Interim Report

For the six months ended
30 June 2014

Bank of Ireland Group

For small steps, for big steps, for life

Bank of Ireland

Interim Report

for the six months ended 30 June 2014

Forward-Looking statement

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the 'Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward looking.

Examples of forward-looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations.

Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the following:

- *geopolitical risks, such as those associated with crises in the Middle East and increasing political tensions in respect of the Ukraine, which could potentially adversely impact the markets in which the Group operates;*
- *concerns on sovereign debt and financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;*
- *general and sector specific economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *the effects of extensive asset quality review and stress tests being conducted in advance of the European Central Bank assuming responsibility for supervision and any further capital or other assessments undertaken by regulators;*
- *property market conditions in Ireland and the United Kingdom;*
- *the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;*
- *deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, have resulted in significant increases, and could result in further significant increases, in the Group's impaired loans and impairment provisions;*
- *implications of the Personal Insolvency Act 2012 and measures introduced by the Central Bank of Ireland to address mortgage arrears on the Group's distressed debt recovery and impairment provisions;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the NPRFC) and possible changes in the level of such stockholding;*
- *the impact of downgrades in the Group's or the Irish Government's credit ratings or outlook;*
- *the stability of the eurozone;*
- *changes in the Irish and United Kingdom banking systems;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with implementation of the Single Supervisory Mechanism and establishment of the Single Resolution Mechanism and the conduct and outcomes of asset quality reviews and stress tests;*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings or any Irish banking inquiry more generally, that may have implications for the Group;*
- *the development and implementation of the Group's strategy, including the implications of the continuing obligations components of the Group's revised EU Commission restructuring plan and the Group's ability to achieve net interest margin increases and cost reductions;*
- *the responsibility of the Group for contributing to compensation schemes in respect of banks and other authorised financial services firms in Ireland, the United Kingdom and the Isle of Man that may be unable to meet their obligations to customers;*
- *the inherent risk within the Group's life assurance business involving claims, as well as market conditions generally;*
- *potential further contributions to the Group sponsored pension schemes if the value of pension fund assets is not sufficient to cover potential obligations;*
- *the exposure of the Group to NAMA losses in the event that NAMA has an underlying loss at the conclusion of its operations, which could adversely impact the Group's capital and results of operations;*
- *the impact of the continuing implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive; and*
- *the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues and equipment failures and other operational risks.*

Investors should read 'Principal risks and uncertainties' in this document beginning on page 46 and also the discussion of risk in the Group's Annual Report and Form 20F for the year ended 31 December 2013.

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof. The reader should however, consult any additional disclosures that the Group has made or may make in documents filed or submitted or may file or submit to the US Securities and Exchange Commission.

For further information please contact:

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

Mark Spain
Director of Group Investor Relations
Tel: +353 76 623 4850

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

Contents

View this report online

This Interim Report and other information relating to Bank of Ireland is available at:

www.bankofireland.com

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Key highlights

'We have continued to make good progress against our strategic objectives in the first half of 2014. We are profitable and generating capital. In Ireland, we continue to support and benefit from the accelerating economic recovery; our new lending in 2014 makes us the largest lender to the Irish economy. The favourable economic outlook and the strength of and momentum in our Irish and international businesses gives us confidence in our ability to deliver attractive and sustainable returns for our shareholders'

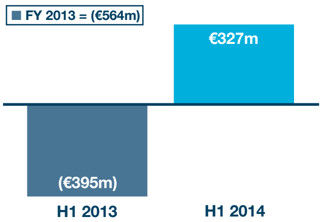
Richie Boucher, Group Chief Executive Officer

Business highlights

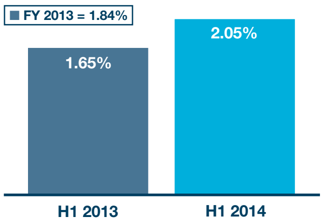
- Profitable and accreting capital; Tangible Net Asset Value (TNAV) increasing.
- Increasingly favourable macroeconomic environments.
- Asset quality continues to improve.
- Largest lender to the Irish economy.
- Positive momentum across all customer franchises.

Financial highlights

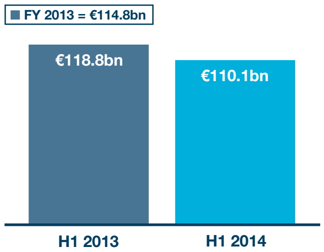
Underlying profit / (loss) before tax[1] €m



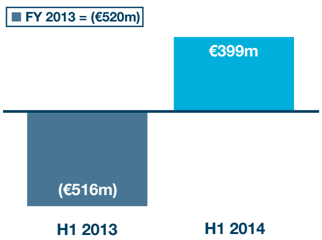
Net interest margin *(before ELG fees)* %



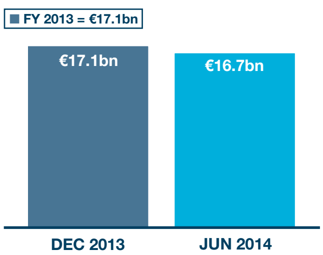
Average interest earning assets €bn



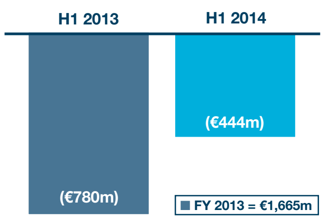
Profit / (loss) before tax[1] €m



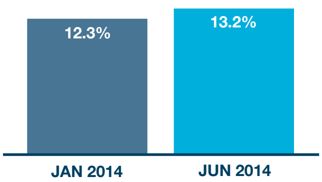
Defaulted loan volumes €bn



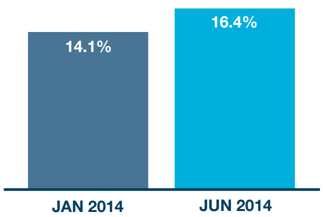
Impairment charges on loans and advances to customers €m



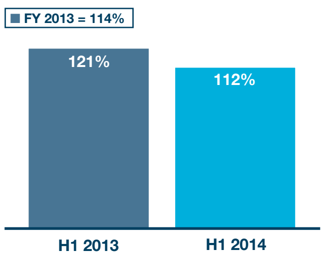
Common equity tier 1[2] *(Basel III transitional)* %



Total capital[2] *(Basel III transitional)* %



Loan to deposit ratio %



[1] *Comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*
[2] *The Common equity tier 1 ratio - Basel III transitional and total capital ratio are presented with a comparative as at 1 January 2014, incorporating Basel III transitional treatments which became effective from 1 January 2014. All capital ratios include the 2009 Preference Stock.*

Group Chief Executive's review

At the beginning of the year, we set a number of strategic priorities for 2014 and beyond including: continuing to win new customers and to develop our relationships with our existing customers, to effectively manage our capital and the evolving regulatory environment and to generate strong and sustainable returns for our shareholders. We have made good progress against our strategic priorities in the first six months of the year.

We are profitable and generating capital; Our TNAV is increasing

Our underlying performance has improved by over €700 million

We have generated an underlying profit before tax of €327 million, which is over €700 million better than the first half of 2013. Higher net interest income, lower ELG fees and significantly reduced loan impairment charges have all contributed to this result. It also reflects additional gains amounting to €140 million, relating primarily to impairment reversals on NAMA subordinated debt (€70 million) and gains we have crystallised from the sale of certain Irish sovereign bonds, as part of a rebalancing of our liquid asset portfolio. On a statutory basis, the Group reported a profit before tax of €399 million for the period.

The UK and Irish economies are continuing to improve and the outlook remains favourable

The macroeconomic environments in both Ireland and the UK are continuing to improve, providing a supportive backdrop for our businesses. In Ireland, GDP is forecast to grow by c. 2.8% in 2014, with this growth becoming more broadly based. Employment is continuing to increase and over 40,000 more people are employed now than a year ago. Residential and commercial property markets are continuing to recover. In the UK, the economic recovery is further advanced, with GDP projected to expand by c.3% this year, employment growing and property prices steadily increasing. The outlook for both economies has improved during the year.

While our loan volumes are falling, there are encouraging signs for credit demand; we expect the pace of reduction to slow

Overall, net loans and advances to customers were €83.4 billion at 30 June 2014, a net reduction of €1.1 billion since 31 December 2013 (€2.4 billion on a constant currency basis). As anticipated, redemptions outstripped our new lending of €4.3 billion during the period. Our low yielding Irish tracker mortgages continue to decline, falling €0.7 billion in the first half. These mortgages have reduced by €1.7 billion over the past eighteen months.

The pace of reduction in our loan book has slowed in the first half. In Ireland, we are seeing encouraging signs of increased credit demand in our residential mortgage, SME and corporate businesses and, excluding tracker mortgages, total new lending of c.€2.5 billion exceeded repayments and redemptions in the first half. In the UK, although redemptions continued to exceed new lending of €1.3 billion, our ongoing investment in our consumer banking business, primarily through our Post Office partnership, has resulted in an increase in new mortgage lending in the first half of 2014 and we are confident that this can be significantly increased in the second half. At a Group level, the momentum we are seeing in our businesses gives us confidence that the pace of reduction in our loan books will continue to slow. Given the strength of our businesses, the supportive economic backdrop and positive market dynamics, we remain confident that, over time, we can grow our loan book to our target level.

Our net interest margin has improved to 2.05%

We earned an average net interest margin of 2.05% in the first half of 2014, which was slightly higher than the margin for the second half of 2013. The increase in the margin reflects the actions that the Group has taken to further reduce funding costs and the positive impact of new lending volumes, partially offset by the impact of ECB rate cuts in November 2013 and June 2014 and the expiry of certain hedging transactions. From here, further growth in our net interest margin will reflect the level of gross new lending, deposit pricing and future official interest rate increases.

We have maintained tight control over costs while continuing to invest in our businesses, people and infrastructure

We have continued to maintain tight control over our cost base. At the same time, we are making appropriate investments in our businesses, infrastructure and in our people. We are focused on introducing new technologies and channels that ultimately help make banking easier for our customers and more cost efficient for the Group. In Ireland, our customers are increasingly serving themselves, with over 50% of branch channel customers using the self-service devices we have installed and customers generally are increasingly adopting our mobile and ebanking services. Overall, our costs are down slightly on the corresponding period in 2013, with lower staff and pension costs being partially offset by higher regulatory costs and the timing of such costs.

Our impairment charges have reduced by €336 million or more than 40%

Our impairment charge on loans to customers reduced by €336 million or more than 40% in the first half of 2014, relative to the corresponding period in 2013. Reductions have occurred across all of our asset classes. Our defaulted loan volumes have continued to fall, reducing by a further c.€0.4 billion since December 2013. These reductions reflect our efforts to appropriately and sustainably support viable customers who are in financial difficulty, the improvement in the economic environment and the recovery in property markets.

Our restructuring solutions for challenged loans are working

We remain highly focused on the resolution of Irish mortgage arrears and SME challenged loans. We are agreeing suitable and sustainable solutions, which work for our customers and are acceptable to the Group. Our experience is that for more than 8 out of 10 challenged Irish mortgage customers with agreed restructuring arrangements, the agreed repayments are being met. We are experiencing similar levels of success for challenged Irish SME loans where we have reached agreed restructuring solutions in over 90% of challenged cases and more than nine out of every ten borrowers in these cases are meeting the agreed arrangements.

Our CET 1 ratio increased by 90 basis points during the period

We continue to strengthen our capital ratios. Our transitional Basel III Common equity tier 1 (CET 1) capital ratio increased by 90 basis points during the period to 13.2% at 30 June 2014.

We have strengthened our Total capital ratio to 16.4%. This reflects the improvement in our CET1 position and our successful €750 million tier 2 bond issue in early June 2014. The coupon on this bond was 4.25% compared to 10% on a similar bond that we issued 18 months ago, reflecting the significant progress the Group has made and the improvement in market conditions in the interim.

The ECB's Comprehensive Assessment is ongoing and we expect the results will be published in the later part of this year. We are fully engaged in the process and are meeting all information requirements by the required deadlines.

We continue to expect to maintain a buffer above a CET 1 ratio of 10%, on a transitional basis while, as we have previously stated, prioritising the capital we are generating towards facilitating the de-recognition of the remaining €1.3 billion 2009 Preference Stock in 2016.

Our TNAV has increased 5%

As a result of our financial performance, our Tangible Net Asset Value (TNAV) per share has increased by 5% in the first half of 2014 to 20 cents per share.

Positive momentum across our customer franchises

We have continued to win new customers and develop our relationships with our existing customers in the first half of 2014 and we see positive indicators across all our franchises.

We remain the number 1 business bank in Ireland

In Ireland, we are the number 1 bank for SMEs, providing over 50% of new non property lending to SMEs in 2014. While this lending has been to all sectors of the economy, we have had particularly strong performances in our agricultural, motor finance and commercial finance businesses. We continue to provide over 50% of new lending into the agricultural sector. We are seeing increased opportunities to build new relationships with SMEs who are refinancing from financial institutions exiting Ireland or whose commitment to the market is uncertain and we believe these opportunities will continue to grow in coming periods.

Encouraging signs in our Irish consumer businesses

Our Irish consumer businesses have also performed well in 2014. We continue to see new customers joining Bank of Ireland in the course of normal business, and have benefited from other banks with challenged business models exiting the market. We have a market share of 25% of savings products and have enhanced our direct and online product offerings. Our mortgage business is providing one out of every three mortgages in Ireland. The business had an encouraging second quarter, with new lending levels modestly exceeding our expectations. We are continuing to innovate our mortgage offering and enhance our customer propositions.

Solid performance by New Ireland

Our life assurance business, New Ireland / Bank of Ireland Life, is the number 2 overall provider in the life, pensions and investment market in Ireland and Bank of Ireland is the only banc-assurer in the market. The business has performed solidly in the first half and new business levels are up c.10% on 2013, with a strong performance in the bancassurance channel.

Our partnership with the UK Post Office has continued to develop

In the UK, through our partnership model with the Post Office, we are one of the largest challenger consumer banking franchises with c.3 million customers. A key priority for 2014 is to significantly grow our mortgage business. We have made good progress during the first half, with new lending levels in line with our expectations. This performance reflects the positive impact of new mortgage specialists, appointed by the Post Office over the past twelve months. In April, we entered into a distribution partnership with Legal & General, under the Post Office brand. This is a material development for our UK business and we are already seeing encouraging business flows from it. These developments give us confidence that we can significantly grow new lending volumes in the second half. With the Post Office, we continue to trial a current account product for the UK market. Our foreign exchange joint venture with the Post Office, which is the largest provider of consumer foreign exchange in UK, has had a good first half, and has successfully launched a new foreign currency payment app, which has been well received by customers.

Redemptions to slow in our GB 'run off' books

Our Corporate and Business Banking activities in Great Britain, which we are required to put into run-down under our EU-approved restructuring plan, have deleveraged more quickly than expected in the first half of 2014. However, we expect the pace of this deleveraging will slow.

Northern Ireland and motor / agri on track

Our UK motor and agri-asset finance business has had a strong first half performance. Our Northern Ireland business is now profitable, following a restructuring exercise in 2013.

Corporate business focused on growth opportunities as market consolidates

Our corporate and treasury business in Ireland has enjoyed a good start to the year. Amongst other initiatives, we have dedicated teams focused on refinancing opportunities for customers with exiting banks or banks whose commitment to the Irish market is uncertain. We continue to achieve a very strong share of banking relationships arising from new foreign direct investment in Ireland and we have maintained our leading position in the Irish corporate banking sector.

Our acquisition finance business is performing well

Our international leveraged acquisition finance business has performed well and, while we have adopted a cautious stance in certain segments of this market, volumes have increased slightly.

Our People

My colleagues continue to be a key differentiator for our businesses. Our success relies on their dedication, the long term relationships they build with their customers and the service they provide. I am very grateful to my colleagues throughout the Group who have remained committed and focused as we deliver on our shared objectives for our customers and for the Group.

Our future success depends on having colleagues who are equipped to effectively navigate the dynamic commercial, technological and regulatory environments in which we operate. We are continuing to invest in enhancing the capabilities of our people so that they have the skills, competencies and experiences to build continually on our progress. To enhance the levels of service and support for our customers we are supporting colleagues undertaking relevant educational programmes to attain appropriate accreditation and qualifications and support their career objectives. In parallel, having successfully delivered on the shared objectives of the members, the Trustees and the Group with respect to the Group's principal sponsored defined benefit pension schemes, we are in a process of engagement with staff representative bodies on future career frameworks and certain aspects of remuneration.

Outlook

In the first half of 2014 we have continued to make good progress against our strategic objectives. We have returned to profitability and are generating capital.

The macroeconomic outlook is more favourable in both Ireland and the UK. We are a retail and commercial bank with a clear business model focused on chosen core markets. We have the capital, liquidity and infrastructure to support our businesses and our growth ambitions for them. The strength of and the growing momentum in our businesses gives us confidence in the Group's prospects and in our ability to deliver attractive and sustainable returns to our shareholders.

Richie Boucher
31 July 2014

Performance summary

	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m
Group performance on an underlying[1] basis		
Net interest income (before ELG fees)	1,161	968
Eligible Liabilities Guarantee (ELG) Scheme fees[2]	(21)	(99)
Other income (net)	335	319
Operating income (net of insurance claims)	1,475	1,188
Operating expenses	(813)	(820)
Operating profit before impairment charges on financial assets	**662**	**368**
Impairment charges on loans and advances to customers	(444)	(780)
Reversal of impairment charges on available for sale (AFS) financial assets	70	-
Share of results of associates and joint ventures (after tax)	39	17
Underlying[1] profit / (loss) before tax	**327**	**(395)**
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	87	-
Gain / (charge) arising on the movement in the Group's credit spreads	8	(88)
Cost of restructuring programme	(27)	(50)
Other non-core items	4	17
Total non-core items (page 17)	72	(121)
Profit / (loss) before tax	**399**	**(516)**
Group performance (underlying[1])		
Net interest margin[3] (%) (annualised)	2.05%	1.65%
Average interest earning assets (€bn)	110	119
Per unit of €0.05 ordinary stock		
Basic profit / (loss) per share (€ cent)	0.8	(1.8)
Underlying profit / (loss) per share (€ cent)	0.7	(1.4)
Tangible Net Asset Value (€ cent)	20	19
Impairment charges on loans and advances to customers		
Residential mortgages	88	251
Non-property SME and corporate	128	208
Property and construction	215	291
Consumer	13	30
Impairment charges on loans and advances to customers	**444**	**780**
Divisional performance[4]		
Underlying[1] profit / (loss) before tax		
Retail Ireland	(28)	(339)
Bank of Ireland Life	69	40
Retail UK	57	(112)
Retail UK (Stg£ million equivalent)	*46*	*(97)*
Corporate and Treasury	303	229
Group Centre (including ELG fees)	(63)	(204)
Other reconciling items[5]	(11)	(9)
Underlying[1] profit / (loss) before tax	**327**	**(395)**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 17 for further information.*

[2] *The Government Guarantee Scheme, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme) ended for all new liabilities on 28 March 2013. A fee is payable in respect of each liability guaranteed under the ELG scheme until the maturity of the guaranteed deposit or term funding.*

[3] *The net interest margin is stated before ELG fees.*

[4] *For more details on the performance of each division see pages 29 to 45.*

[5] *These relate to segmental income on certain inter-segment transactions, which are eliminated at a Group level.*

Balance sheet and key metrics	**30 June 2014 €bn**	Restated* 31 December 2013 €bn
Total assets	131	132
Stockholders' equity	8.3	7.9
Loans and advances to customers[1] (after impairment provisions)	83	85
Defaulted loan volumes	16.7	17.1
Customer deposits	75	74
Wholesale funding	23	27
Of which:		
Drawings from Monetary Authorities (net)	*6*	*8*
Wholesale funding < 1 year to maturity	14	7
Wholesale funding > 1 year to maturity	9	20
Liquidity		
Loan to deposit ratio	112%	114%
Net Stable Funding ratio	116%	n/d [2]
Liquidity Coverage ratio	104%	n/d [2]
Capital[3]		
Common equity tier 1 ratio - Basel III transitional rules	13.2%	12.3%
Common equity tier 1 ratio - Basel III fully loaded	10.0%	9.0%
Total capital ratio	16.4%	14.1%
Risk weighted assets (€bn)	53.5	54.8

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

1 *On the balance sheet on page 69, these amounts are presented on separate lines being Loans and advances to customers and Assets classified as held for sale.*

2 *The Net Stable Funding Ratio and the Liquidity Coverage Ratio were not disclosed at 31 December 2013.*

3 *The Common equity tier 1 ratio - Basel III transitional, total capital ratio and risk weighted assets are presented with a comparative as at 1 January 2014, incorporating Basel III transitional treatments which became effective from 1 January 2014. All capital ratios include the 2009 Preference Stock.*

Operating and financial review *(incorporating risk management)*

Basis of presentation

This operating and financial review is presented on an underlying basis, which excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. For an explanation of underlying see page 17.

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 2014 compared to the six months ended 30 June 2013. The balance sheets are presented for 30 June 2014 compared to 31 December 2013.

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

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	**6 months ended 30 June 2014 €m**	Restated* 6 months ended 30 June 2013 €m	Change %
Net interest income (before ELG fees)	1	1,161	968	20%
Eligible Liabilities Guarantee (ELG) fees	2	(21)	(99)	79%
Net other income	3	335	319	5%
Operating income (net of insurance claims)		**1,475**	**1,188**	**24%**
Operating expenses	4	(813)	(820)	1%
Operating profit before impairment charges on financial assets		**662**	**368**	**80%**
Impairment charges on loans and advances to customers	5,6	(444)	(780)	43%
Reversal of impairment charges on available for sale (AFS) financial assets		70	-	n/m
Share of results of associates and joint ventures (after tax)		39	17	n/m
Underlying[1] profit / (loss) before tax		**327**	**(395)**	**n/m**
Impact of changes to pension benefits in the Group sponsored defined benefit schemes		87	-	n/m
Gain / (charge) arising on the movement in the Group's credit spreads		8	(88)	n/m
Cost of restructuring programme		(27)	(50)	46%
Other non-core items		4	17	(76%)
Total non-core items	7	72	(121)	n/m
Profit / (loss) before tax		**399**	**(516)**	**n/m**
Tax (charge) / credit		(55)	52	n/m
Profit / (loss) for the period		**344**	**(464)**	**n/m**
Profit / (loss) attributable to stockholders		343	(463)	n/m
Profit / (loss) attributable to non-controlling interests		1	(1)	n/m
Profit / (loss) for the period		**344**	**(464)**	**n/m**

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 17 for further information.*

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

Profit before tax was €399 million for the six months ended 30 June 2014, an increase of €915 million on the same period in 2013.

Underlying profit before tax is €327 million, an increase of €722 million on the same period in 2013.

Total income was €1,475 million, up 24% year on year reflecting expansion of the net interest margin, partly offset by lower average interest earning assets.

Summary consolidated income statement on an underlying[1] basis (continued)

ELG fees decreased from €99 million in the six months ended 30 June 2013 to €21 million in the six months ended 30 June 2014. This reflects the reduction in guaranteed deposits in the period.

Impairment charges on loans and advances to customers saw a significant reduction to €444 million to 30 June 2014, compared to €780 million in the same period in 2013. There have been reductions across each loan portfolio and it is reflective of our ongoing work to support customers in financial difficulty, the improving economic climate and the liquidity in property markets.

The results for the first six months of 2014 includes additional gains, being the reversal of an impairment charge related to NAMA subordinated debt and gains crystallised from the sale of certain Irish sovereign bonds, as part of a rebalancing of our liquid asset portfolio.

Non-core items includes a gain of €72 million reflecting additional benefits of €87 million achieved on the 2013 Pension Review, offset by the ongoing costs of our restructuring programme. For the six months ended 30 June 2014, the Group reflected a gain of €8 million arising on the movement in the Group's credit spreads, this movement generated a charge of €88 million in the same period in 2013.

Operating income (net of insurance claims)

Net interest income

TABLE: 1 **Net interest income / net interest margin**	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Net interest income (before ELG fees)	1,161	968	20%
IFRS income classifications[1]	(27)	15	n/m
Net interest income (before ELG fees) after IFRS income classifications	**1,134**	**983**	**15%**
Average interest earning assets (€bn)			
Loans and advances to customers	84	89	(6%)
Other interest earning assets	26	30	(13%)
Total average interest earning assets	**110**	**119**	**(7%)**
Period end interest earning assets	110	113	(4%)
Net interest margin (annualised)	**2.05%**	**1.65%**	**40bps**

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

Net interest income (before ELG fees), after IFRS income classifications, of €1,134 million for the six months ended 30 June 2014 has increased by €151 million or 15% compared to the same period in 2013.

The increase in net interest income reflects a 40 basis points increase in the Group's net interest margin to 2.05% for the six months ended 30 June 2014, partly offset by a 7% reduction in average interest earning assets in the period. The net interest margin for the six months ended 30 June 2013 was 1.65%. The margin for the second half of the year ended 31 December 2013 was 2.03%.

The Group's success in rebuilding its net interest margin, notwithstanding the low interest rate environment, reflects the achievement of higher margins on new lending, continued progress on repricing deposit and loan portfolios, more efficient balance sheet management and the benefits of reduced risk premia in the capital markets partly offset by the impact of ECB rate cuts in November 2013 and June 2014 and the expiry of certain capital hedges.

Net interest income (continued)

The reduction in average interest earning assets is due to redemptions exceeding new lending in the period including the EU mandated run off of certain portfolios, the reduction in excess regulatory liquidity in the Group's UK subsidiary and increased impairment provisions partly offset by the strengthening of the sterling exchange rate against the euro.

The annualised net interest margin (after deducting the cost of ELG fees) increased by 52 basis points to 2.01% in the six months ended 30 June 2014 compared to 1.49% in the same period in 2013.

Eligible Liabilities Guarantee (ELG) fees

TABLE: 2

ELG	**6 months ended 30 June 2014**	6 months ended 30 June 2013	Change %
ELG fees (€m)	21	99	(79%)
Covered liabilities (at period end) (€bn)	4	8	(50%)
Average fee during period (%)	1.0%	1.1%	(4%)

ELG fees of €21 million for the six months ended 30 June 2014 are €78 million lower compared to fees of €99 million for the same period in 2013. Total liabilities covered by the ELG scheme reduced from €8 billion at 30 June 2013 to €5 billion at 31 December 2013 and were €4 billion at 30 June 2014. The ELG scheme ended for all new liabilities on 28 March 2013. The cost of the ELG scheme will continue to reduce in line with the maturity of covered liabilities. Final maturity of the covered liabilities is expected by December 2017, with c.80% of the covered liabilities of €4 billion expected to mature by 30 June 2015.

Net other income

TABLE: 3

Net other income	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change €m
Net other income	335	319	16
IFRS income classifications[1]	27	(15)	42
Net other income after IFRS income classifications	**362**	**304**	**58**

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

Net other income (continued)

Net other income after IFRS income classifications	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change €m
Business income			
Retail Ireland	154	145	9
Bank of Ireland Life	71	64	7
Retail UK	7	-	7
Corporate and Treasury	66	58	8
Group Centre and other	(12)	1	(13)
Other valuation items			
Fair value movement on Contingent Capital Note (CCN) embedded derivative	(21)	(7)	(14)
Certain valuation adjustments (CVA, DVA, FVA and other)	(15)	21	(36)
Economic assumptions - Bank of Ireland Life	14	(9)	23
Investment variance - Bank of Ireland Life	9	7	2
Other gains			
Transfer from available for sale reserve on asset disposal	89	17	72
Recovery arising on settlement of administration claims	-	7	(7)
Net other income after IFRS income classifications	**362**	**304**	**58**

Net other income after IFRS income classifications of €362 million for the six months ended 30 June 2014 increased by €58 million compared to the same period in 2013.

Business income for the six months ended 30 June 2014 compares to the same period in 2013 as follows:

- business income in Retail Ireland has increased by €9 million primarily due to higher retail banking fees and higher debit card interchange and fee income;
- business income in Bank of Ireland Life of €71 million increased by €7 million reflecting a change in the mix of new business sales resulting in an increase in the proportion of income recognised as Net other income. Total operating income in Bank of Ireland Life has increased by 7% to €94 million in the six months ended 30 June 2014 compared to the same period in 2013 (see page 34);
- business income in Retail UK of €7 million increased by €7 million compared to the same period in 2013; and
- business income in Corporate and Treasury increased by €8 million to €66 million.

Other valuation items within Net other income are as follows:

- a charge of €21 million due to the accounting impact of fair value movements on the derivative embedded in the Contingent Capital Note during the six months ended 30 June 2014 compared to a charge of €7 million in the same period in 2013;
- a charge of €15 million due to certain valuation adjustments (CVA, DVA, FVA and other) compared to a gain of €21 million in the same period in 2013;
- a gain of €14 million relating to economic assumption changes and interest rate movements in Bank of Ireland Life for the six months ended 30 June 2014 compared to a charge of €9 million for the same period in 2013; and
- a positive investment variance of €9 million in Bank of Ireland Life in the six months ended 30 June 2014 which is higher than the same period in 2013 and reflects gains in investment markets during the period;

Other gains within Net other income are as follows:

- a gain of €89 million relating to transfers from the AFS reserve on asset disposals for the six months ended 30 June 2014 compared to a gain of €17 million in the same period in 2013. These gains mainly arose from the sale of certain Irish sovereign bonds as part of a rebalancing of our liquid asset portfolio; and
- during the six months ended 30 June 2013 a gain of €7 million was recognised due to a recovery in relation to the Lehman Brothers administration settlement. There was no such gain during the current period.

