

The Governor and Company of the Bank of Ireland

Interim Report

For the six months ended
30 June 2018



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of the Bank of Ireland**

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Forward-looking statement

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

Examples of forward-looking statements include, among others: statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment 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 on page 10 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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These are the consolidated results of The Governor and Company of the Bank of Ireland (the 'Bank') and its subsidiaries.

In July 2017, a corporate reorganisation was completed whereby the Bank became a wholly owned subsidiary of Bank of Ireland Group plc ('BOIG plc'), the new holding company of the Bank. BOIG plc's ordinary shares have a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange. The Interim Report for the six months ended 30 June 2018 of BOIG plc was published on 30 July 2018 and is available on the Group's website at www.bankofireland.com.

View this report online

This Interim Report and other information relating to Bank of Ireland is available at:
www.bankofireland.com

Operating and financial review *(incorporating risk management)*

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 94.

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 5 to 9, 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.

Principal rates of exchange used in the preparation of the Interim Financial Statements are set out on page 94.

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 underlying¹ basis

Table	6 months ended 30 June 2018 €m	Restated ² 6 months ended 30 June 2017 €m	Change %
Net interest income	1,076	1,151	(7%)
Net other income	322	381	(15%)
Operating income (net of insurance claims)	1,398	1,532	(9%)
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)	(7%)
Operating profit before net impairment gains / (losses) on financial instruments	398	533	(25%)
Net impairment gains / (losses) on financial instruments	81	(59)	n/m
Share of results of associates and joint ventures (after tax)	21	18	17%
Underlying¹ profit before tax	500	492	2%
Non-core items	(46)	(32)	(44%)
Profit before tax	454	460	(1%)
Tax charge	(77)	(78)	1%
Profit for the period	377	382	(1%)
Profit attributable to stockholders	377	382	(1%)
Profit attributable to non-controlling interests	-	-	-
Profit for the period	377	382	(1%)

For further information on measures referred to in the operating and financial review see page 94.

Profit before tax of €454 million for the six months ended 30 June 2018, was €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.

¹ Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 5 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.

Summary consolidated income statement on an underlying basis (continued)

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) was €21 million for the six months ended 30 June 2018 (six months ended 30 June 2017: €18 million).

Non-core items were 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.

Non-core items

Table: 1

	6 months ended 30 June 2018 €m	Restated ¹ 6 months ended 30 June 2017 €m	Change %
Non-core items			
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 property (see note 26 on page 69).

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).

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	30 June 2018 €bn	31 December 2017 €bn	Change %
Assets (after impairment loss allowances)			
Loans and advances to customers ¹	77	76	1%
Liquid assets	23	24	(4%)
Wealth and Insurance assets	17	17	-
Other assets	5	6	(17%)
Total assets	122	123	(1%)
Liabilities			
Customer deposits	77	76	1%
Wholesale funding	11	13	(15%)
Wealth and Insurance liabilities	17	17	-
Other liabilities	6	6	-
Subordinated liabilities	2	2	-
Total liabilities	113	114	(1%)
Stockholders' equity	8	8	-
Other equity instruments	1	1	-
Total liabilities and shareholders' equity	122	123	(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%	
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%	

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, with gross new lending of €7.7 billion, being partially offset by redemptions and repayments of €7.1 billion.

Our asset quality continues to improve and non-performing exposures reduced over the period to €5.9 billion.

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.

The **Group's customer deposits** (including current accounts with credit balances) at 30 June 2018 of €76.7 billion have increased by €0.8 billion since 31 December 2017. This comprises of an increase in Retail Ireland division of €1.9 billion, offset by a decrease in Corporate and Treasury division of €1.3 billion. Retail UK division remains in line with 31 December 2017. On a constant currency basis, Group customer deposits increased by €0.7 billion.

The Group's **wholesale funding** of €11.4 billion for the six months ended 30 June 2018 has decreased by €1.3 billion since 31 December 2017, primarily due to the repayment of the ECB's Targeted Longer Term Refinancing Operation (TLTRO) funding of €1.3 billion.

