluted earnings per share (cent)	**32.5c**	**32.8c**

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 and own shares held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary shares.

For the six months ended 30 June 2018 and the six months ended 30 June 2017, there was no difference in the weighted average number of shares used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy, as outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017. See note 42 for further information.*

[2] *Additional tier 1 (AT1) coupons and dividends on other preference equity interests paid after the date of the corporate reorganisation of 7 July 2017 (as described on page 205 of the Group's Annual Report for the year ended 31 December 2017) are deducted in arriving at profit attributable to shareholders, as those components of equity were reclassified to non-controlling interests on that date.*

19 Other financial assets at fair value through profit or loss

	30 June 2018 €m	31 December 2017 €m
Assets linked to policyholder liabilities		
Equity securities	10,027	10,024
Unit trusts	1,186	1,072
Debt securities	1,059	915
Government bonds	777	803
	13,049	**12,814**
Other financial assets		
Debt securities	826	348
Government bonds	807	1,178
Equity securities	83	32
Unit trusts	60	49
	1,776	**1,607**
Other financial assets at fair value through profit or loss	**14,825**	**14,421**

Other financial assets at fair value through profit or loss include assets managed on a fair value basis by the life assurance business and those assets which do not meet the requirements in order to be measured at fair value through other comprehensive income or amortised cost.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 30 June 2018, such assets were €13,049 million (31 December 2017: €12,814 million).

Other financial assets of €1,776 million (31 December 2017: €1,607 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

Included within other financial assets are subordinated bonds issued by NAMA with a nominal value of €70 million (31 December 2017: €281 million) and a fair value of €74 million (31 December 2017: €293 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State and the payment of interest and repayment of capital is dependent on the performance of NAMA. These bonds were previously reported in available for sale financial assets and have been reclassified in accordance with IFRS 9 from 1 January 2018. A gain of €9 million was recognised in respect of the partial disposal of NAMA subordinated bonds in the six months ended 30 June 2018.

20 Loans and advances to banks

	30 June 2018 €m	31 December 2017 €m
Placements with banks	937	1,473
Mandatory deposits with central banks	1,392	1,369
Securities purchased with agreement to resell	-	200
Funds placed with the Central Bank of Ireland not on demand	18	19
	2,347	**3,061**
Less impairment loss allowance on loans and advances to banks	(1)	-
Loans and advances to banks at amortised cost	**2,346**	**3,061**
Loans and advances to banks at fair value through profit or loss[1]	326	-
Total loans and advances to banks	**2,672**	**3,061**

From 1 January 2018 loans and advances to banks have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to banks from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at fair value through profit or loss, and measuring the impairment loss allowance on loans and advances to banks at amortised cost on a 12 month or lifetime expected credit loss approach as appropriate. The comparative figures for the prior period have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Loans and advances to banks at fair value through profit or loss include assets managed on a fair value basis by the life assurance business and those assets which do not meet the requirements in order to be measured at fair value through other comprehensive income or amortised cost.

[1] *Loans and advances to banks at fair value through profit or loss are not subject to impairment under IFRS 9.*

21 Debt securities at amortised cost

	30 June 2018 €m
Government bonds	2,803
Asset backed securities	67
Other debt securities at amortised cost	577
	3,447
Less impairment loss allowance	(1)
Debt securities at amortised cost	**3,446**

From 1 January 2018 financial assets which were classified as available for sale under IAS 39 have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as financial assets at fair value through other comprehensive income, debt securities at amortised cost or financial assets mandatorily at fair value through profit or loss, and measuring the associated impairment loss allowance on debt securities at amortised cost on a 12 month or lifetime expected credit loss approach as appropriate. Comparative notes have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis. Details of the impairment loss allowances are set out in note 25.

22 Financial assets at fair value through other comprehensive income

	30 June 2018 €m
Debt instruments at fair value through other comprehensive income	
Government bonds	6,239
Other debt securities	
- listed	5,030
- unlisted	-
Total debt instruments at fair value through other comprehensive income	**11,269**
Impairment loss allowance on debt instruments at fair value through other comprehensive income	**(3)**

From 1 January 2018 financial assets which were classified as available for sale under IAS 39 have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as financial assets at fair value through other comprehensive income, debt securities at amortised cost or financial assets mandatorily at fair value through profit or loss, and measuring the associated impairment loss allowance on financial assets at fair value through other comprehensive income or debt securities at amortised cost on a 12 month or lifetime expected credit loss approach as appropriate. Comparative notes have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement. Further details are available in the IAS 39 to IFRS 9 transitional disclosures (note 43).

30 June 2018 **Fair value**	**Debt instruments €m**
Closing balance 31 December 2017	-
Impact of adopting IFRS 9 on 1 January 2018 (note 43)	10,118
Opening balance 1 January 2018	**10,118**
Additions	2,226
Redemptions and disposals	(1,000)
Revaluation, exchange and other adjustments	(75)
Closing balance 30 June 2018	**11,269**

At 30 June 2018, debt instruments at fair value through other comprehensive income with a fair value of €24 million had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

The impairment loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income does not reduce the carrying amount but an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement. At 30 June 2018, the accumulated impairment amount on debt instruments at fair value through other comprehensive income recognised in other comprehensive income is €3 million.

During the six months ended 30 June 2018, the Group sold debt instruments at fair value through other comprehensive income of €16 million which resulted in a transfer of €2 million from the debt instruments at fair value through other comprehensive income reserve to the income statement (note 12).

At 30 June 2018, financial assets at fair value through other comprehensive income included €1.3 billion placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required (31 December 2017: €1.7 billion).

23 Available for sale financial assets

	31 December 2017 €m
Government bonds	7,491
Other debt securities	
- listed	5,394
- unlisted	313
Equity securities	
- unlisted	25
Available for sale financial assets	**13,223**

From 1 January 2018 available for sale financial assets have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as either financial assets at fair value through other comprehensive income, debt securities at amortised cost or financial assets mandatorily at fair value through profit or loss. Details of the IFRS 9 impact, reclassifications and re-measurement as at 1 January 2018 are set out in note 43.

24 Loans and advances to customers

	30 June 2018 €m	31 December 2017 €m
Loans and advances to customers at amortised cost	75,110	75,556
Finance leases and hire purchase receivables	3,311	2,931
	78,421	78,487
Less allowance for impairment charges on loans and advances to customers[1]	(2,084)	(2,359)
Loans and advances to customers at amortised cost	**76,337**	**76,128**
Loans and advances to customers at fair value through profit or loss[2]	267	-
Total loans and advances to customers	**76,604**	**76,128**

From 1 January 2018 loans and advances to customers have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to customers from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at fair value through profit or loss, and measuring the impairment loss allowance on loans and advances to customers at amortised cost on a 12 month and lifetime expected credit loss approach as appropriate.

Comparative figures for the prior period have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Loans and advances to customers includes cash collateral of €44 million (31 December 2017: €74 million) placed with derivative counterparties in relation to net derivative liability positions.

Loans and advances to customers at fair value through profit or loss 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 as FVTPL.

[1] The comparative figures for the prior period have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.
[2] Loans and advances to customers at fair value through profit or loss are not subject to impairment under IFRS 9.

24 Loans and advances to customers (continued)

The following tables show the gross carrying amount and impairment loss allowances subject to 12 month and lifetime Expected Credit Losses (ECL) on loans and advances to customers at amortised cost at 1 January 2018 and at 30 June 2018.

The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions.

The total amount of undiscounted expected credit losses at initial recognition on financial assets that were initially purchased or originated credit-impaired during the six months ended 30 June 2018 is €nil.

30 June 2018 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Stage 1 - 12 month ECL (not credit impaired)	41,223	16,107	5,949	4,537	67,816
Stage 2 - Lifetime ECL (not credit impaired)	2,106	1,714	1,242	221	5,283
Stage 3 - Lifetime ECL (credit impaired)	2,653	1,249	1,199	98	5,199
Purchased / originated credit-impaired	3	53	67	-	123
Gross carrying amount at 30 June 2018	**45,985**	**19,123**	**8,457**	**4,856**	**78,421**

1 January 2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Closing balance 31 December 2017	46,659	18,763	8,747	4,318	78,487
Impact of adopting IFRS 9 on 1 January 2018 (note 43)	(294)	(140)	(23)	-	(457)
Opening balance 1 January 2018	46,365	18,623	8,724	4,318	78,030
Stage 1 - 12 month ECL (not credit impaired)	41,168	15,209	5,850	3,948	66,175
Stage 2 - Lifetime ECL (not credit impaired)	2,319	1,909	1,313	273	5,814
Stage 3 - Lifetime ECL (credit impaired)	2,875	1,457	1,494	97	5,923
Purchased / originated credit-impaired	3	48	67	-	118
Gross carrying amount at 1 January 2018	46,365	18,623	8,724	4,318	78,030

24 Loans and advances to customers (continued)

30 June 2018 **Impairment loss allowance**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Stage 1 - 12 month ECL (not credit impaired)	10	51	5	45	111
Stage 2 - Lifetime ECL not credit impaired	26	66	39	26	157
Stage 3 - Lifetime ECL credit impaired	546	621	544	62	1,773
Purchased / originated credit-impaired	-	42	1	-	43
Impairment loss allowance at 30 June 2018	**582**	**780**	**589**	**133**	**2,084**

1 January 2018 Impairment loss allowance	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Closing balance 31 December 2017	706	826	739	88	2,359
Impact of adopting IFRS 9 on 1 January 2018 (note 43)	(64)	109	(4)	50	91
Opening balance 1 January 2018	642	935	735	138	2,450
Stage 1 - 12 month ECL (not credit impaired)	13	60	7	41	121
Stage 2 - Lifetime ECL (not credit impaired)	30	84	42	33	189
Stage 3 - Lifetime ECL (credit impaired)	599	754	685	64	2,102
Purchased / originated credit-impaired	-	37	1	-	38
Impairment loss allowance at 1 January 2018	642	935	735	138	2,450

The following table shows the movement in the impairment loss allowance under IFRS 9 on total loans and advances to customers at amortised cost during the six months ended 30 June 2018.

30 June 2018 **Impairment loss allowance**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Opening balance 1 January 2018	**642**	**935**	**735**	**138**	**2,450**
Net impairment losses / (gains) in income statement	(31)	(44)	(2)	5	(72)
Impairment loss allowance utilised	(41)	(156)	(148)	(18)	(363)
Exchange adjustments	1	-	1	-	2
Other movements	11	45	3	8	67
Impairment loss allowance at 30 June 2018	**582**	**780**	**589**	**133**	**2,084**

24 Loans and advances to customers (continued)

The following tables show the movement in the impairment provisions under IAS 39 on total loans and advances to customers during 2017.

31 December 2017	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2017	988	1,082	1,717	98	3,885
Exchange adjustments	(3)	(15)	(12)	(1)	(31)
Charge / (reversal) in income statement	(137)	84	60	8	15
Provisions utilised	(160)	(465)	(952)	(37)	(1,614)
Other movements	18	140	(74)	20	104
Provision at 31 December 2017	**706**	**826**	**739**	**88**	**2,359**

Impairment provision by nature of impairment provision	31 December 2017 €m
Specific provisions individually assessed	1,661
Specific provisions collectively assessed	332
Incurred but not reported	366
Total impairment provision	**2,359**

Under IAS 39, impairment provisions included specific and IBNR provisions. IBNR provisions were recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicated, were present in the portfolio at the date of assessment.

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

25 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 44 to 47.

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 42 to 87 of the Group's Annual Report for the year ended 31 December 2017.

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% ≤ PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5-7	0.26% ≤ PD < 1.45%	BBB, BBB-, BB+, BB
8-9	1.45% ≤ PD < 3.60%	BB-, B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

25 Credit risk exposures (continued)

Financial assets

Composition and risk profile

The table below summarises the composition and risk profile of the Group's financial assets subject to impairment. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

	30 June 2018					31 December 2017
Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) €m**	**Stage 2 - (not credit-impaired) €m**	**Stage 3 - (credit-impaired) €m**	**Purchased or originated credit-impaired €m**	**Total €m**	Total €m
Financial assets measured at amortised cost						
Loans and advances to customers	67,816	5,283	5,199	123	78,421	78,487
Loans and advances to banks	2,347	-	-	-	2,347	3,061
Debt securities	3,447	-	-	-	3,447	-
Other financial assets	5,501	-	-	-	5,501	7,754
Total financial assets measured at amortised cost	**79,111**	**5,283**	**5,199**	**123**	**89,716**	**89,302**
Debt instruments at fair value through other comprehensive income	11,269	-	-	-	11,269	-
Available for sale financial assets	-	-	-	-	-	13,223
Total	**90,380**	**5,283**	**5,199**	**123**	**100,985**	**102,525**

At 30 June 2018, purchased or originated credit-impaired assets included €69 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 €267 million of loans mandatorily at fair value through profit or loss at 30 June 2018 which are not subject to impairment under IFRS 9 and are therefore excluded from impairment related tables (see note 24).

At 30 June 2018, other financial assets includes: cash and balances at central banks of €5,247 million (31 December 2017: €7,379 million) and items in the course of collection from other banks of €254 million (31 December 2017: €307 million).

The above table excludes loan commitments, guarantees and letters of credit of €15,260 million at 30 June 2018 (31 December 2017: €nil) that are subject to impairment (see note 33).