Operating expenses

TABLE: 4

Operating expenses	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Change %
Staff costs (excluding pension costs)	339	351	(4%)
Pension costs	70	79	(11%)
Financial Services Compensation Scheme (FSCS) costs	18	12	50%
Other costs	386	378	2%
Operating expenses	**813**	**820**	**(1%)**

			Change
Staff numbers at period end	**11,386**	**11,731**	**(345)**
Average staff numbers during the period	**11,293**	**11,998**	**(705)**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

Operating expenses of €813 million for the six months ended 30 June 2014 are €7 million or 1% lower than the same period in 2013.

The Group has continued its focus on reducing operating expenses and delivering efficiencies with savings being achieved in both staff and pension costs during the six months ended 30 June 2014. These savings have been partly offset by an increase in other costs due to higher costs associated with strategic initiatives supporting improved customer experience and the costs associated with regulatory and compliance projects.

Staff costs (excluding pension costs) of €339 million for the six months ended 30 June 2014 were €12 million lower than the same period in 2013. This is due to the reduction in employee numbers under the Group's restructuring programme. The average number of staff employed by the Group has declined by 705 from an average of 11,998 in the six months ended 30 June 2013 to 11,293 in 2014. Staff numbers at 30 June 2014 were 11,386.

Pension costs of €70 million for the six months ended 30 June 2014 were €9 million lower than the same period in 2013 due to a reduced service cost following the Pensions 2013 Review and the Group's restructuring programme, together with a reduced interest cost.

FSCS costs of €18 million for the six months ended 30 June 2014 were €6 million higher than the same period in 2013 due to an increase in both the interest levy and principal levy imposed by the scheme.

Other costs, including technology, property and other non-staff costs were €386 million for the six months ended 30 June 2014 and were €8 million higher than the same period in 2013. The Group continues to make strategic investments to support improvements in customer experience whilst costs associated with regulatory and compliance projects increased year on year. This is partly offset by the impact of continuing focus on efficiency improvements as the Group continues to consolidate, standardise and simplify its operations.

Impairment charges on loans and advances to customers

TABLE: 5

Impairment charges on loans and advances to customers	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Residential mortgages	88	251	(65%)
- Retail Ireland	*92*	*223*	*(59%)*
- Retail UK	*(4)*	*28*	*(114%)*
Non-property SME and corporate	128	208	(38%)
- Republic of Ireland SME	*64*	*95*	*(33%)*
- UK SME	*20*	*54*	*(63%)*
- Corporate	*44*	*59*	*(25%)*
Property and construction	215	291	(26%)
- Investment	*135*	*181*	*(25%)*
- Land and development	*80*	*110*	*(27%)*
Consumer	13	30	(57%)
Total impairment charges on loans and advances to customers	**444**	**780**	**(43%)**

Impairment charges on loans and advances to customers of €444 million for the six months ended 30 June 2014 were €336 million or 43% lower than previous period.

Impairment charges for the previous period included an incremental charge of €100 million to reflect the estimated impact of the Central Bank of Ireland 'Impairment Provisioning and Disclosure Guidelines' (31 May 2013), which were implemented by the Group in 2013. The impairment charges for the six months ended 30 June 2014 reflect the performance of the Group's portfolios, the economic environment in which those portfolios are located, an assessment of collateral values securing the loan portfolios, and the Group's activities in restructuring loans for customers with repayment challenges.

The impairment charge on **Residential mortgages** of €88 million for the six months ended 30 June 2014 has decreased by €163 million from €251 million in the previous period.

The impairment charge on the Retail Ireland mortgage portfolio of €92 million for the six months ended 30 June 2014 has decreased by €131 million from €223 million in the previous period. The impairment charge reflects the continuation of the improving default arrears trend in the Owner occupied segment in the first six months of the year. There has been a significant reduction in Owner occupied default arrears (based on loan volumes 90 days or more past due and / or impaired) in 2014, reflecting the further improvement in economic conditions and the considerable ongoing progress being made by the Group in effecting its mortgage arrears resolution strategies.

Owner occupied default arrears (based on loan volumes 90 days or more past due and / or impaired) were 9.50% at 30 June 2014 as compared with 10.10% at 31 December 2013 and 10.52% at 30 June 2013. Building on the positive momentum achieved during the second half of 2013, the volume of default arrears in the Owner occupied segment has continued to reduce significantly in the first six months of 2014, reflecting improving economic conditions, particularly falling unemployment levels, and the Group's ongoing progress in assisting customers in financial difficulty with sustainable mortgage restructure and resolution strategies. The level of Owner occupied default arrears for the Group remains at less than half the level of the other Irish banks as published on a quarterly basis by the CBI (latest industry statistics are as at Q1 2014).

Buy to let default arrears (based on loan volumes 90 days or more past due and / or impaired) were 29.40% at 30 June 2014 as compared to 27.72% at 31 December 2013 and 26.01% at 30 June 2013. The volume of default arrears in the Buy to let segment has continued to increase, albeit the pace of arrears formation remained broadly unchanged in the first half of 2014 compared to the second half of last year. Buy to let borrowers continue to be impacted by rising repayments as interest only periods come to an end and they move to fully amortising loans. At 30 June 2014, 68% of the Buy to let mortgage book was on a 'principal and interest' repayment basis (31 December 2013: 65%). As part of the Group's mortgage arrears resolution strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are coming to an end, to restructure customer mortgages on a sustainable basis prior to them moving to fully amortising loans. The level of Buy to let default arrears for the Group remains below the level of the other Irish banks as published on a quarterly basis by the CBI.

The impairment credit on the Retail UK mortgage portfolio of €4 million for the six months ended 30 June 2014, compared to an impairment charge of €28 million in the previous period, reflects the improving residential property market in the UK, which has seen ongoing house price growth in 2014, allied with the satisfactory performance of the portfolio, including low levels of default arrears. For the period ended 30 June 2014, Residential property

Impairment charges on loans and advances to customers (continued)

prices recorded an annual increase of 12% according to the Nationwide Quarterly Index. Default arrears (volume of loans 90 days past due and / or impaired) decreased to 2.28% at 30 June 2014 as compared with 2.37% at 31 December 2013 and 2.35% at 30 June 2013.

The impairment charge on the **Non-property SME and corporate** loan portfolio of €128 million for the six months ended 30 June 2014 has decreased by €80 million from the previous period.

Republic of Ireland SME impairment charges of €64 million for the six months ended 30 June 2014 have decreased by €31 million from the previous period. The ongoing reduction in Republic of Ireland SME impairment charges reflects the more favourable economic environment and consequently improved trading conditions in certain elements of the SME sector. However, trading conditions remain difficult in those segments dependent on discretionary consumer spending, such as retail and hospitality, and particularly for those borrowers outside major urban areas, which is reflected in the level of Republic of Ireland SME impairment charges in the six months to 30 June 2014.

Impairment charges on the UK SME portfolio decreased to €20 million for the six months ended 30 June 2014 compared to an impairment charge of €54 million in the previous period, reflecting more positive macroeconomic conditions, with the unemployment rate falling and consumer and business sentiment strengthening. In addition, previous period impairment charges were driven by a small number of large individual cases, which were not a feature in the current period.

The impairment charges on the Corporate portfolios reduced to €44 million for the six months ended 30 June 2014 compared to €59 million in the previous period. Impairment charges in the period have primarily been driven by individual case specific events in the non-core international corporate banking portfolio. Overall, the pace of migration of new cases into our challenged portfolios has reduced considerably, with both the domestic Irish and international corporate banking portfolios benefiting from improving economic conditions.

The impairment charge on the **Property and construction** loan portfolio of €215 million for the six months ended 30 June 2014 decreased by €76 million compared to €291 million in the previous period.

The impairment charge on the Investment property element of the Property and construction portfolio was €135 million for the six months ended 30 June 2014 compared to €181 million in the previous period. Improved investor sentiment and value uplift has been particularly evident in the larger urban centres in both ROI and the UK. Commercial property market conditions outside larger urban centres in both jurisdictions are more muted, particularly for retail assets in provincial / regional locations and continue to impact on impairment levels.

Between 2007 and 2012, the Irish market experienced a significant fall in asset values, with Irish commercial property capital values down on average 62% from peak[1]. However, capital values have recently recovered somewhat, rising by 17% in the year to June 2014 and by 12% in the first half of 2014[1]. The positive returns in the first half of 2014 follow on from improved investor sentiment and transaction levels, particularly in the office market but also in retail. This has been driven by increased stability in the Irish economy and considerable demand from both domestic, and to a greater extent, international investors. Significant regional shopping centre and retail park asset sales are currently being marketed. Demand appears robust for these assets and further stock is expected from financial institutions over the next six months. These will be the first significant sales within these sectors over the past six years, which would be expected to improve sentiment and pricing for future disposals within the retail sector.

While UK commercial property values are down on average 28% from the peak[2], capital values increased by 7% in the year to March 2014 and by 2% in the first quarter of 2014[2]. The office market continued to produce the strongest return in 2014, with the most notable regional improvements. Performance in the retail sector remains more subdued, but saw positive rental value movement in the first quarter of 2014 following nearly two years of quarterly declines. London and south-east England remain the main areas of focus for investors, leading to pricing within these areas increasing and therefore becoming progressively less attractive for some buyers. This is encouraging investors to assess and acquire more non-London assets. Currently there is a considerable investor demand targeting UK shopping centres with investors seeking good quality, well let assets and secondary shopping centres which are competitively priced.

The impairment charge on the Land and Development element of the Property and construction portfolio was €80 million for the six months ended 30 June 2014 compared to €110 million for the six months ended 30 June 2013. The charge remains elevated reflecting still challenging market conditions in most areas outside the main cities and the progression of exit strategies on a small number of individual cases following case specific events.

The impairment charge of €13 million on **Consumer** loans for the six months ended 30 June 2014 has reduced significantly from the impairment charge of €30 million in the six months ended 30 June 2013, reflecting low levels of default aided by improved economic conditions.

[1] *Source: Investment Property Databank (IPD) Q2 2014.*
[2] *Source: Investment Property Databank (IPD) Q1 2014.*

Impairment charges on loans and advances to customers (continued)

Further analysis and commentary on the changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section on pages 55 to 64 and the supplementary asset quality and forbearance disclosures section on page 115.

TABLE: 6 **Impairment charge by nature of impairment provision**	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Specific charge individually assessed	420	632	(34%)
Specific charge collectively assessed	40	121	(67%)
Incurred but not reported	(16)	27	(159%)
Total impairment charge	**444**	**780**	**(43%)**

For details of the impairment provision by the nature of impairment provision see page 62.

Reversal of impairment charge on available for sale financial assets

At the balance sheet date the Group held €202 million of subordinated bonds issued by the National Asset Management Agency (NAMA). Following NAMA's updated outlook for its long term performance the Group updated its valuation of the bonds to 71.9% of their nominal value and as a result reflected a gain for the six months ended 30 June 2014 of €70 million representing the reversal of an impairment charge previously recognised. There was no impairment charge on available for sale (AFS) financial assets for the six months ended 30 June 2013.

Non-core items

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

TABLE: 7 **Non-core items**	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	87	-	n/m
Cost of restructuring programme	(27)	(50)	46%
Gain / (charge) arising on the movement in the Group's credit spreads	8	(88)	n/m
Gross-up for policyholder tax in the Life business	8	18	55%
(Loss) / gain on liability management exercises	(3)	4	n/m
Loss on disposal of business activities	(1)	-	-
Loss on deleveraging of financial assets	-	(4)	n/m
Investment return on treasury stock held for policyholders	-	(1)	n/m
Total non-core items	**72**	**(121)**	**n/m**

Non-core items (continued)

Impact of changes to pension benefits in the Group sponsored defined benefit schemes
A non-core gain of €87 million was recognised in the six months ended 30 June 2014, reflecting further gains from changes in pension benefits implemented as part of the 2013 Pension Review.

The largest of the Group sponsored defined benefit pension schemes is the Bank of Ireland Staff Pensions Fund (BSPF) which accounted for approximately 69% of the total deficit across all of its defined benefit sponsored schemes.

The Group completed a review of the BSPF during 2013 and implemented amendments to benefits to address the IAS 19 deficit of same. The amendment to future increases in members' pensionable salaries required active members in RoI and UK to individually accept the changes. As at 30 June 2014, 99% (31 December 2013: 19%) of those members have accepted the changes and the defined benefit pension deficit at 30 June 2014 reflects this level of acceptances. In the year ended 31 December 2013, the Group recognised €274 million as a non-core gain in the income statement as a result. In the six months ended 30 June 2014, the Group reflected a further €87 million non-core gain.

Cost of restructuring programme
During the six months ended 30 June 2014, the Group continued its restructuring programme which reduced the number of people employed by the Group and rationalised the Group's office space. The Group recognised a charge of €27 million in relation to the restructuring programme during the six months ended 30 June 2014, primarily related to a reduction in employee numbers. A restructuring charge of €50 million was incurred in the same period in 2013 of which €16 million related to a reduction in employee numbers and €34 million to office rationalisation.

Gain / (charge) arising on the movement in the Group's credit spreads
A gain of €8 million was recognised in the six months ended 30 June 2014 compared with a charge of €88 million during the same period in 2013. This gain arises from the impact of changes in the Group's credit spreads on the Group's own debt and deposits that are accounted for at 'fair value through profit or loss'. The current period gains arise from the 'pull to par' effect of cumulative losses reversing over time, which more than offset the impact of credit spreads tightening. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits. These gains and charges do not impact the Group's regulatory capital.

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

(Loss) / gain on liability management exercises
A loss of €3 million on liability management exercises was recognised in the six months ended 30 June 2014 compared with a gain of €4 million in the same period in 2013, reflecting the repurchase of certain Group debt securities that were guaranteed under the ELG scheme.

Loss on disposal of business activities
A loss on disposal of business activities of €1 million was recognised in the six months ended 30 June 2014. There was no such loss during the same period in 2013.

Loss on deleveraging of financial assets
A loss on the planned deleveraging of financial assets of €4 million was recognised in the six months ended 30 June 2013. There was no such loss during the current period.

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was a €1 million charge in the six months ended 30 June 2013. There was no such loss during the current period. Units of stock held by Bank of Ireland Life for policyholders at 30 June 2014 were 19 million units (30 June 2013: 21 million units).

Taxation

The taxation charge for the Group was €55 million for the six months ended 30 June 2014 compared to a taxation credit of €52 million (restated) in the same period in 2013. Excluding the impact of non-core items, the effective tax rate for the six months ended 30 June 2014 is 12% (taxation charge) which compares with the comparable (restated) rate for the same period in 2013 of 13% (taxation credit).

The effective tax rate is influenced by changes in the geographic mix of profits and losses.

Group balance sheet

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

Summary consolidated balance sheet

Summary consolidated balance sheet	Table	30 June 2014 €bn	Restated* 31 December 2013 €bn	Change %
Loans and advances to customers[1] (after impairment provisions)		83	85	(2%)
Liquid assets	8	26	27	(1%)
Bank of Ireland Life assets		15	14	6%
Other assets	13	7	6	2%
Total assets		**131**	**132**	**(1%)**
Customer deposits	9	75	74	1%
Wholesale funding	10	23	27	(15%)
Subordinated liabilities	11	2	2	47%
Bank of Ireland Life liabilities		15	14	6%
Other liabilities	13	8	7	6%
Total liabilities		**123**	**124**	**(1%)**
Stockholders' equity	12	8	8	5%
Total liabilities and stockholders' equity		**131**	**132**	**(1%)**
Loan to deposit ratio		**112%**	**114%**	
Common equity tier 1 ratio - Basel III transitional rules[2]		**13.2%**	**12.3%**	
Total capital ratio[2]		**16.4%**	**14.1%**	

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

[1] *On the balance sheet on page 69, these amounts are presented on separate lines being Loans and advances to customers and Assets classified as held for sale.*

[2] *The Common equity tier 1 ratio - Basel III transitional and the total capital ratio are presented with a comparative as at 1 January 2014. Both capital ratios include the 2009 Preference Stock.*

Loans and advances to customers

The Group's **loans and advances to customers (after impairment provisions)** of €83 billion have decreased by €1.1 billion or 2% since 31 December 2013.

On a constant currency basis, loans and advances to customers have decreased by €2.4 billion or 3% during the six months ended 30 June 2014. The decrease in loans and advances to customers reflects ongoing repayments and redemptions, high levels of refinancing in EU mandated deleveraging portfolios in Great Britain, somewhat offset by increased new lending, particularly in mortgages and business banking in the Republic of Ireland, Corporate banking and UK mortgages.

The composition of the Group's loans and advances to customers by portfolio and by division at 30 June 2014 was broadly consistent with 31 December 2013.

The stock of impairment provisions on loans and advances to customers of €8.4 billion has increased by €0.2 billion since 31 December 2013.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 55 to 64 and the supplementary asset quality and forbearance disclosures section on page 115.

Liquid assets

TABLE: 8

Liquid assets	**30 June 2014 €bn**	31 December 2013 €bn
Cash at banks	4	5
Cash and balances at Central Banks	5	6
- Bank of England	*4*	*5*
- Central Bank of Ireland and US Federal Reserve	*1*	*1*
Government bonds	8	7
NAMA senior bonds	3	4
Covered bonds	3	3
Senior bank bonds and other	3	2
	26	**27**

The Group's portfolio of **liquid assets** of €26 billion has decreased by €0.6 billion since 31 December 2013.

The reduction in the Group's portfolio of liquid assets is primarily due to a reduction in liquid assets held by Bank of Ireland (UK) plc of €0.5 billion following the sale of loans from other Group entities to Bank of Ireland (UK) plc, the redemption of c.€1 billion of NAMA senior bonds and an increase of €0.6 billion in holdings of European (non-Irish) sovereign bonds.

During the six months ended 30 June 2014, gains of €89 million relating to transfers from the AFS reserve on asset disposals was recognised. These gains primarily arose from the sale of certain Irish sovereign bonds as part of a rebalancing of our liquid asset portfolio.

Customer deposits

TABLE: 9

Customer deposits	**30 June 2014 €bn**	31 December 2013 €bn
Retail Ireland	36	36
- Deposits	*23*	*24*
- Current account credit balances	*13*	*12*
Retail UK	27	26
Retail UK (Stg£bn equivalent)	21	22
- UK Post Office	*17*	*16*
- Other Retail UK	*4*	*6*
Corporate and Treasury	12	12
Total customer deposits	**75**	**74**
Loan to deposit ratio	**112%**	**114%**
Deposits covered by ELG scheme	2	2

Group customer deposits of €75 billion have increased by €0.6 billion since 31 December 2013 due to increases of €0.2 billion in Retail UK and €0.5 billion in Corporate and Treasury, partly offset by a decrease of €0.1 billion in Retail Ireland. On a constant currency basis, Group customer deposits increased by €0.4 billion.

During the six months ended 30 June 2014, the key focus for the Group with respect to its deposit management strategy has been:

- to maintain and grow its stable retail customer deposit base;
- to prudently manage deposit pricing and margins; and
- to maximise stable funding levels in line with Basel III / CRD IV specifications.

Deposit balances in the Retail Ireland division decreased by €0.7 billion, partly offset by an increase of €0.6 billion in current account credit balances.

Deposit balances in the Corporate and Treasury division increased by €0.6 billion largely due to increases in balances from established corporate relationships.

Balances in Retail UK reduced by £0.7 billion to £21 billion at 30 June 2014. Deposit balances originated through the Post Office network increased by £0.3 billion to £16.6 billion while Other Retail UK balances decreased by c.£2 billion due to the exit from Business Banking GB activities in accordance with the Group's revised 2011 EU Restructuring Plan and the closure of the Group's Isle of Man subsidiary in May 2014. Balances originated through the Group's Northern Ireland branch network remained steady.

Customer deposits at 30 June 2014 of €75 billion (31 December 2013: €74 billion) do not include €2.4 billion (31 December 2013: €2.3 billion) of savings and investment products sold by Bank of Ireland Life. These products have a fixed term (typically of five years) and consequently are an additional source of stable retail funding for the Group.

Wholesale funding

TABLE: 10

Wholesale funding sources	**30 June 2014 €bn**	**30 June 2014 %**	31 December 2013 €bn	31 December 2013 %
Secured funding	17	75%	22	81%
- Monetary Authority (gross)	*6*	*25%*	*8*	*30%*
- Covered bonds	*7*	*33%*	*7*	*26%*
- Securitisations	*3*	*12%*	*3*	*11%*
- Private market repo	*1*	*5%*	*4*	*14%*
Unsecured funding	6	25%	5	19%
- Senior debt	*5*	*20%*	*3*	*11%*
- Bank deposits	*1*	*5%*	*2*	*8%*
Total Wholesale funding	**23**	**100%**	**27**	**100%**
Wholesale funding < 1 year to maturity	14	61%	7	28%
Wholesale funding > 1 year to maturity	9	39%	20	72%
Drawings from Monetary Authorities (net)	6	-	8	-
Wholesale funding covered by ELG scheme	2	-	3	-
Liquidity metrics				
Loan to deposit ratio	112%		114%	
Net Stable Funding Ratio	116%		n/d[1]	
Liquidity Coverage Ratio	104%		n/d[1]	

[1] The Net Stable Funding Ratio and the Liquidity Coverage Ratio were not disclosed at 31 December 2013.

Wholesale funding of €23 billion has decreased by €4 billion since 31 December 2013 reflecting:

- the sale of assets from other Group entities to Bank of Ireland (UK) plc (€1.5 billion) and the consequent reduction in the level of excess liquid assets in the UK subsidiary;
- a reduction of €1.2 billion due to the lower funding requirements for the lending book;
- the impact of the Group's €750 million (classified as subordinated liabilities) lower tier 2 transaction in June 2014; and
- the impact of higher deposits (€0.6 billion).

During the six months ended 30 June 2014, the Group has continued to access the term debt markets at reducing costs by issuing:

- €750 million five-year senior unsecured security in January 2014 at a price of 210 basis points above mid swaps;
- €750 million of Irish Mortgage Asset Covered Securities in a five-year transaction in March 2014 at a price of 80 basis points above mid swaps;
- €750 million three-year senior unsecured security in May 2014 at a price of 150 basis points above mid swaps.

Funding from Monetary Authorities of €6 billion, which includes €3 billion of NAMA bond related funding, decreased by €2 billion since 31 December 2013.

During the six months ended 30 June 2014, the Group repaid €0.1 billion of other senior unsecured debt.

At 30 June 2014, €9.2 billion or 39% of wholesale funding had a term to maturity of greater than one year (31 December 2013: €19.9 billion or 72%). Of the €14 billion of wholesale funding with less than one year to maturity, €6 billion is Monetary Authority backed by maturing collateral and a further €5 billion is private sector funding backed by maturing collateral. The level of unsecured maturities in the next twelve months is considered to be low and manageable.

Liquidity Regulation

The CRD IV framework introduces additional liquidity requirements for the Group;

- Liquidity coverage ratio – The liquidity coverage ratio (LCR) will require banks to have sufficient high-quality liquid assets to withstand a 30-day stressed funding scenario. While the European Union has yet to issue the Delegated Act defining the ratio, it is expected to apply from 2015 with a phased implementation to 2018 and the Group's calculation of the LCR is in line with Central Bank of Ireland interim guidance. As at 30 June 2014, the Group's LCR is 104% compared to the minimum 60% target expected from 2015.

Wholesale funding (continued)

- Net stable funding ratio - The net stable funding ratio (NSFR) requires banks to have sufficient quantities of funding from stable sources. A requirement for NSFR to be above 100% is expected from January 2018 and the Group's calculation is consistent with the consultative document issued by the Basel Committee on Banking Supervision in January 2014. As at 30 June 2014, the Group's NSFR is 116%.
- Since November 2012, the Group has been complying with the Central Bank of Ireland's Advanced Monitoring Framework which assesses the Group's progress towards ensuring compliance with the required minimum levels for LCR and NSFR by the relevant implementation dates.

Subordinated liabilities

TABLE: 11

Subordinated liabilities	**30 June 2014 €m**	31 December 2013 €m
Contingent Capital Note (CCN)	988	977
€750 million 4.25% Fixed Rate Notes	749	-
€250 million 10% Fixed Rate Notes	256	240
Other	474	458
Total	**2,467**	**1,675**

In June 2014, the Group issued a €750 million 10 year (callable at the end of year 5) Tier 2 capital bond. The bond carries a coupon of 4.25%.

Stockholders' equity

TABLE: 12

Movements in stockholders' equity	**6 months ended 30 June 2014 €m**	Restated* Year ended 31 December 2013 €m
Stockholders' equity at beginning of period	**7,889**	**8,657**
Movements:		
Profit / (loss) attributable to stockholders	343	(483)
Dividends on preference stock	(137)	(240)
Remeasurement of the net defined benefit pension liability	(202)	(117)
- Changes in actuarial assumptions and other movements	*(202)*	*(218)*
- Impact of amendments to defined benefit pension schemes	*-*	*101*
Available for sale (AFS) reserve movements	145	317
Cash flow hedge reserve movement	110	(181)
Foreign exchange movements	122	(81)
Other movements	4	17
Stockholders' equity at end of period	**8,274**	**7,889**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

Stockholders' equity (continued)

Stockholders' equity increased from €7,889 million at 31 December 2013 to €8,274 million at 30 June 2014.

The profit attributable to stockholders of €343 million for the six months ended 30 June 2014 compares to the loss attributable to stockholders of €483 million for the year ended 31 December 2013.

During 2014, the Group paid dividends of €133.3 million on the 2009 Preference Stock. The Group also paid dividends of €2.1 million and £1.1 million on its other euro and sterling preference stock respectively.

The remeasurement of the net defined benefit pension liability is primarily driven by changes in actuarial assumptions including the discount rates and inflation rates and by asset returns. The RoI discount rate has reduced by c.60 basis points since 31 December 2013, from 3.65% to 3.05%, this reduction together with other liability assumption changes have increased the deficit by c.€0.7 billion. This was partly offset by an increase of 8.4% in the market value of pension scheme assets before the impact of the 2014 pension levy (7.8% after deduction of the levy) during the six months ended 30 June 2014.

The AFS reserve movement during 2014 is primarily due to an improvement / tightening of credit spreads, particularly on the portfolio of Irish Government bonds and Spanish covered bonds. The cash flow hedge reserve movement primarily reflects changes in the mark to market value of cash flow hedge accounted derivatives, driven by market rates and by amortisation of de-designated cash flow hedges. Over time, the reserve will flow through the income statement in line with the underlying hedged items.

Foreign exchange movements are driven by the translation of the Group's net investments in foreign operations. The movement in the period is due primarily to the weakening of the euro against sterling in the six months ended 30 June 2014.

Other assets and other liabilities

TABLE: 13

Other assets and other liabilities	**30 June 2014 €bn**	31 December 2013 €bn
Other assets	6.6	6.5
- Derivative financial instruments	*3.3*	*3.5*
- Deferred tax asset	*1.7*	*1.7*
- Other assets	*1.6*	*1.3*
Other liabilities	7.6	7.2
- Derivative financial instruments	*3.3*	*3.2*
- Pension deficit	*1.0*	*0.8*
- Other liabilities	*3.3*	*3.2*

Other assets at 30 June 2014 include derivative financial instruments with a positive fair value of €3.3 billion compared to a positive fair value of €3.5 billion at 31 December 2013. Other liabilities at 30 June 2014 include derivative financial instruments with a negative fair value of €3.3 billion compared to a negative fair value of €3.2 billion at 31 December 2013. The movement in the fair value of derivative assets and derivative liabilities is due to the impact of the movements in foreign exchange rates (particularly the euro / sterling exchange rate) and in interest rates during 2014.

At 30 June 2014, the deferred tax asset was €1.7 billion, which is in line with the balance at 31 December 2013. The deferred tax asset of €1.7 billion at 30 June 2014 includes an amount of €1.6 billion in respect of operating losses which are available to relieve future profits from tax. Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses and based on its estimates of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

Due to operating profits in the period, and as set out in note 26, there has been a moderate reduction in the value of the deferred tax asset recognised for operating losses which arose in prior periods.

At 30 June 2014, the pension deficit was €1.0 billion, an increase of €0.2 billion from the position at 31 December 2013. The drivers of this increase are as follows:

- a reduction in discount rates, with the RoI discount rate reducing to 3.05% at 30 June 2014 from 3.65% at 31 December 2013. Together with other

Other assets and other liabilities (continued)

liability assumption changes, this increased the deficit by c.€0.7 billion;
- these impacts were partly offset by an increase of €0.4 billion in the value of pension scheme assets during the period; and
- the impact in the current period of the Pensions 2013 Review, reducing the deficit by €0.1 billion during the period.

See note 27 for further details.