Other assets of €5.0 billion (31 December 2017: €5.7 billion) includes derivative financial instruments with a positive fair value of €1.8 billion (31 December 2017: €2.3 billion) and net deferred tax asset of €1.2 billion (31 December 2017: €1.2 billion).

¹ Includes €0.3 billion of loans and advances to customers at 30 June 2018 that are measured at fair value through profit or loss (FVTPL) and are therefore not subject to impairment under IFRS 9.

² The Liquidity Coverage Ratio (LCR) is calculated under the prudential scope of consolidation of the BOIG plc Group and based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.

³ The Group's Net Stable Funding Ratio (NSFR) is calculated under the prudential scope of consolidation of the BOIG plc Group and based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.

Summary consolidated balance sheet (continued)

Other liabilities of €5.7 billion (31 December 2017: €6.0 billion) includes derivative financial instruments with a negative fair value of €1.8 billion (31 December 2017: €2.0 billion), pension deficit of €0.3 billion (31 December 2017: €0.5 billion) and notes in circulation of €1.2 billion (31 December 2017: €1.2 billion). 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.

Subordinated liabilities decreased from €2,110 million at 31 December 2017 to €2,104 million for the six months ended 30 June 2018.

Stockholders' equity increased from €7,958 million during the six months ended 30 June 2018 to €8,292 million with profit attributable to stockholders of €377 million and the remeasurement of the net defined pension liability of €159 million, offset by the IFRS 9 transition adjustments of €113 million and other reserve movements.

Capital

CRD IV 31 December 2017			CRD IV 30 June 2018 ^{1,2}	
Regulatory %	Fully loaded %		Regulatory %	Fully loaded %
Capital ratios				
15.8%	13.8%	Common equity tier 1	15.8%	14.1%
17.0%	14.9%	Tier 1	16.9%	15.2%
20.2%	17.9%	Total capital	19.8%	18.1%
7.0%	6.2%	Leverage ratio	7.2%	6.4%

Fully loaded ratio¹

BOIG plc Group's fully loaded CET 1 ratio is estimated at 14.1% at 30 June 2018 (31 December 2017: 13.8%).

Leverage ratio¹

BOIG plc Group's leverage ratio for the six months ended 30 June 2018 is 7.2% on a CRD IV regulatory basis (31 December 2017: 7.0%) and 6.4% on a pro-forma fully loaded basis (31 December 2017: 6.2%).

¹ The capital and leverage ratios are calculated under the prudential scope of consolidation of the BOIG plc Group.

² Further details on the capital position of BOIG plc Group and The Governor and Company of the Bank of Ireland can be found in BOIG plc's Pillar III disclosures for the year ended 31 December 2017, available on the Group's website.

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 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 - underlying¹	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)
- Operating profit attributable to BOIG plc	-	-	-	-	-	-	-	-	-	-	-	-
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 5).

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	-	-	-	-	-	-	(17)	(17)	-	-	-	(17)
- 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 4, 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 5).

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 defined benefit (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 10 to 15 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 31.

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 16 to 19.

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 guidance¹, 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 guidance¹ 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 57 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 31.

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 exposures¹ 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 31.

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	Advances (pre-impairment) €m	Impaired loans €m	Impaired loans as % of advances %	Specific impairment provisions €m	Specific provisions as % of impaired loans %
Composition and impairment					
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 31.

Included in the preceding table is €31.7 billion of UK customer exposure¹ 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 31.

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	47%
- 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 consistent with the movements in credit-impaired loans as set out on page 13. At 30 June 2018, the Group's NPEs provision coverage 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 31.

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 97 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 100 of the Group's Annual Report for the year ended 31 December 2017, noting further that Forward Looking Information (FLI) (see page 18) is applied to Rol 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 23 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 Rol 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 forbore 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;
- the contractual maturity date has passed without repayment in full; or
- an insolvency application is known to be underway in respect of the borrower.