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the table below. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

	30 June 2018					31 December 2017
Impairment loss allowance on financial assets	**Stage 1 - (not credit-impaired) €m**	**Stage 2 - (not credit-impaired) €m**	**Stage 3 - (credit-impaired) €m**	**Purchased or originated credit-impaired[1] €m**	**Total €m**	Total €m
Financial assets measured at amortised cost						
Loans and advances to customers	111	157	1,773	43	2,084	2,359
Loans and advances to banks	1	-	-	-	1	-
Debt securities	1	-	-	-	1	-
Other financial assets	2	-	-	-	2	-
Total financial assets measured at amortised cost	**115**	**157**	**1,773**	**43**	**2,088**	**2,359**
Debt instruments at fair value through other comprehensive income	3	-	-	-	3	-
Total net impairment loss allowance on financial assets	**118**	**157**	**1,773**	**43**	**2,091**	**2,359**

[1] *At 30 June 2018, purchased or originated credit-impaired assets included €69 million of assets with an impairment loss allowance of €1 million 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.*

25 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. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Loans and advances to customers Composition and risk profile (before impairment loss allowance)[1]	**30 June 2018** Not credit-impaired €m	Credit-impaired €m	Total €m	Total %	31 December 2017 Total €m	Total %
Residential mortgages	43,329	2,653	45,982	59%	46,659	60%
- Retail Ireland	*21,482*	*2,217*	*23,699*	*30%*	*24,069*	*31%*
- Retail UK	*21,847*	*436*	*22,283*	*29%*	*22,590*	*29%*
Non-property SME and corporate	17,821	1,249	19,070	24%	18,763	24%
- Republic of Ireland SME	*6,799*	*918*	*7,717*	*10%*	*8,213*	*11%*
- UK SME	*1,461*	*106*	*1,567*	*2%*	*1,703*	*2%*
- Corporate	*9,561*	*225*	*9,786*	*12%*	*8,847*	*11%*
Property and construction	7,191	1,199	8,390	11%	8,747	11%
- Investment	*6,644*	*1,084*	*7,728*	*10%*	*8,277*	*10%*
- Land and development	*547*	*115*	*662*	*1%*	*470*	*1%*
Consumer	4,758	98	4,856	6%	4,318	5%
Total	**73,099**	**5,199**	**78,298**	**100%**	**78,487**	**100%**
Impairment loss allowance on loans and advances to customers	**268**	**1,773**	**2,041**	**3%**	**2,359**	**3%**

Asset quality - not credit-impaired

The table below summarises 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 2018	**Stage 1**				**Stage 2**			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**	**Loans €m**	**Loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of loans %**
Residential mortgages	41,223	53%	10	0.02%	2,106	3%	26	1.23%
- Retail Ireland	*20,078*	*26%*	*3*	*0.01%*	*1,404*	*2%*	*12*	*0.85%*
- Retail UK	*21,145*	*27%*	*7*	*0.03%*	*702*	*1%*	*14*	*1.99%*
Non-property SME and corporate	16,107	20%	51	0.32%	1,714	2%	66	3.85%
- Republic of Ireland SME	*5,860*	*7%*	*31*	*0.53%*	*939*	*1%*	*42*	*4.47%*
- UK SME	*1,260*	*2%*	*3*	*0.24%*	*201*	*-*	*8*	*3.98%*
- Corporate	8,987	11%	17	0.19%	574	1%	16	2.79%
Property and construction	5,949	8%	5	0.08%	1,242	2%	39	3.14%
- Investment	*5,453*	*7%*	*4*	*0.07%*	*1,191*	*2%*	*38*	*3.19%*
- Land and development	*496*	*1%*	*1*	*0.20%*	*51*	*-*	*1*	*1.96%*
Consumer	4,537	6%	45	0.99%	221	-	26	11.76%
Total	**67,816**	**87%**	**111**	**0.16%**	**5,283**	**7%**	**157**	**2.97%**

[1] *Excluded from the table above are purchased or originated credit-impaired assets of €123 million, €69 million of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*

25 Credit risk exposures (continued)

The table below provides 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 probability of default (PD) of each loan to a PD grade based on the table provided on page 87.

30 June 2018 Not credit-impaired loans and advances to customers Asset quality[1]	Residential mortgages		Non-property SME and corporate		Property and construction		Consumer		Total	
	€m	%	€m	%	€m	%	€m	%	€m	%
Stage 1										
1-4	24,637	57%	5,282	30%	4,666	65%	114	2%	34,699	47%
5-7	14,710	34%	6,104	34%	1,210	17%	935	20%	22,959	31%
8-9	1,252	3%	4,152	23%	65	1%	2,722	57%	8,191	11%
10-11	624	1%	569	3%	8	-	766	16%	1,967	3%
Total Stage 1	**41,223**	**95%**	**16,107**	**90%**	**5,949**	**83%**	**4,537**	**95%**	**67,816**	**92%**
Stage 2										
1-4	123	-	176	1%	106	1%	1	-	406	1%
5-7	293	1%	310	2%	687	9%	15	-	1,305	2%
8-9	465	1%	498	3%	182	3%	75	2%	1,220	2%
10-11	1,225	3%	730	4%	267	4%	130	3%	2,352	3%
Total Stage 2	**2,106**	**5%**	**1,714**	**10%**	**1,242**	**17%**	**221**	**5%**	**5,283**	**8%**
Not credit-impaired										
1-4	24,760	57%	5,458	31%	4,772	66%	115	2%	35,105	48%
5-7	15,003	35%	6,414	36%	1,897	26%	950	20%	24,264	33%
8-9	1,717	4%	4,650	26%	247	4%	2,797	59%	9,411	13%
	1,849	4%	1,299	7%	275	4%	896	19%	4,319	6%
Total not credit-impaired	**43,329**	**100%**	**17,821**	**100%**	**7,191**	**100%**	**4,758**	**100%**	**73,099**	**100%**

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).

30 June 2018 Credit-impaired loans and advances to customers Composition and impairment loss allowance	Credit-impaired loans €m	Credit-impaired loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %
Residential mortgages	2,653	4%	546	21%
- Retail Ireland	*2,217*	*3%*	*511*	*23%*
- Retail UK	*436*	*1%*	*35*	*8%*
Non-property SME and corporate	1,249	1%	621	50%
- Republic of Ireland SME	*918*	*1%*	*445*	*48%*
- UK SME	*106*	*-*	*53*	*50%*
- Corporate	*225*	*-*	*123*	*55%*
Property and construction	1,199	1%	544	45%
- Investment	*1,084*	*1%*	*476*	*44%*
- Land and development	*115*	*-*	*68*	*59%*
Consumer	98	-	62	63%
Total credit-impaired[2]	**5,199**	**6%**	**1,773**	**34%**

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.

[1] *Excluded from the table above are purchased or originated credit-impaired loans of €69 million with impairment loss allowances of €1 million which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*

[2] *The table excludes €54 million of purchased or originated credit-impaired assets with impairment loss allowances of €42 million at 30 June 2018 which will remain classified as purchased or originated credit-impaired and subject to lifetime expected credit losses until derecognition.*

25 Credit risk exposures (continued)

Geographical and industry analysis of loans and advances to customers

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

	30 June 2018				31 December 2017			
Geographical / industry analysis[1]	**RoI €m**	**UK €m**	**RoW €m**	**Total €m**	RoI €m	UK €m	RoW €m	Total €m
Personal	25,763	25,078	-	50,841	26,036	24,941	-	50,977
- Residential mortgages	*23,702*	*22,283*	-	*45,985*	*24,069*	*22,590*	-	*46,659*
- Other consumer lending	*2,061*	*2,795*	-	*4,856*	*1,967*	*2,351*	-	*4,318*
Property and construction	4,918	3,539	-	8,457	6,593	2,154	-	8,747
- Investment	*4,365*	*3,429*	-	*7,794*	*6,220*	*2,057*	-	*8,277*
- Land and development	*553*	*110*	-	*663*	*373*	*97*	-	*470*
Business and other services	5,934	1,725	462	8,121	5,964	1,628	484	8,076
Manufacturing	3,287	485	558	4,330	2,804	625	547	3,976
Distribution	2,165	200	46	2,411	2,190	153	27	2,370
Agriculture	1,679	267	-	1,946	1,581	293	-	1,874
Transport	1,035	128	77	1,240	997	125	66	1,188
Financial	530	53	51	634	617	39	50	706
Energy	366	60	15	441	499	59	15	573
Total	**45,677**	**31,535**	**1,209**	**78,421**	**47,281**	**30,017**	**1,189**	**78,487**

IAS 39 comparatives

31 December 2017 Risk profile of loans and advances to customers (before impairment provisions)	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
Total loans and advances to customers						
High quality	41,823	6,157	3,829	3,921	55,730	71%
Satisfactory quality	789	8,627	1,617	230	11,263	14%
Acceptable quality	1,380	1,712	1,238	14	4,344	6%
Lower quality but neither past due or impaired	78	735	620	-	1,433	2%
Neither past due nor impaired	**44,070**	**17,231**	**7,304**	**4,165**	**72,770**	**93%**
Past due but not impaired	1,275	193	142	64	1,674	2%
Impaired	1,314	1,339	1,301	89	4,043	5%
Total loans and advances to customers	**46,659**	**18,763**	**8,747**	**4,318**	**78,487**	**100%**

31 December 2017 Risk profile of loans and advances to customers - past due and / or impaired	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Total loans and advances to customers					
Past due up to 30 days	469	61	32	38	600
Past due 31 - 60 days	389	27	37	20	473
Past due 61 - 90 days	113	11	7	6	137
Past due greater than 90 days but not impaired	304	94	66	-	464
Past due but not impaired	**1,275**	**193**	**142**	**64**	**1,674**
Impaired	1,314	1,339	1,301	89	4,043
Total loans and advances to customers - past due and / or impaired	**2,589**	**1,532**	**1,443**	**153**	**5,717**

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

25 Credit risk exposures (continued)

Asset quality

The table below summarises the asset quality of debt instruments at fair value through other comprehensive income by IFRS 9 twelve month probability of default grade.

30 June 2018 Debt instruments at fair value through other comprehensive income Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	10,590	94%	-	-	10,590	94%
5-7	679	6%	-	-	679	6%
8-9	-	-	-	-	-	-
10-11	-	-	-	-	-	-
Total	**11,269**	**100%**	**-**	**-**	**11,269**	**100%**

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

30 June 2018 Debt securities at amortised cost (before impairment loss allowance) Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	3,434	100%	-	-	3,434	100%
5-7	13	-	-	-	13	-
8-9	-	-	-	-	-	-
10-11	-	-	-	-	-	-
Total	**3,447**	**100%**	**-**	**-**	**3,447**	**100%**

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

30 June 2018 Loans and advances to banks at amortised cost (before impairment loss allowance) Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	2,291	97%	-	-	2,291	97%
5-7	39	2%	-	-	39	2%
8-9	17	1%	-	-	17	1%
10-11	-	-	-	-	-	-
Total	**2,347**	**100%**	**-**	**-**	**2,347**	**100%**

25 Credit risk exposures (continued)

30 June 2018 **Other financial instruments** **with ratings equivalent to:**	**€m**	**%**
AAA to AA-	3,508	48%
A+ to A-	2,465	34%
BBB+ to BBB-	1,052	14%
BB+ to BB-	199	3%
B+ to B-	45	1%
Lower than B-	21	-
Total	**7,290**	**100%**

31 December 2017[1] Other financial instruments with ratings equivalent to:	€m	%
AAA to AA-	12,459	52%
A+ to A-	9,119	38%
BBB+ to BBB-	1,769	7%
BB+ to BB-	281	1%
B+ to B-	87	1%
Lower than B-	320	1%
Total	24,035	100%

Asset quality: Other financial instruments

Other financial instruments as set out in the table 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, other financial instruments at fair value through profit or loss (excluding equity instruments) and any reinsurance assets. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

[1] *Comparative figures for the prior year have not been restated and include loans and advances to banks, AFS financial assets (excluding equity instruments) and interest receivable.*

26 Intangible assets and goodwill

	30 June 2018					31 December 2017				
	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	**31**	**71**	**1,560**	**208**	**1,870**	-	101	1,379	201	1,681
Additions	-	-	90	-	90	-	-	233	2	235
Acquisitions	-	-	-	-	-	31	-	-	15	46
Disposals / write-offs	-	-	-	-	-	-	(29)	(46)	(5)	(80)
Exchange adjustments	-	-	-	-	-	-	(1)	(6)	(5)	(12)
At end of period	**31**	**71**	**1,650**	**208**	**1,960**	31	71	1,560	208	1,870
Accumulated amortisation										
At 1 January	**-**	**(70)**	**(893)**	**(128)**	**(1,091)**	-	(99)	(829)	(118)	(1,046)
Disposals / write-offs	-	-	-	-	-	-	29	46	5	80
Amortisation charge for the period (note 14)	-	-	(74)	(9)	(83)	-	-	(115)	(19)	(134)
Exchange adjustments	-	-	-	-	-	-	-	5	4	9
At end of period	**-**	**(70)**	**(967)**	**(137)**	**(1,174)**	-	(70)	(893)	(128)	(1,091)
Net book value	**31**	**1**	**683**	**71**	**786**	31	1	667	80	779

The category computer software internally generated includes the Core Banking Platform asset with a carrying value of €198 million (31 December 2017: €163 million).

27 Assets classified as held for sale

	30 June 2018 €m	31 December 2017 €m
Property classified as held for sale	-	28
Total	**-**	**28**

During 2017, the Group decided to sell a property located in central Dublin. The sale was recognised in the six months ended 30 June 2018 resulting in a gain of €7 million and the reclassification of €9 million from the revaluation reserve to retained earnings.

28 Deferred tax

The deferred tax asset of €1,204 million (31 December 2017: €1,237 million) shown on the balance sheet is after netting by jurisdiction (€1,330 million before netting by jurisdiction (31 December 2017: €1,374 million)). This includes an amount of €1,216 million at 30 June 2018 (31 December 2017: €1,253 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses.

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 2033 (31 December 2017: 2036).

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 2018 were €45 million (31 December 2017: €53 million).

29 Deposits from banks

	30 June 2018 €m	31 December 2017 €m
Monetary Authority secured funding	2,972	3,553
Deposits from banks	500	786
Deposits from banks	**3,472**	**4,339**

Deposits from banks include cash collateral of €0.2 billion at 30 June 2018 (31 December 2017: €0.6 billion) received from derivative counterparties in relation to net derivative asset positions.