Capital

Regulatory capital and key capital ratios

Basel III / CRD IV Transitional 1 January 2014 €m		Basel III / CRD IV **Transitional* 30 June 2014 €m**	Basel III / CRD IV Fully Loaded* 30 June 2014 €m
	Capital Base		
7,869	Total equity	8,269	8,269
81	- Impact of amendments to defined benefit pension schemes[1]	-	-
(465)	**Regulatory adjustments being phased in / out under Basel III / CRD IV**	(476)	(1,996)
-	*- Deferred tax assets[4]*	*-*	*(1,490)*
(47)	*- 10% / 15% threshold deduction[5]*	*(48)*	*(240)*
609	*- Retirement benefit obligations[2]*	*778*	*-*
(486)	*- Available for sale reserve[3]*	*(624)*	*-*
(60)	*- Pension supplementary contributions[2]*	*(61)*	*-*
(47)	*- Capital contribution on CCN[2]*	*(38)*	*-*
(187)	*- Tier 1 deductions in excess of Tier 1 capital[6]*	*(130)*	*-*
(247)	*- Other adjustments[7]*	*(353)*	*(266)*
(730)	**Other regulatory adjustments**	(711)	(929)
(83)	*- Expected loss deduction[8]*	*(55)*	*(273)*
(368)	*- Intangible assets and goodwill*	*(355)*	*(355)*
(115)	*- Dividend expected on 2009 Preference Stock*	*(48)*	*(48)*
(46)	*- Cash flow hedge reserve*	*(156)*	*(156)*
22	*- Own credit spread adjustment (net of tax)*	*11*	*11*
(140)	*- Securitisation deduction*	*(108)*	*(108)*
6,755	**Common equity tier 1[10]**	**7,082**	5,344
	Additional Tier 1		
74	Tier 1 hybrid debt[6]	75	-
(261)	**Regulatory adjustments**	(205)	-
(167)	*- Expected loss deduction[8]*	*(109)*	-
(94)	*- 10% / 15% threshold[5]*	*(96)*	-
187	Tier 1 capital deficit deducted from CET1 capital[6]	130	-
6,755	**Total tier 1 capital**	**7,082**	5,344
	Tier 2		
987	Tier 2 dated debt	1,628	1,611
106	Tier 2 undated debt	110	159
(261)	**Regulatory adjustments**	(205)	-
(167)	*- Expected loss deduction[8]*	*(109)*	-
(94)	*- 10% / 15% threshold[5]*	*(96)*	-
60	Standardised incurred but not reported (IBNR) provisions	46	-
83	Other adjustments	117	-
975	**Total tier 2 capital**	**1,696**	1,770
7,730	**Total capital**	**8,778**	7,114
54.8	**Total risk weighted assets (€bn)**	**53.5**	53.5
	Capital ratios (including 2009 Preference Stock)		
12.3%	Common equity tier 1	13.2%	10.0%
12.3%	Tier 1	13.2%	10.0%
14.1%	Total capital	16.4%	13.3%
4.9%	Leverage ratio	5.3%	4.1%

Capital (continued)

Risk weighted assets (RWA)

Basel III / CRD IV Transitional 1 January 2014 €m		Basel III / CRD IV **Transitional 30 June 2014 €m**	Basel III / CRD IV Fully Loaded 30 June 2014 €m
50.1	Credit risk	48.5	48.5
1.2	Market risk	1.5	1.5
3.5	Operational risk	3.5	3.5
54.8	**Total RWA**	**53.5**	53.5

Basel III / CRD IV

The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to the CRD and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law.

CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain.

The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation from 1 January 2019. The CRD IV transition rules result in a number of new deductions from CET 1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The CBI published their ‘Implementation of Competent Authority Discretions and Options in CRD IV and CRR’ on 24 December 2013 which clarifies the application of transitional rules in Ireland under CRD IV. This document was finalised in May 2014 to reflect the Member State discretions and options that have been allocated to the CBI.

The Group continues to expect to maintain a buffer above a CET 1 ratio of 10% on a transitional basis.

1 *Equity was increased in the Basel III pro forma transitional and fully loaded ratios at 1 January 2014 to account for the €81 million arising from the impact of changes made to defined benefit pension schemes which was expected to be realised in Q1 2014.*
2 *Regulatory deductions applicable under Basel II and phased out under Basel III relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules. The Basel III transitional adjustment for Retirement benefit obligations as at 1 January 2014 has been amended to reflect the €81 million of gains arising from the impacts of changes made to defined benefit pension schemes highlighted in footnote 1.*
3 *Basel III transitional rules in 2014 require phasing in 20% of unrealised losses and 0% of unrealised gains. Between 2015-2018 unrealised losses and gains will be phased in at the following rates 40%, 60%, 80%, 100%. Reserve is recognisable in capital under fully loaded Basel III rules.*
4 *Deduction for deferred tax assets (DTA) relates to DTA on losses carried forward, net of associated deferred tax liabilities. The deduction is phased at 0% in 2014 and 10% per annum thereafter.*
5 *The 10% / 15% threshold deduction is phased in at 20% in 2014 and increases by 20% per annum thereafter, and is deducted in full from CET 1 under fully-loaded rules. The calculation of the 10% / 15% threshold amount includes the benefit of the 2009 Preference Stock on a transitional and fully loaded basis.*
6 *Under Basel III, Additional tier 1 deductions in excess of Additional tier 1 capital are deducted from CET1. Under Basel III transitional rules expected loss and significant investments not deducted from CET 1 are deducted 50:50 from Tier 1 and Tier 2 capital. These deductions contribute to the excess of Additional tier 1 deductions over Additional tier 1 capital. Grandfathered Tier 1 hybrid debt has been offset against total Additional tier 1 deductions.*
7 *Includes technical items such as other national filters and non-qualifying CET 1 items.*
8 *Under Basel III transitional rules, expected loss is phased in at 20% in 2014. It is deducted in full from CET1 under fully loaded rules. See also footnote 6.*
9 *Non qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 20% in 2014 and 10% per annum thereafter. Certain debt instruments are phased into Tier 2 capital from Tier 1 capital.*
10 *CET 1 capital calculated under both the fully loaded and transitional rules includes the benefits of the 2009 Preference Stock (€1.3 billion outstanding at 30 June 2014). Under Basel III transitional rules state aid instruments are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013 the Group advised the Central Bank of Ireland that it is not the Group’s intention to recognise the 2009 Preference Stock as regulatory CET 1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.*

* *Capital ratios have been presented including the benefit of the retained profit in the period. Under Article 26 (2) of the CRR, financial institutions may include independently verified interim profits in their regulatory capital only with the prior permission of the competent authority, namely the Central Bank of Ireland, and such permission is being sought.*

Capital (continued)

Risk weighted assets
Risk weighted assets (RWA) at 30 June 2014 of €53.5 billion compares to RWA of €54.8 billon at 1 January 2014. Reductions in RWA are primarily due to a reduction in the quantum of loans and advances and loan repayments in excess of new lending, offset by the impact of foreign exchange movements.

Transitional Ratio
The Common equity tier 1 (CET 1) ratio at 30 June 2014 of 13.2% compares to the pro forma ratio of 12.3% at 1 January 2014. The increase is primarily due to the impact of attributable profits for the period, a decrease in the expected loss deduction and lower RWAs.

The Total capital ratio at 30 June 2014 of 16.4% compares to 14.1% on a pro forma basis at 1 January 2014 and reflects the issuance of €750 million Tier 2 subordinated debt in June 2014, the impact of increased CET 1 and lower RWAs.

Fully Loaded Ratio
The Group's pro forma CET 1 ratio, including the 2009 Preference Stock is estimated at 10.0% as at 30 June 2014 on a fully loaded basis, which has increased from 9.0% as at 31 December 2013. The increase is primarily due to the impact of attributable profits for the period, a decrease in the expected loss deduction and lower RWAs.

Under Basel III transitional rules, state aid instruments, including the 2009 Preference Stock, are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013, the Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET 1 capital after July 2016, unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements. The Group's pro forma fully loaded CET 1 ratio, excluding the 2009 Preference Stock, is estimated to be 7.3% at 30 June 2014 (6.3% at 31 December 2013).

Leverage ratio
The leverage ratio is 5.3% on a Basel III / CRD IV transitional basis and 4.1% on a pro forma full implementation basis including the 2009 Preference Stock. The Group expects to remain above the Basel Committee indicated minimum level leverage ratio of 3% on a fully loaded pro forma basis and on a transition basis, including the 2009 Preference Stock.

The Basel committee will monitor the proposed 3% minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar I treatment on 1 January 2018.

Capital actions
In June 2014, the Group successfully issued a €750 million 10 year (callable at the end of year 5) Tier 2 subordinated debt instrument.

Comprehensive Assessment
The ECB is conducting a comprehensive assessment of large banks during 2014 in advance of assuming full responsibility for supervision as part of the SSM. The assessment consists of:
(i) a supervisory risk assessment intended to assess key risks in banks' balance sheets, including liquidity, leverage and funding;
(ii) an asset quality review of all asset classes including non-performing loans, restructured loans and sovereign exposures, as at 31 December 2013; and
(iii) a stress test, building on and complementing the asset quality review by providing a forward-looking view of banks' shock-absorption capacity under stress.

The ECB asset quality review and stress test are ongoing and the results are not expected until later in 2014 - the current schedule suggests the release of results in late October 2014 and the outcome of these significant exercises will not be known until after such time.

Divisional performance

Divisional performance - on an underlying basis

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

Income statement - underlying profit / (loss) before tax	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Change €m
Retail Ireland	(28)	(339)	311
Bank of Ireland Life	69	40	29
Retail UK	57	(112)	169
Corporate and Treasury	303	229	74
Group Centre	(63)	(204)	141
Other reconciling items[1]	(11)	(9)	(2)
Underlying profit / (loss) before tax	**327**	**(395)**	**722**
Non-core items (see page 17)	72	(121)	193
Profit / (loss) before tax	**399**	**(516)**	**915**

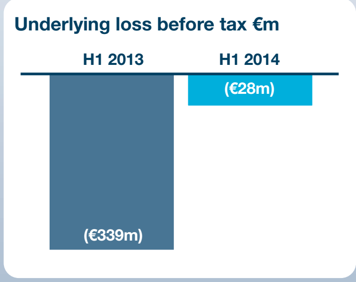
* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

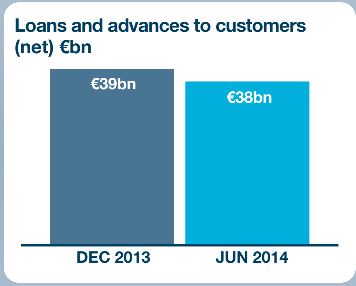
[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

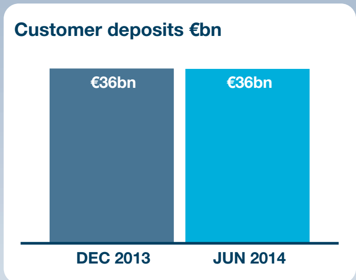
Retail Ireland

Retail Ireland: Income statement	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Net interest income	485	394	23%
Net other income	157	171	(8%)
Operating income	**642**	**565**	**14%**
Operating expenses	(406)	(406)	-
Operating profit before impairment charges on financial assets	**236**	**159**	**48%**
Impairment charges on loans and advances to customers	(285)	(497)	43%
Share of results of associates and joint ventures (after tax)	21	(1)	n/m
Underlying loss before tax	**(28)**	**(339)**	**92%**
Staff numbers at period end	4,803	4,899	

	30 June 2014	31 December 2013
Loans and advances to customers (net) (€bn)	38	39
Customer deposits (€bn)	36	36







Retail Ireland incorporates the Group's branch network and Direct Channels (mobile, online and phone), Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and has a comprehensive suite of retail and business products and services.

Retail Ireland (continued)

Retail Ireland reported an **underlying loss before tax** of €28 million for the six months ended 30 June 2014 compared to an underlying loss of €339 million for the same period in 2013. The improvement of €311 million was primarily due to an increase of 48% in operating profit before impairment charges to €236 million and a reduction of €212 million in impairment charges.

Loans and advances to customers (after impairment provisions) of €38 billion at 30 June 2014 have decreased by €1 billion since 31 December 2013. This net decrease is as a result of loan repayments and impairment provisions, partly offset by new lending across all sectors. During the six months ended 30 June 2014, there has been a reduction of €0.7 billion in our low yielding tracker mortgage book.

Customer deposits of €36 billion at 30 June 2014 are in line with the balances at 31 December 2013. Within deposits, current account credit balances of €13 billion at 30 June 2014 have increased by €1 billion since 31 December 2013 while term deposits have decreased by an equivalent amount.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 11).

Net interest income	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Net interest income	485	394	23%
IFRS income classifications	1	27	n/m
Net interest income (after IFRS income classifications)	**486**	**421**	**15%**

Net interest income (after IFRS income classifications) of €486 million for the six months ended 30 June 2014 was €65 million or 15% higher than the same period in 2013. This increase is primarily driven by the lower cost of customer deposits and other funding sources and the impact of higher lending margins on new lending. These factors have been partly offset by the continued negative impact of historically low official interest rates and lower average loan volumes.

Retail Ireland (continued)

Net other income	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Net other income	157	171	(8%)
IFRS income classifications	(1)	(27)	n/m
Net other income (after IFRS income classifications)	**156**	**144**	**8%**

Net other income (after IFRS income classifications)	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Business income	154	145	6%
Other valuation items	2	(1)	n/m
Net other income (after IFRS income classifications)	**156**	**144**	**8%**

Net other income (after IFRS income classifications) of €156 million for the six months ended 30 June 2014 was €12 million or 8% higher than the same period in 2013. This is primarily due to higher retail banking fees and higher debit card interchange and fee income.

Operating expenses of €406 million for the six months ended 30 June 2014 are in line with the same period in 2013. The impact of lower staff numbers and pension costs is offset by investment associated with strategic initiatives. Staff numbers have decreased by 2% from 4,899 at 30 June 2013 to 4,803 at 30 June 2014.

The **share of results of associates and joint ventures (after tax)** was €21 million for the six months ended 30 June 2014 compared to a charge of €1 million for the same period in 2013. The gains in the current period were primarily driven by an increase in the value of international investment properties and other investment funds.

Impairment charges on loans and advances to customers	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Residential mortgages	92	223	(59%)
Non-property SME and corporate	64	95	(33%)
Property and construction	120	158	(24%)
Consumer	9	21	(57%)
Impairment charges on loans and advances to customers	**285**	**497**	**(43%)**

Impairment charges on loans and advances to customers of €285 million for the six months ended 30 June 2014 were €212 million or 43% lower compared to the same period in 2013.

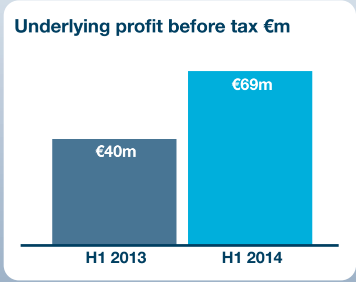
Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 55 to 64 and the supplementary asset quality and forbearance disclosures section on page 115.

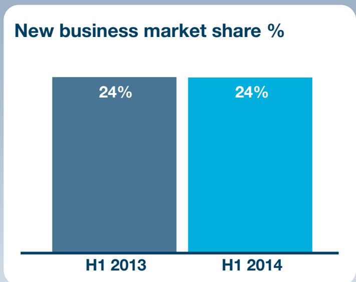
EU Restructuring Plan
As set out in note 19, the Group has agreed to sell the ICS distribution platform together with €250 million of performing mortgage accounts.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Bank of Ireland Life

Bank of Ireland Life: Income statement (IFRS performance)	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Net interest income	23	24	(4%)
Net other income	71	64	11%
Operating income	94	88	7%
Operating expenses	(48)	(46)	(4%)
Operating profit	**46**	**42**	**10%**
Investment variance	9	7	29%
Economic assumption changes	14	(9)	n/m
Underlying profit before tax	**69**	**40**	**73%**
Staff numbers at period end	931	964	





Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc (NIAC), which distributes protection, investment and pension products to the Irish market through independent brokers, its financial advisors (direct sales force) and the Group's branch network.

The **underlying profit before tax** of €69 million for the six months ended 30 June 2014 is €29 million or 73% higher than the same period in 2013 and reflects strong operating profit growth and gains in respect of the economic assumptions and a positive investment variance.

Performance at Bank of Ireland Life was satisfactory during the six months ended 30 June 2014, with sales growing by 9%, resulting in a 24% market share of new business. Sales were ahead in each channel compared to the same period in 2013 with pension sales in particular showing strong growth. The value of new business is up 10% compared to the same period in 2013. Profits from the book of existing business were also strong reflecting positive experience variances from mortality and persistency compared to those assumed.

Operating profit of €46 million for the six months ended 30 June 2014 was €4 million or 10% higher than the same period in 2013 where the income growth on new and existing business offset the increase in costs over the period.

Operating income of €94 million for the six months ended 30 June 2014 is €6 million or 7% higher than the same period in 2013. In new business, the strong growth in single premium and pension sales offset the reduction in protection volumes over the period. On the book of existing policies, an improvement in the company's lapse experience, most notably with respect to pensions, contributed to the growth in existing business income.

Operating expenses of €48 million for the six months ended 30 June 2014 are €2 million or 4% higher than the same period in 2013. In the main, the rise reflects an increase in technology costs. Pension costs are broadly in line with the same period in 2013.

During the six months ended 30 June 2014, strong growth in equity markets meant that investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €9 million (30 June 2013: €7 million).

The overall impact of lower interest rates, including the impact on the economic assumptions, resulted in a gain of €14 million for the six months ended 30 June 2014 (30 June 2013: charge of €9 million).

The discount rate applied to future cash flows was decreased to 6.49% at 30 June 2014, a decrease of 0.62% as compared to 31 December 2013 (30 June 2013: 7.00%). The future growth rate on unit linked assets decreased to 4.0% at 30 June 2014, a decrease of 0.75% as compared to 31 December 2013 (30 June 2013: 4.60%). This decrease is driven by a fall in 10 year swap rates during 2014.

Bank of Ireland Life (continued)

Embedded value performance

Bank of Ireland Life: income statement (Embedded value performance)	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
New business profits	14	13	8%
Existing business profits	39	36	8%
Expected return	*33*	*33*	-
Experience variance	*7*	*3*	*n/m*
Assumption changes	*(1)*	-	*n/m*
Intercompany payments	(6)	(6)	-
Operating profit	**47**	**43**	**9%**
Investment variance	12	8	50%
Economic assumption changes	8	(2)	n/m
Underlying profit before tax	**67**	**49**	**37%**

The alternative method of presenting the performance of the Life business is on an **embedded value (EV) basis**. This method is widely used in the life assurance industry.

Operating profit for the six months ended 30 June 2014 of €47 million was €4 million or 9% higher than the same period in 2013.

New business profits of €14 million were 8% higher than the same period in 2013 reflecting the strong growth in pension and single premium sales.

Existing business profits of €39 million were €3 million or 8% higher than the six months ended 30 June 2013 reflecting positive experience variances from mortality and persistency compared to that assumed. In particular, a strong improvement in the company's lapse experience, most notably with respect to pensions, contributed to the growth in existing business profits.

The **underlying profit before tax**, on an embedded value basis, of €67 million for the six months ended 30 June 2014 compares to €49 million for the same period in 2013.

The underlying profit before tax has benefited from a positive investment variance. During the six months ended 30 June 2014, strong growth in equity markets meant that investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €12 million (30 June 2013: €8 million).

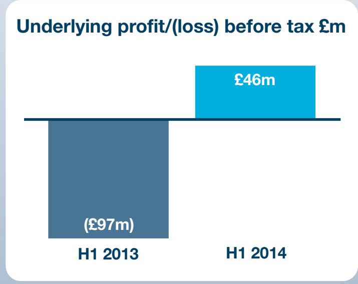
The overall impact of lower interest rates, including the effect on the economic assumptions resulted in a gain of €8 million for the six months ended 30 June 2014 (30 June 2013: €2 million charge).

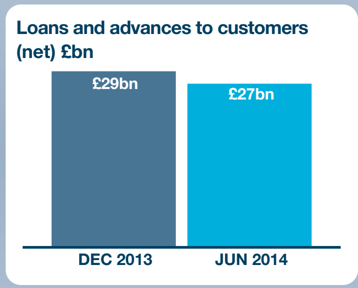
The key assumptions used in the EV methodology are consistent with those used under the IFRS methodology, being a discount rate of 6.49% (31 December 2013: 7.11%; 30 June 2013: 7.00%), future unit growth rate on unit linked assets of 4.0% (31 December 2013: 4.75%; 30 June 2013: 4.6%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2013: 12.5%; 30 June 2013: 12.5%).

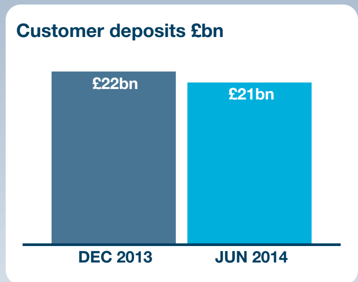
Retail UK (Sterling)

Retail UK: Income statement	6 months ended 30 June 2014 £m	6 months ended 30 June 2013 £m	Change %
Net interest income	267	211	27%
Net other income	2	1	n/m
Operating income	**269**	**212**	**27%**
Operating expenses	(145)	(147)	1%
Operating profit before impairment charges on financial assets	**124**	**65**	**91%**
Impairment charges on loans and advances to customers	(93)	(177)	47%
Share of results of associates and joint ventures (after tax)	15	15	-
Underlying profit / (loss) before tax	**46**	**(97)**	**n/m**
Underlying profit / (loss) before tax (€m equivalent)	**57**	**(112)**	**n/m**
Staff numbers at period end	1,429	1,421	

	30 June 2014	31 December 2013
Loans and advances to customers (net) (£bn)	27	29
Customer deposits (£bn)	21	22







The Retail UK Division incorporates the exclusive financial services relationship and foreign exchange joint venture with the UK Post Office, the UK residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Northern Ireland. The Group also has a business banking business in Great Britain which is in run-down, in accordance with the EU restructuring plan. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

Retail UK (Sterling) (continued)

Retail UK reported an **underlying profit before tax** of £46 million for the six months ended 30 June 2014 compared to an underlying loss before tax of £97 million in the same period of 2013. The increase of £143 million relates to a £59 million improvement in operating profit before impairment charges and a decrease of £84 million in impairment charges.

Loans and advances to customers (after impairment provisions) of £27 billion have decreased by £2 billion since 31 December 2013. The decrease in loans and advances to customers reflects lower net lending as repayments and the impact of impairment provisions exceeded new loans advanced in the period. The volume of UK Residential mortgages reduced as mortgage redemptions continued to exceed new business written which is marketed under both the Post Office and Bank of Ireland brands. In June 2014, UK mortgages widened its distribution with one of its strategic partners, Legal & General, under the Post Office brand. The decrease in overall lending balances was also impacted by the transfer of loans of £0.6 billion to the Group's Corporate and Treasury division.

Customer deposits of £21 billion have decreased by £0.7 billion since 31 December 2013. This decrease is linked to the EU mandated run-down of GB business banking activities resulting in lower customer related deposits. During the first half of 2014 the Group also closed its IOM operations which impacted deposit volumes. These factors were partly offset by a growth in deposits originated under the UK Post Office brand.

Net interest income of £267 million for the six months ended 30 June 2014 is £56 million or 27% higher than the same period in 2013. This increase reflects the impact of asset pricing decisions made in early 2013 and the reduction in deposit pay rates over the past 12 months.

Net other income	**6 months ended 30 June 2014 £m**	6 months ended 30 June 2013 £m	Change %
Business income	5	-	n/m
Other valuation items	(3)	1	n/m
Net other income	**2**	**1**	**n/m**

Net other income was £2 million for the six months ended 30 June 2014 and is £1 million higher than the same period in 2013. The increase is primarily due to fees recovered on redemption of business banking loans and increased transaction fees. This is partly offset by valuation losses in relation to customer derivative transactions and an increase in commissions payable to the UK Post Office.

Operating expenses of £145 million for six months ended 30 June 2014 are £2 million lower than the same period in 2013 reflecting lower staff and infrastructure costs following the implementation of the Group's cost reduction programme in the Northern Ireland business and the Group's business banking business in Great Britain, partly offset by ongoing investment in the relationship with the UK Post Office.

The **share of results of associates and joint ventures (after tax)** of £15 million, relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, which is in line with the same period in 2013.

Impairment charges on loans and advances to customers	**6 months ended 30 June 2014 £m**	6 months ended 30 June 2013 £m	Change %
Residential mortgages	(3)	24	n/m
Non-property SME and corporate	17	46	(63%)
Property and construction	75	99	(24%)
Consumer	4	8	(50%)
Impairment charges on loans and advances to customers	**93**	**177**	**(47%)**

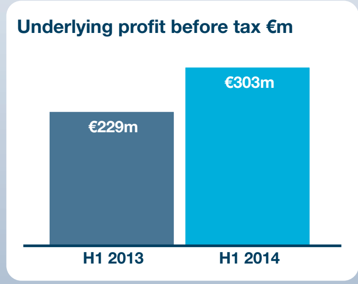
Impairment charges on loans and advances to customers of £93 million for the six months ended 30 June 2014 were £84 million or 47% lower than the same period in 2013.

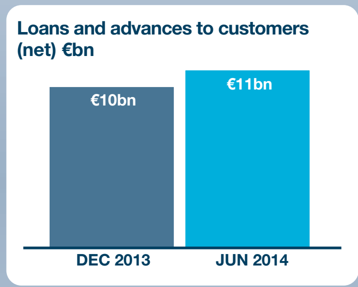
Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 55 to 64 and the supplementary asset quality and forbearance disclosures section on page 115.

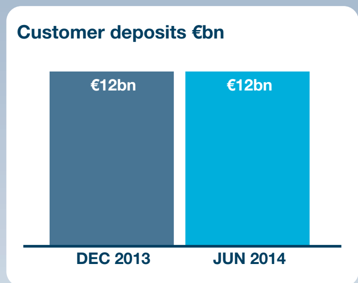
Corporate and Treasury

Corporate and Treasury: Income statement	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Net interest income	318	303	5%
Net other income	117	89	31%
Operating income	**435**	**392**	**11%**
Operating expenses	(86)	(87)	1%
Operating profit before impairment charges on financial assets	**349**	**305**	**14%**
Impairment charges on loans and advances to customers	(46)	(76)	39%
Underlying profit before tax	**303**	**229**	**32%**
Staff numbers at period end	574	585	

	30 June 2014	31 December 2013
Loans and advances to customers (net) (€bn)	11	10
Customer deposits (€bn)	12	12
AFS liquid assets and NAMA bonds (€bn)	14	14







The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. It also includes the Group's liquid asset portfolio.

Corporate and Treasury (continued)

Corporate and Treasury reported an **underlying profit before tax** of €303 million for the six months ended 30 June 2014 compared to €229 million in the same period in 2013. The increase of €74 million or 32% is primarily driven by higher transfers from the available for sale reserve on asset disposals and lower impairment charges.

Loans and advances to customers (after impairment provisions) of €11 billion at 30 June 2014 were €1 billion higher than at 31 December 2013, primarily as a result of the transfer of a loan portfolio of €0.8 billion to the Corporate and Treasury division from the Retail UK division. Excluding this transfer, loans and advances to customers increased slightly, with new lending exceeding repayments.

Customer deposits at 30 June 2014 of €12 billion were similar to those at 31 December 2013. The book primarily comprises a mixture of corporate, State, SME and structured retail customer deposits.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 11).

Net interest income	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Net interest income	318	303	5%
IFRS income classifications	(28)	(12)	n/m
Net interest income (after IFRS income classifications)	**290**	**291**	**-**

Net interest income (after IFRS classifications) of €290 million for the six months ended 30 June 2014 is €1 million lower than the same period in 2013. This decrease is primarily as a result of the continued negative impact of historically low official interest rates and a reduction in average loan volumes, offset by improved margins on the corporate loan books, as term facilities at historic lower margins are replaced by facilities reflecting current market pricing, and gains resulting from re-estimating the timing of cash flows on NAMA senior bonds. While loan volumes grew in 2014 they have not yet returned to previous levels, with the result that average volumes in the first half of 2014 are lower than the comparable period in 2013.

Net other income	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Net other income	117	89	31%
IFRS income classifications	28	12	n/m
Net other income (after IFRS income classifications)	**145**	**101**	**44%**

Net other income (after IFRS income classifications)	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Change %
Business income	66	58	14%
Other valuation items	(10)	19	n/m
Other gains	89	24	n/m
Net other income (after IFRS income classifications)	**145**	**101**	**44%**

Corporate and Treasury (continued)

Net other income (after IFRS classifications) of €145 million for the six months ended 30 June 2014 has increased by €44 million or 44% compared to the same period in 2013. This increase is primarily due to €72 million higher transfers from the available for sale reserve on asset disposals, as the Group rebalanced its liquid asset portfolio and €8 million higher business income, partly offset by:

- a €29 million net negative impact from certain valuation adjustments (CVA, DVA, FVA and other); and
- €7 million of recoveries in 2013 on the administration settlement associated with the collapse of Lehman Brothers in September 2008 that did not re-occur in 2014.

Operating expenses of €86 million for the six months ended 30 June 2014 are €1 million lower than the same period in 2013.

Impairment charges on loans and advances to customers	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Change %
Non-property SME and Corporate	44	59	(25%)
Property and construction	2	17	(88%)
Total impairment charges on loans and advances to customers	**46**	**76**	**(39%)**

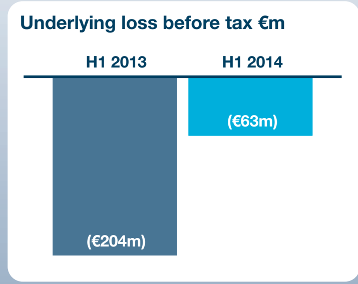
Impairment charges on loans and advances to customers of €46 million for the six months ended 30 June 2014 have decreased by €30 million or 39% compared to the same period in 2013. Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section on pages 55 to 64 and the supplementary asset quality and forbearance disclosures section on page 115.