Asset quality - Credit risk methodologies (continued)

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 The Governor and Company of the Bank of Ireland) 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 10);
- 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 Court by
27 July 2018

Archie G Kane
Governor

Patrick Kennedy
Deputy Governor

Francesca McDonagh
Group Chief Executive

Executive Directors

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

Non-executive Directors

Archie G Kane (Governor)
Patrick Kennedy (Deputy Governor)
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 member of The Governor and Company of the Bank of Ireland

Introduction

We have been engaged by The Governor and Company of the Bank of Ireland (the 'Bank') 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 Bank 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 Bank in accordance with the terms of our engagement to assist the Bank 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 Bank 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 Bank 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	26	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 stockholders		377	382
Attributable to non-controlling interests		-	-
Profit for the period		377	382

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 44 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 40 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	471	107
Total comprehensive income attributable to non-controlling interests	-	-
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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 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	18	14,853	14,454
Loans and advances to banks	19	2,672	3,061
Debt securities at amortised cost	20	3,446	-
Financial assets at fair value through other comprehensive income	21	11,269	-
Available for sale financial assets	22	-	13,223
Loans and advances to customers	23	76,604	76,128
Interest in associates		52	59
Interest in joint ventures		86	69
Intangible assets and goodwill	25	786	779
Investment properties		989	912
Property, plant and equipment		424	434
Assets classified as held for sale	26	-	28
Current tax assets		18	50
Deferred tax assets	27	1,204	1,237
Other assets		2,060	1,993
Retirement benefit assets	33	77	58
Total assets		121,856	122,587
Equity and liabilities			
Deposits from banks	28	3,472	4,339
Customer accounts	29	76,738	76,066
Items in the course of transmission to other banks		447	263
Derivative financial instruments		1,798	1,987
Debt securities in issue	30	7,910	8,390
Liabilities to customers under investment contracts		5,647	5,766
Insurance contract liabilities		11,011	10,878
Other liabilities		3,173	3,282
Current tax liabilities		-	12
Provisions	31	113	205
Loss allowance provision on loan commitments and financial guarantees		27	-
Deferred tax liabilities	27	45	53
Retirement benefit obligations	33	337	536
Subordinated liabilities	34	2,104	2,110
Total liabilities		112,822	113,887
Equity			
Capital stock		1,625	1,625
Stock premium account		571	571
Retained earnings		5,284	4,778
Other reserves		812	984
Stockholders' equity		8,292	7,958
Other equity instruments		740	740
Total equity excluding non-controlling interests		9,032	8,698
Non-controlling interests		2	2
Total equity		9,034	8,700
Total equity and liabilities		121,856	122,587

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)

		6 months ended 30 June 2018 €m	Restated ^{1,2} 6 months ended 30 June 2017 €m	Year ended 31 December 2017 €m
	Note			
Capital stock				
Balance at the beginning of the period		1,625	2,545	2,545
Impact of corporate reorganisation		-	-	(920)
Balance at the end of the period		1,625	2,545	1,625
Stock premium account				
Balance at the end of the period		571	571	571
Retained earnings				
Balance at the beginning of the period		4,778	5,214	5,214
Impact of adopting IFRS 9 at 1 January 2018	41	(31)	-	-
Restated balance at 1 January 2018		4,747	5,214	5,214
Profit retained		350	354	636
- Profit for period attributable to stockholders		377	382	697
- Distributions on other equity instruments - Additional tier 1 coupon, net of tax		(24)	(24)	(48)
- Dividends on preference equity interests paid in cash		(3)	(4)	(7)
Dividends on ordinary capital stock		-	-	(1,000)
Transfer from capital reserve		16	6	41
Transfer from / (to) revaluation reserve	26	9	-	-
Remeasurement of the net defined benefit pension liability		159	(70)	(113)
Other movements		3	(1)	-
Balance at the end of the period		5,284	5,503	4,778
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	41	(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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 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	41	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	41	(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		(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)		1,410	512	512
Effect of change in Life assurance operations accounting policy	40	-	17	17
Balance at the beginning of the period (restated)		1,410	529	529
Transfer to retained earnings		(16)	(6)	(41)
Impact of corporate reorganisation		-	-	922
Balance at the end of the period		1,394	523	1,410