	30 June 2018				31 December 2017			
Monetary Authority secured funding	**TLTRO €m**	**TFS €m**	**ILTR €m**	**Total €m**	TLTRO €m	TFS €m	ILTR €m	Total €m
Deposits from banks	1,304	1,580	88	2,972	1,806	1,353	394	3,553
Debt securities in issue (note 31)	702	-	-	702	1,455	-	-	1,455
Total	**2,006**	**1,580**	**88**	**3,674**	**3,261**	**1,353**	**394**	**5,008**

The Group's secured funding from the ECB comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). The Group's TLTRO borrowings will be repaid between September 2018 and March 2021, in line with the terms and conditions of the TLTRO facility.

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

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

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

30 Customer accounts

	30 June 2018 €m	31 December 2017 €m
Current accounts	31,579	30,518
Demand deposits	26,572	26,034
Term deposits and other products	17,464	17,954
Customer accounts at amortised cost	**75,615**	**74,506**
Term deposits at fair value through profit or loss	1,051	1,363
Total customer accounts	**76,666**	**75,869**

Movement in own credit risk on deposits at FVTPL	**30 June 2018 €m**
Balance at beginning of the period	12
Recognised in other comprehensive income	(10)
Balance at end of the period	**2**

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 above. Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.

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 fair value through profit or loss at 30 June 2018 was €9 million lower than the contractual amount due at maturity (31 December 2017: €2 million higher). This is set out in note 38.

At 30 June 2018, the Group's largest 20 customer deposits amounted to 3% (31 December 2017: 4%) of customer accounts. 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 €24 million (31 December 2017: €91 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

31 Debt securities in issue

	30 June 2018 €m	31 December 2017 €m
Bonds and medium term notes	5,601	5,258
Monetary Authorities secured funding (note 29)	702	1,455
Other debt securities in issue	1,074	1,141
Debt securities in issue at amortised cost	7,377	7,854
Debt securities in issue at fair value through profit or loss	533	536
Total debt securities in issue	**7,910**	**8,390**

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

	30 June 2018 €m	31 December 2017 €m
Balance at beginning of the period	8,390	10,697
Issued during the period	871	172
Redemptions	(1,320)	(2,184)
Repurchases	(31)	(183)
Other movements	-	(112)
Balance at end of the period	**7,910**	**8,390**

Movement in own credit risk on debt securities in issue at FVTPL	**30 June 2018 €m**
Balance at beginning of the period	3
Recognised in other comprehensive income	(3)
Balance at end of the period[1]	**-**

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.

Following a realignment in 2018 of the collateral pledged by the Group against its TLTRO funding, the element of the TLTRO funding that is classified as Debt Securities in Issue has reduced to €750 million (31 December 2017: €1,450 million), with a corresponding increase in the element classified as Bank Deposits.

The carrying amount of the debt securities in issue designated at fair value through profit and loss at 30 June 2018 was €25 million higher than the contractual amount due at maturity (31 December 2017: €31 million higher) (see note 38).

[1] *Under IAS 39, movements in own credit risk were recognised in net trading income / (expense), see note 9.*

32 Provisions

	30 June 2018 €m	31 December 2017 €m
Balance at beginning of the period[1]	205	96
Utilised during the period	(131)	(111)
Charge to income statement	42	224
Unused amounts reversed during the period	(3)	(3)
Exchange adjustment	-	(1)
Balance at end of the period	**113**	**205**

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

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

At 31 December 2017, the Group held a provision of €158 million in relation to 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.

Considerable progress has been made in 2018 in contacting and remediating impacted customers. Since 31 December 2017, €94 million of the provision has been utilised covering redress, compensation and related costs leaving a residual provision of €64 million at 30 June 2018.

The Central Bank of Ireland examination is still ongoing at 30 June 2018. Therefore, there are still a number of uncertainties as to the eventual total cost of the examination.

For additional information and details on the key judgement items within the provision, see note 43 of the Group's Annual Report for the year ended 31 December 2017.

33 Loss allowance provision on loan commitments and financial guarantees

30 June 2018	Amount €m	Loss Allowance €m
Loan commitments (note 41)	14,835	26
Guarantees and irrevocable letters of credit (note 41)	425	1
	15,260	27

From 1 January 2018 loan commitments and guarantees and irrevocable letters of credit have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments and financial guarantees and irrevocable letters of credit on a 12 month or lifetime expected credit loss approach.

At 30 June 2018, the Group held an impairment loss allowance of €27 million on loan commitments and financial guarantees, of which €17 million are classified as stage 1, €7 million as Stage 2 and €3 million as stage 3.

Prior to the adoption of IFRS 9, provision in respect of loan commitments and guarantees and irrevocable letters of credit were measured in accordance with IAS 37. Prior period comparative figures have not been restated.

[1] *At 31 December 2017, loan commitments and guarantees and irrevocable letters of credit were measured in accordance with IAS 37, with associated provisions of €nil and €nil respectively. At 30 June 2018, loan commitments and guarantees and irrevocable letters of credit are measured in accordance with IFRS 9 (note 33).*

34 Retirement benefit obligations

Financial Assumptions	30 June 2018 % p.a.	31 December 2017 % p.a.
RoI schemes		
Discount rate	2.05	2.10
Inflation Rate	1.60	1.65
UK schemes		
Discount Rate	3.00	2.75
Consumer Price Inflation	2.10	2.20
Retail Price Inflation	3.10	3.20

The net IAS 19 pension deficit at 30 June 2018 was €260 million (31 December 2017: €478 million). This is shown on the balance sheet as a retirement benefit obligation of €337 million (31 December 2017: €536 million) and a retirement benefit asset of €77 million (31 December 2017: €58 million).

The significant financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table.

Impact on defined benefit obligation	Impact on defined benefit obligation Increase / (decrease) 30 June 2018 €m	Impact on defined benefit obligation Increase / (decrease) 31 December 2017 €m
RoI schemes		
Discount rate		
- Increase of 0.25%	(303)	(304)
- Decrease of 0.25%	326	328
Inflation rate		
- Increase of 0.10%	84	85
- Decrease of 0.10%	(82)	(83)
UK schemes		
Discount rate		
- Increase of 0.25%	(66)	(71)
- Decrease of 0.25%	71	77
RPI inflation		
- Increase of 0.10%	19	21
- Decrease of 0.10%	(16)	(18)

Sensitivity of defined benefit obligation to key assumptions

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

Impact on plan assets - all schemes	Impact on plan assets increase / (decrease) 30 June 2018 €m	Impact on plan assets increase / (decrease) 31 December 2017 €m
Sensitivity of plan assets to movements in global equity markets with allowance for other correlated diversified asset classes		
- Increase of 5.00%	123	128
- Decrease of 5.00%	(123)	(128)
Sensitivity of liability-matching assets to a 25bps movement in interest rates		
- Increase of 0.25%	(275)	(271)
- Decrease of 0.25%	291	287
Sensitivity of liability-matching assets to a 10bps movement in inflation rates		
- Increase of 0.10%	75	74
- Decrease of 0.10%	(73)	(73)

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

34 Retirement benefit obligations (continued)

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Present value of obligation gain	109	223
Fair value of plan assets gain / (loss)	88	(306)
Total gain / (loss)	**197**	**(83)**

Remeasurements of the net defined benefit pension liability, recognised in other comprehensive income, are set out in the table.

35 Subordinated liabilities

	30 June 2018 €m	31 December 2017 €m
€750 million 4.25% Fixed Rate Subordinated Notes 2024	756	759
US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	408	406
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	331	332
€250 million 10% Fixed Rate Subordinated Notes 2022	264	264
€1,002 million 10% Fixed Rate Subordinated Notes 2020	218	222
Undated loan capital	122	122
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
Total subordinated liabilities	**2,101**	**2,107**

The principal terms and conditions of all subordinated liabilities are set out in note 45 of the Group's Annual Report for the year ended 31 December 2017.

36 Summary of relations with the State

	30 June 2018 €m	31 December 2017 €m
Assets		
Unguaranteed senior bonds issued by AIB	237	182
Unguaranteed subordinated bonds issued by AIB	16	32
NAMA subordinated bonds	74	293
Bonds issued by the State	5,749	4,762
Other financial assets at fair value through the profit and loss		
Bonds issued by the State	246	367
Loans and advances to banks		
AIB	13	13
Liabilities		
Customer Accounts		
State (including agencies & entities under its control or joint control)	1,123	1,485
IBRC (in Special Liquidation) and its associates	-	28
Debt securities in issue		
State (including agencies & entities under its control or joint control)	144	147

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 53 of the Group's Annual Report for the year ended 31 December 2017.

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 2018.

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 2018 and 31 December 2017 in respect of these transactions, which are considered individually significant, are set out in this table.

During the period the Group disposed of NAMA subordinated bonds with a nominal value of €211 million which resulted in a €9 million gain on disposal which has been reported in net trading income, see note 9.

37 Liquidity risk and profile

The table below summarises 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 2018 and 31 December 2017 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 €5,647 million and €11,011 million respectively (31 December 2017: €5,766 million and €10,878 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

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

30 June 2018 **Contractual maturity**	**Demand** **€m**	**Up to 3 months** **€m**	**3-12 months** **€m**	**1-5 years** **€m**	**Over 5 years** **€m**	**Total** **€m**
Deposits from banks	101	399	-	-	-	500
Monetary Authorities secured funding	-	256	1,234	2,211	-	3,701
Customer accounts	62,564	6,747	4,716	2,668	73	76,768
Debt securities in issue	-	57	1,280	4,004	2,550	7,891
Subordinated liabilities	-	23	98	877	1,842	2,840
Contingent liabilities	381	118	86	95	17	697
Commitments	11,273	36	929	2,597	-	14,835
Total	**74,319**	**7,636**	**8,343**	**12,452**	**4,482**	**107,232**

31 December 2017 Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	87	699	-	-	-	786
Monetary Authorities secured funding	-	170	1,733	3,126	-	5,029
Customer accounts	61,131	7,505	4,915	2,434	41	76,026
Debt securities in issue	-	586	95	5,214	1,716	7,611
Subordinated liabilities	9	42	188	917	1,706	2,862
Contingent liabilities	366	100	106	108	18	698
Commitments	12,172	22	1,113	2,556	-	15,863
Total	73,765	9,124	8,150	14,355	3,481	108,875

38 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

30 June 2018	At fair value through profit or loss		Debt instruments at fair value through other comprehensive income €m	Held at amortised cost €m	Derivatives designated as hedging instruments €m	Insurance contracts €m	Total €m
	Mandatorily €m	Designated €m					
Financial assets							
Cash and balances at central banks	-	-	-	5,246	-	-	5,246
Items in the course of collection from other banks	-	-	-	254	-	-	254
Trading securities	38	-	-	-	-	-	38
Derivative financial instruments	1,370	-	-	-	408	-	1,778
Other financial assets at fair value through profit or loss	14,825	-	-	-	-	-	14,825
Loans and advances to banks	326	-	-	2,346	-	-	2,672
Financial assets at fair value through other comprehensive income	-	-	11,269	-	-	-	11,269
Debt securities at amortised cost	-	-	-	3,446	-	-	3,446
Loans and advances to customers	267	-	-	76,337	-	-	76,604
Interest in associates	-	52	-	-	-	-	52
Other financial assets	-	-	-	240	-	-	240
Total financial assets	**16,826**	**52**	**11,269**	**87,869**	**408**	**-**	**116,424**
Financial liabilities							
Deposits from banks	-	-	-	3,472	-	-	3,472
Customer accounts	-	1,051	-	75,615	-	-	76,666
Items in the course of transmission to other banks	-	-	-	447	-	-	447
Derivative financial instruments	1,478	-	-	-	320	-	1,798
Debt securities in issue	-	533	-	7,377	-	-	7,910
Liabilities to customers under investment contracts	-	5,647	-	-	-	-	5,647
Insurance contract liabilities	-	-	-	-	-	11,011	11,011
Loss allowance provision on loan commitments and financial guarantees	-	-	-	27	-	-	27
Subordinated liabilities	-	-	-	2,101	-	-	2,101
Other financial liabilities	-	-	-	2,264	-	-	2,264
Short positions in trading securities	7	-	-	-	-	-	7
Total financial liabilities	**1,485**	**7,231**	**-**	**91,403**	**320**	**11,011**	**111,450**

38 Measurement basis of financial assets and financial liabilities (continued)

31 December 2017	At fair value through profit or loss: Derivatives designated as fair value hedging instruments €m	At fair value through profit or loss: Held for trading €m	At fair value through profit or loss: Designated upon initial recognition €m	At fair value through other comprehensive income (OCI): Available for sale €m	At fair value through other comprehensive income (OCI): Cash flow hedge derivatives €m	Held at amortised cost €m	Insurance contracts €m	Total €m
Financial assets								
Cash and balances at central banks	-	-	-	-	-	7,379	-	7,379
Items in the course of collection from other banks	-	-	-	-	-	307	-	307
Trading securities	-	68	-	-	-	-	-	68
Derivative financial instruments	234	1,587	-	-	527	-	-	2,348
Other financial assets at fair value-through profit or loss	-	-	14,421	-	-	-	-	14,421
Loans and advances to banks	-	-	-	-	-	3,061	-	3,061
Available for sale financial assets	-	-	-	13,223	-	-	-	13,223
Loans and advances to customers	-	-	-	-	-	76,128	-	76,128
Interest in associates	-	-	59	-	-	-	-	59
Other financial assets[1]	-	-	-	-	-	254	-	254
Total financial assets	234	1,655	14,480	13,223	527	87,129	-	117,248
Financial liabilities								
Deposits from banks	-	-	-	-	-	4,339	-	4,339
Customer accounts	-	-	1,363	-	-	74,506	-	75,869
Items in the course of transmission to other banks	-	-	-	-	-	263	-	263
Derivative financial instruments	300	1,659	-	-	28	-	-	1,987
Debt securities in issue	-	-	536	-	-	7,854	-	8,390
Liabilities to customers under investment contracts	-	-	5,766	-	-	-	-	5,766
Insurance contract liabilities	-	-	-	-	-	-	10,878	10,878
Subordinated liabilities	-	-	-	-	-	2,107	-	2,107
Other financial liabilities[1]	-	-	-	-	-	2,482	-	2,482
Short positions in trading securities	-	-	-	-	-	-	-	-
Total financial liabilities	300	1,659	7,665	-	28	91,551	10,878	112,081

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

	30 June 2018		31 December 2017	
	Fair values €m	**Contractual amount due on maturity €m**	Fair values €m	Contractual amount due on maturity €m
Customer accounts	1,051	1,060	1,363	1,361
Debt securities in issue	533	508	536	505
Liabilities to customers under investment contracts	5,647	5,647	5,766	5,766
Financial liabilities designated at fair value through profit or loss	**7,231**	**7,215**	**7,665**	**7,632**

For financial assets and financial liabilities which are measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 39.