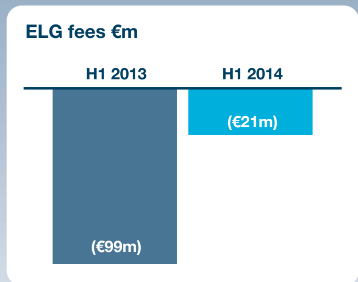
THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Group Centre

Group Centre: Income statement	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Change %
ELG fees	**(21)**	**(99)**	**79%**
Other income	**(16)**	**4**	**n/m**
Net operating income	**(37)**	**(95)**	**61%**
Operating expenses	(96)	(109)	12%
Reversal of impairment charge on available for sale (AFS) financial assets	70	-	n/m
Underlying loss before tax	**(63)**	**(204)**	**69%**
Staff numbers at period end	3,649	3,862	

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*





Group Centre comprises capital and other management activities, unallocated Group support costs and the cost associated with schemes such as the ELG scheme, the Deposit Guarantee Scheme (DGS) and the UK Financial Services Compensation Scheme (FSCS).

Group Centre reported an **underlying loss before tax** of €63 million for the six months ended 30 June 2014 compared to €204 million for the same period in 2013.

Net operating income was a charge of €37 million for the six months ended 30 June 2014 compared to a charge of €95 million for the same period in 2013. The reduction of €58 million in the period is driven primarily by a combination of lower ELG fees and lower income from derivative assets. **ELG fees** of €21 million for the six months ended 30 June 2014 compared to €99 million for the same period in 2013. The total liabilities covered by the ELG scheme are €4 billion at 30 June 2014 compared to €8 billion at 30 June 2013. Final maturity of the covered liabilities is expected to occur by December 2017, with c.80% of the covered liabilities of €4 billion expected to mature by 30 June 2015.

Other income was a charge of €16 million for the six months ended 30 June 2014 and is €20 million lower than the same period in 2013. The decrease is primarily due to the impact of changes in credit spreads on the Contingent Capital Note embedded derivative as it approaches its redemption date in 2016.

Operating expenses of €96 million for the six months ended 30 June 2014 are €13 million lower than the same period in 2013. The decrease primarily relates to investment spend incurred in the six months ended 30 June 2013 coupled with a lower pension charge in the six months ended 30 June 2014, partly offset by increased spend on regulatory and compliance projects in 2014.

The **reversal of an impairment charge on available for sale (AFS) financial assets** of €70 million for the six months ended 30 June 2014 related to the NAMA subordinated bonds, the valuation of which was updated following NAMA's updated outlook for its long term performance and the payment of a discretionary coupon on these bonds.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Income statement - Operating segments

6 months ended 30 June 2014	Net interest income €m	Insurance net 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	Reversal of impairment charge on available for sale (AFS) financial assets €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	**Profit / (loss) before taxation €m**
Retail Ireland	485	-	157	**642**	-	**642**	(406)	**236**	(285)	-	21	-	**(28)**
Bank of Ireland Life	23	652	485	**1,160**	(1,043)	**117**	(48)	**69**	-	-	-	-	**69**
Retail UK	325	-	4	**329**	-	**329**	(177)	**152**	(113)	-	18	-	**57**
Corporate and Treasury	318	-	117	**435**	-	**435**	(86)	**349**	(46)	-	-	-	**303**
Group Centre	(13)	(1)	(26)	**(40)**	3	**(37)**	(96)	**(133)**	-	70	-	-	**(63)**
Other reconciling items	2	-	(13)	**(11)**	-	**(11)**	-	**(11)**	-	-	-	-	**(11)**
Group - underlying[1]	**1,140**	**651**	**724**	**2,515**	**(1,040)**	**1,475**	**(813)**	**662**	**(444)**	**70**	**39**	**-**	**327**
Total non-core items													
- Impact of changes to pension benefits in the Group sponsored defined benefit schemes	-	-	-	**-**	-	**-**	87	**87**	-	-	-	-	**87**
- Cost of restructuring programme	-	-	-	**-**	-	**-**	(27)	**(27)**	-	-	-	-	**(27)**
- Gain arising on the movement in the Group's credit spreads	-	-	8	**8**	-	**8**	-	**8**	-	-	-	-	**8**
- Gross-up for policyholder tax in the Life business	-	-	8	**8**	-	**8**	-	**8**	-	-	-	-	**8**
- (Loss) / gain on liability management exercises	-	-	(3)	**(3)**	-	**(3)**	-	**(3)**	-	-	-	-	**(3)**
- Loss on disposal of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	-	(1)	**(1)**
Group total	**1,140**	**651**	**737**	**2,528**	**(1,040)**	**1,488**	**(753)**	**735**	**(444)**	**70**	**39**	**(1)**	**399**

[1] *Underlying performance excludes the impact of non-core items (see page 17).*

Income statement - Operating segments

Restated* 6 months ended 30 June 2013	Net interest income €m	Insurance net 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	Profit / (loss) before taxation €m
Retail Ireland	394	-	171	565	-	565	(406)	159	(497)	(1)	(339)
Bank of Ireland Life	24	477	122	623	(537)	86	(46)	40	-	-	40
Retail UK	247	-	2	249	-	249	(172)	77	(207)	18	(112)
Corporate and Treasury	303	-	89	392	-	392	(87)	305	(76)	-	229
Group Centre	(100)	3	3	(94)	(1)	(95)	(109)	(204)	-	-	(204)
Other reconciling items	1	-	(10)	(9)	-	(9)	-	(9)	-	-	(9)
Group - underlying[1]	869	480	377	1,726	(538)	1,188	(820)	368	(780)	17	(395)
Total non-core items											
- Gross-up for policyholder tax in the Life business	-	-	18	18	-	18	-	18	-	-	18
- Gain on liability management exercises	-	-	4	4	-	4	-	4	-	-	4
- Charge arising on the movement in the Group's credit spreads	-	-	(66)	(66)	(22)	(88)	-	(88)	-	-	(88)
- Cost of restructuring programme	-	-	-	-	-	-	(50)	(50)	-	-	(50)
- Loss on deleveraging of financial assets	-	-	(4)	(4)	-	(4)	-	(4)	-	-	(4)
- Investment return on treasury stock held for policyholders	-	-	(1)	(1)	-	(1)	-	(1)	-	-	(1)
Group total	869	480	328	1,677	(560)	1,117	(870)	247	(780)	17	(516)

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

[1] *Underlying performance excludes the impact of non-core items (see page 17).*

Principal risks and uncertainties

The Group regards the following risks and uncertainties to be particularly important in the next six months. Any of these risks could have a material impact on the Group's results, financial condition and prospects. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; some risks are not yet known and some that are not considered material could later turn out to be material.

Inherent risks arising from macroeconomic conditions in the Group's main markets, namely Ireland and the UK

The Group's businesses are subject to inherent risks arising from general and sector specific economic conditions in countries to which the Group has an exposure, particularly in Ireland and the UK. Reduced growth prospects of Ireland's trading partners could set back the recovery in the Irish economy, possibly leading to a renewed rise in unemployment and a renewed downturn in the housing market, which could adversely impact the Group's results, financial condition and prospects. Downward pressure on firms' profitability and household disposable incomes from unexpected fiscal measures, as well as the high level of private sector debt combined with a consequent material deterioration in the business environment could depress demand for financial products and credit facilities and increase the Group's impaired loans and impairment provisions.

Reduced or continuing muted demand for credit, whether as a result of macroeconomic conditions or other factors, has the potential to impact the Group's financial position by constraining loan volume growth.

Deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties

Exposures originated and managed in Ireland and the UK represent the substantial majority of the Group's credit risk. The Group has exposures to Residential mortgages, SME and corporate customers in different sectors and investors in commercial property and residential property. Economic conditions may deteriorate in the Group's main markets, which may lead to, amongst other things, declines in values of collateral (including residential and commercial property values) and investments, increases in unemployment levels, weak consumer and corporate spending, declining corporate profitability, declining equity markets and bond markets and an increase in corporate insolvencies. This may give rise to deterioration in the credit quality of the Group's borrowers and counterparties and increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, resulting in significant increases in the Group's impaired loans and impairment provisions. Renewed uncertainty in the global and eurozone economies could result in downgrades and deterioration in the credit quality of the Group's Irish and eurozone sovereign and banking exposures.

Geopolitical Risk

Geopolitical risks, such as those associated with the escalating crisis in the Middle East and increasing tensions between Russia and the West in relation to the Ukraine have increased in recent times. The economic and financial market impact of these events has remained localised to date however a prolonged crisis or a further escalation could have an impact on the markets in which the Group operates, and thus could impact the Group's financial results, conditions or prospects.

Personal Insolvency Act 2012 and the Central Bank of Ireland measures to address mortgage arrears

The Irish Personal Insolvency Act 2012 (the 'Personal Insolvency Act') which became effective in 2013 provides for judicial and non-judicial resolution options for consumers deemed under the provisions of the Personal Insolvency Act to have unsustainable indebtedness levels. The Personal Insolvency Act amends existing bankruptcy provisions by reducing the timescale for discharge from bankruptcy from twelve years to three years. The Personal Insolvency Act also introduces several non-judicial resolution options to debt resolution as an alternative to bankruptcy. There is a risk that customers' behaviours may change regarding payment obligations

Principal risks and uncertainties (continued)

which could have an adverse impact on the Group's results, financial condition, prospects and reputation.

The Central Bank of Ireland (CBI) announced a range of measures to address mortgage arrears, including the publication of performance targets for the main Irish banks (which include the Group) and changes to the Code of Conduct on Mortgage Arrears. The CBI will consider regulatory actions, including the imposition of additional capital requirements, for Irish banks that fail to meet its targets or which demonstrate poor resolution strategies or poor execution of their strategies.

The CBI has also set out its plans to potentially require more rigorous provisioning for mortgage loans in arrears greater than 90 days which have not been subject to a sustainable solution. The cumulative impact of these measures could adversely impact the Group's results, financial conditions and prospects.

Further interventions may occur in the event that the regulatory or other State authorities deem these to be necessary. Any such interventions could have an adverse impact on the Group's financial results, conditions or prospects.

Risks associated with the banking system and the regulatory environment in the jurisdictions in which the Group carries out its principal activities, namely Ireland and the UK

Irish and UK banking system
The exercise of powers under existing legislation, in particular (in Ireland) the Credit Institutions (Stabilisation) Act 2010 (the effective period of which has been extended to 31 December 2014), the Central Bank and Credit Institutions (Resolution) Act 2011 and the Central Bank (Supervisory and Enforcement) Act 2013, the introduction of new government policies or the amendment of existing policies in Ireland or the UK (including supervision, regulation, capital levels and structure), or the introduction of new regulatory obligations by the Group's regulators, could have an adverse impact on the Group's results, financial condition and prospects.

Balance Sheet Assessment
The CBI conducted a Balance Sheet Assessment (BSA) as at 30 June 2013 of a number of Irish banks, including the Group. The BSA consisted of an asset quality review and a review of the appropriateness of risk weighted assets. The CBI confirmed that the Group had adequate capital as at 30 June 2013 to meet the requirements determined by the BSA. The CBI has advised that BSA output is expected to be utilised by the European Central Bank (ECB) in its Comprehensive Assessment (see below), though the full extent of the output to be utilised is unknown. The final outcome of the engagement with CBI and / or the ECB on the BSA may adversely impact the Group's financial results, capital and/or liquidity requirements.

Single Supervisory Mechanism (SSM)
The SSM is the mechanism through which the ECB will carry out key supervisory tasks for banks in EU member states participating in the European banking union, including the Group, from November 2014. Were this to result in an increase in the level of regulatory obligations and / or the more stringent enforcement thereof, this could adversely impact the Group's results, financial condition and prospects.

Comprehensive Assessment
The ECB is conducting a comprehensive assessment of certain banks (including the Group) during 2014 in advance of assuming full responsibility for supervision as part of the SSM. The assessment consists of:
(i) a supervisory risk assessment intended to assess key risks in banks' balance sheets, including liquidity, leverage and funding;
(ii) an asset quality review of all asset classes including non-performing loans, restructured loans and sovereign exposures, as at 31 December 2013; and
(iii) a stress test building on and complementing the asset quality review by providing a forward-looking view of banks' shock-absorption capacity under stress.

The ECB asset quality review and stress test are ongoing and the results are not expected until later in 2014 - the current schedule suggests the release of results in late October 2014 and the outcome of these significant exercises will not be known until after such time.

The outcome of the 2014 Comprehensive Assessment may adversely impact the Group's financial results, capital and/or liquidity requirements. The Group may be required or may consider it necessary to take appropriate actions to address matters arising from these assessments.

Single Resolution Mechanism (SRM)
The relevant European institutions have agreed to establish a SRM including a single resolution board and a single fund for the resolution of banks. The establishment of a SRM is designed to ensure that supervision and resolution are exercised at the same level for countries that share the supervision of banks within the SSM. The SRM will cover banks in all countries participating in the SSM. The single resolution fund will be financed by bank levies (including, it is expected, from the Group) raised at national level.

Principal risks and uncertainties (continued)

The SRM Regulation together with the Recovery and Resolution Directive (see below) will be applicable from 1 January 2016 (with certain exceptions which are applicable from earlier dates).

Recovery and Resolution Directive
Regulatory bodies in the UK and Ireland are introducing new measures in respect of loss absorbency and bail-in rules which may result in further significant changes in the regulatory framework for capital and debt instruments of credit institutions. On 12 June 2014 the Recovery and Resolution Directive was published by the European Commission and must be transposed into national law by 31 December 2014. It provides for certain powers similar to those granted by the Credit Institutions (Stabilisation) Act 2010 and the Credit Institutions (Resolution) Act 2011 and provides for a 'bail-in' of certain senior unsecured debt and corporate deposits in the circumstances of a bank resolution post-2016. EU regulatory authorities (including CBI) have taken an interim step, pending finalisation of this Directive, and the Group submitted a Recovery Plan, as required, by 31 December 2013. The impact of the Directive on the Group is as yet unclear pending finalisation of the measures.

Basel III
Basel III has been implemented into EU law via the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV).

The CRR came into force on 1 January 2014 and is directly applicable in Ireland. CRD IV has been implemented in Ireland by the European Union (Capital Requirements) Regulations 2014 and the European Union (Capital Requirements) (No.2) Regulations 2014 (together the 'CRD Regulations'), which were signed into Irish law on 31 March 2014.

The CRR and the CRD Regulations introduce new regulatory requirements for regulated institutions such as the Group and its licenced subsidiaries. CRR and CRD IV also include requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain.

The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with implementation for the majority of its provisions by 1 January 2019, while the phase in of certain deductions from CET 1 (e.g. deferred tax) extends to 2023.

The CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013 (as updated on 21 May 2014) which clarifies the application of certain transitional rules in Ireland under CRD IV. However, in the absence of a final set of rules, and pending full implementation, the precise impact of Basel III on the Group from a liquidity, capital, regulatory and financial perspective is uncertain.

Solvency II
Directive 2009/138/EC, adopted by the European Parliament on 22 April 2009 and endorsed by the Council of Ministers on 5 May 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance ('Solvency II') is a fundamental review of the capital adequacy regime for the European insurance industry. As part of the implementation of Solvency II, the capital structure and overall governance of the Group's life assurance business will alter significantly and this may have an impact on the capital structure of the Group. Solvency II is expected to be effective from 1 January 2016.

Regulatory obligations
The Group is subject to extensive regulation and oversight. Regulatory obligations including licence conditions have increased and continue to increase and the number of regulatory sanctions and fines are increasing globally. Where breaches occur, a sanction or fine requiring public disclosure may be imposed by a regulator, which could adversely impact market sentiment and consequently adversely impact Group results, financial conditions, prospects and reputation.

UK reform measures
Bank of Ireland (UK) plc is the Group's licensed banking subsidiary in the UK. It comprises the Group's financial services relationship with the UK Post Office, its branch business in Northern Ireland, certain assets from its former intermediary sourced mortgage business, and parts of its UK business banking operations. Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority and regulated by both the Prudential Regulation Authority and the Financial Conduct Authority. Bank of Ireland (UK) plc could be subject to future structural and non-structural reforms currently under consideration by the UK government to promote financial stability and competition and to protect UK retail depositors. Further, Bank of Ireland (UK) plc could be subject to special resolution regime powers under the UK Banking Act 2009.

Banking inquiry
The Irish Government previously commissioned and received three preliminary reports into the factors which contributed to the Irish banking crisis, including one report from the Statutory Commission of Investigation (under the Commissions of Investigation Act, 2004).

Additional legislation has been enacted to provide a statutory framework for enquiries by the Oireachtas (Houses of the Oireachtas (Inquiries Privileges and Procedures) Act 2013). The Irish Government has commenced an inquiry into the banking crisis under this legislation. The scope of this, or any further inquiry, related costs and potential implications for the Group are currently unknown.

Principal risks and uncertainties (continued)

EU restructuring plan
On 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's revised EU restructuring plan (approved on 20 December 2011), which permitted the retention of NIAC but required a range of substitution measures including the run-down of the Group's Great Britain based business and corporate banking activities, the exit from the origination of new mortgages through the intermediary channel in Ireland and the expansion and extension of other behavioural measures already agreed in the previous EU restructuring plans for the Group.

While the Group has met all of its obligations due under the restructuring plan, it has certain continuing obligations. If the Group fails to comply with commitments contained in the EU Restructuring Plan or if the Group materially deviates from the EU Restructuring Plan or needs additional State aid not foreseen in the Commission's decision approving the EU Restructuring Plan, the Commission may reopen the State aid control procedure and / or open a new procedure and reassess the aid measures in their entirety, which may result in an adverse outcome for the Group.

Other
The Irish Government through the National Pensions Reserve Fund Commission (NPRFC) has a 14% discretionary shareholding in the Group. In addition, the Group has also given certain undertakings to the Minister for Finance (the 'Undertakings') in respect of corporate governance and remuneration.

Downgrades to the Group's credit ratings or outlook

The Group's credit ratings and outlook are set out on page 162. Downgrades in the credit ratings of the Group could have a negative impact on the volume and pricing of its private sector funding and its financial position, restrict the Group's access to the capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken the Group's competitive position in certain markets.

Concern regarding European sovereign debt

Concerns regarding European sovereign debt, reflected in, among other factors, sovereign credit spreads, diminished significantly in 2013 and have continued to diminish further in 2014. However, international debt markets could be impacted by renewed concerns on the level of fiscal deficits, an increased requirement for support of the banking system, evolving sovereign debt levels of EU member states, speculation about the stability of the eurozone including the potential for a country exiting the system and the potential impact of these factors on the individual EU member state economies.

A material and unexpected escalation of market concern towards Ireland could lead to speculation or further concern about the applicability of policy choices that might be applied to resolve those concerns which could ultimately have an adverse impact on the Group's results, financial condition or prospects.

Principal risks and uncertainties (continued)

Lack of liquidity to fund the Group's business activities

The Group relies on customer deposits to fund a considerable portion of its loan portfolio. Loss of customer confidence in the Group's business or in banking businesses generally, among other things, could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Group's results, financial condition and prospects. Liquidity risk can be heightened by an over-reliance on a particular kind of funding and may be exacerbated by any restrictions on the flow of liquidity between jurisdictions and legal entities.

The Group sources funding from Monetary Authorities and any disruption to access could increase the Group's funding and liquidity risks. The CBI, and in the future the ECB under the SSM, prescribes regulatory liquidity ratios for Irish domestic financial institutions. Compliance with these ratios can be adversely impacted by a range of factors, including the stability of customer deposits, the split between unsecured and secured funding, the mix of liquidity facilities provided by Monetary Authorities and the concentration of wholesale funding maturity. Failure to comply with these ratios could result in regulatory sanctions and adversely impact the Group's reputation and prospects.

The Group will be required to comply with new EU obligations under the CRR concerning new liquidity ratios (the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)). LCR obligations are expected to apply from 2015, with a minimum 60% target expected from that date, and a phased implementation to 2018. A requirement for the NSFR to be above 100% is expected from January 2018. Failure to properly comply with the LCR and NSFR requirements could result in regulatory sanction.

Since November 2012, the Group, under the CBI's Advanced Monitoring Framework, has continued to report to the CBI on its progress towards achievement of compliance with requirements for the LCR and the NSFR by the relevant implementation dates. A failure to achieve progress may adversely affect the Group's reputation and prospects.

Capital adequacy and its effective management, which is critical to the Group's ability to operate its businesses and to pursue its strategy

The Group's business and financial condition would be affected if the Group was insufficiently capitalised. This could be caused by a materially worse than expected financial performance (including, for example, reductions in earnings as a result of impairment charges, an unexpected change in interest rates and unexpected increases in risk weighted assets).

The minimum regulatory requirements imposed on the Group, the manner in which the existing regulatory capital is calculated, the instruments that qualify as regulatory capital and the capital tier to which those instruments are allocated, are the subject of extensive analysis and debate in the media and by regulatory authorities and could be subject to change in the future. A number of regulatory initiatives have recently been proposed or enacted which have the potential to impact the Group's capital requirements. These initiatives include Capital Requirements Directives (CRD II, III and IV), CRR and Solvency II and the transfer of supervisory powers to the SSM in late 2014.

The CBI has confirmed to the Group that it will recognise the 2009 Preference Stock for grandfathering purposes as CET1 capital under Article 483 of the Capital Requirements Regulation from 1 January 2014.

The Group announced on 4 December 2013, that save in certain circumstances (including changes in the regulatory capital treatment of the 2009 Preference Stock or taxation events) it does not intend to redeem the 2009 Preference Stock prior to 1 January 2016. The Group has advised the CBI that it is not the Group's intention to recognise the 2009 Preference Stock as CET1 capital after July 2016, unless the de-recognition of the 2009 Preference Stock would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements. It is noted that in any event the 2009 Preference Stock would no longer qualify as CET1 capital under Article 483 of the Capital Requirements Regulation after 31 December 2017.

If the grandfathering requirements or the definition of CET1 capital are subsequently amended or if new qualification requirements are introduced, or if the CBI, ECB or similar authority otherwise applies a different approach to their determination of what constitutes CET1 capital, there is no guarantee that the 2009 Preference Stock will continue to qualify or be recognised as CET1 capital and this

Principal risks and uncertainties (continued)

could adversely affect the Group's ability to meet its regulatory capital obligations and could adversely affect the Group's results, financial conditions and prospects. In addition, the Group may be required or may consider it necessary to take appropriate actions to address such matters, such as the redemption of the 2009 Preference Stock.

As noted above, the outcome of the engagement with CBI and / or ECB on the BSA and / or the outcome of the 2014 or any subsequent comprehensive assessment or capital / liquidity stress test may adversely impact the Group's financial results, capital and/or liquidity requirements. The Group may be required or may consider it necessary to take appropriate actions to address matters arising from these assessments.

Failure in the Group's processes, operational systems, technology or infrastructure, or those of its third party service providers

The Group is exposed to a broad range of operational risks as a direct and indirect consequence of its day-to-day business activities. These risks are an inherent part of the execution of its business processes, the functioning and resilience of its technologies, the implementation of new products and processes, and in the management of its assets, including the capture, retention and disposal of customer and Group data.

Operational risks may materialise as a result of a broad range of factors, including inadequate or failed internal or customer facing processes, such as account-opening, payments processing, financial reporting and risk monitoring processes. In addition, risks may materialise due to information technology or equipment failures, the malfunction or deficiency of external systems and controls (including those of the Group's suppliers or counterparties), or from people-related or external events, such as cyber-crime and fraud or from natural disasters and social or political events. The Group is also exposed to the risk of information leakage, loss or theft as part of the various activities performed by its employees, contractors and by third party suppliers on its behalf.

The Group faces various risks associated with operational disruption, breakdown or constraints, including in the capacity of third party suppliers that are integral to the provision of its products and services. If one or more of these risks were to materialise, the confidentiality, integrity and availability of the Group's computer systems and networks may be compromised, or otherwise cause interruptions or malfunctions in the Group's, as well as its clients' or third parties', operations. As part of its day-to-day operations, the Group processes a large volume of transactions, some of which are highly complex, across a diverse range of products and services, in various markets and currencies and is subject to several legal and regulatory regimes. The Group faces the risk that due to errors, control failures or criminal acts, the Group's execution and provision of these transactions and services may be negatively impacted.

The Group is required to implement and adhere to a significant body of existing and new regulatory and legal requirements. The implementation of these requirements and the on-going adherence to their associated obligations, pose various risks, including the potential for non-compliance and direct operational impacts on existing processes and systems and on the continuity of services provided to customers.

The occurrence of one or more of the above, or any weakness in the Group's internal control structures and procedures, could lead to a material adverse impact on the Group's results, financial condition and prospects, as well as reputational damage which could exacerbate such adverse impact, and could give rise to regulatory penalties.

Principal risks and uncertainties (continued)

Potential further contributions to the Group sponsored defined benefit pension schemes if the value of pension fund assets is not sufficient to cover potential obligations and/or the impact of new Basel III / CRD IV capital rules.

The Group sponsored defined benefit pension funds are subject to market fluctuations and changes in the value of underlying assets, as well as to interest rate risk, mortality risk and changes to actuarial assumptions. These fluctuations could impact on the value of the schemes' asset portfolios and result in returns on the pension funds being less than expected and/or result in there being a greater than expected increase in the estimated value of the schemes' liabilities.

Due to adverse market conditions (e.g. low long term interest rates) impacting the value of liabilities, deficits still exist in the majority of the Group's Defined Benefit schemes. As the pension funds continue to be subject to market fluctuations, interest rate and inflation risks, a level of volatility associated with pension funding also remains.

Legislative changes were made to the Irish Pensions Act (1990) in June 2012 introducing a revised statutory funding standard for Republic of Ireland schemes. The introduction of these new requirements could have an adverse impact on the Group's financial condition and prospects due to the introduction of additional Risk Reserve requirements from 1 January 2016.

The impact of material volatility could be exacerbated under the new Basel III/CRD IV capital rules under which defined benefit pension deficits will be a deduction from capital ratios over time.

Market risks, such as changes in interest rates, interest rate spreads (or bases), foreign exchange rates and clearing arrangements for associated hedging derivatives.

A range of market risks are inherent to the Group's business including, inter alia, the interest rate risks that arise from the presence of non-interest related assets and liabilities on the balance sheet, the exposure of Group earnings to basis risk and the exposure of the Group's net worth and its principal capital ratios to exchange rate movements. Whilst the Group engages in a range of hedging strategies, the Group remains potentially exposed to adverse movements in interest rates, interest rate bases (the differential between variable interest rates), cross currency basis (primarily the cost of borrowing in euro to fund assets in sterling) and exchange rates. The persistence of exceptionally low interest rates for an extended period into the future or a material reduction in current interest rates could adversely affect the Group's financial condition and prospects through, among other things, the compression of net interest margin, the low absolute level of yields at which certain liabilities are invested, together with the rate at which pension liabilities are discounted.

Fundamental changes are underway in derivatives markets, in particular the mandatory clearing of most forms of interest rate swap and other standardised derivatives. The Group will access clearing through a number of appointed clearing brokers. The move to clearing brings with it concentration risks for many banks, including the Group, arising from the fact that access to clearing through central exchanges will be controlled by a relatively small number of counterparties. This compares with the bilateral over-the-counter (OTC) markets where no such concentration exists. The deterioration in the credit standing of the Group or credit appetite of one or more clearing brokers could impact on the Group's ability to execute new, or to clear existing, derivatives.

Principal risks and uncertainties (continued)

The availability of skilled management and the continued services of key members of its management team, both at its head office and at each of its business units

Failure by the Group to staff its operations appropriately, or the loss of one or more key senior executives and failure to replace them in a satisfactory and timely manner may have a material adverse impact on the Group's results, financial condition and prospects.

In addition, if the Group fails to attract and appropriately train, motivate and retain highly skilled and qualified people, or if it was to be impacted by industrial unrest, its businesses may also be negatively impacted.

The Group is subject to ongoing restrictions on remuneration arising from the implementation of Irish legislation, agreements with the Irish Government associated with the recapitalisation of the Group and the EBA remuneration guidelines.

Restrictions imposed on remuneration by government, tax or regulatory authorities, CRD III and IV or other factors outside the Group's control in relation to the retention and recruitment of key executives and highly skilled and qualified people may also adversely impact on the Group's ability to attract and retain such staff.

Adverse changes to tax rates, legislation and practice in the various jurisdictions in which the Group operates

In accordance with applicable accounting rules, the Group has recognised deferred tax assets on losses available to relieve future profits to the extent that it is probable that such losses will be utilised. Failure to demonstrate convincing evidence of the availability of future taxable profits, or changes in tax legislation or government policy may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements, and result in a material adverse impact on the Group's results, financial condition and prospects.

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

Other changes in tax rates, legislation and regulatory practice could also adversely impact the results, financial condition, prospects and reputation of the Group.

Litigation and regulatory proceedings

Disputes, legal proceedings and regulatory investigations in which the Group may be involved are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation.

Adverse judgments in litigation or regulatory proceedings involving the Group or other financial institutions could result in restrictions or limitations to the Group's operations or result in a material adverse impact on the Group's results, financial condition and prospects, together with its reputation.

Principal risks and uncertainties (continued)

Reputation risk is inherent in the Group's business

Reputation risk is inherent in the Group's business. Negative public or industry opinion can result from the actual or perceived manner in which the Group conducts its business, actual or perceived practices in the banking industry or from issues arising in the external environment. Such activities could, potentially, include necessary commercial decisions that impact on customers, the availability of credit, the treatment of customers in difficulties, the occurrence of cybercrime or other fraudulent activity, allegations of overcharging and mis-selling or mispricing of financial products, non-compliance with legal or regulatory requirements, including obligations associated with money laundering, inadequate or failed internal processes or systems or issues arising from human error or remuneration practices.