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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 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)

		6 months ended 30 June 2018 €m	Restated ^{1,2} 6 months ended 30 June 2017 €m	Year ended 31 December 2017 €m
	Note			
Revaluation reserve				
Balance at the beginning of the period		35	20	20
Transfer to retained earnings	26	(9)	-	-
Revaluation of property		-	-	16
Deferred tax on reserve movements		-	-	(1)
Balance at the end of the period		26	20	35
Total other reserves		812	148	984
Own stock held for the benefit of life assurance policyholders				
Balance at the beginning of the period		-	(11)	(11)
Changes in value and amount of stock held		-	(12)	11
Balance at the end of the period		-	(23)	-
Total stockholders' equity excluding other equity instruments and non-controlling interests		8,292	8,727	7,958
Other equity instruments				
Balance at the end of the period		740	740	740
Non-controlling interests				
Balance at the beginning of the period		2	1	1
Share of net profit		-	-	1
Balance at the end of the period		2	1	2
Total equity		9,034	9,468	8,700

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 44 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 40 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 sale	26	(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	31	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		(813)	216
Net cash flow from operating activities before tax		(194)	961
Tax paid		(14)	(50)
Net cash flow from operating activities		(208)	911
Investing activities (section a below)		(2,063)	(1,436)
Financing activities (section b below)		(87)	(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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 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	21	(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 on other preference equity interests		(3)	(4)
Distributions paid on other equity instruments - Additional tier 1 coupon		(27)	(27)
Repayment of subordinated liabilities		-	(32)
Cash flows from financing activities		(87)	(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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 for further information.

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

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1 Group accounting policies

Basis of preparation

The interim financial statements of The Governor and Company of the Bank of Ireland (the 'Bank') and its subsidiaries (collectively the 'Group') for the six months ended 30 June 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 Court 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 22 to 93. 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 11 to 19 of the Operating and financial review.

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 43 to 55 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 41.

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 ratably 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):

1 Group accounting policies (continued)

- financial assets with contractual terms that do not 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:

- 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
- 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
- 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 37 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.

1 Group accounting policies (continued)

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;
- 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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

- 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.

1 Group accounting policies (continued)

Impairment loss allowances for ECL 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 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 56 to 58 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 16 to 19.

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

	Stockholders' equity €m
As reported under IAS 39 / 37 at 31 December 2017	7,958
Impact of remeasurement (after tax)	(113)
As reported under IFRS 9 at 1 January 2018	7,845

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 32 to 36 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 41 (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 92.

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

Retail UK 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

Corporate and Treasury 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. They also do not include adjustments for the impact of the assets and liabilities of Bank of Ireland Group plc ('BOIG plc'), the Bank's holding company.

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 spreads¹; and
- gain / loss on disposal / liquidation of business activities.

Underlying profit also excludes any operating profit or loss attributable to BOIG plc.

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)
Operating profit attributable to BOIG plc							-
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	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items ² €m	Group €m
6 months ended 30 June 2017							
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.

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 segmental assets	98,033	18,205	36,326	107,777	26,136	(164,650)	121,827
Other Bank assets							29
Group assets							121,856
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 segmental liabilities	96,125	17,459	33,650	106,934	22,417	(164,660)	111,945
Other Bank liabilities							877
Group liabilities							112,822
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 segmental assets	96,223	18,178	36,918	111,253	33,257	(173,275)	122,554
Other Bank assets							33
Group assets							122,587
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 segmental liabilities	94,267	17,442	34,863	110,107	29,462	(173,254)	112,887
Other Bank liabilities							1,000
Group liabilities							113,887

¹ As outlined on page 41, 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	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross revenue by operating segments							
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)
Revenue attributable to BOIG plc	-	-	-	-	-	-	-
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	Retail Ireland €m	Wealth and Insurance €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross revenue by operating segments							
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 41, 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 40 for further details.