[1] *Comparative figures have been updated to include other financial assets and other financial liabilities, presented within other assets and other liabilities on the balance sheet.*

39 Fair values of assets and liabilities

A definition of fair value and the fair value hierarchy, description of the methods, assumptions and processes used to calculate fair values of assets and liabilities is set out on pages 219 to 221 of the Group's Annual Report for the year ended 31 December 2017. From 1 January 2018, the Group has applied the following methods to calculate the fair values of financial assets and liabilities under IFRS 9.

Loans and advances to customers held at fair value
These consist of assets mandatorily measured at fair value through profit or loss, which predominantly relate to 'Life loan mortgage products'. Unlike a standard mortgage product, borrowers do not make any periodic repayments and the outstanding loan balance increases through the life of the loan as interest due is capitalised. The mortgage is typically repaid out of the proceeds of the sale of the property. These assets are valued using discounted cash flow models which incorporate unobservable inputs (level 3 inputs).

Financial assets at fair value through other comprehensive income and debt securities at amortised cost
From 1 January 2018 financial assets which were classified as available for sale under IAS 39 have been reclassified as financial assets at fair value through other comprehensive income, debt securities at amortised cost or financial assets mandatorily at fair value through profit or loss in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 61 to 63.

Financial assets at fair value through other comprehensive income predominantly consist of government bonds and listed debt securities. Debt securities at amortised cost consist mainly of government bonds, asset backed securities and other debt securities. For these assets where an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

Other financial assets at fair value through profit or loss
From 1 January 2018 subordinated bonds issued by NAMA which were classified as available for sale under IAS 39 have been reclassified as other financial assets at fair value through profit or loss. Securities with terms and conditions substantially similar to the NAMA subordinated debt trade in an active market. The quoted price of these securities has been used to value the NAMA subordinated debt (level 2 inputs).

Loans and advances to customers held at amortised cost
From 1 January 2018 loans and advances to customers have been reclassified from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at fair value through profit or loss in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 61 to 63.

The fair value of both fixed and variable rate loans and advances to customers held at amortised cost is estimated using valuation techniques which include the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

The method used to calculate the fair values of these assets has not changed under IFRS 9.

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 increase their fair value by up to €4 million or decrease their fair value by up to €4 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

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

Financial assets at fair value through other comprehensive income
A small number of assets have been valued using vendor prices, which are not considered to represent observable market data, or discounted cash flow models which incorporate unobservable inputs (level 3 inputs).

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

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.

39 Fair values of assets and liabilities (continued)

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.

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

	30 June 2018				31 December 2017			
	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	38	-	-	38	68	-	-	68
Derivative financial instruments	-	1,735	43	1,778	3	2,301	44	2,348
Loans and advances to customers	-	-	267	267	-	-	-	-
Loans and advances to banks	-	326	-	326	-	-	-	-
Other financial assets at FVTPL	14,169	520	136	14,825	13,908	451	62	14,421
Financial assets at fair value through other comprehensive income	11,269	-	-	11,269	-	-	-	-
AFS financial assets	-	-	-	-	12,853	321	49	13,223
Interest in associates	-	-	52	52	-	-	59	59
	25,476	**2,581**	**498**	**28,555**	**26,832**	**3,073**	**214**	**30,119**
Financial liabilities held at fair value								
Customer accounts	-	1,023	28	1,051	-	1,360	3	1,363
Derivative financial instruments	2	1,792	4	1,798	1	1,985	1	1,987
Liabilities to customers under investment contracts	-	5,647	-	5,647	-	5,766	-	5,766
Insurance contract liabilities	-	11,011	-	11,011	-	10,878	-	10,878
Debt securities in issue	-	531	2	533	-	534	2	536
Short positions in trading securities	7	-	-	7	-	-	-	-
	9	**20,004**	**34**	**20,047**	**1**	**20,523**	**6**	**20,530**

39 Fair values of assets and liabilities (continued)

Movements in level 3 assets

30 June 2018	Loans and advances to customers €m	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Total €m
Closing Balance 31 December 2017	-	62	44	49	59	214
Impact of adopting IFRS 9 on 1 January 2018 (note 43)	269	77	-	(49)	-	297
Opening Balance 1 January 2018	**269**	**139**	**44**	**-**	**59**	**511**
Exchange Adjustment	-	-	-	-	-	-
Total gains or losses in:						
Profit or loss						
- Net trading income / (expense)	7	15	(3)	-	-	19
- Share of results of associates	-	-	-	-	4	4
- Other operating income	-	1	-	-	-	1
Other comprehensive income	-	-	-	-	-	-
Additions	-	-	-	-	3	3
Disposals	-	(10)	-	-	(14)	(24)
Redemptions	(9)	(9)	-	-	-	(18)
Transfers out of level 3						
- from level 3 to level 2	-	-	(3)	-	-	(3)
Transfers into level 3						
- from level 2 to level 3	-	-	5	-	-	5
Closing balance 30 June 2018	**267**	**136**	**43**	**-**	**52**	**498**
Total (losses) / gains for the period included in profit or loss for level 3 assets at the end of the reporting period						
- Net trading income / (expense)	7	10	(7)	-	-	10
- 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 30 June 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.

39 Fair values of assets and liabilities (continued)

Movements in level 3 assets 31 December 2017	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Total €m
Opening Balance	49	54	75	56	234
Exchange Adjustment	-	(2)	-	-	(2)
Total gains or losses in:					
Profit or loss					
- Net trading income / (expense)	13	(2)	-	-	11
- Share of results of associates	-	-	-	3	3
- Other operating income	-	-	18	-	18
Other comprehensive income	-	-	(6)	-	(6)
Additions	-	-	5	11	16
Disposals	-	-	(39)	(11)	(50)
Redemptions	-	-	(4)	-	(4)
Reclassifications	-	-	-	-	-
Transfers out of level 3					
- from level 3 to level 2	-	(8)	-	-	(8)
Transfers into level 3					
- from level 2 to level 3	-	2	-	-	2
Closing balance	62	44	49	59	214
Total (losses) / gains for the period included in profit or loss for level 3 assets at the end of the reporting period					
- Net trading income / (expense)	14	(5)	-	-	9
- Other operating income	-	-	20	-	20
- Share of results of associates	-	-	-	3	3

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

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

39 Fair values of assets and liabilities (continued)

Movements in level 3 liabilities	30 June 2018				31 December 2017			
	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	3	1	2	6	19	1	660	680
Exchange adjustments	-	-	-	-	-	-	-	-
Total gains or losses in:								
Profit or loss								
- Net trading expense / (income)	5	10	-	15	4	2	2	8
Other comprehensive income	(2)	-	-	(2)	-	-	-	-
Additions	25	-	-	25	3	-	2	5
Disposals	-	(1)	-	(1)	-	-	-	-
Redemptions and maturities	-	-	-	-	-	(1)	(128)	(129)
Transfers out of level 3								
- from level 3 to level 2	(3)	(6)	-	(9)	(23)	(1)	(534)	(558)
Closing balance	**28**	**4**	**2**	**34**	**3**	**1**	**2**	**6**
Total (losses) / gains for the period included in profit or loss for level 3 liabilities at the end of the reporting period								
Net trading income / (expense)	(5)	(4)	-	(9)	-	(1)	(1)	(2)

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

There were no transfers between levels 1 and 2.

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

Level 3 assets	Valuation technique	Unobservable input	Fair value Jun 2018 €m	Fair value Dec 2017 €m	Range Jun 2018 %	Range Dec 2017 %
Loans and advances to customers	Discounted cash flow	Discount rate	267	-	5%-8%	-
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount rate[1]	136	62	Third party pricing	Third party pricing
	Equity Value less discount	Discount			0%-50%	0%-50%
Derivative financial assets	Discounted cash flow	Credit Spread[2]	43	44	0%-4%	0%-4%
	Option pricing model				Third party pricing	Third party pricing
AFS financial assets	Market comparable companies	Discount rate[1] EBITDA multiple[3] Liquidity factor	-	49	-	Third party pricing
Interest in associates	Market comparable companies	Price of recent investment Earnings multiple[3] Revenue multiple[3]	52	59	Third party pricing	Third party pricing

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

Note: 100 basis points = 1%

39 Fair values of assets and liabilities (continued)

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

Level 3 liabilities	Valuation technique	Unobservable input	Fair value Jun 2018 €m	Fair value Dec 2017 €m	Range Jun 2018 %	Range Dec 2017 %
Customer accounts	Discounted cash flow Option pricing model	Credit Spread[1]	28	3	0%-4%	0%-4%
Derivative financial liabilities	Discounted cash flow Option pricing model	Credit Spread[1]	4	1	0%-4% Third party pricing	0%-4% Third party pricing
Debt securities in issue	Discounted cash flow	Credit Spread[1]	2	2	0%-4%	0%-4%

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

	30 June 2018		31 December 2017	
	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
Assets				
Loans and advances to banks	2,346	2,346	3,061	3,061
Loans and advances to customers	76,337	73,253	76,128	73,075
Debt securities at amortised cost	3,446	3,475	-	-
Liabilities				
Deposits from banks	3,472	3,472	4,339	4,339
Customer accounts	75,615	75,617	74,506	74,521
Debt securities in issue	7,377	7,427	7,854	7,938
Subordinated liabilities	2,101	2,239	2,107	2,321

40 Dividend per ordinary share

	2018 cent per share	2018 €m
Final dividend paid in respect of the year ended 31 December 2017	11.5c	124

On 23 February 2018, the Board recommended a dividend of 11.5 cent per ordinary share, €124 million in total, which was approved at the Annual General Meeting on 20 April 2018 and paid on 24 May 2018. This dividend has been accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended 30 June 2018.

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

Note: 100 basis points = 1%

41 Contingent liabilities and commitments

	30 June 2018 €m	31 December 2017 €m
Contingent liabilities		
Guarantees and irrevocable letters of credit	425	445
Acceptances and endorsements	5	5
Other contingent liabilities	267	249
	697	**699**
Loan commitments		
Documentary credits and short-term trade related transactions	92	71
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	11,317	12,618
- irrevocable with original maturity of over 1 year	3,426	3,174
	14,835	**15,863**

The table above gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Loss allowance provisions of €27 million recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 33. Provisions on all other contingent liabilities and commitments are included in note 32.

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.

42 Impact of change in Life assurance operations policy

Impact of the restatement on the relevant financial statement line items for the six months ended 30 June 2017:

30 June 2017	Published €m	Impact of change in in policy €m	Restated €m
Consolidated condensed income statement (selected lines)			
Other operating income	71	1	72
Insurance contract liabilities and claims paid	(884)	4	(880)
Profit before tax	455	5	460
Taxation charge	(84)	6	(78)
Profit for the period	371	11	382
Earnings per ordinary share	31.8c	1.0c	32.8c
Diluted earnings per ordinary share	31.8c	1.0c	32.8c
Consolidated condensed statement of comprehensive income (selected lines)			
Profit for the period	371	11	382
Total comprehensive income for the period, net of tax	96	11	107
Total comprehensive income attributable to equity shareholders	96	11	107
Consolidated condensed statement of changes in equity (selected lines)			
Retained earnings			
Balance at the beginning of the period	5,214	-	5,214
Profit retained	343	11	354
Transfer from capital reserve	17	(11)	6
Balance at the end of the period	5,503	-	5,503
Other reserves: Capital reserve			
Balance at the beginning of the period	512	17	529
Transfer to retained earnings	(17)	11	(6)
Balance at the end of the period	495	28	523
Consolidated condensed cash flow statement (selected lines)			
Cash flows from operating activities			
Profit before tax	455	5	460
Cash flows from operating activities before changes in operating assets and liabilities	740	5	745
Net cash flow from operating assets and liabilities	221	(5)	216
Net cash flow from operating activities before tax	961	-	961

As outlined in the Group accounting policies on page 148 of the Group's Annual Report for the year ended 31 December 2017, the Group voluntarily changed its accounting policy for the valuation of insurance contract liabilities and the ViF asset during 2017.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative periods have been restated to reflect this change. The effect of this change is explained in this note.

43 IAS 39 to IFRS 9 transitional disclosures

The following table shows the original measurement categories in accordance with IAS39 and the new measurement under IFRS 9 for the Group's financial assets and financial liabilities.