Negative publicity may adversely impact the Group's ability to have a positive relationship with key stakeholders, including regulatory authorities, and/or to keep and attract customers, the loss of which may adversely impact the Group's business, financial condition and prospects.

Asset quality and impairment

Asset quality - loans and advances to customers

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 73.

The Group classifies forborne and non-forborne loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of IFRS 7.

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. A loan which has an active forbearance measure is a 'forborne loan'.

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

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

- high quality ratings apply to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group has an excellent repayment experience. For both forborne and non-forborne loans, high quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A- and BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality loans that are performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven point grade scale and external ratings equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage forbearance arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale, grade 4 outstandings within the seven point scale and external ratings equivalent to B+. In addition, acceptable quality ratings can also apply to certain temporary mortgage forbearance arrangements that are neither past due nor impaired; and
- the lower quality but neither past due nor impaired rating applies to those loans that are neither in arrears nor impaired but where the Group requires a work down or work out of the relationship unless an early reduction in risk is achievable. For both forborne and non-forborne loans, lower quality ratings are derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale, grade 5 on the seven point grade scale and external ratings equivalent to B or below. In addition, the lower quality but neither past due nor impaired ratings can apply to certain temporary mortgage forbearance arrangements that are neither past due nor impaired and mortgages which are forborne, were previously in default and have had their terms and conditions modified and which are subject to a twelve month probation period under revised contractual arrangements.

'Past due but not impaired' loans, whether forborne or not, are defined as follows:

- loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

'Impaired' loans are defined as follows:

- loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are greater than 90 days in arrears. For Residential mortgages, forborne loans with a specific provision attaching to them are reported as both forborne and impaired. Forborne loans (excluding Residential mortgages) with a specific provision attaching to them are reported as impaired and are not reported as forborne.

'Defaulted' loans are defined as follows:

- impaired loans together with Residential mortgages which are greater than 90 days in arrears. Defaulted loans are derived from grades 11 and 12 on the thirteen point grade scale and grades 5 and 6 on the seven point grade scale.

Asset quality - loans and advances to customers (continued)

For the purposes of the remainder of this section loans and advances to customers includes loans classified as held for sale.

Composition of loans and advances to customers

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

Loans and advances to customers including held for sale Composition (before impairment provisions)	30 June 2014 €m	30 June 2014 %	31 December 2013 €m	31 December 2013 %
Residential mortgages	51,307	56%	51,646	56%
- Retail Ireland	*26,264*	*29%*	*26,700*	*29%*
- Retail UK	*25,043*	*27%*	*24,946*	*27%*
Non-property SME and corporate	20,945	23%	21,485	23%
- Republic of Ireland SME	*9,950*	*11%*	*10,275*	*11%*
- UK SME	*2,729*	*3%*	*3,339*	*4%*
- Corporate	*8,266*	*9%*	*7,871*	*8%*
Property and construction	16,655	18%	16,802	18%
- Investment	*13,592*	*15%*	*13,639*	*15%*
- Land and development	*3,063*	*3%*	*3,163*	*3%*
Consumer	2,914	3%	2,822	3%
Total loans and advances to customers	**91,821**	**100%**	**92,755**	**100%**

The information below 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 73.

The Group's loans and advances to customers before impairment provisions at 30 June 2014 were €91.8 billion compared to €92.8 billion at 31 December 2013. Current levels of demand for credit and ongoing repayments contributed to the reduction in loans and advances to customers, partly offset by foreign exchange rate movements. The distribution of the Group's loans and advances to customers by loan portfolio was broadly similar at 30 June 2014 and 31 December 2013.

For an analysis of the Group's Risk profile of loans and advances to customers including held for sale (before impairment provisions) between 'non-forborne' and 'forborne' see pages 115 and 116 in the supplementary asset quality and forbearance disclosures.

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 73.

Risk profile of loans and advances to customers

The tables and analysis below summarise the Group's loans and advances to customers over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

30 June 2014 Risk profile of loans and advances to customers including held for sale (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	43,146	4,729	1,223	2,335	51,433	56%
Satisfactory quality	820	8,298	2,595	234	11,947	13%
Acceptable quality	827	2,522	2,178	23	5,550	6%
Lower quality but not past due or impaired	369	1,359	1,812	-	3,540	4%
Neither past due nor impaired	**45,162**	**16,908**	**7,808**	**2,592**	**72,470**	**79%**
Past due but not impaired	3,050	227	403	100	3,780	4%
Impaired	3,095	3,810	8,444	222	15,571	17%
Total loans and advances to customers	**51,307**	**20,945**	**16,655**	**2,914**	**91,821**	**100%**

Asset quality - loans and advances to customers (continued)

31 December 2013 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	43,625	3,886	946	2,003	50,460	54%
Satisfactory quality	659	8,685	2,805	454	12,603	14%
Acceptable quality	769	3,055	2,397	23	6,244	7%
Lower quality but not past due or impaired	258	1,705	1,650	-	3,613	4%
Neither past due nor impaired	45,311	17,331	7,798	2,480	72,920	79%
Past due but not impaired	3,288	243	413	106	4,050	4%
Impaired	3,047	3,911	8,591	236	15,785	17%
Total loans and advances to customers	51,646	21,485	16,802	2,822	92,755	100%

The information below 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 73.

Loans and advances to customers classified as **'neither past due nor impaired'** amounted to €72.5 billion at 30 June 2014 compared to €72.9 billion at 31 December 2013.

The **'past due but not impaired'** category amounted to €3.8 billion of loans and advances to customers at 30 June 2014 compared to €4.0 billion at 31 December 2013. This reduction is largely driven by the decrease in Residential mortgages 'past due but not impaired'.

'Impaired' loans decreased to €15.6 billion of loans and advances to customers at 30 June 2014 from €15.8 billion of loans and advances to customers at 31 December 2013. This decrease reflects the Group's continued progress in executing resolution strategies for challenged Non-property SME and Property and construction customers, aided by improved economic and property market conditions.

Asset quality - loans and advances to customers (continued)

For an analysis of the Group's risk profile of loans and advances to customers including held for sale (before impairment provisions) between 'non-forborne' and 'forborne', see pages 117 and 118 in the supplementary asset quality and forbearance disclosures.

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 73.

Regulatory classification
The tables below summarise the Group's loans and advances to customers according to the Group's interpretation of regulatory classification with regard to 'performing' and 'non-performing' reflecting the observations of the CBI's AQR. Non-performing loans includes loans which are impaired, 90 days past due but not impaired and mortgages (denoted by *) which are forborne, have had their terms and conditions modified, were previously in default and which are subject to a twelve month probation period under revised contractual arrangements until they are reclassified to a performing status. Exposures are before provisions for impairment.

	30 June 2014		
Risk profile of loans and advances to customers including held for sale (before impairment provisions)	**Performing €m**	**Non-performing €m**	**Total €m**
Total loans and advances to customers			
High quality	51,433	-	51,433
Satisfactory quality	11,947	-	11,947
Acceptable quality	5,550	-	5,550
Lower quality but not past due or impaired	3,173	367*	3,540
Neither past due nor impaired	**72,103**	**367**	**72,470**
Past due but not impaired			
- Past due 0 - 90 days	2,500	107*	2,607
- Past due more than 90 days but not impaired	-	1,173	1,173
Total past due but not impaired	**2,500**	**1,280**	**3,780**
Impaired	**-**	**15,571**	**15,571**
Total loans and advances to customers	**74,603**	**17,218**	**91,821**

	31 December 2013		
Risk profile of loans and advances to customers (before impairment provisions)	Performing €m	Non-performing €m	Total €m
Total loans and advances to customers			
High quality	50,460	-	50,460
Satisfactory quality	12,603	-	12,603
Acceptable quality	6,244	-	6,244
Lower quality but not past due or impaired	3,357	256*	3,613
Neither past due nor impaired	72,664	256	72,920
Past due but not impaired			
- Past due 0 - 90 days	2,602	108*	2,710
- Past due more than 90 days but not impaired	-	1,340	1,340
Total past due but not impaired	2,602	1,448	4,050
Impaired	-	15,785	15,785
Total loans and advances to customers	75,266	17,489	92,755

Asset quality - loans and advances to customers (continued)

'Past due and / or impaired'

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

30 June 2014 **Risk profile of loans and advances to customers including held for sale - 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	681	139	108	56	984
Past due up to 31 - 60 days	863	45	91	31	1,030
Past due up to 61 - 90 days	333	43	204	13	593
	1,877	**227**	**403**	**100**	**2,607**
Past due more than 90 days but not impaired	1,173	-	-	-	1,173
Impaired	3,095	3,810	8,444	222	15,571
Defaulted loans	**4,268**	**3,810**	**8,444**	**222**	**16,744**
Total loans and advances to customers - past due and / or impaired	**6,145**	**4,037**	**8,847**	**322**	**19,351**

31 December 2013 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	684	169	154	59	1,066
Past due up to 31 - 60 days	887	36	171	33	1,127
Past due up to 61 - 90 days	377	38	88	14	517
	1,948	243	413	106	2,710
Past due more than 90 days but not impaired	1,340	-	-	-	1,340
Impaired	3,047	3,911	8,591	236	15,785
Defaulted loans	4,387	3,911	8,591	236	17,125
Total loans and advances to customers - past due and / or impaired	6,335	4,154	9,004	342	19,835

The information below 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 73.

For an analysis of the Group's risk profile of loans and advances to customers including held for sale - past due and / or impaired between 'non-forborne' and 'forborne' see pages 119 and 120 in the supplementary asset quality and forbearance disclosures.

Loans and advances to customers classified as 'past due and / or impaired' amounted to €19.4 billion at 30 June 2014 compared to €19.8 billion at 31 December 2013.

Residential mortgages classified as 'past due and / or impaired' decreased by €0.2 billion from €6.3 billion at 31 December 2013 to €6.1 billion at 30 June 2014 reflecting a reduction in the volume of Retail Ireland Residential mortgages classified as past due more than 90 days but not impaired, and to a lesser extent a reduction in the volumes of past due and impaired Retail UK Residential mortgages.

Asset quality - loans and advances to customers (continued)

Property and construction loans classified as 'past due and / or impaired' were €8.8 billion at 30 June 2014 compared to €9.0 billion at 31 December 2013.

The volume of Non-property SME and corporate loans that are 'past due and / or impaired' was €4.0 billion at 30 June 2014 compared to €4.2 billion at 31 December 2013 primarily reflecting a reduction in the volume of Non-property UK SME loans classified as 'impaired'.

Consumer loans that are 'past due and / or impaired' were €332 million at 30 June 2014 compared to €342 million at 31 December 2013.

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 73.

Composition and impairment

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

30 June 2014 **Total loans and advances to customers including held for sale** **Composition and impairment**	**Advances (pre-impairment) €m**	**Defaulted loans €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**
Residential Mortgages	51,307	4,268	8.3%	2,028	48%
- Retail Ireland	*26,264*	*3,698*	*14.1%*	*1,900*	*51%*
- Retail UK	*25,043*	*570*	*2.3%*	*128*	*22%*
Non-property SME and corporate	20,945	3,810	18.2%	1,826	48%
- Republic of Ireland SME	*9,950*	*2,656*	*26.7%*	*1,358*	*51%*
- UK SME	*2,729*	*429*	*15.7%*	*189*	*44%*
- Corporate	*8,266*	*725*	*8.8%*	*279*	*38%*
Property and construction	16,655	8,444	50.7%	4,325	51%
- Investment	*13,592*	*5,689*	*41.9%*	*2,321*	*41%*
- Land and development	*3,063*	*2,755*	*89.9%*	*2,004*	*73%*
Consumer	2,914	222	7.6%	202	91%
Total loans and advances to customers	**91,821**	**16,744**	**18.2%**	**8,381**	**50%**

31 December 2013 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %
Residential Mortgages	51,646	4,387	8.5%	2,002	46%
- Retail Ireland	*26,700*	*3,796*	*14.2%*	*1,863*	*49%*
- Retail UK	*24,946*	*591*	*2.4%*	*139*	*24%*
Non-property SME and corporate	21,485	3,911	18.2%	1,909	49%
- Republic of Ireland SME	*10,275*	*2,747*	*26.7%*	*1,379*	*50%*
- UK SME	*3,339*	*571*	*17.1%*	*286*	*50%*
- Corporate	*7,871*	*593*	*7.5%*	*244*	*41%*
Property and construction	16,802	8,591	51.1%	4,118	48%
- Investment	*13,639*	*5,766*	*42.3%*	*2,183*	*38%*
- Land and development	*3,163*	*2,825*	*89.3%*	*1,935*	*68%*
Consumer	2,822	236	8.4%	212	90%
Total loans and advances to customers	92,755	17,125	18.5%	8,241	48%

Asset quality - loans and advances to customers (continued)

The information below 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 73.

Loans and advances to customers reduced by 1% from €92.8 billion at 31 December 2013 to €91.8 billion at 30 June 2014 due to the impact of current demand for new lending and actions taken by customers to reduce their levels of debt, partly offset by foreign exchange rate movements.

Defaulted loans decreased to €16.7 billion at 30 June 2014 from €17.1 billion at 31 December 2013. The reduction in defaulted loans reflects the Group's continued progress in executing a combination of resolution strategies aided by improved economic and property market conditions.

The stock of **impairment provisions** increased from €8.2 billion at 31 December 2013 to €8.4 billion at 30 June 2014 and impairment provisions as a percentage of defaulted loans ('total provision cover') also increased from 48% at 31 December 2013 to 50% at 30 June 2014. Impairment provisions of €8.4 billion at 30 June 2014 are after provisions utilised of €0.4 billion as set out in note 20 on page 95.

Total **Residential mortgages** defaulted loans decreased to €4.3 billion at 30 June 2014 from €4.4 billion at 31 December 2013. The reduction in Retail Ireland Residential mortgages defaulted loans is driven by the Owner occupied segment and reflects improved economic conditions, particularly falling unemployment levels, and the Group's progress in assisting customers in financial difficulty with sustainable mortgage restructure and resolution strategies. The Retail UK Residential mortgage loan book continues to perform well, with reduced defaulted loans reflecting improved economic and residential property market conditions in the UK.

Further additional disclosures on the Retail Ireland and Retail UK Residential mortgages is set out in the supplementary asset quality and forbearance disclosures section on pages 123 to 152.

Non-property SME and corporate defaulted loans decreased to €3.8 billion at 30 June 2014 from €3.9 billion at 31 December 2013. The reduction in Non-property SME defaulted loans is driven by the Group's progress in executing resolution strategies for challenged borrowers, although trading conditions remain difficult for those Irish SME sectors correlated with consumer spending. Non-property corporate defaulted loans fell significantly during the second half of 2013 (from €1.1 billion at 30 June 2013 to €0.6 billion at 31 December 2013); the subsequent increase of €0.1 billion to €0.7 billion or 8.8% of the loan book at 30 June 2014 is due to case specific events which have caused a small number of individual cases to fall 90 days past due, rather than any underlying deterioration in the asset quality of the portfolio.

Defaulted loans in the **Property and construction** portfolio decreased to €8.4 billion at 30 June 2014 from €8.6 billion at 31 December 2013. In the Investment property sector, defaulted loans were €5.7 billion at 30 June 2014 as compared with €5.8 billion at 31 December 2013. Improved investor sentiment and value uplift has been particularly evident in the larger urban centres in both ROI and the UK. Commercial property market conditions outside larger urban centres in both jurisdictions are more muted, and consequently reduced recovery prospects for secondary assets, particularly retail, in provincial / regional locations continue to impact on impairment levels. Land and development defaulted loans amounted to €2.8 billion of the portfolio at 30 June 2014, similar levels to those at 31 December 2013.

Consumer defaulted loans decreased to €222 million at 30 June 2014 from €236 million at 31 December 2013, aided by improved economic conditions.

Coverage ratios have increased from 48% at 31 December 2013 to 50% at 30 June 2014 reflecting the decrease in the level of defaulted loans and the impact of impairment charges taken during the first half of 2014. Coverage ratios have increased across most portfolios over the same period. The reduction in the coverage ratio for UK SME reflects the impact of provisions utilised in the first half of the year, and particularly the execution of the resolution strategy on one large, highly provisioned legacy challenged exposure. The reduction in the coverage ratio for Non-property corporate reflects case specific events which have caused a small number of individual cases to fall 90 days past due as set out above.

Asset quality - loans and advances to customers (continued)

For an analysis of the composition of the impairment provision on forborne loans and advances, see page 121 in the supplementary asset quality and forbearance disclosures.

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 73.

'Impairment provision'

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

Impairment provision by nature of impairment provision	30 June 2014 €m	31 December 2013 €m
Specific provisions individually assessed	6,396	6,195
Specific provisions collectively assessed	1,102	1,155
Incurred but not reported	883	891
Total impairment provision	**8,381**	**8,241**

The information below 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 73.

The increase in individual specific provisions and the decrease in the collective specific provisions in the period were due to an increase in the volume of loans classified for individual, rather than collective, assessment for provisioning in the Retail Ireland mortgage portfolio. Additionally, this also reflects increases to existing specific provisions attaching to individually assessed Non-property SME and corporate and Property and construction exposures.

Incurred but not reported (IBNR) impairment provisions decreased by €8 million to €883 million in the six months to 30 June 2014. This reduction was primarily due to lower IBNR on the Non-property SME and corporate portfolio due a decrease in the volume of non-defaulted loans assessed for IBNR provisions consistent with the overall reduction in the Non-property SME and corporate loan book. Increased IBNR on the Retail Ireland mortgage portfolio was partly offset by reductions in the Retail UK mortgage portfolio, reflecting the satisfactory performance of the UK loan book and strong house price growth in the UK.

The individual and collective specific provisions at 30 June 2014 are after provisions utilised in the period of €0.4 billion as set out in note 20 on page 95.

Asset quality - loans and advances to customers (continued)

Geographical and industry analysis of loans and advances to customers including held for sale

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

30 June 2014 Geographical / industry analysis*	**RoI €m**	**UK €m**	**US €m**	**ROW €m**	**Total €m**
Personal	27,757	26,464	-	-	54,221
- Residential mortgages	*26,264*	*25,043*	-	-	*51,307*
- Other consumer lending	*1,493*	*1,421*	-	-	*2,914*
Property and construction	9,358	7,285	12	-	16,655
- Investment	*7,502*	*6,078*	*12*	-	*13,592*
- Land and Development	*1,856*	*1,207*	-	-	*3,063*
Business and other services	5,969	2,646	190	51	8,856
Distribution	2,832	227	-	-	3,059
Manufacturing	2,721	682	350	149	3,902
Transport	1,367	107	20	-	1,494
Financial	865	228	-	-	1,093
Agriculture	1,530	397	10	-	1,937
Energy	575	29	-	-	604
Total	**52,974**	**38,065**	**582**	**200**	**91,821**

31 December 2013 Geographical / industry analysis*	RoI €m	UK €m	US €m	ROW €m	Total €m
Personal	28,206	26,262	-	-	54,468
- Residential mortgages	*26,700*	*24,946*	-	-	*51,646*
- Other consumer lending	*1,506*	*1,316*	-	-	*2,822*
Property and construction	9,144	7,647	11	-	16,802
- Investment	*7,263*	*6,365*	*11*	-	*13,639*
- Land and Development	*1,881*	*1,282*	-	-	*3,163*
Business and other services	6,323	2,891	224	46	9,484
Distribution	2,883	176	-	-	3,059
Manufacturing	2,627	739	336	99	3,801
Transport	1,437	160	20	-	1,617
Financial	880	177	-	-	1,057
Agriculture	1,499	283	-	-	1,782
Energy	599	86	-	-	685
Total	53,598	38,421	591	145	92,755

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

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

The Group's Residential mortgage portfolio is widely diversified by individual borrower and amounted to 56% of total loans at 30 June 2014 (31 December 2013: 56%). 51% of Residential mortgages related to Ireland (31 December 2013: 52%) and 49% related to the UK at 30 June 2014 (31 December 2013: 48%). At 30 June 2014, the Group's UK Residential mortgage book amounted to £20.1 billion (31 December 2013: £20.8 billion) (before impairment provisions).

The Property and construction sector accounted for 18% or €16.7 billion of total loans at 30 June 2014 (31 December 2013: 18% or €16.8 billion). This book consists primarily of investment loans.

Asset quality - other financial instruments

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

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

Asset quality:

	30 June 2014		31 December 2013	
Other financial instruments with ratings equivalent to:	**€m**	**%**	€m	%
AAA to AA-	9,181	30%	7,500	25%
A+ to A-	7,185	23%	7,209	24%
BBB+ to BBB-	13,295	43%	13,988	47%
BB+ to BB-	568	2%	510	2%
B+ to B-	145	1%	125	1%
Lower than B-	245	1%	201	1%
Total	**30,619**	**100%**	**29,533**	**100%**

Responsibility Statement
for the six months ended 30 June 2014

The Directors are responsible for preparing the Interim Report in accordance with International Accounting Standard 34 on Interim Financial Reporting (IAS 34), as adopted by the European Union, International Accounting Standard 34 as issued by the International Accounting Standards Board (IASB), 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 pages 46 to 54); and
- details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2014, or material changes to related parties transactions described in the Annual Report for the year ended 31 December 2013.

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

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

Signed on behalf of the Court by
31 July 2014

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***
Governor	*Deputy Governor*	*Group Chief Executive*

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

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed the condensed consolidated interim financial statements (the interim financial statements), defined below, in the Interim Report of the Governor and Company of the Bank of Ireland (the Company) for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union, International Accounting Standard 34 as issued by the International Accounting Standards Board (IASB), the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland. This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed
The interim financial statements, which are prepared by the Company, comprise:
- the Consolidated income statement and Consolidated condensed statement of comprehensive income for the period then ended;
- the Consolidated balance sheet as at 30 June 2014;
- the Consolidated condensed statement of changes in equity for the period then ended;
- the Consolidated condensed cash flow statement for the period then ended;
- the Basis of preparation and accounting policies;
- the Notes to the interim financial statements and
- the information described as being an integral part of the interim financial statements as set out in the interim financial statements paragraph of the Basis of preparation and accounting policies on page 73.

As disclosed in the Basis of preparation on page 73, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board.

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

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

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Responsibilities for the interim finanical statements and the review

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

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

PricewaterhouseCoopers
Chartered Accountants
Dublin
31 July 2014

Consolidated interim financial statements and notes
(unaudited)

Consolidated income statement (unaudited) for the six months ended 30 June 2014

	Note	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Interest income	2	1,739	1,858	3,669
Interest expense	3	(599)	(989)	(1,665)
Net interest income		**1,140**	**869**	**2,004**
Net insurance premium income	4	651	480	1,073
Fee and commission income	5	270	234	493
Fee and commission expense	5	(104)	(91)	(192)
Net trading income	6	62	40	12
Life assurance investment income, gains and losses	7	393	145	531
Other operating income	8	116	-	65
Total operating income		**2,528**	**1,677**	**3,986**
Insurance contract liabilities and claims paid	9	(1,040)	(560)	(1,470)
Total operating income, net of insurance claims		**1,488**	**1,117**	**2,516**
Other operating expenses	10	(813)	(820)	(1,576)
Impact of amendments to defined benefit pension schemes	27	87	-	274
Cost of restructuring programme	11	(27)	(50)	(90)
Operating profit before impairment charges on financial assets		**735**	**247**	**1,124**
Impairment charges on financial assets	12	(374)	(780)	(1,665)
Operating profit / (loss)		**361**	**(533)**	**(541)**
Share of results of associates and joint ventures (after tax)		39	17	31
Loss on disposal / liquidation of business activities		(1)	-	(10)
Profit / (loss) before tax		**399**	**(516)**	**(520)**
Taxation (charge) / credit	13	(55)	52	34
Profit / (loss) for the period		**344**	**(464)**	**(486)**
Attributable to stockholders		343	(463)	(483)
Attributable to non-controlling interests		1	(1)	(3)
Profit / (loss) for the period		**344**	**(464)**	**(486)**
Earnings per unit of €0.05 ordinary stock	14	0.8c	(1.8c)	(2.3c)
Diluted earnings per unit of €0.05 ordinary stock	14	0.8c	(1.8c)	(2.3c)

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

Consolidated condensed statement of comprehensive income (unaudited) for the six months ended 30 June 2014

	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Profit / (loss) for the period	**344**	**(464)**	**(486)**
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss in subsequent periods:			
Available for sale financial assets, net of tax	145	166	317
Cash flow hedge reserve, net of tax	110	(115)	(181)
Foreign exchange reserve	122	(148)	(81)
Total items that may be reclassified to profit or loss in subsequent periods	**377**	**(97)**	**55**
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of the net defined benefit pension liability, net of tax	(202)	17	(117)
Total items that will not be reclassified to profit or loss in subsequent periods	**(202)**	**17**	**(117)**
Other comprehensive income for the period, net of tax	**175**	**(80)**	**(62)**
Total comprehensive income for the period, net of tax	**519**	**(544)**	**(548)**
Total comprehensive income attributable to equity stockholders	518	(543)	(545)
Total comprehensive income attributable to non-controlling interests	1	(1)	(3)
Total comprehensive income for the period, net of tax	**519**	**(544)**	**(548)**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

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

Consolidated balance sheet (unaudited) as at 30 June 2014

	Note	**As at 30 June 2014 €m**	Restated* As at 31 December 2013 €m
Assets			
Cash and balances at central banks		4,723	6,385
Items in the course of collection from other banks		337	363
Trading securities		564	252
Derivative financial instruments		3,280	3,492
Other financial assets at fair value through profit or loss		10,883	10,306
Loans and advances to banks	15	5,076	4,759
Available for sale financial assets	16	13,539	12,104
NAMA senior bonds	17	3,005	3,957
Loans and advances to customers	18	83,190	84,514
Assets classified as held for sale	19	250	-
Interest in associates		109	89
Interest in joint ventures		202	209
Intangible assets		361	374
Investment properties		847	805
Property, plant and equipment		315	322
Current tax assets		35	28
Deferred tax assets	26	1,663	1,710
Other assets		2,569	2,460
Retirement benefit asset	27	2	4
Total assets		**130,950**	**132,133**
Equity and liabilities			
Deposits from banks	21	5,130	12,213
Customer accounts	22	74,506	73,867
Items in the course of transmission to other banks		323	147
Derivative financial instruments		3,290	3,228
Debt securities in issue	23	18,178	15,280
Liabilities to customers under investment contracts		5,595	5,460
Insurance contract liabilities		9,269	8,502
Other liabilities		2,768	2,823
Current tax liabilities		32	28
Provisions	25	79	90
Deferred tax liabilities	26	73	92
Retirement benefit obligations	27	971	845
Subordinated liabilities	24	2,467	1,675
Total liabilities		**122,681**	**124,250**
Equity			
Capital stock		2,558	2,558
Stock premium account		1,135	1,135
Retained earnings		3,884	3,805
Other reserves		710	404
Own stock held for the benefit of life assurance policyholders		(13)	(13)
Stockholders' equity		**8,274**	**7,889**
Non-controlling interests		(5)	(6)
Total equity		**8,269**	**7,883**
Total equity and liabilities		**130,950**	**132,133**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

Consolidated condensed statement of changes in equity (unaudited) for the six months ended 30 June 2014

	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Capital stock			
Balance at the beginning of the period	2,558	2,452	2,452
Issue of ordinary stock	-	-	111
Redemption of the 2009 Preference Stock	-	-	(5)
Balance at the end of the period	**2,558**	**2,452**	**2,558**
Stock premium account			
Balance at the beginning of the period	1,135	1,210	1,210
Issue of ordinary stock	-	-	469
Transaction costs on issue of ordinary stock	-	-	(12)
Redemption of the 2009 Preference Stock	-	-	(532)
Balance at the end of the period	**1,135**	**1,210**	**1,135**
Retained earnings			
Balance at the beginning of the period (prior to restatement)	3,791	4,673	4,673
Effect of change in accounting policy*	14	10	10
Balance at the beginning of the period (restated)	3,805	4,683	4,683
Profit / (loss) retained	206	(655)	(723)
- Profit / (loss) for period attributable to stockholders	*343*	*(463)*	*(483)*
- Dividends on 2009 Preference Stock and other preference equity interests paid in cash	*(137)*	*(192)*	*(240)*
Transfer from / (to) capital reserve	71	(7)	(17)
Transaction costs on the transfer of the 2009 Preference Stock	-	-	(27)
Remeasurement of the net defined benefit pension liability	(202)	17	(117)
Transfer from share based payment reserve	-	4	4
Other movements	4	(2)	2
Balance at the end of the period	**3,884**	**4,040**	**3,805**
Other Reserves:			
Available for sale reserve			
Balance at the beginning of the period	467	150	150
Net changes in fair value	253	206	414
Transfer to income statement (pre tax)	(89)	(17)	(50)
Deferred tax on reserve movements	(19)	(23)	(47)
Balance at the end of the period	**612**	**316**	**467**
Cash flow hedge reserve			
Balance at the beginning of the period	46	227	227
Changes in fair value, net of transfers from / (to) income statement	125	(131)	(202)
Deferred tax on reserve movements	(15)	16	21
Balance at the end of the period	**156**	**112**	**46**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

Consolidated condensed statement of changes in equity (unaudited) for the six months ended 30 June 2014 (continued)

	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Foreign exchange reserve			
Balance at the beginning of the period	(807)	(726)	(726)
Exchange adjustments during the period	122	(149)	(93)
Transfer to income statement on liquidation of non-trading entities	-	1	12
Balance at the end of the period	**(685)**	**(874)**	**(807)**
Capital contribution	**116**	**116**	**116**
Capital reserve			
Balance at the beginning of the period	574	557	557
Transfer (to) / from retained earnings	(71)	7	17
Balance at the end of the period	**503**	**564**	**574**
Share based payment reserve			
Balance at the beginning of the period	3	7	7
Transfer to retained earnings	-	(4)	(4)
Balance at the end of the period	**3**	**3**	**3**
Revaluation reserve	**5**	**5**	**5**
Total other reserves	**710**	**242**	**404**
Own stock held for the benefit of life assurance policyholders			
Balance at the beginning of the period	(13)	(14)	(14)
Changes in value and amount of stock held	-	1	1
Balance at the end of the period	**(13)**	**(13)**	**(13)**
Total stockholders' equity excluding non-controlling interests	**8,274**	**7,931**	**7,889**
Non-controlling interests			
Balance at the beginning of the period	(6)	(2)	(2)
Share of net profit / (loss)	1	(1)	(3)
Other movements	-	-	(1)
Balance at the end of the period	**(5)**	**(3)**	**(6)**
Total equity	**8,269**	**7,928**	**7,883**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

Consolidated condensed cash flow statement (unaudited) for the six months ended 30 June 2014

	Notes	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Cash flows from operating activities				
Profit / (loss) before tax		399	(516)	(520)
Share of results of associates and joint ventures		(39)	(17)	(31)
Loss on disposal / liquidation of business activities		1	-	10
Depreciation and amortisation		59	61	118
Impairment charges on financial assets	12	374	780	1,665
Loss on deleveraging of financial assets	8	-	4	3
Interest expense on subordinated liabilities and other capital instruments	3	93	90	178
Charge for retirement benefit obligation	10	70	79	133
Impact of amendments to defined benefit pension schemes	27	(87)	-	(274)
Loss / (gain) on liability management exercises	8	3	(4)	(4)
Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	6	(8)	88	154
Other non-cash items		(248)	(54)	(358)
Cash flows from operating activities before changes in operating assets and liabilities		**617**	**511**	**1,074**
Net cash flow from operating assets and liabilities		(995)	(4,520)	(3,372)
Net cash flow from operating activities before tax		**(378)**	**(4,009)**	**(2,298)**
Tax (paid) / refunded		(7)	1	(50)
Net cash flow from operating activities		**(385)**	**(4,008)**	**(2,348)**
Investing activities:				
Net additions of available for sale financial assets		(885)	(499)	(797)
Additions to property, plant and equipment, intangible assets and investment property		(34)	(60)	(117)
Disposal of property, plant and equipment, intangible assets and investment property		2	-	14
Proceeds received from joint ventures		4	-	50
Net change in interest in associates		(5)	(2)	(2)
Net proceeds from disposal of loan portfolios		-	198	86
Cash flows from investing activities		**(918)**	**(363)**	**(766)**
Financing activities				
Redemption of the 2009 Preference Stock		-	-	(537)
Transaction costs on the transfer of the 2009 Preference Stock		-	-	(27)
Net proceeds from issue of ordinary stock		-	-	568
Net proceeds from issue of new subordinated liabilities		747	-	-
Interest paid on subordinated liabilities		(28)	(59)	(159)
Dividend paid on 2009 Preference Stock and other preference equity interests		(137)	(192)	(240)
Consideration paid in respect of liability management exercises		(363)	(224)	(299)
Cash flows from financing activities		**219**	**(475)**	**(694)**
Net change in cash and cash equivalents		**(1,084)**	**(4,846)**	**(3,808)**
Opening cash and cash equivalents		10,754	14,328	14,328
Effect of exchange translation adjustments		(179)	340	234
Closing cash and cash equivalents		**9,491**	**9,822**	**10,754**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

Basis of preparation and accounting policies

Basis of preparation

The interim financial statements for the six months ended 30 June 2014 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 financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2013, which are prepared in accordance with International Financial Reporting Standards (IFRSs) and the IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The version of IAS 39 adopted by the EU currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments – Recognition and Measurement'. The Group has not availed of this, hence these financial statements and the audited financial statements for the year ended 31 December 2013 comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

Statutory accounts

These interim financial statements do not comprise statutory accounts within the meaning of Section 19 of the Companies (Amendment) Act 1986. The statutory accounts for the year ended 31 December 2013 were approved by the Court of Directors on 28 February 2014, contained an unqualified audit report and were filed with the Companies Registration Office on 28 May 2014.