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

	6 months ended 30 June 2018 €m	6 months ended 30 June 2017 €m
Life assurance investment income, gains and losses		
Gains on investment property held on behalf of Wealth and Insurance policyholders	23	18
Gains on other financial assets held on behalf of Wealth and Insurance policyholders	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 21)	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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 for further information.

14 Other operating expenses

	6 months ended 30 June 2018 €m	Restated ¹ 6 months ended 30 June 2017 €m
Administrative expenses and staff costs		
Staff costs excluding restructuring and Transformation Investment staff costs	442	452
Levies and regulatory charges	67	63
Amortisation of intangible assets (note 25)	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)
- <i>Retail Ireland</i>	(24)	(52)
- <i>Retail UK</i>	(7)	(1)
Non-property SME and corporate	(44)	48
- <i>Republic of Ireland SME</i>	(46)	21
- <i>UK SME</i>	(10)	10
- <i>Corporate</i>	12	17
Property and construction	(2)	63
- <i>Investment</i>	1	48
- <i>Land and development</i>	(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 44 of the Group's Annual Report for the year ended 31 December 2017. See note 40 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 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	111	65
Unit trusts	60	49
	1,804	1,640
Other financial assets at fair value through profit or loss	14,853	14,454

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 €1,804 million (31 December 2017: €1,640 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. At 30 June 2018, New Ireland Assurance Company plc held ordinary shares of BOIG plc, the Bank's ultimate parent company, with a fair value of €25 million (31 December 2017: €30 million), for the benefit of life assurance policyholders.

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.

19 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.

20 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 24.

21 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 41).

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).

30 June 2018	Debt instruments €m
Fair value	
Closing balance 31 December 2017	-
Impact of adopting IFRS 9 on 1 January 2018 (note 41)	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

22 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 41.

23 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

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.

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.

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.

23 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 41)	(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

23 Loans and advances to customers (continued)

30 June 2018	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impairment loss allowance					
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					
Closing balance 31 December 2017	706	826	739	88	2,359
Impact of adopting IFRS 9 on 1 January 2018 (note 41)	(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	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impairment loss allowance					
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

23 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 include specific and incurred but not reported (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.

24 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 16 to 19.

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 aligned to that of BOIG plc, the Bank's immediate and ultimate parent. Further information can be found in the BOIG plc 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

24 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.

Financial asset exposure by stage (before impairment loss allowance)	30 June 2018					31 December 2017
	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 23).

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 and guarantees and letters of credit of €15,260 million at 30 June 2018 (31 December 2017: €nil) that are subject to impairment (see note 32).

Impairment loss allowance

The Group 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.

Impairment loss allowance on financial assets	30 June 2018					31 December 2017
	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.

24 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				31 December 2017	
	Not credit- impaired €m	Credit- impaired €m	Total		Total	
			€m	%	€m	%
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.

Not credit-impaired loans and advances to customers Composition and impairment loss allowance	30 June 2018				Stage 2			
	Stage 1				Stage 2			
	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.

24 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 57.

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-impaired²	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.

24 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).

Geographical / industry analysis ¹	30 June 2018				31 December 2017			
	Rol €m	UK €m	RoW €m	Total €m	Rol €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

Loan to value profiles - Retail Ireland mortgages

The table below sets out the weighted average indexed LTV for the total Retail Ireland mortgage loan book.

30 June 2018	Owner occupied			Buy to let			Total		
	Not credit-impaired €m	Credit-impaired €m	Total €m	Not credit-impaired €m	Credit-impaired €m	Total €m	Not credit-impaired €m	Credit-impaired €m	Total €m
Loan to value (LTV) ratio of total Retail Ireland mortgages^{2,3}									
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 LTV⁴:									
Stock of Retail Ireland mortgages at period end			60%			70%			61%
New Retail Ireland mortgages during the period			73%			52%			73%

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

² Excluded from the above table is 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.