Financial assets IAS 39 balance sheet line item	Note	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m	IFRS 9 balance sheet line item
Cash and balances at central banks		Loans and receivables	7,379	Amortised cost	7,377	Cash and balances at central banks
Items in the course of collection from other banks		Loans and receivables	307	Amortised cost	307	Items in the course of collection from other banks
Trading securities		FVTPL	68	FVTPL (mandatory)	68	Trading securities
Derivative financial instruments (assets)[1]		FVTPL	2,348	FVTPL (mandatory)	2,348	Derivative financial instruments (assets)
Other financial assets at FVTPL	19	FVTPL	14,421	FVTPL (mandatory)	14,421	Other financial assets at FVTPL
Loans and advances to banks	20	Loans and receivables	3,061	Amortised cost FVTPL (mandatory)	2,551 509	Loans and advances to banks at amortised cost Loans and advances to banks at FVTPL
Available for sale financial assets	23	Available for sale	13,223	FVOCI FVTPL (mandatory) Amortised cost	10,118 364 2,749	Debt instruments at FVOCI Other financial assets at FVTPL Debt securities at amortised cost
Loans and advances to customers	24	Loans and receivables	76,128	Amortised cost Amortised cost FVTPL (mandatory) FVTPL (mandatory)	75,580 19 269 35	Loans and advances to customers at amortised cost Debt securities at amortised cost Loans and advances to customers at FVTPL Other financial assets at FVTPL
Interest in associates		FVTPL	59	FVTPL	59	Interest in associates
Other assets		Loans and receivables	254	Amortised cost	254	Other assets
Total			**117,248**		**117,028**	

[1] At 31 December 2017, €527 million of derivative financial instruments carried as assets were cash flow hedge derivatives.

43 IAS 39 to IFRS 9 transitional disclosures (continued)

Financial liabilities IAS 39 balance sheet line item	Note	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m	IFRS 9 balance sheet line item
Deposits from banks	29	Amortised cost	4,339	Amortised cost	4,339	Deposits from banks
Customer accounts	30	Amortised cost FVTPL (designated)	74,506 1,363	Amortised cost FVTPL (designated)	74,506 1,363	Customer accounts at amortised cost Customer accounts at FVTPL
Items in the course of transmission to other banks		Amortised cost	263	Amortised cost	263	Items in the course of transmission to other banks
Derivative financial instruments (liabilities)[1]		FVTPL	1,987	FVTPL (mandatory)	1,987	Derivative financial instruments (liabilities)
Debt securities in issue	31	Amortised cost FVTPL (designated)	7,854 536	Amortised cost FVTPL (designated)	7,854 536	Debt securities in issue at amortised cost Debt securities in issue at FVTPL
Liabilities to customers under investment contracts		FVTPL (designated)	5,766	FVTPL (designated)	5,766	Liabilities to customers under investment contracts
Subordinated liabilities	35	Amortised cost	2,107	Amortised cost	2,107	Subordinated liabilities
Other liabilities - accruals and deferred income		Amortised cost	151	Amortised cost	41	Other liabilities - accruals and deferred income
Loss allowance provision on loan commitments and financial guarantees	33	Provisions	-	Provisions	36	Loss allowance provision on loan commitments and financial guarantees
Total			**98,872**		**98,798**	

[1] *At 31 December 2017, €28 million of derivative financial instruments carried as liabilities were cash flow hedge derivatives.*

43 IAS 39 to IFRS 9 transitional disclosures (continued)

The basis of classification of financial assets under IFRS 9 depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

In order to be accounted for at amortised cost or FVOCI, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest (SPPI).

Within the Wealth and Insurance operating segment, assets which were designated at FVTPL under IAS 39, together with loans and advances to banks which were classified as loans and receivables, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

The majority of the Group's Available for sale debt instruments have been classified as FVOCI or at amortised cost under IFRS 9, depending on the business model in which they are held.

Certain of the Group's Available for sale debt instruments, principally NAMA subordinated bonds, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

Available for sale equity instruments have also been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

Certain loans and advances to customers have been mandatorily classified at FVTPL under IFRS 9. These loans represent the Life Loan mortgage product. The cash flows of these Life Loans are not considered to consist of SPPI, and as such are classified as FVTPL.

The following table provides a reconciliation of the Group's balance sheet by measurement category from IAS 39 to IFRS 9 at 1 January 2018.

Assets	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets at amortised cost				
Cash and balances at central banks				
Opening balance	7,379	-	-	7,379
Increase in impairment loss allowance	-	-	(2)	(2)
Total cash and balances at central banks	**7,379**	**-**	**(2)**	**7,377**
Loans and advances to banks				
Opening balance	3,061	-	-	3,061
To loans and advances to banks at fair value through profit or loss[1]	-	(509)	-	(509)
Increase in impairment loss allowance	-	-	(1)	(1)
Total loans and advances to banks	**3,061**	**(509)**	**(1)**	**2,551**
Debt securities at amortised cost				
Opening balance	-	-	-	-
From available for sale financial assets	-	2,766	-	2,766
From loans and advances to customers	-	19	-	19
Release of available for sale reserve	-	-	(16)	(16)
Increase in impairment loss allowance	-	-	(1)	(1)
Total debt securities at amortised cost	**-**	**2,785**	**(17)**	**2,768**
Loans and advances to customers				
Opening balance	76,128	-	-	76,128
To loans and advances to customers at fair value through profit or loss[2]	-	(281)	-	(281)
To debt securities at amortised cost	-	(19)	-	(19)
To other financial assets at fair value through profit or loss	-	(41)	-	(41)
From other liabilities - accruals and deferred income	-	(110)	-	(110)
From available for sale reserve	-	-	8	8
Increase in impairment loss allowance	-	-	(113)	(113)
Other remeasurements	-	-	8	8
Total loans and advances to customers	**76,128**	**(451)**	**(97)**	**75,580**
Other assets	**254**	**-**	**-**	**254**
Items in the course of collection from other banks	**307**	**-**	**-**	**307**
Total	**87,129**	**1,825**	**(117)**	**88,837**

[1] *Loans and advances to banks include assets that are managed on a fair value basis by the life assurance business and are mandatorily measured at fair value through profit or loss. These amounts will continue to be included in the loans and advances to banks line item on the balance sheet with a split out in note 20 to the financial statements. For the purpose of the transitional disclosures, these amounts have been split in order to show the amount that will be remeasured from amortised cost to fair value through profit or loss.*

[2] *Loans and advances to customers that fail the solely payment of principal and interest (SPPI) test are mandatorily measured at fair value through profit or loss. These amounts will continue to be included within the loans and advances to customers line item on the balance sheet with a split out in note 24 to the financial statements. For the purpose of the transitional disclosures, these amounts have been split in order to show the amount that will be remeasured from amortised cost to fair value through profit or loss.*

43 IAS 39 to IFRS 9 transitional disclosures (continued)

Assets (continued)	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets measured at fair value through other comprehensive income				
Debt instruments at fair value through other comprehensive income				
Opening balance	-	-	-	-
From available for sale financial assets	-	10,118	-	10,118
Total debt instruments at fair value through other comprehensive income	**-**	**10,118**	**-**	**10,118**
Financial assets measured at fair value through profit or loss				
Trading securities	**68**	**-**	**-**	**68**
Derivative financial instruments	**2,348**	**-**	**-**	**2,348**
Loans and advances to customers mandatorily at fair value through profit or loss				
Opening balance	-	-	-	-
From loans and advances to customers at amortised cost	-	281	-	281
Reversal in impairment loss allowance (IAS 39)[1]	-	-	14	14
Adjustment to fair value	-	-	(26)	(26)
Total loans and advances to customers	**-**	**281**	**(12)**	**269**
Loans and advances to banks mandatorily at fair value through profit or loss				
Opening balance	-	-	-	-
From loans and advances to banks at amortised cost	-	509	-	509
Total loans and advances to banks	**-**	**509**	**-**	**509**
Other financial assets at fair value through profit or loss				
Opening balance	14,421	-	-	14,421
From available for sale financial assets	-	339	-	339
From loans and advances to customers	-	41	-	41
Reversal in impairment loss allowance (IAS 39)[1]	-	-	10	10
Adjustment to fair value	-	-	9	9
Other financial assets at fair value through profit or loss	**14,421**	**380**	**19**	**14,820**
Interest in associates	**59**	**-**	**-**	**59**
Total financial assets at fair value through profit or loss	**16,896**	**1,170**	**7**	**18,073**
Available for sale financial assets				
Opening balance	**13,223**	**-**	**-**	**13,223**
To debt securities at amortised cost	-	(2,766)	-	(2,766)
To debt instruments at fair value through other comprehensive income	-	(10,118)	-	(10,118)
To other financial assets at fair value through profit or loss	-	(339)	-	(339)
Total available for sale financial assets	**13,223**	**(13,223)**	**-**	**-**
Net deferred tax asset / liability				
Net opening balance	**1,184**	**-**	**-**	**1,184**
Tax on impairment loss allowance - remeasurement	-	-	32	32
Other changes	-	-	1	1
Total net deferred tax	**1,184**	**-**	**33**	**1,217**
Total inclusive of net deferred tax	**118,432**	**(110)**	**(77)**	**118,245**

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at fair value through profit or loss, had an impairment provision under IAS 39. Financial assets at fair value through profit or loss are not subject to impairment under IFRS 9.*

43 IAS 39 to IFRS 9 transitional disclosures (continued)

Liabilities	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial liabilities at amortised cost				
Deposits from banks	4,339	-	-	4,339
Customer accounts	74,506	-	-	74,506
Items in the course of transmission to other banks	263	-	-	263
Debt securities in issue	7,854	-	-	7,854
Subordinated liabilities	2,107	-	-	2,107
Other liabilities - accruals and deferred income	151	(110)	-	41
Total financial liabilities at amortised cost	**89,220**	**(110)**	**-**	**89,110**
Loss allowance provision on loan commitments and financial guarantees				
Opening balance	**-**	**-**	**-**	**-**
Increase in loss allowance provision	-	-	36	36
Total loss allowance provision on loan commitments and financial guarantees	**-**	**-**	**36**	**36**
Financial liabilities at fair value through profit or loss				
Customer accounts	1,363	-	-	1,363
Derivative financial instruments	1,987	-	-	1,987
Debt securities in issue	536	-	-	536
Liabilities to customers under investment contracts	5,766	-	-	5,766
Total financial liabilities at fair value through profit or loss	**9,652**	**-**	**-**	**9,652**
Total	**98,872**	**(110)**	**36**	**98,798**

43 IAS 39 to IFRS 9 transitional disclosures (continued)

Equity	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Liability credit reserve				
Opening balance	-	-	-	-
From retained earnings	-	(13)	-	(13)
Total liability credit reserve	**-**	**(13)**	**-**	**(13)**
Available for sale reserve				
Opening balance	**341**	**-**	**-**	**341**
To debt instruments at fair value through other comprehensive income reserve	-	(269)	-	(269)
To retained earnings	-	(65)	-	(65)
Reduction in available for sale reserve related to assets at amortised cost	-	-	(7)	(7)
Total available for sale reserve	**341**	**(334)**	**(7)**	**-**
Debt Instruments at fair value through other comprehensive income reserve				
Opening balance	-	-	-	-
From available for sale reserve	-	269	-	269
Increase in impairment loss allowance	-	-	3	3
Total debt instruments at fair value through other comprehensive income reserve	**-**	**269**	**3**	**272**
Retained earnings				
Opening balance	**7,333**	**-**	**-**	**7,333**
Impairment loss allowance - remeasurement	-	-	(156)	(156)
From available for sale reserve	-	65	-	65
To liability credit reserve	-	13	-	13
Other remeasurements	-	-	15	15
Deferred tax on remeasurement	-	-	32	32
Total impact on retained earnings	**7,333**	**78**	**(109)**	**7,302**
Total impact on equity	**7,674**	**-**	**(113)**	**7,561**

43 IAS 39 to IFRS 9 transitional disclosures (continued)

The following table provides the reconciliation of the Group's closing impairment provision in accordance with IAS 39 and provisions in accordance with IAS 37 to the opening loss allowance determined in accordance with IFRS 9.

Impairment loss allowance	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Financial assets at amortised cost				
Opening balance	**2,359**	**-**	**-**	**2,359**
To financial assets at fair value through profit or loss	-	(8)	-	(8)
To loans and advances to customers at fair value through profit or loss	-	(14)	-	(14)
Increase in impairment loss allowance	-	-	117	117
Total assets at amortised cost	**2,359**	**(22)**	**117**	**2,454**
Financial assets measured at fair value through other comprehensive income reserve				
Opening balance	**-**	**-**	**-**	**-**
Increase in impairment loss allowance	-	-	3	3
Total financial assets measured at fair value through other comprehensive income	**-**	**-**	**3**	**3**
Fair value through profit or loss				
Loans and advances to customers mandatorily at fair value through profit or loss				
Opening balance	**-**	**-**	**-**	**-**
From financial assets at amortised cost – loans and advances to customers	-	14	-	14
Reversal in impairment loss allowance (IAS 39)[1]	-	-	(14)	(14)
Total loans and advances to customers mandatorily at fair value through profit or loss	**-**	**14**	**(14)**	**-**
Other financial assets at fair value through profit or loss				
Opening balance	**-**	**-**	**-**	**-**
From financial assets at amortised cost – loans and advances to customers	-	8	-	8
From available for sale financial assets	-	2	-	2
Reversal in impairment loss allowance (IAS 39)[1]	-	-	(10)	(10)
Total other financial assets at fair value through profit or loss	**-**	**10**	**(10)**	**-**
Total financial assets at fair value through profit or loss	**-**	**24**	**(24)**	**-**
Available for sale financial assets				
Opening balance	**2**	**-**	**-**	**2**
To other financial assets at fair value through profit or loss	-	(2)	-	(2)
Total available for sale financial assets	**2**	**(2)**	**-**	**-**
Total impairment loss allowance	**2,361**	**-**	**96**	**2,457**

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at fair value through profit or loss, had an impairment provision under IAS 39. Financial assets at fair value through profit or loss are not subject to impairment under IFRS 9.*

43 IAS 39 to IFRS 9 transitional disclosures (continued)

Loss allowance provision	Carrying amount under IAS 39 31 December 2017 €m	Reclassification €m	Remeasurement €m	Carrying amount under IFRS 9 1 January 2018 €m
Provision on loan commitments and financial guarantees				
Opening balance	**-**	**-**	**-**	**-**
Increase in loss allowance provision in loan commitments, guarantees and irrevocable letters of credit	-	-	36	36
Total loss allowance provision on loan commitments and financial guarantees	**-**	**-**	**36**	**36**

44 Post balance sheet events

On 4 July 2018 the Group announced the appointment of Mr Patrick Kennedy as Chairman of the Group and Governor of the Bank[1], succeeding Mr Archie G Kane. Mr Patrick Kennedy succeeds Mr Archie G Kane as Chairman of the Group Nomination and Governance Committees of BOIG plc and the Bank. Mr Richard Goulding succeeds Mr Kennedy as Chairman of the Board Risk Committee of BOIG plc and the Court Risk Committee of the Bank.