Interim financial statements

The interim financial statements comprise the Consolidated income statement, Consolidated condensed statement of comprehensive income, Consolidated balance sheet, Consolidated condensed statement of changes in equity, Consolidated condensed cash flow statement, Basis of preparation and accounting policies and the Notes to the interim consolidated financial statements on pages 67 to 112. The interim financial statements include the information that is described as being an integral part of the interim financial statements contained in the Asset quality & impairment section of the Operating and financial review. The interim financial statements also include the tables in Other Information - Supplementary Asset Quality and forbearance disclosures described as being an integral part of the interim financial statements as described further at the top of page 115.

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 2014 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, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, taking due account of the impact of fiscal realignment measures and the availability of collateral to access the Eurosystem together with the likely evolution and impact of the Eurozone crises. The matters of primary consideration by the Directors are set out below:

Capital

On 2 December 2013, the Central Bank of Ireland's Balance Sheet Assessment (BSA) / Asset Quality Review (AQR) confirmed that the Bank had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA, and consequently the Central Bank of Ireland did not require the Bank to raise additional capital as a result of the BSA.

A European-wide stress test is currently underway and the phased implementation of CRD IV impacts the Group's capital position during the period of assessment. The Group has developed capital plans under base and stress scenarios and expects to maintain a buffer over regulatory minima throughout the period of assessment.

During December 2013, the Group successfully executed a Capital Package in relation to the 2009 Preference Stock comprising the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of 2009 Preference Stock, and the sale by the National Pensions Reserve Fund Commission of €1.3 billion of 2009 Preference Stock to private investors. The Capital Package was substantially oversubscribed. During June 2014 the Group completed a Tier 2 issuance of €750 million.

The Directors believe this satisfactorily addresses the capital risk.

Basis of preparation and accounting policies (continued)

Going concern (continued)

Liquidity and funding
During 2014 the Group has accessed wholesale funding markets through both secured and unsecured issuances.

The Group's drawings from Monetary Authorities reduced by €2 billion to €6 billion during the six months ended 30 June 2014. This funding matures during the period of assessment. However, the ECB fixed rate full allotment policy in respect of its main refinancing operations, which roll on a short term basis, has been extended at least until December 2016 and is available to the Group during the period of assessment.

It is expected that the Group will continue to require access to the Monetary Authorities for funding during the period of assessment. In addition, in the context of its assessment of going concern, the Group discussed this funding with the Central Bank and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Directors are satisfied, based on the clarity of confirmations received from the Central Bank that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk.

Conclusion
On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

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 184 to 205 of the Group's Annual Report for the year ended 31 December 2013 except as set out below:

Recently adopted accounting pronouncements
Effective from 1 January 2014, the Group adopted the following interpretation and amendments to standards.

IFRIC Interpretation 21 'Levies'
This interpretation deals with accounting for levies imposed by governments. It principally addresses the question of when an entity should recognise a liability to pay a levy.

The adoption of IFRIC 21 has caused the recognition date for the UK Financial Services Compensation Scheme (FSCS) levy to be deferred from the 31 December prior to the beginning of the relevant levy year to the following 1 April. The financial statements for the comparative period have been restated to reflect this change. Details of the restatement are included in note 32.

In accordance with IFRIC 21, the Group expects to recognise a charge of €41 million in respect of the Irish bank levy in October 2014, on the date on which all of the requirements set out in the legislation are met.

In addition to IFRIC 21, the following amendments to standards have also been implemented but have not had an effect on the Group's results.

Amendments to IAS 32, 'Financial Instruments' on asset and liability offsetting
These amendments give additional application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.

Basis of preparation and accounting policies (continued)

Accounting policies (continued)

Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets'
These amendments specifically require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal, e.g. recoverable amount, level of fair value hierarchy, valuation technique, key assumptions etc.

Amendment to IAS 39 'Novation of derivatives and continuation of hedge accounting'
This amendment allows hedge accounting to continue where a derivative, which has been designated as a hedging instrument, is novated to a clearing counterparty, if specific conditions are met. The amendment allows limited changes to the hedging instrument to facilitate the novation.

Amendment to IFRS 10 'Investment entities'
This amendment requires a parent company which meets the definition of an 'investment entity' to measure its investments in its subsidiaries at fair value through profit or loss (in line with IAS 39), rather than consolidating the subsidiaries. The amendment does not apply to the Group as the Bank does not meet the definition of an investment entity.

Amendments to IAS 19 'Defined benefit plans employee contributions'
The amendment applies to contributions from employees or third parties to defined benefit plans. The objective is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Annual improvements 2010–2012 and Annual improvements 2011-2013
The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs.

Critical accounting estimates and judgements
The preparation of interim financial statements requires the Group to make estimates and judgements that impact the reported amounts of assets and liabilities, income and expense. There have been no significant changes to the Group's approach to, and methods of, making critical accounting estimates and judgements compared to those applied at 31 December 2013, as set out on pages 209 to 211 of the Group's Annual Report for the year ended 31 December 2013.

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.

Comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.

The losses on deleveraging of financial assets of €4 million for the six months ended 30 June 2013 and €3 million for the year ended 31 December 2013 previously shown on the face of the income statement have been reclassified to other operating income in accordance with IAS 1. See note 32 for additional information.

Notes to the consolidated interim financial statements

1 Operating segments

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

Retail Ireland
Retail Ireland incorporates the Group's branch network and Direct Channels (mobile, online and phone), Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and has a comprehensive suite of retail and business products and services.

As set out in note 19, the Group has agreed to sell the ICS distribution platform together with €250 million of mortgage assets.

Bank of Ireland Life (BoI Life)
Bank of Ireland Life comprises the life assurer, NIAC which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network.

Retail UK
The Retail UK Division incorporates the financial services relationship and foreign exchange joint venture with the UK Post Office, the UK Residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Northern Ireland. It also includes the Group's business banking business in Great Britain which is in run-down in accordance with the EU Restructuring Plan. The division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

Corporate and Treasury
The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. It also includes the Group's liquid asset portfolio.

Group Centre
Group Centre comprises capital and other management activities, unallocated Group support costs and the cost associated with schemes such as the ELG scheme, the Deposit Guarantee Scheme (DGS) and the UK Financial Services Compensation Scheme (FSCS).

Other reconciling items
Other reconciling items represent inter segment transactions which are eliminated upon consolidation.

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

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

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

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Group accounting policies' on pages 184 to 205 of the Group's Annual Report for the year ended 31 December 2013. 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. The Group amended the allocation of funding and liquidity costs across the divisions which resulted, in a reduction of net interest income for the six months ended 30 June 2014 in the Retail UK division of €15 million, with a corresponding increase in net interest income in the Retail RoI and Corporate and Treasury divisions of €12 million and €3 million respectively.

1 Operating segments (continued)

During the period, Retail UK transferred loans of c.€770 million to the Corporate and Treasury division.

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

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

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

- Impact of changes to pension benefits in the Bank sponsored defined benefit schemes;
- Gains / (charges) arising on the movement in the Group's credit spreads;
- Cost of restructuring programme;
- Gross-up for policyholder tax in the Life business;
- Loss on disposal / liquidation of business activities;
- Loss on deleveraging of financial assets;
- (Loss) / gain on liability management exercises; and
- Investment return on treasury stock held for policyholders.

1 Operating segments (continued)

6 months ended 30 June 2014	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	**485**	**23**	**325**	**318**	**(13)**	**2**	**1,140**
Other income, net of insurance claims	157	94	4	117	(24)	(13)	335
Total operating income, net of insurance claims	**642**	**117**	**329**	**435**	**(37)**	**(11)**	**1,475**
Other operating expenses	(386)	(47)	(161)	(81)	(79)	-	(754)
Depreciation and amortisation	(20)	(1)	(16)	(5)	(17)	-	(59)
Total operating expenses	**(406)**	**(48)**	**(177)**	**(86)**	**(96)**	**-**	**(813)**
Underlying operating profit / (loss) before impairment charges on financial assets	**236**	**69**	**152**	**349**	**(133)**	**(11)**	**662**
Impairment (charges) / credits on financial assets	(285)	-	(113)	(46)	70	-	(374)
Share of results of associates and joint ventures	21	-	18	-	-	-	39
Underlying (loss) / profit before tax	**(28)**	**69**	**57**	**303**	**(63)**	**(11)[1]**	**327**

Reconciliation of underlying profit before tax to profit before tax	**Group €m**
Underlying profit before tax	327
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	87
Gains / (charges) arising on the movement in the Group's credit spreads	8
Cost of restructuring programme	(27)
Gross-up for policyholder tax in the Life business	8
Loss on liability management exercises	(3)
Loss on disposal of business activity	(1)
Profit before tax	**399**

[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

1 Operating segments (continued)

Restated* 6 months ended 30 June 2013	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	394	24	247	303	(100)	1	869
Other income, net of insurance claims	171	62	2	89	5	(10)	319
Total operating income, net of insurance claims	565	86	249	392	(95)	(9)	1,188
Other operating expenses	(388)	(44)	(157)	(84)	(86)	-	(759)
Depreciation and amortisation	(18)	(2)	(15)	(3)	(23)	-	(61)
Total operating expenses	(406)	(46)	(172)	(87)	(109)	-	(820)
Underlying operating profit / (loss) before impairment charges on financial assets	159	40	77	305	(204)	(9)	368
Impairment charges on financial assets	(497)	-	(207)	(76)	-	-	(780)
Share of results of associates and joint ventures	(1)	-	18	-	-	-	17
Underlying (loss) / profit before tax	(339)	40	(112)	229	(204)	(9)[1]	(395)

Reconciliation of underlying loss before tax to loss before tax	Group €m
Underlying loss before tax	(395)
Gains / (charges) arising on the movement in the Group's credit spreads	(88)
Cost of restructuring programme	(50)
Gross-up for policyholder tax in the Life business	18
Loss on deleveraging of financial assets	(4)
Gain on liability management exercises	4
Investment return on treasury stock held for policyholders	(1)
Loss before tax	(516)

* *During the six months ended 30 June 2014, the Group adopted IFRIC 21 'Levies'. The comparative figures for the six months ended 30 June 2013 for Group Centre have been restated to reflect the change in timing of recognition of the UK FSCS levy, resulting in a €12 million increase in other operating expenses.*
[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

1 Operating segments (continued)

Restated* Year ended 31 December 2013	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	886	48	572	617	(120)	1	2,004
Other income, net of insurance claims	326	149	3	174	(6)	(4)	642
Total operating income, net of insurance claims	1,212	197	575	791	(126)	(3)	2,646
Other operating expenses	(759)	(86)	(312)	(167)	(134)	-	(1,458)
Depreciation and amortisation	(32)	(4)	(32)	(5)	(45)	-	(118)
Total operating expenses	(791)	(90)	(344)	(172)	(179)	-	(1,576)
Underlying operating profit / (loss) before impairment charges on financial assets	421	107	231	619	(305)	(3)	1,070
Impairment charges on financial assets	(1,109)	-	(424)	(132)	-	-	(1,665)
Share of results of associates and joint ventures	(9)	-	40	-	-	-	31
Underlying (loss) / profit before tax	(697)	107	(153)	487	(305)	(3)[1]	(564)

Reconciliation of underlying loss before tax to loss before tax	Group €m
Underlying loss before tax	(564)
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	274
Gains / (charges) arising on the movement in the Group's credit spreads	(154)
Cost of restructuring programme	(90)
Gross-up for policyholder tax in the Life business	26
Loss on disposal / liquidation of business activities	(10)
Loss on deleveraging of financial assets	(3)
Gain on liability management exercises	4
Investment return on treasury stock held for policyholders	(3)
Loss before tax	(520)

* *During the six months ended 30 June 2014, the Group adopted IFRIC 21 'Levies'. The comparative figures for the year ended 31 December 2013 for Group Centre have been restated to reflect the change in timing of recognition of the UK FSCS levy, resulting in a €5 million decrease in other operating expenses.*

[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

1 Operating segments (continued)

6 months ended 30 June 2014 Analysis by operating segment	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Investment in associates and joint ventures	**222**	**39**	**50**	**-**	**-**	**-**	**311**
External assets	39,517	14,022	42,218	31,265	3,928	-	130,950
Inter segment assets	53,687	2,451	15,225	90,628	34,274	(196,265)	-
Total assets	**93,204**	**16,473**	**57,443**	**121,893**	**38,202**	**(196,265)**	**130,950**
External liabilities	48,898	15,331	29,865	25,442	3,129	16	122,681
Inter segment liabilities	43,588	306	24,795	95,113	32,460	(196,262)	-
Total liabilities	**92,486**	**15,637**	**54,660**	**120,555**	**35,589**	**(196,246)**	**122,681**

Restated* Year ended 31 December 2013 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	196	36	66	-	-	-	298
External assets	40,514	13,153	43,924	30,222	4,320	-	132,133
Inter segment assets	51,134	2,397	23,000	103,403	35,394	(215,328)	-
Total assets	91,648	15,550	66,924	133,625	39,714	(215,328)	132,133
External liabilities	47,421	14,438	29,818	29,929	2,630	14	124,250
Inter segment liabilities	43,920	321	34,731	102,861	33,489	(215,322)	-
Total liabilities	91,341	14,759	64,549	132,790	36,119	(215,308)	124,250

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

1 Operating segments (continued)

6 months ended 30 June 2014 **Gross revenue by operating segments**	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Gross external revenue	813	1,078	745	677	(34)	(9)	3,270
Inter segment revenues	429	122	177	447	212	(1,387)	-
Gross revenue before claims paid	**1,242**	**1,200**	**922**	**1,124**	**178**	**(1,396)**	**3,270**
Insurance contract liabilities and claims paid	-	(1,043)	-	-	3	-	(1,040)
Gross revenue after claims paid	**1,242**	**157**	**922**	**1,124**	**181**	**(1,396)**	**2,230**
Capital expenditure	**6**	**1**	**6**	**2**	**19**	**-**	**34**

Restated* 6 months ended 30 June 2013 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	905	613	691	548	27	(10)	2,774
Inter segment revenues	382	83	624	788	145	(2,022)	-
Gross revenue before claims paid	1,287	696	1,315	1,336	172	(2,032)	2,774
Insurance contract liabilities and claims paid	-	(559)	-	-	(1)	-	(560)
Gross revenue after claims paid	1,287	137	1,315	1,336	171	(2,032)	2,214
Capital expenditure	10	-	10	1	40	-	61

Restated* Year ended 31 December 2013 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,739	1,615	1,448	1,058	17	(3)	5,874
Inter segment revenues	792	142	769	1,493	302	(3,498)	-
Gross revenue before claims paid	2,531	1,757	2,217	2,551	319	(3,501)	5,874
Insurance contract liabilities and claims paid	-	(1,466)	-	-	(4)	-	(1,470)
Gross revenue after claims paid	2,531	291	2,217	2,551	315	(3,501)	4,404
Capital expenditure	24	1	18	3	72	-	118

* *The total loss on deleveraging of financial assets of €3 million for the year ended 31 December 2013 and €4 million for the six months ended 30 June 2013 which had previously been reported across the segments as a separate line item is now included in other operating income.*

2 Interest income

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Loans and advances to customers	1,464	1,579	3,128
Available for sale financial assets	202	198	389
Finance leases and hire purchase receivables	53	49	101
Loans and advances to banks	20	32	51
Interest income	**1,739**	**1,858**	**3,669**

Interest income recognised on loans and advances to customers
Interest income recognised on loans and advances to customers includes €97 million (six months ended 30 June 2013: €105 million; year ended 31 December 2013: €212 million) of interest recognised on impaired loans and advances to customers on which a specific impairment provision has been recognised at the period end (discount unwind). €81 million of this amount (six months ended 30 June 2013: €80 million; year ended 31 December 2013: €165 million) relates to loans on which specific provisions have been individually assessed and €16 million (six months ended 30 June 2013: €25 million; year ended 31 December 2013: €47 million) relates to loans on which specific provisions have been collectively assessed.

Interest income received on loans and advances to customers
For the six months ended 30 June 2014, €109 million (six months ended 30 June 2013: €109 million; year ended 31 December 2013: €231 million) of interest income was received in cash on impaired loans and advances to customers on which a specific impairment provision has been recognised at the period end.

3 Interest expense

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Customer accounts	360	636	1,066
Debt securities in issue	111	182	283
Deposits from banks	35	81	138
Subordinated liabilities	93	90	178
Interest expense	**599**	**989**	**1,665**

Included within interest expense for the six months ended 30 June 2014 is an amount of €21 million (six months ended 30 June 2013: €99 million; year ended 31 December 2013: €129 million) relating to the cost of the Eligible Liabilities Guarantee Scheme (ELG). The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 30.

4 Net insurance premium income

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Gross premiums written	708	654	1,297
Ceded reinsurance premiums	(54)	(171)	(224)
Net premiums written	654	483	1,073
Change in provision for unearned premiums	(3)	(3)	-
Net insurance premium income	**651**	**480**	**1,073**

5 Fee and commission income and expense

Income	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Retail banking customer fees	211	192	395
Insurance commissions	15	10	22
Credit related fees	18	13	34
Asset management fees	2	2	4
Brokerage fees	1	1	2
Other	23	16	36
Fee and commission income	**270**	**234**	**493**

Included in other fees is an amount of €nil (six months ended 30 June 2013: €1 million; year ended 31 December 2013: €1 million) related to trust and other fiduciary fees.

Expense

Fee and commission expense of €104 million (six months ended 30 June 2013: €91 million; year ended 31 December 2013: €192 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

6 Net trading income

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Financial assets designated at fair value	2	9	13
Financial liabilities designated at fair value			
- Credit spreads gains / (charges) relating to the Group's liabilities designated at fair value through profit or loss (see table below)	7	(60)	(112)
- Other fair value movements	(103)	(53)	(86)
Related derivatives held for trading	55	10	3
	(39)	**(94)**	**(182)**
Other financial instruments held for trading	100	127	195
Net fair value hedge ineffectiveness	1	3	3
Cash flow hedge ineffectiveness	-	4	(4)
Net trading income	**62**	**40**	**12**

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 €5 million (six months ended 30 June 2013: €26 million; year ended 31 December 2013: €34 million) in relation to net gains arising from foreign exchange.

Net fair value hedge ineffectiveness reflects a net charge from hedging instruments of €125 million (six months ended 30 June 2013: net gain of €16 million; year ended 31 December 2013: net gain of €24 million) offsetting a net gain from hedged items of €126 million (six months ended 30 June 2013: net charge of €13 million; year ended 31 December 2013: net charge of €21 million).

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

Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	**6 months ended 30 June 2014 €m**	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Recognised in			
- Net trading income / (expense)	7	(60)	(112)
- Insurance contract liabilities and claims paid	1	(22)	(36)
- Other operating income	-	(6)	(6)
	8	**(88)**	**(154)**
Cumulative (charges) / gains arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss	(18)	40	(26)

7 Life assurance investment income, gains and losses

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Gross life assurance investment income, gains and losses	393	146	532
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	-	(1)	(1)
Life assurance investment income, gains and losses	**393**	**145**	**531**

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

8 Other operating income

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Transfer from available for sale reserve on asset disposal	89	17	50
Movement in value of in force asset	20	(26)	(21)
Other insurance income	9	13	32
Dividend income	5	2	5
(Loss) / gain on liability management exercises	(3)	4	4
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business	-	-	(2)
Loss on deleveraging of financial assets[1]	-	(4)	(3)
Other income	(4)	(6)	-
Other operating income	**116**	**-**	**65**

[1] *Included within other operating income is a loss on deleveraging of financial assets of €nil (for the six months ended 30 June 2013: €4 million; year ended 31 December 2013: €3 million). These gains were previously shown on a separate line item on the face of the income statement (see note 32).*

9 Insurance contract liabilities and claims paid

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Claims paid			
Policy surrenders	346	396	895
Death and critical illness claims	63	66	126
Annuity payments	35	27	59
Policy maturities	-	1	1
Other claims	5	6	29
Gross claims paid	**449**	**496**	**1,110**
Recovered from reinsurers	(37)	(36)	(71)
Net claims paid	**412**	**460**	**1,039**
Change in insurance contract liabilities			
Gross liabilities	767	114	514
Reinsured liabilities	(139)	(14)	(83)
Net change in insurance contract liabilities	**628**	**100**	**431**
Insurance contract liabilities and claims paid	**1,040**	**560**	**1,470**

10 Other operating expenses

Administrative expenses and staff costs	**6 months ended 30 June 2014 €m**	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Staff costs excluding cost of restructuring programme	409	430	824
Amortisation of intangible assets	41	40	78
Depreciation of property, plant and equipment	18	21	40
Revaluation of property	-	-	1
Other administrative expenses excluding cost of restructuring programme	345	329	633
Total	**813**	**820**	**1,576**
Total staff costs are analysed as follows:			
Total staff costs excluding restructuring	409	430	824
- Wages and salaries	*305*	*310*	*613*
- Social security costs	*33*	*34*	*67*
- Retirement benefit costs (defined benefit plans) (note 27)	*70*	*78*	*132*
- Retirement benefit costs (defined contribution plans)	*-*	*1*	*1*
- Other staff costs	*1*	*7*	*11*
Staff costs included in cost of restructuring programme (note 11)	28	16	48
Total staff costs	**437**	**446**	**872**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

10 Other operating expenses (continued)

Defined benefit retirement benefit costs of €70 million for the six months ended 30 June 2014 (six months ended 30 June 2013: €78 million; year ended 31 December 2013: €132 million) exclude a gain of €87 million in relation to the impact of amendments to the Group sponsored defined benefit pension scheme, the Bank of Ireland Staff Pensions Fund (BSPF) and a smaller Group sponsored pension scheme (six months ended 30 June 2013: €nil; year ended 31 December 2013: €274 million) which has been recognised within the income statement as a separate line item, net of any directly related expenses. Further details are set out in note 27.

Defined benefit retirement benefit costs includes no recovery in respect of the Irish pension levy (six months ended 30 June 2013: €4 million in respect of the 2011 and 2012 pension levies for a number of smaller schemes; year ended 31 December 2013: €28 million in respect of the BSPF and a number of smaller schemes). Further details are set out in note 27.

The interpretation IFRIC 21 'Levies' was issued during the year, and provides guidance on accounting for liabilities in respect of government imposed levies. This has resulted in a change in the timing of recognition of the UK FSCS levy, and prior period comparatives have been restated to reflect the change. Further information is provided in note 32.

Staff numbers

At 30 June 2014, the number of staff (full time equivalents) was 11,386 (30 June 2013: 11,731; 31 December 2013: 11,255).

During the period, the average number of staff (full time equivalents) during the year was 11,293 (30 June 2013: 11,998; 31 December 2013: 11,831) categorised in line with the operating segments as stated in note 1.

11 Cost of restructuring programme

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Staff costs (note 10)	28	16	48
Property and other	(1)	34	42
	27	**50**	**90**

12 Impairment charges on financial assets

	6 months ended 30 June 2014 €m	6 months ended 30 June 2013 €m	Year ended 31 December 2013 €m
Loans and advances to customers (including assets classified as held for sale) (note 18)	444	780	1,665
Reversal of impairment charge on available for sale financial assets (AFS)	(70)	-	-
Impairment charges on financial assets	**374**	**780**	**1,665**

The reversal of an impairment charge on available for sale financial assets of €70 million relates to the NAMA subordinated bonds (see note 16 for further details).

13 Taxation

	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Current tax			
Irish Corporation Tax			
- Current period	(8)	(13)	(20)
- Adjustments in respect of prior period	(1)	1	-
- Transfer from deferred tax	7	2	6
Double taxation relief	1	1	2
Foreign tax			
- Current period	(19)	(15)	(25)
- Adjustments in respect of prior period	1	(28)	(44)
- Transfer from deferred tax	6	-	19
	(13)	**(52)**	**(62)**
Deferred tax			
- Current period (profits) / losses	(19)	111	174
- Impact of Corporation Tax rate change	-	-	(58)
- Origination and reversal of temporary differences	(7)	(12)	(66)
- Transfer to current tax	(13)	(2)	(25)
- Reassessment of the value of tax losses carried forward	-	-	65
- Adjustments in respect of prior period	(3)	7	6
Taxation (charge) / credit	**(55)**	**52**	**34**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

The taxation charge for the Group was €55 million for the six months ended 30 June 2014 (six months ended 30 June 2013: tax credit of €52 million (restated*); year ended 31 December 2013: tax credit of €34 million (restated*)).

The effective taxation rate on a statutory basis for the six months ended 30 June 2014 is 14% (tax charge) (six months ended 30 June 2013: 10% (tax credit); year ended 31 December 2013: 7% (tax credit)).