³ 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 23).

⁴ Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.

24 Credit risk exposures (continued)

Loan to value profiles - Retail UK mortgages

The table below sets out the weighted average indexed LTV for the total Retail UK mortgage loan book.

30 June 2018	Standard		Buy to let		Self certified		Total		Total £m
	Not credit- impaired £m	Credit- impaired £m	Not credit- impaired £m	Credit- impaired £m	Not credit- impaired £m	Credit- impaired £m	Not credit- impaired £m	Credit- impaired £m	
Loan to value (LTV) ratio of total Retail UK mortgages									
Less than 50%	2,246	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 LTV¹:									
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%

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

24 Credit risk exposures (continued)

Risk profile of forborne loans and advances to customers

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

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.

24 Credit risk exposures (continued)

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

Loan to value profiles - IAS 39 comparatives

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%

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

24 Credit risk exposures (continued)

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%

Group forbearance disclosures - 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 %
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%

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

24 Credit risk exposures (continued)

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

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

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.

24 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%

24 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%

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.

31 December 2017¹Other 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%

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.

25 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).

26 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.

27 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).

28 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			
	TLTRO €m	TFS €m	ILTR €m	Total €m	TLTRO €m	TFS €m	ILTR €m	Total €m
Monetary Authority secured funding								
Deposits from banks	1,304	1,580	88	2,972	1,806	1,353	394	3,553
Debt securities in issue (note 30)	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.

29 Customer accounts

	30 June 2018 €m	31 December 2017 €m
Current accounts	31,651	30,715
Demand deposits	26,572	26,034
Term deposits and other products	17,464	17,954
Customer accounts at amortised cost	75,687	74,703
Term deposits at fair value through profit or loss	1,051	1,363
Total customer accounts	76,738	76,066

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 37.

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.

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 / (expense), 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.

30 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 28)	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 year	871	172
Redemptions	(1,320)	(2,184)
Repurchases	(31)	(183)
Other movements	-	(112)
Balance at end of the period	7,910	8,390

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 37).

30 Debt securities in issue (continued)

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 period¹	-

31 Provisions

	30 June 2018 €m	31 December 2017 €m
Balance at beginning of the period ²	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 44 of the Group's Annual Report for the year ended 31 December 2017.

32 Loss allowance provision on loan commitments and financial guarantees

30 June 2018	Amount €m	Loss Allowance €m
Loan commitments (note 39)	14,835	26
Guarantees and irrevocable letters of credit (note 39)	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, loan commitments and guarantees and

irrevocable letters of credit were measured in accordance with IAS 37, prior period comparatives have not been restated.

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

² 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 32).

33 Retirement benefit obligations

Financial Assumptions	30 June 2018 % p.a.	31 December 2017 % p.a.
Rol 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 39 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
Rol 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.

33 Retirement benefit obligations (continued)

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.

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

	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)

34 Subordinated liabilities

	30 June 2018 €m	31 December 2017 €m
€750 million 4.25% Fixed Rate Subordinated Notes 2024	756	759
Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027	410	334
US\$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027	332	407
€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	2,104	2,110

The principal terms and conditions of all subordinated liabilities are set out in note 46 of the Group's Annual Report for the year ended 31 December 2017.

35 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 (note 18)	74	293
Bonds issued by the State	5,749	4,762
<i>Other financial assets at fair value through the profit and loss</i>		
Bonds issued by the State	246	367
<i>Loans and advances to banks</i>		
AIB	13	13
Liabilities		
<i>Customer Accounts</i>		
State (including agencies & entities under its control or joint control)	1,123	1,485
IBRC (in Special Liquidation) and its associates	-	28
<i>Debt securities in issue</i>		
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 stock, 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 as part of net trading income in note 9.