On 25 July the Group announced the appointment of Mr Patrick Haren as Deputy Chairman of BOIG plc. Mr Haren remains the Senior Independent Director.

The above changes are effective from 1 August 2018.

45 Approval of Interim Report

The Board of Directors approved the Interim Report on 27 July 2018.

[1] *The Governor and Company of the Bank of Ireland.*

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Supplementary asset quality and forbearance disclosures

The tables below (except for tables 3b on pages 124 and 131 and 3b-(i) on page 124) in Other information - Supplementary asset quality and forbearance disclosures on pages 120 to 137 form an integral part of the interim financial statements as described in the basis of preparation on page 60. 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 table below summarises the composition and risk profile of the Retail Ireland mortgage loan book. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Excluded from the following tables are €0.3 billion of loans mandatorily held at fair value through profit or loss at 30 June 2018 which are not subject to impairment under IFRS 9 (see note 24). The following tables reflect the Retail Ireland mortgages at amortised cost at 30 June 2018.

Table: 1a

Retail Ireland mortgages - Volumes (before impairment loss allowance) by product type[1]	30 June 2018 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	31 December 2017 Total €m
Owner occupied mortgages	17,806	1,116	18,922	1,108	2	20,032	20,160
Buy to let mortgages	2,272	288	2,560	1,109	1	3,670	3,909
Total Retail Ireland mortgages	**20,078**	**1,404**	**21,482**	**2,217**	**3**	**23,702**	**24,069**

Table: 1b

Retail Ireland mortgages - Volumes (before impairment loss allowance) by interest rate type[1]	30 June 2018 €m	30 June 2018 %	31 December 2017 €m	31 December 2017 %
Tracker	10,401	44%	10,942	46%
Variable rates	4,747	20%	5,813	24%
Fixed rates	8,554	36%	7,314	30%
Total Retail Ireland mortgages	**23,702**	**100%**	**24,069**	**100%**

At 30 June 2018, Retail Ireland mortgages were €23.7 billion (31 December 2017: €24.1 billion), a decrease of €0.4 billion or 1.7%, of which €0.3 billion relates to excluded loans under IFRS 9[3]. There was a €0.5 billion decrease in the tracker portfolio, a €1.1 billion decrease in the variable rate portfolio and an increase of €1.2 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 2018 was 94% (31 December 2017: 94%) with the balance of 6% on an 'interest only'[5] repayment basis (31 December 2017: 6%). Of the Owner occupied mortgages of €20.0 billion, 97% were on a 'full principal and interest' repayment basis (31 December 2017: 97%), while 78% of the Buy to let (BTL) mortgages of €3.7 billion were on a 'full principal and interest' repayment basis (31 December 2017: 78%). 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 table excludes undrawn loan commitments relating to Retail Ireland mortgages of €1 billion at 30 June 2018 that are subject to impairment under IFRS 9.
2 At 30 June 2018, purchased or originated credit-impaired loans included €1.5 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 2018 are €0.3 billion of loans mandatorily held at fair value through profit or loss which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 24 on page 84). These loans are included in the 31 December 2017 position.
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	30 June 2018				31 December 2017			
	Total Retail Ireland mortgage loan book		**Non-performing exposures**		Total Retail Ireland mortgage loan book		Non-performing exposures	
Origination[1] of Retail Ireland mortgage loan book[2] (before impairment loss allowance)	**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	216	8,968	30	719	245	9,912	33	786
2001	171	4,142	19	311	226	4,549	24	344
2002	358	6,087	53	497	414	6,498	59	547
2003	691	9,354	105	892	782	10,109	114	938
2004	1,254	13,529	187	1,353	1,367	14,125	207	1,454
2005	2,136	18,059	358	1,926	2,303	18,769	391	2,036
2006	3,336	23,225	686	3,253	3,552	24,046	721	3,358
2007	2,950	19,389	583	2,644	3,110	19,932	622	2,766
2008	2,052	14,099	323	1,579	2,168	14,676	341	1,649
2009	1,082	8,562	81	574	1,154	8,914	87	599
2010	790	5,875	19	135	837	6,102	23	155
2011	697	5,271	9	56	728	5,425	8	55
2012	617	4,767	3	20	644	4,888	4	22
2013	579	4,209	2	15	608	4,347	2	15
2014	936	6,027	2	11	979	6,200	2	12
2015	1,342	10,555	4	68	1,403	10,908	4	69
2016	1,489	9,229	7	59	1,543	9,460	7	47
2017	2,002	9,554	3	15	2,006	9,625	1	6
2018	1,004	4,534[4]	-	1	-	-	-	-
Total	**23,702**	**185,435**	**2,474**	**14,128**	**24,069**	**188,485**	**2,650**	**14,858**

The table above illustrates that at 30 June 2018, €4.8 billion or 20% of the Retail Ireland mortgage loan book originated before 2006, €8.3 billion or 35% between 2006 and 2008 and €10.6 billion or 45% in the years since 2008.

At 30 June 2018, total non-performing exposures were €2.5 billion (31 December 2017: €2.7 billion) or 10% of the Retail Ireland mortgage loan book, of which €1.6 billion originated between 2006 and 2008. There has been a decrease in total non-performing exposures in 2018 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity, supported by improving economic conditions.

1 The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.
2 Excluded from the above tables at 30 June 2018 are €0.3 billion of loans mandatorily held at fair value through profit or loss which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 24). These loans are included in the 31 December 2017 position.
3 The number of accounts does not equate to either the number of customers or the number of properties.
4 The total number of accounts originated in 2018 does not include any accounts which were acquired during the year (31 December 2017: 552).

Book composition (continued)

Risk profile

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

Table: 3a

30 June 2018	Owner occupied		Buy to let		Total	
Risk profile of Retail Ireland mortgage loan book (before impairment loss allowance) - PD Grade[1,2]	**Performing €m**	**Non-performing €m**	**Performing €m**	**Non-performing €m**	**Performing €m**	**Non-performing €m**
Not credit-impaired						
Stage 1						
1-4	15,032	-	1,482	-	16,514	-
5-7	2,254	-	581	-	2,835	-
8-9	352	-	200	-	552	-
10-11	168	-	9	-	177	-
Total Stage 1	**17,806**	**-**	**2,272**	**-**	**20,078**	**-**
Stage 2						
1-4	93	3	2	1	95	4
5-7	120	5	46	5	166	10
8-9	247	22	100	51	347	73
10-11	480	146	60	23	540	169
Total Stage 2	**940**	**176**	**208**	**80**	**1,148**	**256**
Not credit-impaired *(Stage 1 & Stage 2)*						
1-4	15,125	3	1,484	1	16,609	4
5-7	2,374	5	627	5	3,001	10
8-9	599	22	300	51	899	73
10-11	648	146	69	23	717	169
Subtotal - not credit-impaired	**18,746**	**176**	**2,480**	**80**	**21,226**	**256**
Credit-impaired *(Stage 3)*						
12	-	1,108	-	1,109	-	2,217
Subtotal - credit-impaired	**-**	**1,108**	**-**	**1,109**	**-**	**2,217**
Total	**18,746**	**1,284**	**2,480**	**1,189**	**21,226**	**2,473**

[1] *Excluded from the above table are purchased or originated credit-impaired loans of €2.9 million, €1.5 million of which were no longer credit-impaired at 30 June 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 tables are €0.3 billion of loans mandatorily held at fair value through profit or loss at 30 June 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 24).*

Book composition (continued)

Arrears profile

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

Mortgage arrears Greater than 90 days past due	June 2018 %	March 2018 %	December 2017 %	June 2017 %
Number of accounts				
Retail Ireland[1] Owner occupied mortgages	2.2%	2.2%	2.3%	2.5%
Industry[2] Owner occupied (number of accounts)	n/a	7.9%	8.0%	8.4%
Retail Ireland[1] Buy to let mortgages	4.9%	5.0%	5.1%	5.8%
Industry[2] Buy to let (number of accounts)	n/a	18.0%	18.3%	18.6%
Value				
Retail Ireland[1] Owner occupied mortgages	3.1%	3.2%	3.3%	3.7%
Industry[2] Owner occupied (value)	n/a	11.9%	12.1%	12.6%
Retail Ireland[1] Buy to let mortgages	10.8%	10.7%	10.8%	12.0%
Industry[2] Buy to let (value)	n/a	26.2%	26.6%	26.6%

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

Mortgage arrears 720 days past due	June 2018 %	March 2018 %	December 2017 %	June 2017 %
Number of accounts				
Retail Ireland[1] Owner occupied mortgages	1.2%	1.2%	1.3%	1.4%
Industry[2] Owner occupied (Number of accounts)	n/a	4.9%	4.9%	5.3%
Retail Ireland[1] Buy to let mortgages	2.6%	2.6%	2.8%	3.1%
Industry[2] Buy to let (Number of accounts)	n/a	13.4%	13.6%	13.8%
Value				
Retail Ireland[1] Owner occupied mortgages	1.9%	2.0%	2.0%	2.3%
Industry[2] Owner occupied (value)	n/a	8.2%	8.2%	8.9%
Retail Ireland[1] Buy to let mortgages	5.8%	5.9%	6.1%	6.6%
Industry[2] Buy to let (value)	n/a	20.8%	21.2%	20.9%

The latest information published by the Central Bank of Ireland (CBI) is for the quarter ended 31 March 2018.

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 (28% of industry average) and BTL (28% of industry average) mortgages. At 31 March 2018, 2.2% and 5.0% 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 7.9%[2] and 18.0%[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 (25% of industry average) and BTL (19% of industry average) mortgages. At 31 March 2018, 1.2% and 2.6% 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 4.9%[2] and 13.4%[2] respectively for the industry.

[1] *The table above includes €0.3 billion of loans mandatorily held at fair value through the profit or loss at 30 June 2018 which are not subject to impairment under IFRS 9.*
[2] *Industry source: CBI Mortgage Arrears Statistics Report, March 2018 - adjusted to exclude Bank of Ireland.*

Book composition (continued)

Loan to value profiles - total loans

Table: 3c

30 June 2018 Loan to value (LTV) ratio of total Retail Ireland mortgages[1,2]	Owner occupied Not credit-impaired €m	Owner occupied Credit-impaired €m	Owner occupied Total €m	Buy to let Not credit-impaired €m	Buy to let Credit-impaired €m	Buy to let Total €m	Total Not credit-impaired €m	Total Credit-impaired €m	Total Total €m
Less than 50%	6,526	191	6,717	961	71	1,032	7,487	262	7,749
51% to 70%	6,441	254	6,695	751	148	899	7,192	402	7,594
71% to 80%	2,770	128	2,898	359	128	487	3,129	256	3,385
81% to 90%	1,961	149	2,110	290	301	591	2,251	450	2,701
91% to 100%	880	126	1,006	92	171	263	972	297	1,269
Subtotal	**18,578**	**848**	**19,426**	**2,453**	**819**	**3,272**	**21,031**	**1,667**	**22,698**
101% to 120%	311	163	474	61	156	217	372	319	691
121% to 150%	19	70	89	21	64	85	40	134	174
Greater than 150%	14	27	41	25	70	95	39	97	136
Subtotal	**344**	**260**	**604**	**107**	**290**	**397**	**451**	**550**	**1,001**
Total	**18,922**	**1,108**	**20,030**	**2,560**	**1,109**	**3,669**	**21,482**	**2,217**	**23,699**
Weighted average LTV[3]:									
Stock of Retail Ireland mortgages at period end			60%			70%			61%
New Retail Ireland mortgages during the period			73%			52%			73%

The table above sets out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which showed positive movements during 2018 and was, on average, 61% at 30 June 2018, 60% for Owner occupied mortgages and 70% for BTL mortgages. The weighted average indexed LTV for new Residential mortgages written during 2018 was 73%, being 73% for Owner occupied mortgages and 52% for BTL mortgages.

Property values are determined by reference to the property valuations held, indexed to the Residential Property Price Index (RPPI) CSO. The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the CSO RPPI at April 2018.

The RPPI for April 2018 reported that average national residential property prices were 21.1% below peak (December 2017: 22.9% below peak), with Dublin residential prices and outside of Dublin residential prices 23.3% and 26.1% below peak respectively (December 2017: 24.4% and 28.4% below peak respectively). In the four months to April 2018, residential property prices at a national level increased by 2.5%. At 30 June 2018, €22.7 billion or 96% of Retail Ireland mortgages were classified as being in positive equity, 97% for Owner occupied mortgages and 89% for BTL mortgages.

[1] *Excluded from the above table are purchased or originated credit-impaired loans of €2.9 million, €1.5 million of which were no longer credit-impaired at 30 June 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 tables are €0.3 billion of loans mandatorily held at fair value through profit or loss at 30 June 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 24).*
[3] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Asset quality

Composition and impairment

The table below summarises the composition of non-performing exposures and impairment loss allowance for the Retail Ireland mortgage portfolio.