13 Taxation (continued)

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

	6 months ended 30 June 2014			Restated* 6 months ended 30 June 2013			Year ended 31 December 2013		
	Pre tax €m	**Tax €m**	**Net of tax €m**	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m
Available for sale reserve									
Changes in fair value	253	(30)	223	206	(25)	181	414	(53)	361
Transfer to income statement	(89)	11	(78)	(17)	2	(15)	(50)	6	(44)
Net change in reserve	**164**	**(19)**	**145**	**189**	**(23)**	**166**	**364**	**(47)**	**317**
Remeasurement of the net defined benefit pension liability	**(230)**	**28**	**(202)**	**20**	**(3)**	**17**	**(130)**	**13**	**(117)**
Cash flow hedge reserve									
Changes in fair value	(214)	28	(186)	508	(62)	446	259	(29)	230
Transfer to income statement	339	(43)	296	(639)	78	(561)	(461)	50	(411)
Net change in cash flow hedge reserve	**125**	**(15)**	**110**	**(131)**	**16**	**(115)**	**(202)**	**21**	**(181)**
Net change in foreign exchange reserve	**122**	**-**	**122**	**(148)**	**-**	**(148)**	**(81)**	**-**	**(81)**
Other comprehensive income for the period	**181**	**(6)**	**175**	**(70)**	**(10)**	**(80)**	**(49)**	**(13)**	**(62)**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the change in timing of recognition of the FSCS levy in accordance with IFRIC 21 'Levies'. See note 32 for additional information.*

14 Earnings per share

The calculation of basic earnings per unit of €0.05 ordinary stock is based on the profit attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

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

For the six months ended 30 June 2014, six months ended 30 June 2013 and the year ended 31 December 2013 there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

	6 months ended 30 June 2014 €m	Restated* 6 months ended 30 June 2013 €m	Restated* Year ended 31 December 2013 €m
Basic and diluted earnings per share			
Profit / (loss) attributable to stockholders	343	(463)	(483)
Dividend on 2009 Preference Stock	(67)	(94)	(185)
Adjustment on partial redemption of 2009 Preference Stock[1]	-	-	(23)
Dividend on other preference equity interests	(4)	(3)	(7)
Profit / (loss) attributable to ordinary stockholders	**272**	**(560)**	**(698)**
	Units (millions)	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders[2]	32,344	30,111	30,252[3]
Basic and diluted earnings per share (cent)	**0.8c**	**(1.8c)**	**(2.3c)**

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

1 *537,041,304 units of 2009 Preference Stock were redeemed at the subscription price of €1 per unit. This was greater than its carrying value of €0.9577 per unit due to transaction costs and warrants issued on the issue of the stock on 31 March 2009. Under IAS 33 , the difference of €23 million on redemption has been reflected in the EPS calculation by reducing the profit or loss attributable to ordinary equity holders of the parent entity.*

2 *The weighted average number of units of treasury stock and own stock held for the benefit of life assurance policyholders amounted to 41.2 million units (six months ended 30 June 2013: 43.7 million units; year ended 31 December 2013: 42.9 million units).*

3 *The weighted average number of units of stock in issue is calculated based on daily averages. As a result the number of weighted average number of units of stock in issue reflect c.20 days of the units of the Placing Stock. See note 43 in the Groups Annual Report for the year ended 31 December 2013.*

As at 30 June 2014, the Convertible Contingent Capital Note and options over 1.1 million units of potential ordinary stock (30 June 2013: 1.4 million units; 31 December 2013: 1.2 million units) could potentially have a dilutive impact in the future, but were anti-dilutive in the six months ended 30 June 2014, the six months ended 30 June 2013 and year ended 31 December 2013.

15 Loans and advances to banks

	30 June 2014 €m	31 December 2013 €m
Placements with other banks	3,220	3,264
Mandatory deposits with central banks	1,241	1,311
Funds placed with the Central Bank	447	-
Securities purchased with agreement to resell	168	184
Loans and advances to banks	**5,076**	**4,759**

Placements with other banks includes cash collateral of €1.1 billion (31 December 2013: €1.1 billion) placed with derivative counterparties in relation to net derivative liability positions.

Mandatory deposits with central banks includes €1,094 million relating to collateral in respect of the Group's issued bank notes in circulation in Northern Ireland (31 December 2013: €1,134 million).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 30 June 2014 was €163 million (31 December 2013: €207 million).

Loans and advances include €425 million (31 December 2013: €312 million) of assets held on behalf of Bank of Ireland Life policyholders.

16 Available for sale financial assets

	30 June 2014 €m	31 December 2013 €m
Government bonds	8,182	6,619
Other debt securities		
- listed	5,080	5,251
- unlisted	239	198
Equity securities		
- listed	1	4
- unlisted	37	32
Available for sale financial assets	**13,539**	**12,104**

At 30 June 2014, available for sale financial assets with a fair value of €2.4 billion (31 December 2013: €4.0 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a nominal value of €281 million (31 December 2013: €281 million) and a fair value of €202 million (31 December 2013: €132 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. During the six months ended 30 June 2014, NAMA revised its outlook and paid the Group a discretionary coupon of €15 million on the bonds. As a consequence, the Group revised its assumption as to future expected cash flows on the bonds, resulting in a reversal of impairment of €70 million (year ended 30 December 2013: €nil) (see note 12).

17 NAMA senior bonds

	30 June 2014 €m	31 December 2013 €m
NAMA senior bonds	**3,005**	**3,957**

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

At 30 June 2014, €nil (31 December 2013: €2.8 billion) of NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (March 2014: 0.384%) and 1 September (September 2013: 0.345%). The contractual maturity of these bonds is 1 March 2015. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the six months ended 30 June 2014, NAMA redeemed senior bonds held by the Group with a nominal value of €968 million (year ended 31 December 2013: €484 million).

18 Loans and advances to customers

	30 June 2014 €m	31 December 2013 €m
Loans and advances to customers	89,762	91,214
Finance leases and hire purchase receivables	1,809	1,541
	91,571	92,755
Less allowance for impairment charges on loans and advances to customers	(8,381)	(8,241)
Loans and advances to customers	**83,190**	**84,514**

19 EU Restructuring Plan

On 25 June 2014, the Group announced that it had agreed to sell the ICS Building Society's distribution platform to Dilosk Limited, together with a €250 million gross performing mortgage asset pool, forming part of the Retail Ireland division, for a total consideration of €250 million (subject to the satisfaction of regulatory and other approvals which are standard for a transaction of this nature). No deposits are transferring as part of the sale. While the ICS sale is the final divestment commitment to be completed by the Group under its EU Restructuring Plan, it has certain continuing obligations.

As a result the ICS mortgages are classified as assets held for sale. They continue to be measured on the same basis as prior to their classification as assets held for sale at amortised cost less any incurred impairment losses.

Assets classified as held for sale	**30 June 2014 €m**	31 December 2013 €m
ICS mortgages	250	-

20 Impairment provisions

The following tables show the movement in the impairment provisions on loans and advances to customers during the six months ended 30 June 2014 and the year ended 31 December 2013.

30 June 2014	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total impairment provisions €m**
Provision at 1 January 2014	2,003	1,909	4,118	211	8,241
Exchange adjustments	5	10	53	2	70
Charge against income statement	88	128	215	13	444
Provisions utilised	(78)	(197)	(133)	(35)	(443)
Other movements	10	(24)	72	11	69
Provision at 30 June 2014	**2,028**	**1,826**	**4,325**	**202**	**8,381**

31 December 2013	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2013	1,594	1,836	3,876	238	7,544
Exchange adjustments	(3)	(12)	(22)	(1)	(38)
Charge against income statement	573	468	583	41	1,665
Provisions utilised	(187)	(579)	(233)	(89)	(1,088)
Other movements	26	196	(86)	22	158
Provision at 31 December 2013	2,003	1,909	4,118	211	8,241

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

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

21 Deposits from banks

	30 June 2014 €m	31 December 2013 €m
Securities sold under agreement to repurchase	4,038	10,533
- Monetary Authorities (see table below)	*2,790*	*6,415*
- Private market repos	*1,248*	*4,118*
Deposits from banks	997	1,537
Other bank borrowings	95	143
Deposits from banks	**5,130**	**12,213**

Deposits from banks include cash collateral of €0.6 billion (31 December 2013: €0.9 billion) received from derivative counterparties in relation to net derivative asset positions.

	30 June 2014			31 December 2013		
Monetary Authority Funding	**LTRO €m**	**MRO €m**	**Total €m**	LTRO €m	MRO €m	Total €m
Of which:						
Deposits from Banks	2,540	250	2,790	6,415	-	6,415
Debt securities in issue (note 23)	1,260	1,750	3,010	1,885	-	1,885
Total	**3,800**	**2,000**	**5,800**	**8,300**	**-**	**8,300**

Long Term Refinancing Operation (LTRO) drawings, are on a term funding basis, utilising the ECB's three year LTRO. The LTRO matures in February 2015.

Main Refinancing Operations (MRO) drawings are on a one week short-term funding basis. The MRO matures in July 2014.

22 Customer accounts

	30 June 2014 €m	31 December 2013 €m
Term deposits and other products	37,509	37,056
Demand deposits	18,898	19,453
Current accounts	18,099	17,358
Customer accounts	**74,506**	**73,867**

Included within Term deposits and other products is €0.9 billion (31 December 2013: €0.5 billion) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

At 30 June 2014, the Group's largest 20 customer deposits amounted to 6% (31 December 2013: 7%) of customer accounts.

23 Debt securities in issue

	30 June 2014 €m	31 December 2013 €m
Bonds and medium term notes	13,408	11,548
Monetary Authorities (note 21)	3,010	1,885
Other debt securities in issue	1,760	1,847
Debt securities in issue	**18,178**	**15,280**

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

	30 June 2014 €m	31 December 2013 €m
Opening balance	15,280	18,073
Issued during the period	3,859	4,465
Repurchases	(360)	(303)
Redemptions	(687)	(6,658)
Other movements	86	(297)
Closing balance	**18,178**	**15,280**

24 Subordinated liabilities

	30 June 2014 €m	31 December 2013 €m
Opening balance	1,675	1,707
Exchange adjustments	6	(11)
Issued during the period (net of transaction costs)	749	-
Other movements	37	(21)
Closing balance	**2,467**	**1,675**

On 4 June 2014, the Group issued a €750 million 10 year (callable at the end of year 5) Tier 2 capital instrument. The bond carries a coupon of 4.25%.

25 Provisions

	30 June 2014 €m	31 December 2013 €m
Balance at the beginning of the period	90	119
Charge to income statement		
- Restructuring programme	27	90
- Other	5	13
Utilised during the period	(34)	(123)
Unused amounts reversed during the period	(9)	(9)
As at end of period	**79**	**90**

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.

26 Deferred tax

The deferred tax assets of €1,663 million (31 December 2013: €1,710 million (restated*)) are shown on the Consolidated balance sheet after netting at legal entity level (€1,795 million before netting by legal entity, 31 December 2013: €1,796 million (restated*)). At 30 June 2014, deferred tax assets include an amount of €1,633 million (31 December 2013: €1,646 million (restated*)) in respect of operating losses which are available to relieve future profits from tax.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. The Group expects to recover the greater part of the deferred tax asset within ten years of the balance sheet date and a significant portion of the deferred tax asset is expected to be recovered in a period more than ten years. The deferred tax asset has been recognised on the basis that it is probable the tax losses will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed. Under accounting standards these assets are measured on an undiscounted basis.

The deferred tax liabilities at 30 June 2014 are €73 million (31 December 2013: €92 million).

* *As outlined in the Basis of preparation and accounting policies on page 75, comparative periods have been restated to reflect the impact of the adoption of IFRIC 21 'Levies'. See note 32 for additional information.*

27 Retirement benefit obligations

The net pension deficit at 30 June 2014 was €969 million (31 December 2013: €841 million). This is shown on the balance sheet as a retirement benefit obligation of €971 million (31 December 2013: €845 million) and a retirement benefit asset of €2 million (31 December 2013: €4 million).

The principal changes in assumptions used to calculate the value of the pension obligations at 30 June 2014 as compared to 31 December 2013 are set out in the table below.

	30 June 2014	31 December 2013
RoI Schemes		
Inflation rate	1.80%	2.00%
Discount rate	3.05%	3.65%
UK schemes		
Consumer Price Inflation	2.50%	2.70%
Retail Price Inflation	3.50%	3.60%
Discount Rate	4.30%	4.45%

Pension levy

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The Finance Act (No.2) 2013 gave effect to an increase in the pension levy by 0.15% to 0.75% in 2014. The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year. The Group has recognised a charge of €33 million through other comprehensive income for the six months ended 30 June 2014 (year ended 31 December 2013: €24 million) in respect of the entire estimated 2014 pension levy as the levy is calculated based on asset values from no later than 30 June 2014.

Pensions 2013 Review

During 2013, the Group completed a review of the Bank of Ireland Staff Pensions Fund (BSPF) and the IAS 19R deficit of same. This review involved communication with the members of the scheme, together with an extensive process of consultation with staff representative bodies and other stakeholders. The proposals arising from the review were accepted by the largest staff representative body, the IBOA.

Arising from this review the Group proposed a number of amendments to the scheme. These amendments involved the employee members of the BSPF agreeing to some changes to how potential future salary increases qualify for pension. The Group also advised members of changes to how increases to pensions in payment will be determined. The Group also made certain assumption changes following the review.

By 31 December 2013, the amendments and changes in assumptions in respect of future levels of pension increases had been implemented.

In relation to the amendment to future increases in members' pensionable salaries, active members of the BSPF in RoI and UK were asked to individually accept the changes. As at 30 June 2014, 99% of those members had accepted the changes (31 December 2013: 19%). The defined benefit pension deficit at 30 June 2014 reflects this increase in the level of acceptances, together with the impact of a similar review carried out on a smaller Group sponsored pension scheme during the period.

The impact of the Pensions 2013 Review for the six months ended 30 June 2014 has been recognised in the income statement as a negative past service cost of €87 million (year ended 31 December 2013: negative past service cost of €274 million, net of directly related costs, recognised in the income statement, and changes in financial assumptions of €117 million, recognised in other comprehensive income).

28 Contingent liabilities and commitments

The table below 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.

	30 June 2014 Contract amount €m	31 December 2013 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	7	9
Guarantees and irrevocable letters of credit	722	819
Other contingent liabilities	144	327
	873	**1,155**
Commitments		
Documentary credits and short term trade related transactions	110	85
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	13,648	13,043
- irrevocable with original maturity of over 1 year	2,688	2,764
	16,446	**15,892**

29 Liquidity risk and profile

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life) at 30 June 2014 and 31 December 2013 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 €5,595 million and €9,269 million respectively (31 December 2013: €5,460 million and €8,502 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

As at 30 June 2014 **Contractual maturity**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Deposits from banks	312	1,347	603	98	-	2,360
Drawings from Monetary Authorities (gross)	-	2,000	3,857	-	-	5,857
Customer accounts	42,374	19,417	9,033	3,762	219	74,805
Debt securities in issue	-	1,595	4,533	6,042	4,391	16,561
Subordinated liabilities	-	101	90	1,628	1,679	3,498
Contingent liabilities	873	-	-	-	-	873
Commitments	13,758	-	-	2,688	-	16,446
Total	**57,317**	**24,460**	**18,116**	**14,218**	**6,289**	**120,400**

As at 31 December 2013 Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	361	3,284	2,008	211	-	5,864
Drawings from Monetary Authorities (gross)	-	-	-	8,439	-	8,439
Customer accounts	43,457	17,258	9,210	4,151	170	74,246
Debt securities in issue	-	460	1,569	8,274	4,399	14,702
Subordinated liabilities	-	28	133	1,513	764	2,438
Contingent liabilities	1,155	-	-	-	-	1,155
Commitments	13,043	-	-	2,764	-	15,807
Total	58,016	21,030	12,920	25,352	5,333	122,651

.

30 Summary of relations with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

Further details of the Group's relations with the State are set out in note 52 of the Group's Annual Report for the year ended 31 December 2013.

(a) Ordinary stock
At 30 June 2014, the State through the NPRFC held 13.95% (31 December 2013: 14.08%) of the ordinary stock of the Bank.

(b) Guarantee schemes
Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme)
The ELG scheme ended for all new liabilities on 28 March 2013. After this date no new liabilities were guaranteed under the scheme. All qualifying deposits made up to the date of expiry from the ELG scheme continued to be covered until the date of maturity of the deposit.

A fee is payable in respect of each liability guaranteed under the ELG scheme. This fee amounted to €21 million for the six months ended 30 June 2014 (six months ended 30 June 2013: €99 million, year ended 31 December 2013: €129 million) (note 3).

At 30 June 2014, €3.6 billion of eligible liabilities continue to be covered under the ELG scheme (31 December 2013: €5 billion).

(c) Bonds issued by the State
At 30 June 2014, the Group held sovereign bonds issued by the State with a carrying value of €7,300 million (31 December 2013: €6,846 million) of which €6,859 million (31 December 2013: €6,403 million) are classified as available for sale financial assets and €441 million (31 December 2013: €443 million) are classified as other financial assets at fair value through profit or loss.

(d) National Asset Management Agency (NAMA)
At 30 June 2014, the Group held bonds issued by NAMA with a carrying value of €3,207 million (31 December 2013: €4,089 million)

	30 June 2014 €m	31 December 2013 €m
NAMA senior bonds (guaranteed by the State) (note 17)	3,005	3,957
NAMA subordinated bonds (note 16)	202	132
Total	**3,207**	**4,089**

(e) National Asset Management Agency Investment Limited (NAMAIL)
On 30 March 2010, the Group, through its wholly-owned subsidiary NIAC, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. Further details are set out in note 52 of the Group's Annual Report for the year ended 31 December 2013.

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €0.5 million was received by the Group on 31 March 2014 (2 April 2013: €0.7 million).

(f) Other transactions with the State and entities under its control or joint control
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. 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. Other than as set out below, there has been no significant change in individually or collectively significant transactions with the State since 31 December 2013.

At 30 June 2014, the Group held senior bonds with a carrying value of €862 million issued by the following entities which are related parties of the Group, as follows:

30 Summary of relations with the State (continued)

	30 June 2014 €m	31 December 2013 €m
Allied Irish Banks plc (AIB)	658	618
Permanent TSB Group Holdings plc	204	204
Total	**862**	**822**

At 30 June 2014, the Group held deposits from the National Treasury Management Agency (NTMA) of €1.8 billion (31 December 2013: €1.7 billion).

In addition, at 30 June 2014, the Group held deposits from IBRC (in Special Liquidation) and its subsidiary undertakings of €269 million (31 December 2013: €668 million) which were included in Customer accounts.

(g) Irish bank levy
The Finance Bill (No. 2) 2013 which was enacted on 18 December 2013, introduced a bank levy on certain financial institutions, including the Group. The levy will equal 35% of each financial institution's Deposit Interest Retention Tax (DIRT) payments for 2011 and will be charged for three years, from 2014 to 2016 inclusive. In line with the guidance in IFRIC 21 'Levies', the Group expects to recognise a charge of €41 million in respect of the levy in the second half of each of these years, on the annual date in October on which all of the requirements set out in the legislation are met.

31 Fair values of assets and liabilities

Fair value of financial assets and financial liabilities
The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include discounted cash flow models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. These instruments are shown as either at fair value through profit or loss (FVTPL) or at fair value through the statement of comprehensive income.

31 Fair values of assets and liabilities (continued)

For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts.

A description of the methods, assumptions and processes used to calculate fair values of these assets and liabilities is set out on pages 277 to 280 of the Group's Annual Report for the year ended 31 December 2013. At 30 June 2014, there has been no significant change to those methods, assumptions or processes.

Sensitivity of level 3 valuations

(a) Derivative financial instruments
Certain derivatives are valued using unobservable inputs relating to counterparty credit such as credit grade, which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €14 million or decrease their fair value by up to €14 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

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

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

NAMA subordinated debt does not trade in an active market for which observable market data is available. Its fair value has been estimated using a discounted cash flow valuation technique i.e. level 3 inputs. A 1% increase / (decrease) in the discount rate used to value the debt would result in a decrease of €8 million / (increase of €9 million) in its fair value, with a corresponding impact on other comprehensive income.

(c) Interest in associates
Investments in associates which are venture capital investments are accounted for at fair value and using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

(d) Customer accounts and deposits by banks
A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see below), leaving the Group with no net valuation risk due to those non-observable inputs.

(e) Debt securities in issue and subordinated liabilities
The significant unobservable input is the Group's credit spread, the estimation of which is judgemental in current market circumstances. A 1% increase / (decrease) in the estimated credit spread at 30 June 2014 would result in a decrease of €49 million / (increase of €49 million) in the fair value of the liabilities, with a corresponding impact on the income statement.

31 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.

	30 June 2014				31 December 2013			
	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	564	-	-	564	252	-	-	252
Derivative financial instruments	-	3,020	260	3,280	-	3,142	350	3,492
Other financial assets at FVTPL	10,300	566	17	10,883	9,635	654	17	10,306
AFS financial assets	13,064	235	240	13,539	11,615	314	175	12,104
Interest in associates	-	-	46	46	-	-	41	41
	23,928	**3,821**	**563**	**28,312**	**21,502**	**4,110**	**583**	**26,195**
Financial liabilities held at fair value								
Deposits from banks	-	95	-	95	-	143	-	143
Customer accounts	-	1,868	44	1,912	-	1,809	23	1,832
Derivative financial instruments	-	3,263	27	3,290	-	3,147	81	3,228
Liabilities to customers under investment contracts	-	5,595	-	5,595	-	5,460	-	5,460
Insurance contract liabilities	-	9,269	-	9,269	-	8,502	-	8,502
Debt securities in issue	-	-	645	645	-	-	519	519
Subordinated liabilities	-	-	66	66	-	-	63	63
Other short positions	143	-	-	143	8	-	-	8
	143	**20,090**	**782**	**21,015**	**8**	**19,061**	**686**	**19,755**

31 Fair values of assets and liabilities (continued)

Movements in level 3 assets	30 June 2014 Other financial assets at FVTPL €m	30 June 2014 Derivative financial instruments €m	30 June 2014 Available for sale financial assets €m	30 June 2014 Interest in associates €m	30 June 2014 Total €m	31 December 2013 Other financial assets at FVTPL €m	31 December 2013 Derivative financial instruments €m	31 December 2013 Available for sale financial assets €m	31 December 2013 Interest in associates €m	31 December 2013 Total €m
Opening balance	17	350	175	41	583	16	509	221	39	785
Exchange Adjustment	-	4	-	-	4	-	(8)	-	-	(8)
Reclassifications	-	-	-	-	-	-	-	(44)[1]	-	(44)
Total gains or losses in:										
Profit or loss;										
- Net trading income / (expense)	-	(13)	-	-	(13)	-	(65)	-	-	(65)
- Interest income	-	-	11	-	11	-	-	16	-	16
- Reversal of impairment charge	-	-	55	-	55	-	-	-	-	-
- Share of results of associates	-	-	-	1	1	-	-	-	(4)	(4)
- Other operating income	-	-	-	-	-	1	-	-	-	1
Other comprehensive income - AFS reserve	-	-	11	-	11	-	-	6	-	6
Additions	-	-	7	5	12	-	-	4	7	11
Disposals	-	(18)	(8)	(1)	(27)	-	-	(1)	(1)	(2)
Redemptions	-	(26)	(9)	-	(35)	-	(6)	(30)	-	(36)
Transfers out of level 3										
- from level 3 to level 2	-	(56)	-	-	(56)	-	(110)	-	-	(110)
- from level 3 to level 1	-	-	(2)	-	(2)	-	-	-	-	-
Transfers into level 3										
- from level 1 to level 3	-	-	-	-	-	-	-	3	-	3
- from level 2 to level 3	-	19	-	-	19	-	30	-	-	30
Closing balance	**17**	**260**	**240**	**46**	**563**	**17**	**350**	**175**	**41**	**583**
Total gains and losses for the period included in profit or loss for assets held in level 3 at the end of the reporting period										
Net trading income / (expense)	-	81	-	-	81	-	90	-	-	90
Interest income	-	-	10	-	10	-	-	16	-	16
Reversal of impairment charge	-	-	70	-	70	-	-	-	-	-
Share of results of associates	-	-	-	1	1	-	-	-	(4)	(4)
Other operating income	1	-	-	-	1	1	-	-	-	1

[1] *In accordance with IAS 39, the Group reclassified available for sale financial assets with a carrying amount and fair value of €44 million to loans and advances to customers, with effect from 31 December 2013. At the date of this reclassification, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity.*

At the date of reclassification, the effective interest rate on the reclassified asset was 5.17% with expected recoverable cash flows of €52 million. At 31 December 2013, a fair value loss of €12 million has been recognised in the available for sale reserve within shareholders' equity in relation to these reclassified assets.

31 Fair values of assets and liabilities (continued)

The transfers from level 3 to level 2 arose as a result of the availability of observable inputs at the balance sheet date which were unavailable at the previous balance sheet date or as a result of unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfer from level 3 to level 1 is a result of the availability of a level 1 pricing source at the balance sheet date for that security.

The transfer from level 1 to level 3 is as a result of the unavailability of a level 1 pricing source at the balance sheet date for that security.

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

A transfer of €37 million from level 2 to level 1 was a result of the availability of a level 1 pricing source at the balance sheet date for that security.

	30 June 2014					31 December 2013				
Movements in level 3 liabilities	**Customer accounts €m**	**Derivative financial instruments €m**	**Debt securities in issue €m**	**Subordinated liabilities €m**	**Total €m**	Customer accounts €m	Derivative financial instruments €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
Opening balance	23	81	519	63	686	12	47	521	64	644
Exchange adjustments	-	1	-	1	2	-	1	-	(4)	(3)
Total gains or losses in:										
Profit or loss										
- Net trading income / (expense)	2	(49)	7	2	(38)	-	39	40	7	86
- Revaluations	-	-	-	-	-	-	-	-	(4)	(4)
Additions	-	-	134	-	134	-	-	-	-	-
Redemptions and maturities	-	-	(15)	-	(15)	(11)	-	(42)	-	(53)
Transfers out of level 3										
- from level 3 to level 2	(23)	(7)	-	-	(30)	-	(10)	-	-	(10)
Transfers into level 3										
- from level 2 to level 3	42	1	-	-	43	22	4	-	-	26
Closing balance	**44**	**27**	**645**	**66**	**782**	**23**	**81**	**519**	**63**	**686**
Total gains / (losses) for the period included in profit or loss for liabilities held in level 3 at the end of the reporting period										
Net trading income / (expense)	(3)	(25)	(13)	2	(39)	(2)	109	54	(4)	157

The transfers from level 3 to level 2 arose due to the availability of observable inputs at the balance sheet date which were unavailable at the previous reporting date.

The transfers from level 2 to level 3 arose because unobservable inputs became significant to their fair value measurement.

There were no transfers between levels 1 and 2.

31 Fair values of assets and liabilities (continued)

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

Level 3 assets	Valuation technique	Unobservable input	Fair value 30 June 2014 €m	Fair value 31 December 2013 €m	Range 30 June 2014 %	Range 31 December 2013 %
Derivative financial assets	Discounted cash flow	Credit spread[1]	260	350	0% - 4%	0% - 14%
	Option pricing model	Credit spread[1]			0% - 4%	0% - 14%
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount rate[2]	17	17	Third party pricing	Third party pricing
AFS financial assets	Discounted cash flow	Discount rate[2]	240	175	10% - 13%	10% - 13%
	Vendor valuations	EBITDA multiple[3]			Third party pricing	Third party pricing
		Liquidity factor			Third party pricing	Third party pricing
Interest in associates	Market comparable companies	Price of recent investment	46	41	Third party pricing	Third party pricing
		Earnings multiple[3]			Third party pricing	Third party pricing
		Revenue multiple[3]			Third party pricing	Third party pricing

Level 3 liabilities	Valuation technique	Unobservable input	Fair value 30 June 2014 €m	Fair value 31 December 2013 €m	Range 30 June 2014 %	Range 31 December 2013 %
Customer accounts	Discounted cash flow	Credit spread[1]	44	23	0% - 4%	1% - 4%
Derivative financial liabilities	Discounted cash flow	Credit spread[1]	27	81	0% - 4%	1% - 4%
	Option pricing model	Credit spread[1]			Third party pricing	Third party pricing
Debt securities in issue	Discounted cash flow	Credit spread[1]	645	519	0% - 4%	2% - 4%
Subordinated liabilities	Broker quotes	Credit spread[1]	66	63	Third party pricing	Third party pricing

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

Note: 100 basis points = 1%

31 Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Group's financial assets and liabilities as at 30 June 2014 and 31 December 2013 are set out in the table below.

	30 June 2014		31 December 2013	
	Carrying amount €m	**Fair values €m**	Carrying amount €m	Fair values €m
Financial instruments held for trading				
Trading securities[1]	564	564	252	252
Derivative financial instruments - trading				
Foreign exchange contracts[1]	(2)	(2)	(8)	(8)
Interest rate contracts[1]	(183)	(183)	(205)	(205)
Equity and commodity contracts[1]	334	334	249	249
Non-trading financial instruments				
Assets				
Cash and balances at central banks[1]	4,723	4,723	6,385	6,385
Items in course of collection from other banks[1]	337	337	363	363
Loans and advances to banks[1]	5,076	5,076	4,759	4,759
Loans and advances to customers (including assets classified as held for sale)	83,440	74,082	84,514	74,548
Available for sale financial assets[1]	13,539	13,539	12,104	12,104
NAMA senior bonds	3,005	3,027	3,957	3,986
Other financial assets at fair value through profit or loss[1]	10,883	10,883	10,306	10,306
Liabilities				
Deposits from banks[1]	5,130	5,130	12,213	12,213
Customer accounts	74,506	74,664	73,867	74,000
Items in the course of transmission to other banks[1]	323	323	147	147
Liabilities to customers under investment contracts[1]	5,595	5,595	5,460	5,460
Insurance contract liabilities[1]	9,269	9,269	8,502	8,502
Debt securities in issue	18,178	18,373	15,280	15,159
Subordinated liabilities	2,467	2,726	1,675	1,842
Derivative financial instruments - hedging				
Interest rate contracts and foreign exchange contracts[1]	(159)	(159)	228	228

[1] *The fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value or have minimal credit losses and are either short term in nature or repriced frequently.*

32 Impact of adopting new accounting standards and reclassification

Restatement of comparatives - IFRIC 21 'Levies' and loss on deleveraging

As outlined in the Basis of preparation and accounting policies on page 75, during the six months ended 30 June 2014, the Group adopted IFRIC 21 'Levies' and has accordingly restated the prior periods. The tax charge has also been restated to take account of this (see note 13).