36 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						
	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Contractual maturity						
Deposits from banks	101	399	-	-	-	500
Monetary Authorities secured funding	-	256	1,234	2,211	-	3,701
Customer accounts	62,564	6,820	4,716	2,668	73	76,841
Debt securities in issue	-	57	1,280	4,004	2,550	7,891
Subordinated liabilities	-	21	98	868	1,828	2,815
Contingent liabilities	381	118	86	95	17	697
Commitments	11,273	36	929	2,597	-	14,835
Dividend payable to Parent	800	-	-	-	-	800
Total	75,119	7,707	8,343	12,443	4,468	108,080

36 Liquidity risk and profile (continued)

31 December 2017	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Contractual maturity						
Deposits from banks	87	699	-	-	-	786
Monetary Authorities secured funding	-	170	1,733	3,126	-	5,029
Customer accounts	61,131	7,702	4,915	2,434	41	76,223
Debt securities in issue	-	586	95	5,214	1,716	7,611
Subordinated liabilities	9	42	188	917	1,702	2,858
Contingent liabilities	366	100	106	108	18	698
Commitments	12,172	22	1,113	2,556	-	15,863
Dividend payable to Parent	800	-	-	-	-	800
Total	74,565	9,321	8,150	14,355	3,477	109,868

37 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	Held at amortised cost	Derivatives designated as hedging instruments	Insurance contracts	Total €m
	Mandatorily €m	Designated €m	€m	€m	€m	€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	14,853	-	-	-	-	-	14,853
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	16,854	52	11,269	87,869	408	-	116,452
Financial liabilities							
Deposits from banks	-	-	-	3,472	-	-	3,472
Customer accounts	-	1,051	-	75,687	-	-	76,738
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	-	-	-	2,104	-	-	2,104
Other financial liabilities	-	-	-	3,166	-	-	3,166
Short positions in trading securities	7	-	-	-	-	-	7
Total financial liabilities	1,485	7,231	-	92,280	320	11,011	112,327

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

	At fair value through profit or loss			At fair value through other comprehensive income (OCI)				Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m	Held at amortised cost €m	Insurance contracts €m	
31 December 2017								
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	-	-	14,454	-	-	-	-	14,454
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	14,513	13,223	527	87,129	-	117,281
Financial liabilities								
Deposits from banks	-	-	-	-	-	4,339	-	4,339
Customer accounts	-	-	1,363	-	-	74,703	-	76,066
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	-	-	-	-	-	2,110	-	2,110
Other financial liabilities ¹	-	-	-	-	-	3,282	-	3,282
Short positions in trading securities	-	-	-	-	-	-	-	-
Total financial liabilities	300	1,659	7,665	-	28	92,551	10,878	113,081

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 38.

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.

38 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 147 to 150 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 32 to 34.

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 32 to 34.

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.

38 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	14,197	520	136	14,853	13,941	451	62	14,454
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
	25,504	2,581	498	28,583	26,865	3,073	214	30,152
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

38 Fair values of assets and liabilities (continued)

Movements in level 3 assets						
	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
30 June 2018						
Closing Balance 31 December 2017	-	62	44	49	59	214
Impact of adopting IFRS 9 on 1 January 2018 (note 41)	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.

38 Fair values of assets and liabilities (continued)

Movements in level 3 assets	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Total €m
31 December 2017					
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.

38 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		Range	
			Jun 2018 €m	Dec 2017 €m	Jun 2018 %	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	-	49	-	Third party pricing
		EBITDA multiple ³				
		Liquidity factor				
Interest in associates	Market comparable companies	Price of recent investment	52	59	Third party pricing	Third party pricing
		Earnings multiple ³				
		Revenue multiple ³				

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

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

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

Note: 100 basis points = 1%

38 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		Range	
			Jun 2018 €m	Dec 2017 €m	Jun 2018 %	Dec 2017 %
Customer accounts	Discounted cash flow	Credit Spread ¹	28	3	0%-4%	0%-4%
	Option pricing model					
Derivative financial liabilities	Discounted cash flow	Credit Spread ¹	4	1	0%-4% Third party pricing	0%-4% Third party pricing
	Option pricing model					
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	75,687	75,690	74,703	74,718
Debt securities in issue	7,377	7,427	7,854	7,938
Subordinated liabilities	2,104	2,239	2,110	2,321

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

Note: 100 basis points = 1%

39 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 32. Provisions on all other contingent liabilities and commitments are included in note 31.