Table: 4

30 June 2018 Retail Ireland mortgages[1,2]	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 %
Stage 1 not credit-impaired						
Owner occupied mortgages	17,806	-	-	2	n/a	-
Buy to let mortgages	2,272	-	-	1	n/a	-
Total	**20,078**	**-**	**-**	**3**	**n/a**	**-**
Stage 2 not credit-impaired						
Owner occupied mortgages	1,116	176	16%	7	4%	1%
Buy to let mortgages	288	80	28%	5	6%	2%
Total	**1,404**	**256**	**18%**	**12**	**5%**	**1%**
Stage 3 credit-impaired						
Owner occupied mortgages	1,108	1,108	100%	215	19%	19%
Buy to let mortgages	1,109	1,109	100%	296	27%	27%
Total	**2,217**	**2,217**	**100%**	**511**	**23%**	**23%**
Total						
Owner occupied mortgages	20,030	1,284	6%	224	17%	1%
Buy to let mortgages	3,669	1,189	32%	302	25%	8%
Total	**23,699**	**2,473**	**10%**	**526**	**21%**	**2%**

Total non-performing exposures of €2.5 billion were €0.2 billion lower than at 31 December 2017, reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

Owner occupied non-performing exposures of €1.3 billion were €0.1 billion lower than at 31 December 2017. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

This progress is also evident in the reduction of non-performing exposures in relation to BTL mortgages, decreasing to €1.2 billion at 30 June 2018 from €1.3 billion at 31 December 2017. This reduction reflects the progress made by the Group in the ongoing restructure of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

[1] *Excluded from the above table are purchased or originated credit-impaired loans of €2.9 million, €1.5 million of which were no longer credit-impaired at 30 June 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 tables are €0.3 billion of loans mandatorily held at fair value through profit or loss at 30 June 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 24).*

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 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 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. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Table: 1a

Retail UK mortgages - Volumes (before impairment loss allowance) by product type[1]	30 June 2018 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	31 December 2017 Total £m
Standard mortgages	9,861	218	10,079	133	-	10,212	10,599
Buy to let mortgages	7,336	224	7,560	109	-	7,669	7,457
Self certified mortgages	1,546	183	1,729	144	-	1,873	1,987
Total Retail UK mortgages	**18,743**	**625**	**19,368**	**386**	**-**	**19,754**	**20,043**

Table: 1b

Retail UK mortgages - Volumes (before impairment loss allowance) by interest rate type[1]	30 June 2018 £m	30 June 2018 %	31 December 2017 £m	31 December 2017 %
Tracker	6,733	34%	7,147	36%
Variable rates	2,986	15%	3,256	16%
Fixed rates	10,035	51%	9,640	48%
Total Retail UK mortgages	**19,754**	**100%**	**20,043**	**100%**

At 30 June 2018, Retail UK mortgages were £19.8 billion (31 December 2017: £20.0 billion). The decrease of £289 million or 1.4% reflects new business generation offset by redemptions in the book.

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

Tracker mortgages were £6.7 billion or 34% of the Retail UK mortgages compared to £7.1 billion or 36% at 31 December 2017, a decrease of £0.4 billion.

Variable rate mortgages were £3.0 billion or 15% of the Retail UK mortgages compared to £3.3 billion or 16% at 31 December 2017, a decrease of £0.3 billion.

Fixed rate mortgages were £10.0 billion or 51% of the Retail UK mortgages compared to £9.6 billion or 48% at 31 December 2017, an increase of £0.4 billion.

[1] *The above table excludes loan commitments relating to Retail UK mortgages of £823 million at 30 June 2018 that are subject to impairment.*

Book composition (continued)

Origination profile

Table: 2	30 June 2018				31 December 2017			
	Total Retail UK mortgage loan book		**Non-performing exposures**		Total Retail UK mortgage loan book		Non-performing exposures	
Origination profile of Retail UK mortgage loan book (before impairment loss allowance)	**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	153	4,662	10	238	175	5,227	11	280
2001	106	1,776	5	45	113	1,875	4	40
2002	138	2,052	4	40	149	2,188	4	41
2003	313	3,909	15	130	338	4,227	16	127
2004	376	4,499	18	153	402	4,762	19	162
2005	1,071	10,395	45	373	1,127	10,902	42	337
2006	1,567	14,675	67	501	1,645	15,364	66	490
2007	2,463	22,028	105	800	2,612	23,232	95	744
2008	3,371	29,158	134	986	3,569	30,775	110	823
2009	366	3,658	8	84	396	3,910	8	78
2010	262	2,423	3	27	292	2,642	3	18
2011	176	1,616	2	12	205	1,816	1	8
2012	182	1,501	-	4	212	1,685	-	4
2013	334	2,261	2	12	461	2,963	2	10
2014	727	4,967	3	16	815	5,437	2	12
2015	1,477	9,678	2	19	1,809	11,392	2	15
2016	2,009	13,040	2	11	2,566	15,749	1	5
2017	3,113	21,154	1	10	3,157	21,186	-	3
2018	1,550	10,544	-	-	-	-	-	-
Total	**19,754**	**163,996**	**426**	**3,461**	**20,043**	**165,332**	**386**	**3,197**

The table above illustrates that at 30 June 2018, £2.2 billion or 11% of the Retail UK mortgage loan book originated before 2006, £7.4 billion or 37.5% between 2006 and 2008 and £10.2 billion or 51.6% in the years since. Non-performing Retail UK mortgages were £0.4 billion or 2.2% (31 December 2017: £0.4 billion or 1.9%) of the Retail UK mortgage loan book at 30 June 2018, of which £0.3 billion or 1.6% were originated between 2006 and 2008 (31 December 2017: £0.3 billion or 1.3%).

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

Book composition (continued)

Risk profile

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

Table: 3a

30 June 2018	Standard		Buy to let		Self certified		Total	
Risk profile of Retail UK mortgage loan book (before impairment loss allowance) - PD Grade	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	6,050	-	2,167	-	67	-	8,284	-
5-7	2,871	-	3,570	-	1,048	-	7,489	-
8-9	698	-	1,196	-	291	-	2,185	-
10-11	242	-	403	-	140	-	785	-
Total Stage 1	**9,861**	**-**	**7,336**	**-**	**1,546**	**-**	**18,743**	**-**
Stage 2								
1-4	35	3	10	1	1	-	46	4
5-7	27	3	27	1	30	4	84	8
8-9	17	-	23	-	9	4	49	4
10-11	127	6	151	11	128	7	406	24
Total Stage 2	**206**	**12**	**211**	**13**	**168**	**15**	**585**	**40**
Not credit-impaired *(Stage 1 & Stage 2)*								
1-4	6,085	3	2,177	1	68	-	8,330	4
5-7	2,898	3	3,597	1	1,078	4	7,573	8
8-9	715	-	1,219	-	300	4	2,234	4
10-11	369	6	554	11	268	7	1,191	24
Subtotal - not credit-impaired	**10,067**	**12**	**7,547**	**13**	**1,714**	**15**	**19,328**	**40**
Credit-impaired *(Stage 3)*								
12	-	133	-	109	-	144	-	386
Subtotal - credit-impaired	**-**	**133**	**-**	**109**	**-**	**144**	**-**	**386**
Total	**10,067**	**145**	**7,547**	**122**	**1,714**	**159**	**19,328**	**426**

Book composition (continued)

Arrears profile

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

Mortgage arrears Greater than 90 days past due	June 2018 %	December 2017 %	June 2017 %
Number of accounts			
Standard mortgages	0.84%	0.78%	0.86%
Buy to let mortgages	0.82%	0.72%	0.81%
Self certified mortgages	3.72%	3.39%	3.50%
Value			
Standard mortgages	0.77%	0.69%	0.75%
Buy to let mortgages	0.83%	0.72%	0.82%
Self certified mortgages	4.83%	4.32%	4.32%

Data published by the Council of Mortgage Lenders (CML) for March 2018 indicates that the proportion of the Retail UK mortgage book in default (defined for CML purposes as greater than 90 days past due but excluding possessions and receivership cases) is in line with the UK industry average.

Loan to value profiles - total loans

Table: 3c

30 June 2018 Loan to value (LTV) ratio of total Retail UK mortgages	Standard Not credit-impaired £m	Standard Credit-impaired £m	Buy to let Not credit-impaired £m	Buy to let Credit-impaired £m	Self certified Not credit-impaired £m	Self certified Credit-impaired £m	Total Not credit-impaired £m	Total Credit-impaired £m	Total Total £m
Less than 50%	2,246	36	2,336	25	582	30	5,164	91	5,255
51% to 70%	3,394	41	3,517	38	719	56	7,630	135	7,765
71% to 80%	1,840	22	1,112	17	233	27	3,185	66	3,251
81% to 90%	2,068	12	517	19	145	18	2,730	49	2,779
91% to 100%	463	12	65	6	38	7	566	25	591
Subtotal	**10,011**	**123**	**7,547**	**105**	**1,717**	**138**	**19,275**	**366**	**19,641**
101% to 120%	40	6	11	3	8	3	59	12	71
121% to 150%	21	2	2	-	3	1	26	3	29
Adjusted Greater than 150%	7	2	-	1	1	2	8	5	13
Subtotal	**68**	**10**	**13**	**4**	**12**	**6**	**93**	**20**	**113**
Total	**10,079**	**133**	**7,560**	**109**	**1,729**	**144**	**19,368**	**386**	**19,754**
Weighted average LTV[1]:									
Stock of Retail UK mortgages at period end[1]	64%	66%	58%	66%	58%	67%	61%	66%	61%
New Retail UK mortgages during period[1]	74%	-	59%	-	n/a	-	69%	-	69%

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 61% at 30 June 2018. The weighted average LTV for new Residential mortgages written during 2018 was 69%, 74% for Standard mortgages and 59% for BTL mortgages.

At 30 June 2018, £19.6 billion or 99% of the Retail UK mortgage book was in positive equity (31 December 2017: £19.8 billion or 99%), comprising £10.1 billion or 99% of Standard mortgages (31 December 2017: £10.4 billion or 98%), £7.7 billion or 99% of BTL mortgages (31 December 2017: £7.4 billion or 99%) and £1.9 billion or 99% of Self certified mortgages (31 December 2017: £2.0 billion or 98%).

This improvement reflects the upward movement in house prices in the year with house prices increasing by 1.5% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

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

Asset quality

Composition and impairment

The table below summarises the composition, non-performing exposures and total impairment loss allowance of the Retail UK mortgage portfolio.

Table: 4

30 June 2018 Retail UK mortgages	Advances (pre-impairment) £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 %
Stage 1 not credit-impaired						
Standard mortgages	9,861	-	-	1	n/a	-
Buy to let mortgages	7,336	-	-	4	n/a	-
Self certified mortgages	1,546	-	-	1	n/a	-
Total	**18,743**	**-**	**-**	**6**	**n/a**	**-**
Stage 2 not credit-impaired						
Standard mortgages	218	12	5.5%	2	17%	1%
Buy to let mortgages	224	13	5.8%	8	62%	4%
Self certified mortgages	183	15	8.2%	3	20%	2%
Total	**625**	**40**	**6.4%**	**13**	**33%**	**2%**
Stage 3 credit-impaired						
Standard mortgages	133	133	100%	9	7%	7%
Buy to let mortgages	109	109	100%	14	13%	13%
Self certified mortgages	144	144	100%	8	6%	6%
Total	**386**	**386**	**100%**	**31**	**8%**	**8%**
Total						
Standard mortgages	10,212	145	1.4%	13	9%	-
Buy to let mortgages	7,669	122	1.6%	25	20%	-
Self certified mortgages	1,873	159	8.5%	12	8%	1%
Total	**19,754**	**426**	**2.2%**	**50**	**12%**	**-**

Total non-performing exposures of £426 million were £40 million higher than at 31 December 2017, primarily reflecting an increase in greater than 90 days past due and past contractual maturity balances.

Owner occupied non-performing exposures of £304 million were £20 million higher than at 31 December 2017.

BTL non-performing exposures of £122 million were £20 million higher than at 31 December 2017.

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 2018 of €78.4 billion is available in note 25 on page 89. Exposures are before impairment loss allowance.

Table: 1

30 June 2018 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	41,213	929	713	1	42,856
- Retail Ireland	*20,069*	*347*	*384*	*1*	*20,801*
- Retail UK	*21,144*	*582*	*329*	*-*	*22,055*
Non-property SME and corporate	16,072	843	239	9	17,163
- Republic of Ireland SME	*5,828*	*472*	*212*	*-*	*6,512*
- UK SME	*1,258*	*136*	*19*	*-*	*1,413*
- Corporate	*8,986*	*235*	*8*	*9*	*9,238*
Property and construction	5,938	500	92	67	6,597
- Investment	*5,442*	*488*	*69*	*67*	*6,066*
- Land and development	*496*	*12*	*23*	*-*	*531*
Consumer	4,537	214	75	-	4,826
Total non-forborne loans and advances to customers	**67,760**	**2,486**	**1,119**	**77**	**71,442**
Forborne loans and advances to customers					
Residential mortgages	10	1,177	1,940	2	3,129
- Retail Ireland	*9*	*1,057*	*1,833*	*2*	*2,901*
- Retail UK	*1*	*120*	*107*	*-*	*228*
Non-property SME and corporate	35	871	1,010	44	1,960
- Republic of Ireland SME	*32*	*467*	*706*	*5*	*1,210*
- UK SME	*2*	*65*	*87*	*-*	*154*
- Corporate	*1*	*339*	*217*	*39*	*596*
Property and construction	11	742	1,107	-	1,860
- Investment	*11*	*703*	*1,015*	*-*	*1,729*
- Land and development	*-*	*39*	*92*	*-*	*131*
Consumer	-	7	23	-	30
Total forborne loans and advances to customers	**56**	**2,797**	**4,080**	**46**	**6,979**

Table: 2

30 June 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	714	248	92	75	1,129
Not credit-impaired	31	2	6	3	42
Total non-forborne loans and advances to customers	**745**	**250**	**98**	**78**	**1,171**
Forborne loans and advances to customers					
Credit-impaired	1,940	1,054	1,107	23	4,124
Not credit-impaired	276	203	89	-	568
Total forborne loans and advances to customers	**2,216**	**1,257**	**1,196**	**23**	**4,692**

[1] *At 30 June 2018, 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.*

IAS 39 Comparatives

Retail Ireland mortgages - IAS 39 comparative disclosures

Table: 3a

31 December 2017 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	19,129	95%	3,285	84%	22,414	93%
1-90 days past due but not impaired	257	1%	91	2%	348	1%
Past due greater than 90 days but not impaired	142	1%	40	1%	182	1%
Impaired	632	3%	493	13%	1,125	5%
Total	20,160	100%	3,909	100%	24,069	100%
Non-performing exposures						
Impaired	632	46%	493	39%	1,125	42%
Past due greater than 90 days but not impaired	142	10%	40	3%	182	7%
Neither impaired nor past due greater than 90 days	604	44%	739	58%	1,343	51%
Total	1,378	100%	1,272	100%	2,650	100%

Table: 3c

31 December 2017 Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	6,480	32%	986	25%	7,466	31%
51% to 70%	6,542	32%	885	23%	7,427	31%
71% to 80%	2,931	15%	501	13%	3,432	14%
81% to 90%	2,081	10%	676	17%	2,757	11%
91% to 100%	1,133	6%	320	8%	1,453	6%
Subtotal	19,167	95%	3,368	86%	22,535	93%
101% to 120%	816	4%	307	8%	1,123	5%
121% to 150%	133	1%	113	3%	246	1%
Greater than 150%	44	-	121	3%	165	1%
Subtotal	993	5%	541	14%	1,534	7%
Total	20,160	100%	3,909	100%	24,069	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at period end		61%		73%		63%
New Retail Ireland mortgages during the period		69%		52%		69%

Table: 4

31 December 2017 Retail Ireland mortgages	Advances (pre-impairment) €m	Non-performing exposures €m	Non-performing exposures as % of advances %	Impaired loans €m	Total provisions €m	Total provisions as % of non-performing exposures %	Specific provisions as % of Impaired loans %
Total Retail Ireland mortgages							
Owner occupied mortgages	20,160	1,378	7%	632	310	22%	35%
Buy to let mortgages	3,909	1,272	33%	493	333	26%	51%
Total	24,069	2,650	11%	1,125	643	24%	42%

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

Retail UK mortgages - IAS 39 comparative disclosures

Table: 3a

31 December 2017 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	10,315	97%	7,236	97%	1,664	84%	19,215	96%
1-90 days past due but not impaired	192	2%	144	2%	216	11%	552	3%
Past due greater than 90 days but not impaired	36	-	27	-	45	2%	108	-
Impaired	56	1%	50	1%	62	3%	168	1%
Total	10,599	100%	7,457	100%	1,987	100%	20,043	100%
Non-performing exposures								
Impaired	56	41%	50	49%	62	42%	168	44%
Past due greater than 90 days but not impaired	36	26%	27	26%	45	31%	108	28%
Neither impaired nor past due greater than 90 days	45	33%	25	25%	40	27%	110	28%
Total	137	100%	102	100%	147	100%	386	100%

Table: 3c

31 December 2017 Loan to value (LTV) ratio of total Retail UK mortgages	Standard		Buy to let		Self certified		Total Retail UK mortgage portfolio	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	2,384	22%	2,250	30%	613	31%	5,247	26%
51% to 70%	3,596	34%	3,309	45%	802	40%	7,707	38%
71% to 80%	1,882	18%	1,141	15%	288	14%	3,311	17%
81% to 90%	1,976	19%	602	8%	182	9%	2,760	14%
91% to 100%	589	5%	101	1%	73	4%	763	4%
Subtotal	10,427	98%	7,403	99%	1,958	98%	19,788	99%
101% to 120%	69	1%	16	-	11	1%	96	-
121% to 150%	25	-	4	-	8	-	37	-
Greater than 150%	78	1%	34	1%	10	1%	122	1%
Subtotal	172	2%	54	1%	29	2%	255	1%
Total	10,599	100%	7,457	100%	1,987	100%	20,043	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at period end		64%		58%		59%		62%
New Retail UK mortgages during period		74%		60%		n/a		72%

Table: 4

31 December 2017 Retail UK mortgages	Advances (pre-impairment) £m	Non-performing exposures £m	Non-performing exposures as % of advances %	Impaired loans £m	Total provisions £m	Total provisions as % of non-performing exposures %	Specific provisions as % of Impaired loans %
Total Retail UK mortgages							
Standard mortgages	10,599	137	1.3%	56	25	18%	8%
Buy to let mortgages	7,457	102	1.4%	50	16	16%	17%
Self certified mortgages	1,987	147	7.4%	62	15	10%	9%
Total	20,043	386	1.9%	168	56	15%	11%

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

Group forbearance disclosures - IAS 39 comparatives

Table: 1

31 December 2017 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Non-forborne loans and advances to customers						
High quality	41,823	6,138	3,789	3,920	55,670	79%
Satisfactory quality	-	8,504	1,463	226	10,193	14%
Acceptable quality	-	1,290	962	10	2,262	3%
Lower quality but neither past due or impaired	-	389	210	-	599	1%
Neither past due nor impaired	41,823	16,321	6,424	4,156	68,724	97%
Past due but not impaired	897	118	66	63	1,144	2%
Impaired	539	238	187	62	1,026	1%
Total non-forborne loans and advances to customers	43,259	16,677	6,677	4,281	70,894	100%
Forborne loans and advances to customers						
High quality	-	19	40	1	60	1%
Satisfactory quality	789	123	154	4	1,070	14%
Acceptable quality	1,380	422	276	4	2,082	27%
Lower quality but neither past due or impaired	78	346	410	-	834	11%
Neither past due nor impaired	2,247	910	880	9	4,046	53%
Past due but not impaired	378	75	76	1	530	7%
Impaired	775	1,101	1,114	27	3,017	40%
Total forborne loans and advances to customers	3,400	2,086	2,070	37	7,593	100%

Table: 2

31 December 2017 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	338	45	22	38	443
Past due 31 - 60 days	319	16	16	19	370
Past due 61 - 90 days	80	6	4	6	96
Past due greater than 90 days but not impaired	160	51	24	-	235
Past due but not impaired	897	118	66	63	1,144
Impaired	539	238	187	62	1,026
Total non-forborne loans and advances to customers - past due and / or impaired	1,436	356	253	125	2,170
Forborne loans and advances to customers					
Past due up to 30 days	131	16	10	-	157
Past due 31 - 60 days	70	11	21	1	103
Past due 61 - 90 days	33	5	3	-	41
Past due greater than 90 days but not impaired	144	43	42	-	229
Past due but not impaired	378	75	76	1	530
Impaired	775	1,101	1,114	27	3,017
Total forborne loans and advances to customers - past due and / or impaired[1]	1,153	1,176	1,190	28	3,547

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

Group forbearance disclosures - IAS 39 comparatives (continued)

Table: 3 31 December 2017 Risk profile of loans and advances to customers - non-performing exposures	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Impaired	539	238	187	62	1,026
Past due greater than 90 days but not impaired	161	52	24	-	237
Neither impaired nor past due greater than 90 days	118	2	-	-	120
Total non-forborne loans and advances to customers	818	292	211	62	1,383
Forborne loans and advances to customers					
Impaired	775	1,101	1,114	27	3,017
Past due greater than 90 days but not impaired	143	42	42	-	227
Neither impaired nor past due greater than 90 days	1,349	242	302	1	1,894
Total	2,267	1,385	1,458	28	5,138

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 2018 and the year ended 31 December 2017. The calculations of average balances can be based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 8.

	30 June 2018			31 December 2017		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest[1] €m	Rate %
Assets						
Loans and advances to banks[2]	8,331	6	0.15%	7,647	2	0.02%
Loans and advances to customers at amortised cost[2,3]	76,004	1,228	3.26%	76,856	2,488[4,5]	3.24%
Debt securities at amortised cost and financial assets at FVOCI	13,722	29	0.43%	-	-	-
Available for sale financial assets and NAMA senior bonds	-	-	-	12,147	98	0.80%
Held to maturity financial assets	-	-	-	1,543	29	1.88%
Total interest earning assets	**98,057**	**1,263**	**2.60%**	**98,193**	**2,617**	**2.66%**
Non interest earning assets	23,216	-	-	22,978	-	-
Total assets	**121,273**	**1,263**	**2.23%**	**121,171**	**2,617**	**2.16%**
Liabilities and shareholders' equity						
Deposits from banks[6]	4,874	3	0.12%	4,760	17	0.36%
Customer accounts[6,7]	44,131	98	0.45%	44,919	197[4]	0.44%
Debt securities in issue	7,420	39	1.06%	8,547	82	0.96%
Subordinated liabilities	2,071	49	4.77%	1,559	77	4.94%
Total interest bearing liabilities	**58,496**	**189**	**0.65%**	**59,785**	**373**	**0.62%**
Current accounts	30,473	(2)	(0.01%)	28,174	(4)	(0.01%)
Total interest bearing liabilities and current accounts	**88,969**	**187**	**0.42%**	**87,959**	**369**	**0.42%**
Non interest bearing liabilities[8]	22,654	-	-	23,807	-	-
Shareholders' equity and non-controlling interests	9,650	-	-	9,405	-	-
Total liabilities and shareholders' equity	**121,273**	**187**	**0.33%**	**121,171**	**369**	**0.30%**
Euro and sterling reference rates (average)						
ECB base rate			0.00%			(0.00%)
3 month Euribor rate			(0.33%)			(0.33%)
Bank of England base rate			0.50%			0.29%
3 month Libor rate			0.62%			0.36%

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

1 *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.*
2 *Interest expense of €7 million (31 December 2017: €14 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.*
3 *Average loans and advances to customers volumes are presented net of stage 3 impairment loss allowances, for the comparative period they are presented net of specific impairment provisions.*
4 *Commencing in 2017, 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 period on period and are not impacted by the resulting change in hedge accounting designations, net interest flows of €16 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'.*
5 *Interest income on loans and advances to customers is shown on an underlying basis. Therefore a charge of €nil (31 December 2017: €96 million charge) related to redress arising from the Central Bank of Ireland Tracker Mortgage Examination is excluded.*
6 *Excludes deposits carried at fair value through profit and loss.*
7 *Interest income of €12 million (31 December 2017: €11 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.*
8 *Includes liabilities carried at fair value through profit and loss.*

Return on Tangible Equity

	Reported		Adjusted	
	30 June 2018 €m	30 June 2017[1] €m	**30 June 2018 €m**	30 June 2017[1] €m
Profit for the period attributable to shareholders	350	382	350	382
Non-core items, net of tax (see page 14)	39	32	39	32
Preference dividends paid	-	(4)	-	(4)
Coupon on AT1 securities	-	(24)	-	(24)
Other gains and other valuation items, net of tax (see page 11)	-	-	16	(51)
Adjustment for current period impairment gain, net of tax	-	-	(67)	-
Normalised impairment charge (20 bps), net of tax	-	-	(63)	(16)
Adjusted profit after tax	**389**	**386**	**275**	**319**
Annualised adjusted profit after tax	**778**	**772**	**550**	**638**
Shareholders' equity	**9,074**	**8,727**	**9,074**	**8,727**
Preference shares	-	(66)	-	(66)
Intangible assets and goodwill	(786)	(702)	(786)	(702)
Shareholders' tangible equity	**8,288**	**7,959**	**8,288**	**7,959**
Average shareholders' tangible equity	**8,120**	**7,821**	**8,120**	**7,821**
Return on Tangible Equity	**9.6%**	**9.9%**	**6.8%**	**8.2%**

Rates of exchange

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

	30 June 2018		30 June 2017		31 December 2017	
	Closing	**Average**	Closing	Average	Closing	Average
€ / US$	1.1658	1.2104	1.1412	1.0830	1.1993	1.1297
€ / Stg£	0.8861	0.8798	0.8793	0.8606	0.8872	0.8767

Credit ratings

	30 June 2018	31 December 2017
Ireland - Senior debt		
Standard & Poor's	A+ (Stable)	A+ (Stable)
Moody's	A2 (Stable)	A2 (Stable)
Fitch	A+ (Stable)	A+ (Stable)
DBRS	A (High) (Stable trend)	A (High) (Stable trend)
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	Baa1 (Positive)	Baa1 (Positive)
Fitch	BBB (Stable)	BBB (Stable)
DBRS	A (Low) (Stable trend)	A (Low) (Stable trend)

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] *Additional tier 1 (AT1) coupons and dividends on other preference equity interests paid after the date of the corporate reorganisation of 7 July 2017 (as described on page 205 of the Group's Annual Report for the year ended 31 December 2017) are deducted in arriving at profit attributable to shareholders, as those components of equity were reclassified to non-controlling interests on that date.*

Glossary

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

Average cost of funds represents the underlying interest expense recognised on interest bearing liabilities, net of interest on derivatives which are in a hedge relationship with the relevant liability. See page 8 and 138 for further information.

Business income is net other income after IFRS income classifications before other gains and other valuation items. See page 11 for further details.

Constant currency: To enable a better understanding of performance, certain variances are calculated on a constant currency basis by adjusting for the impact of movements in exchange rates during the period as follows:
- for balance sheet items, by reference to the closing rate at the end of the current and prior period ends; and
- for items relating to the income statement, by reference to the current and prior period average rates.

Cost income ratio[1] 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.

'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.

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 page 10 and 138 for further information.

Liquid asset spread is calculated as gross yield on interest bearing liquid assets less the average cost of funds. See page 17 for further detail.

Loan asset spread is calculated as gross yield on loans and advances to customers less the average cost of funds. See page 8 for further detail.

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

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

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.

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.

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. See page 139 for further information.

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. See page 139 for further information.

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 and adjusted for own shares held for the benefit of life assurance policyholders.

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 14 for further information.

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

The following measures have changed due to the impact of IFRS 9:

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 17 for further details.

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.

'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.

For any abbreviations used in this document please refer to the abbreviations listing on pages 284 and 285 of the Group's Annual Report for the year ended 31 December 2017.

[1] *As set out on page 4, the Group has revised its approach to the calculation of the cost income ratio by excluding other gains and other valuation items. This revised definition is seen as a more appropriate measure of the Group's operating efficiency and is aligned with the Group's recently announced financial targets.*