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.

40 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
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 44 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 Value of in Force (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.

41 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		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
IAS 39 balance sheet line item	Note						
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	18	FVTPL		14,454	FVTPL (mandatory)	14,454	Other financial assets at FVTPL
Loans and advances to banks	19	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	22	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	23	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				117,281		117,061	

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

41 IAS 39 to IFRS 9 transitional disclosures (continued)

Financial liabilities			Carrying amount under IAS 39 31 December 2017 €m	Classification under IAS 39	Carrying amount under IFRS 9 1 January 2018 €m	Classification under IFRS 9	IFRS 9 balance sheet line item
IAS 39 balance sheet line item	Note						
Deposits from banks	28		4,339	Amortised cost	4,339	Amortised cost	Deposits from banks
Customer accounts	29		74,703 1,363	Amortised cost FVTPL (designated)	74,703 1,363	Amortised cost FVTPL (designated)	Customer accounts at amortised cost Customer accounts at FVTPL
Items in the course of transmission to other banks			263	Amortised cost	263	Amortised cost	Items in the course of transmission to other banks
Derivative financial instruments (liabilities) ¹			1,987	FVTPL	1,987	FVTPL (mandatory)	Derivative financial instruments (liabilities)
Debt securities in issue	30		7,854 536	Amortised cost FVTPL (designated)	7,854 536	Amortised cost FVTPL (designated)	Debt securities in issue at amortised cost Debt securities in issue at FVTPL
Liabilities to customers under investment contracts			5,766	FVTPL (designated)	5,766	FVTPL (designated)	Liabilities to customers under investment contracts
Subordinated liabilities	34		2,110	Amortised cost	2,110	Amortised cost	Subordinated liabilities
Other liabilities - accruals and deferred income			151	Amortised cost	41	Amortised cost	Other liabilities - accruals and deferred income
Loss allowance provision on loan commitments and financial guarantees	32		-	Provisions	36	Provisions	Loss allowance provision on loan commitments and financial guarantees
Total			99,072		98,998		

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

41 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 19 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 23 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.

41 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 customers	-	509	-	509
Other financial assets at fair value through profit or loss				
Opening balance	14,454	-	-	14,454
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	14,454	380	19	14,853
Interest in associates	59	-	-	59
Total financial assets at fair value through profit or loss	16,929	1,170	7	18,106
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	118,465	(110)	(77)	118,278

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.

41 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	74,703	-	-	74,703
Items in the course of transmission to other banks	263	-	-	263
Debt securities in issue	7,854	-	-	7,854
Subordinated liabilities	2,110	-	-	2,110
Other liabilities - accruals and deferred income	151	(110)	-	41
Total financial liabilities at amortised cost	89,420	(110)	-	89,310
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	99,072	(110)	36	98,998

41 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	4,778	-	-	4,778
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	4,778	78	(109)	4,747
Total impact on equity	5,119	-	(113)	5,006

41 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.

41 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

42 Post balance sheet events

On 4 July 2018 the Group announced the appointment of Mr Patrick Kennedy as Governor of the Group and Chairman of the BOIG plc Group, 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 Governor of the Bank. Mr Haren remains the Senior Independent Director.

The above changes are effective from 1 August 2018.

43 Approval of Interim Report

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

Other information

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

Ireland - Senior debt	30 June 2018	31 December 2017
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)

The Governor and Company of the Bank of Ireland - Senior debt	30 June 2018	31 December 2017
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)

Glossary

Further information related to certain measures referred to in the business review

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.

'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.

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

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.

Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 5 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 6 for further details.

'Non-performing exposures' (NPEs):

These are:

- 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
- other / probationary loans** that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