The following table reflects the impact on the Group's financial statements at 30 June 2014 of IFRIC 21 'Levies' at 1 January 2014.

Income statement – 6 months ended 30 June 2014	IFRIC 21 Levies €m
Other operating expenses	(18)
Loss before tax	**(18)**
Taxation credit	4
Loss for the period	**(14)**

In addition, and as set out in the Basis of preparation and accounting policies on page 75, the Group has reclassified loss on deleveraging from the face of the income statement to other operating income. This item is included under the heading 'loss on deleveraging reclassification' below.

The following tables set out the impact of IFRIC 21 'Levies' and the loss on deleveraging reclassification on the comparative amounts for the year ended 31 December 2013 and the six months ended 30 June 2013.

Consolidated income statement (selected lines)

	31 December 2013				30 June 2013			
	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m
Other operating income	68	-	(3)	65	4	-	(4)	-
Other operating expenses	(1,581)	5	-	(1,576)	(808)	(12)	-	(820)
Loss on deleveraging of financial assets	(3)	-	3	-	(4)	-	4	-
Loss before tax	(525)	5	-	(520)	(504)	(12)	-	(516)
Taxation credit	35	(1)	-	34	49	3	-	52
Loss for the period	(490)	4	-	(486)	(455)	(9)	-	(464)

Consolidated balance sheet (selected lines)

	31 December 2013			
	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m
Assets				
Deferred tax asset	1,714	(4)	-	1,710
Liabilities				
Other liabilities	2,841	(18)	-	2,823
Equity				
Retained Earnings	3,791	14	-	3,805

32 Impact of adopting new accounting standards (continued)

Consolidated statement of comprehensive income (selected lines)

	31 December 2013				30 June 2013			
	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m
Loss for the period	(490)	4	-	(486)	(455)	(9)	-	(464)
Other comprehensive income for the period, net of tax	(62)	-	-	(62)	(79)	(1)	-	(80)
Total comprehensive income for the period, net of tax	(552)	4	-	(548)	(534)	(10)	-	(544)
Total comprehensive income attributable to equity stockholders	(549)	4	-	(545)	(533)	(10)	-	(543)

Consolidated statement of changes in equity (selected lines)

	31 December 2013				30 June 2013			
	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m
Retained earnings								
Balance at the beginning of the period	4,673	10	-	4,683	4,673	10	-	4,683
Loss for the period attributable to stockholders	(487)	4	-	(483)	(454)	(9)	-	(463)
Balance at the end of the period	3,791	14	-	3,805	4,040	-	-	4,040

Consolidated cash flow statement (selected lines)

	31 December 2013				30 June 2013			
	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m	Published €m	IFRIC 21 Levies €m	Loss on deleveraging reclassification €m	Restated €m
Cash flows from operating activities								
Loss before tax	(525)	5	-	(520)	(504)	(12)	-	(516)
Other non-cash items	(353)	(5)	-	(358)	(66)	12	-	(54)
Cash flows from operating activities before changes in operating assets and liabilities	1,074	-	-	1,074	511	-	-	511

33 Post balance sheet events

There have been no material post balance sheet events that would require disclosure or adjustment to this Interim Report.

34 Approval of Interim Report

The Court of Directors approved the Interim Report on 31 July 2014.

Other information

Other information

1 Supplementary Asset Quality and forbearance disclosures

The tables below (except for table 3b on page 126 and table 1 on pages 155 and 156) in Other information - Supplementary Asset Quality and forbearance disclosures on pages 115 to 160 form an integral part of the interim financial statements as described in the Basis of preparation on page 73. All other information in Other information - Supplementary Asset Quality and forbearance disclosures is additional information and does not form part of the interim financial statements.

For the purposes of this section loans and advances to customers includes loans classified as held for sale.

Group forbearance disclosures

Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers including loans classified as held for sale at 30 June 2014 of €91.8 billion is available on page 56 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below provide an analysis of loans that are "neither past due nor impaired', 'past due but not impaired' and 'impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'.

TABLE: 1 **30 June 2014** **Risk profile of loans and advances to customers including held for sale (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	43,146	4,696	1,191	2,334	51,367	63%
Satisfactory quality	-	7,851	1,822	128	9,801	12%
Acceptable quality	-	1,577	503	9	2,089	3%
Lower quality but not past due or impaired	-	262	353	-	615	1%
Neither past due nor impaired	**43,146**	**14,386**	**3,869**	**2,471**	**63,872**	**79%**
Past due but not impaired	2,419	123	183	83	2,808	3%
Impaired	2,581	3,544	7,930	222	14,277	18%
Total non-forborne loans and advances to customers	**48,146**	**18,053**	**11,982**	**2,776**	**80,957**	**100%**
Forborne loans and advances to customers						
High quality	-	33	32	1	66	-
Satisfactory quality	820	447	773	106	2,146	20%
Acceptable quality	827	945	1,675	14	3,461	32%
Lower quality but not past due or impaired	369	1,097	1,459	-	2,925	27%
Neither past due nor impaired	**2,016**	**2,522**	**3,939**	**121**	**8,598**	**79%**
Past due but not impaired	631	104	220	17	972	9%
Impaired	514	266	514	-	1,294	12%
Total forborne loans and advances to customers	**3,161**	**2,892**	**4,673**	**138**	**10,864**	**100%**

Group forbearance disclosures (continued)

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

The Group's total loans and advances to customers of €92.8 billion at 31 December 2013 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

31 December 2013 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	43,625	3,852	909	2,002	50,388	61%
Satisfactory quality	-	8,312	1,849	319	10,480	13%
Acceptable quality	-	1,985	376	13	2,374	3%
Lower quality but not past due or impaired	-	413	610	-	1,023	1%
Neither past due nor impaired	43,625	14,562	3,744	2,334	64,265	78%
Past due but not impaired	2,619	156	160	87	3,022	4%
Impaired	2,597	3,621	8,008	236	14,462	18%
Total non-forborne loans and advances to customers	48,841	18,339	11,912	2,657	81,749	100%
Forborne loans and advances to customers						
High quality	-	34	37	1	72	1%
Satisfactory quality	659	373	956	135	2,123	19%
Acceptable quality	769	1,070	2,021	10	3,870	35%
Lower quality but not past due or impaired	258	1,292	1,040	-	2,590	24%
Neither past due nor impaired	1,686	2,769	4,054	146	8,655	79%
Past due but not impaired	669	87	253	19	1,028	9%
Impaired	450	290	583	-	1,323	12%
Total forborne loans and advances to customers	2,805	3,146	4,890	165	11,006	100%

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €8.6 billion of the Group's forborne loan book at 30 June 2014 compared to €8.7 billion of the Group's forborne loan book at 31 December 2013. Residential mortgage forborne loans and advances to customers classified as 'neither past due nor impaired' increased from €1.7 billion at 31 December 2013 to €2.0 billion at 30 June 2014 reflecting the Group's progress in assisting customers in financial difficulty with sustainable mortgage restructure and resolution strategies.

Forborne loans and advances to customers classified as 'past due but not impaired' amounted to €1.0 billion of the Group's forborne loan book at 30 June 2014 compared to €1.0 billion at 31 December 2013.

Forborne 'impaired' loans remained broadly unchanged at €1.3 billion of the Group's loan book at 30 June 2014 compared to €1.3 billion at 31 December 2013.

Group forbearance disclosures (continued)

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

Regulatory classification

The Group's total risk profile of loans and advances to customers including loans classified as held for sale at 30 June 2014 of €91.8 billion is available on page 58 in the asset quality disclosures. Exposures are before provisions for impairment.

The tables below summarise the loans according to the Group's interpretation of regulatory classification with regard to 'performing' and 'non-performing' reflecting the observations of the CBI's AQR over the following categories: 'non-forborne' and 'forborne'. Non-performing loans includes loans which are impaired, 90 days past due but not impaired and mortgages (denoted by *) which are forborne, have had their terms and conditions modified, were previously in default and which are subject to a twelve month probation period under revised contractual arrangements until they are reclassified to a performing status.

TABLE: 2

Risk profile of loans and advances to customers including held for sale (before impairment provisions)	30 June 2014 Performing €m	Non-performing €m	Total €m
Non-forborne loans and advances to customers			
High quality	51,367	-	51,367
Satisfactory quality	9,801	-	9,801
Acceptable quality	2,089	-	2,089
Lower quality but not past due or impaired	615	-	615
Neither past due nor impaired	**63,872**	**-**	**63,872**
Past due but not impaired			
- Past due 0 - 90 days	1,977	-	1,977
- Past due more than 90 days but not impaired	-	831	831
Total past due but not impaired	**1,977**	**831**	**2,808**
Impaired	**-**	**14,277**	**14,277**
Total non-forborne loans and advances to customers	**65,849**	**15,108**	**80,957**
Forborne loans and advances to customers			
High quality	66	-	66
Satisfactory quality	2,146	-	2,146
Acceptable quality	3,461	-	3,461
Lower quality but not past due or impaired	2,558	367*	2,925
Neither past due nor impaired	**8,231**	**367**	**8,598**
Past due but not impaired			
- Past due 0 - 90 days	523	107*	630
- Past due more than 90 days but not impaired	-	342	342
Total past due but not impaired	**523**	**449**	**972**
Impaired	-	1,294	1,294
Total forborne loans and advances to customers	**8,754**	**2,110**	**10,864**

Group forbearance disclosures (continued)

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

The Group's total loans and advances to customers of €92.8 billion at 31 December 2013 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

	31 December 2013		
Risk profile of loans and advances to customers (before impairment provisions)	Performing €m	Non-performing €m	Total €m
Non-forborne loans and advances to customers			
High quality	50,388	-	50,388
Satisfactory quality	10,480	-	10,480
Acceptable quality	2,374	-	2,374
Lower quality but not past due or impaired	1,023	-	1,023
Neither past due nor impaired	64,265	-	64,265
Past due but not impaired			
- Past due 0 - 90 days	2,047	-	2,047
- Past due more than 90 days but not impaired	-	975	975
Total past due but not impaired	2,047	975	3,022
Impaired	-	14,462	14,462
Total non-forborne loans and advances to customers	66,312	15,437	81,749
Forborne loans and advances to customers			
High quality	72	-	72
Satisfactory quality	2,123	-	2,123
Acceptable quality	3,870	-	3,870
Lower quality but not past due or impaired	2,334	256*	2,590
Neither past due nor impaired	8,399	256	8,655
Past due but not impaired			
- Past due 0 - 90 days	555	108*	663
- Past due more than 90 days but not impaired	-	365	365
Total past due but not impaired	555	473	1,028
Impaired	-	1,323	1,323
Total forborne loans and advances to customers	8,954	2,052	11,006

Group forbearance disclosures (continued)

Past due and / or impaired

The Group's total risk profile of loans and advances to customers including loans classified as held for sale - past due and / or impaired at 30 June 2014 of €19.4 billion is available on page 59 in the asset quality disclosures. Exposures are before provisions for impairment.

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

TABLE: 3

30 June 2014 **Risk profile of loans and advances to customers including held for sale - 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	553	106	25	50	734
Past due up to 31 - 60 days	762	15	59	23	859
Past due up to 61 - 90 days	273	2	99	10	384
	1,588	**123**	**183**	**83**	**1,977**
Past due more than 90 days but not impaired	831	-	-	-	831
Impaired	2,581	3,544	7,930	222	14,277
Defaulted loans	**3,412**	**3,544**	**7,930**	**222**	**15,108**
Total non-forborne loans and advances to customers - past due and / or impaired	**5,000**	**3,667**	**8,113**	**305**	**17,085**
Forborne loans and advances to customers					
Past due up to 30 days	128	33	83	6	250
Past due up to 31 - 60 days	101	30	32	8	171
Past due up to 61 - 90 days	60	41	105	3	209
	289	**104**	**220**	**17**	**630**
Past due more than 90 days but not impaired	342	-	-	-	342
Impaired	514	266	514	-	1,294
Defaulted loans	**856**	**266**	**514**	**-**	**1,636**
Total forborne loans and advances to customers - past due and / or impaired	**1,145**	**370**	**734**	**17**	**2,266**

Group forbearance disclosures (continued)

Past due and / or impaired

The Group's total loans and advances to customers - past due and / or impaired of €19.8 billion at 31 December 2013 are analysed below using the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

31 December 2013 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	557	118	58	53	786
Past due up to 31 - 60 days	780	13	75	24	892
Past due up to 61 - 90 days	307	25	27	10	369
	1,644	156	160	87	2,047
Past due more than 90 days but not impaired	975	-	-	-	975
Impaired	2,597	3,621	8,008	236	14,462
Defaulted loans	3,572	3,621	8,008	236	15,437
Total non-forborne loans and advances to customers - past due and / or impaired	5,216	3,777	8,168	323	17,484
Forborne loans and advances to customers					
Past due up to 30 days	127	51	96	6	280
Past due up to 31 - 60 days	107	23	96	9	235
Past due up to 61 - 90 days	70	13	61	4	148
	304	87	253	19	663
Past due more than 90 days but not impaired	365	-	-	-	365
Impaired	450	290	583	-	1,323
Defaulted loans	815	290	583	-	1,688
Total forborne loans and advances to customers - past due and / or impaired	1,119	377	836	19	2,351

Forborne loans and advances to customers classified as 'past due and / or impaired' amounted to €2.3 billion at 30 June 2014 compared to €2.4 billion at 31 December 2013.

Forborne Residential mortgages classified as 'past due and / or impaired' remained unchanged at €1.1 billion.

Forborne Property and construction loans classified as 'past due and / or impaired' decreased by €0.1 billion from €0.8 billion at 31 December 2013 to €0.7 billion at 30 June 2014, consistent with the overall reduction in 'past due and / or impaired' Property and construction loans.

Forborne Non-property SME and corporate loans classified as 'past due and / or impaired' remained broadly unchanged at €0.4 billion at 30 June 2014 and 31 December 2013.

Forborne Consumer loans that are 'past due and / or impaired' are minimal at €17 million at 30 June 2014 (31 December 2013: €19 million).

Group forbearance disclosures (continued)

Impairment provision

The total impairment provisions on loans and advances to customers for the six months ended 30 June 2014 were €8.4 billion (31 December 2013: €8.2 billion).

The Group's impairment provision by nature of impairment provision is available on page 62 in the asset quality disclosures. Of this, the impairment provisions on forborne loans amounted to €601 million (31 December 2013: €521 million) as set out in the tables below:

TABLE: 4

30 June 2014 **Impairment provision on forborne loans and advances** **Composition**	**Specific provisions individually and collectively assessed** **€m**	**Incurred but not reported** **€m**	**Total impairment provision on forborne loans** **€m**
Residential mortgages	206	242	448
- Retail Ireland	*205*	*239*	*444*
- Retail UK	*1*	*3*	*4*
Non-property SME and corporate	-	57	57
- Republic of Ireland	-	*31*	*31*
- UK SME	-	*12*	*12*
- Corporate	-	*14*	*14*
Property and construction	-	93	93
- Investment	-	*83*	*83*
- Land and development	-	*10*	*10*
Consumer	-	3	3
Total impairment provision on forborne loans	**206**	**395**	**601**

31 December 2013 Impairment provision on forborne loans and advances Composition	Specific provisions individually and collectively assessed €m	Incurred but not reported €m	Total impairment provision on forborne loans €m
Residential mortgages	182	181	363
- Retail Ireland	*181*	*177*	*358*
- Retail UK	*1*	*4*	*5*
Non-property SME and corporate	-	61	61
- Republic of Ireland	-	*34*	*34*
- UK SME	-	*13*	*13*
- Corporate	-	*14*	*14*
Property and construction	-	95	95
- Investment	-	*85*	*85*
- Land and development	-	*10*	*10*
Consumer	-	2	2
Total impairment provision on forborne loans	182	339	521

Impairment provision on forborne loans

Specific and IBNR provisions held against forborne Retail Ireland mortgage loans increased during the first half of 2014, largely due to an increase in the stock of 'impaired' forborne mortgage loans. Provisions held against forborne Retail UK mortgage loans were €4 million, reflecting the stable performance of the UK mortgage loan book. In the non-mortgage book, where a specific provision is required, the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. IBNR provisions on non-mortgage forborne loans at 30 June 2014 reduced slightly compared to the previous period, reflecting the reduction in the volume of non-mortgage 'neither past due nor impaired' forborne loans, particularly in the Non-property SME and corporate portfolio.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book. The tables and analysis below include assets classified as held for sale at 30 June 2014.

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

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

At 30 June 2014, lending criteria for the Retail Ireland mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1

Retail Ireland mortgages - Volumes including held for sale (before impairment provisions)	**30 June 2014 €m**	31 December 2013 €m
Owner occupied mortgages	20,223	20,437
Buy to let mortgages	6,041	6,263
Total Retail Ireland mortgages	**26,264**	**26,700**

Retail Ireland mortgages were €26.3 billion at 30 June 2014 compared to €26.7 billion at 31 December 2013. The decrease of €436 million or 1.6% reflects a combination of factors including the current demand for new mortgage lending, principal repayments and the impact of the transfer to a principal and interest[1] repayment profile of loans where the 'interest only' period has expired.

The proportion of the Retail Ireland mortgage portfolio on a 'principal and interest' repayment basis at 30 June 2014 was 88% (31 December 2013: 86%) with the balance of 12% on an 'interest only'[2] repayment basis (31 December 2013: 14%). Of the Owner occupied mortgages of €20.2 billion, 94% were on a 'principal and interest' repayment basis (31 December 2013: 93%), while 68% of the Buy to let mortgages of €6.0 billion were on a 'principal and interest' repayment basis (31 December 2013: 65%). It is the Group's policy to revert all loans to a 'principal and interest' basis on expiry of the 'interest only' period.

1 *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
2 *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term.*

Book composition (continued)

Origination profile

TABLE: 2

30 June 2014 **Origination of Retail Ireland mortgage loan book including held for sale (before impairment provisions)**	**Total Retail Ireland mortgage loan book**		**Defaulted loans**	
	Balance €m	**Number of accounts[1]**	**Balance €m**	**Number of accounts[1]**
2000 and before	550	18,044	59	1,252
2001	380	6,470	34	442
2002	708	9,345	83	707
2003	1,223	12,992	183	1,227
2004	2,080	17,695	294	1,721
2005	3,319	22,985	510	2,445
2006	4,914	28,170	1,043	3,991
2007	4,274	23,006	890	3,232
2008	2,946	16,858	471	1,759
2009	1,600	11,044	104	588
2010	1,145	7,529	19	112
2011	1,007	6,688	6	39
2012	902	5,984	2	10
2013	806	5,134	-	-
2014	410	2,582	-	-
Total	**26,264**	**194,526**	**3,698**	**17,525**

31 December 2013 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Defaulted loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
2000 and before	605	19,295	64	1,240
2001	402	6,657	39	492
2002	748	9,590	91	770
2003	1,283	13,320	189	1,295
2004	2,163	18,129	315	1,831
2005	3,427	23,344	528	2,618
2006	5,067	28,479	1,036	4,107
2007	4,404	23,258	917	3,347
2008	3,029	17,005	481	1,848
2009	1,648	11,227	108	586
2010	1,176	7,609	22	123
2011	978	6,750	5	33
2012	920	6,034	1	9
2013	850	5,151	-	1
Total	26,700	195,848	3,796	18,300

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

The tables above illustrate that at 30 June 2014, €8.3 billion or 32% of the Retail Ireland mortgage loan book originated before 2006, €12.1 billion or 46% between 2006 and 2008 and €5.9 billion or 22% in the years since.

Book composition (continued)

Origination profile (continued)

At 30 June 2014, total defaulted loans were €3.7 billion (31 December 2013: €3.8 billion) or 14% of the Retail Ireland mortgage loan book, of which €2.4 billion originated between 2006 and 2008. Continuing the positive momentum achieved during 2013, there has been a decrease in total defaulted loans in the six months ended 30 June 2014 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

At 30 June 2014, impairment provisions were €1.9 billion equating to 51% of defaulted balances on the Retail Ireland mortgage book.

Risk profile

TABLE: 3a

30 June 2014 **Risk profile of Retail Ireland mortgage loan book including held for sale (before impairment provisions)**	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	17,785	88%	4,030	67%	21,815	83%
1-90 days past due but not impaired	527	3%	224	4%	751	3%
Defaulted loans	1,911	9%	1,787	29%	3,698	14%
Total	**20,223**	**100%**	**6,041**	**100%**	**26,264**	**100%**

31 December 2013 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	17,822	87%	4,252	68%	22,074	83%
1-90 days past due but not impaired	564	3%	266	4%	830	3%
Defaulted loans	2,051	10%	1,745	28%	3,796	14%
Total	20,437	100%	6,263	100%	26,700	100%

The tables above illustrate that €21.8 billion or 83% of the total Retail Ireland mortgage loan book at 30 June 2014 was classified as 'neither past due nor impaired' compared to €22.1 billion or 83% at 31 December 2013.

The '1-90 days past due but not impaired' category amounted to €0.8 billion or 3% of the total Retail Ireland mortgage loan book at 30 June 2014 and at 31 December 2013.

The defaulted category amounted to €3.7 billion or 14% of the total Retail Ireland mortgage loan book at 30 June 2014 compared to €3.8 billion or 14% at 31 December 2013.

The reduction in Owner occupied defaulted loans and the slowdown in default formation for Buy to Let mortgages reflects the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

Building on the positive momentum achieved during 2013, there has been a reduction in Owner occupied defaulted loans in the six months ended 30 June 2014, decreasing to €1.9 billion at 30 June 2014 from €2.1 billion at 31 December 2013. This reduction further reflects the considerable ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

Book composition (continued)

Risk profile (continued)

Defaulted Buy to let mortgages increased marginally by €42 million to €1.8 billion at 30 June 2014 (€1.7 billion at 31 December 2013). While there has been an increase in defaulted loans since 31 December 2013, the overall pace of increase during the first six months of 2014 was significantly slower than the equivalent period in 2013. While increased repayments as 'interest only' periods come to an end and customers move to fully amortising loans continue to impact Buy to Let borrowers, the slowdown in default formation for Buy to let mortgages also reflects improved rental market conditions, particularly evident in primary urban areas.

The Retail Ireland Buy to let mortgage loan portfolio reduced by €222 million or 3.5% in the first half of 2014 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 65% at 31 December 2013 to 68% at 30 June 2014.

Arrears profile

TABLE: 3b *(not part of interim financial statements)*

Mortgage arrears - Defaulted loans (number of accounts)	**30 June 2014 %**	31 December 2013 %	30 June 2013 %
Retail Ireland Owner occupied mortgages	7.0%	7.4%	7.9%
Industry[1] Owner occupied (Number of accounts)	Not available	14.1%[2]	14.1%[2]
Retail Ireland Buy to let mortgages	18.5%	18.2%	17.6%
Industry[1] Buy to let (Number of accounts)	Not available	22.6%[2]	21.9%[2]

Mortgage arrears - Defaulted loans (value)	**30 June 2014 %**	31 December 2013 %	30 June 2013 %
Retail Ireland Owner occupied mortgages	9.5%	10.1%	10.5%
Industry[1] Owner occupied (value)	Not available	18.7%[2]	18.6%[2]
Retail Ireland Buy to let mortgages	29.4%	27.7%	26.0%
Industry[1] Buy to let (value)	Not available	30.4%[2]	30.0%[2]

The latest information published by the Central Bank of Ireland is for the quarter ended 31 March 2014. This information indicates that the proportion of the Retail Ireland mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (less than 50% of industry) and Buy to let (72% of industry) mortgages. At 31 March 2014, 7.2% and 18.4% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due and / or impaired' compared to 13.7%[2] and 23.0%[2] respectively for the industry.

[1] *Industry statistics do not include impaired loans less than or equal to 90 days past due (all quoted Bank of Ireland statistics include impaired loans less than or equal to 90 days past due).*
[2] *Industry source: CBI Mortgage Arrears Statistics Report March 2014 - adjusted to exclude Bank of Ireland.*

Book composition (continued)

Loan to value profiles - total loans

TABLE: 3c

30 June 2014

Loan to value (LTV) ratio of total Retail Ireland mortgages including held for sale	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	3,187	16%	520	9%	3,707	14%
51% to 70%	3,234	16%	533	9%	3,767	14%
71% to 80%	2,028	10%	343	5%	2,371	9%
81% to 90%	2,253	11%	618	10%	2,871	11%
91% to 100%	1,826	9%	490	8%	2,316	9%
Subtotal	**12,528**	**62%**	**2,504**	**41%**	**15,032**	**57%**
101% to 120%	3,224	16%	1,220	20%	4,444	17%
121% to 150%	3,362	17%	1,618	27%	4,980	19%
151% to 180%	897	4%	444	8%	1,341	5%
Greater than 181%	212	1%	255	4%	467	2%
Subtotal	**7,695**	**38%**	**3,537**	**59%**	**11,232**	**43%**
Total	**20,223**	**100%**	**6,041**	**100%**	**26,264**	**100%**
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at period end	89%		109%		94%	
New Retail Ireland mortgages during the period	67%		50%		66%	

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	2,901	14%	462	7%	3,363	13%
51% to 70%	2,823	14%	486	8%	3,309	12%
71% to 80%	1,909	9%	325	5%	2,234	8%
81% to 90%	2,049	10%	565	9%	2,614	10%
91% to 100%	1,800	9%	443	7%	2,243	9%
Subtotal	11,482	56%	2,281	36%	13,763	52%
101% to 120%	3,411	17%	1,095	18%	4,506	17%
121% to 150%	3,619	18%	1,848	30%	5,467	20%
151% to 180%	1,593	8%	714	11%	2,307	9%
Greater than 181%	332	1%	325	5%	657	2%
Subtotal	8,955	44%	3,982	64%	12,937	48%
Total	20,437	100%	6,263	100%	26,700	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at period end	94%		115%		99%	
New Retail Ireland mortgages during the period	70%		53%		70%	

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

Book composition (continued)

Loan to value profiles - total loans (continued)

The tables on the previous page set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which was 94% at 30 June 2014, 89% for Owner occupied mortgages and 109% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written in the first six months of 2014 was 66%, 67% for Owner occupied mortgages and 50% for Buy to let mortgages.

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

The CSO index for June 2014 reported that average national residential property prices were 43% below peak (31 December 2013: 46% below peak), with Dublin residential prices and outside of Dublin residential prices 45% and 46% below peak respectively (31 December 2013: 49% and 47% below peak respectively). In the six months to June 2014, residential property prices at a national level, increased by 5.4%.

At 30 June 2014, €15.0 billion or 57% of Retail Ireland mortgages are in positive equity, 62% for Owner occupied mortgages and 41% for Buy to let mortgages.

At 30 June 2014, the total calculated negative equity in the Retail Ireland mortgage loan book was €2.4 billion (31 December 2013: €3.0 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €1.6 billion negative equity related to loans that were ‘neither past due nor impaired’ at 30 June 2014. Of the remaining €0.8 billion of calculated negative equity, €0.1 billion related to loans that were ‘1 – 90 days past due but not impaired’ and €0.7 billion related to loans that were defaulted.

Book composition (continued)

Loan to value profiles - defaulted loans

TABLE: 3d
30 June 2014

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	116	6%	48	3%	164	5%
51% to 70%	146	8%	49	3%	195	5%
71% to 80%	103	5%	45	2%	148	4%
81% to 90%	129	7%	145	8%	274	7%
91% to 100%	148	8%	103	6%	251	7%
Subtotal	**642**	**34%**	**390**	**22%**	**1,032**	**28%**
101% to 120%	331	17%	309	17%	640	17%
121% to 150%	539	28%	665	37%	1,204	33%
151% to 180%	333	17%	253	14%	586	16%
Greater than 181%	66	4%	170	10%	236	6%
Subtotal	**1,269**	**66%**	**1,397**	**78%**	**2,666**	**72%**
Total	**1,911**	**100%**	**1,787**	**100%**	**3,698**	**100%**

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	117	6%	43	2%	160	4%
51% to 70%	145	7%	48	3%	193	5%
71% to 80%	101	5%	39	2%	140	4%
81% to 90%	116	6%	102	6%	218	6%
91% to 100%	153	7%	81	5%	234	6%
Subtotal	632	31%	313	18%	945	25%
101% to 120%	330	16%	245	14%	575	15%
121% to 150%	548	27%	647	37%	1,195	32%
151% to 180%	420	20%	358	21%	778	20%
Greater than 181%	121	6%	182	10%	303	8%
Subtotal	1,419	69%	1,432	82%	2,851	75%
Total	2,051	100%	1,745	100%	3,796	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for defaulted Retail Ireland mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the defaulted Retail Ireland mortgages €1.0 billion or 28% are in positive equity (31 December 2013: €0.9 billion or 25%) while €2.7 billion or 72% are in negative equity at 30 June 2014 (31 December 2013: €2.9 billion or 75%).

For the defaulted category, 34% of the Owner occupied Retail Ireland mortgages (31 December 2013: 31%) and 22% of the Buy to let Retail Ireland mortgages (31 December 2013: 18%) are in positive equity at 30 June 2014.

Asset quality

Composition and impairment

TABLE: 4

30 June 2014 Retail Ireland mortgages including held for sale	**Retail Ireland mortgages €m**	**Defaulted loans €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**
Owner occupied mortgages	20,223	1,911	9.4%	863	45%
Buy to let mortgages	6,041	1,787	29.6%	1,037	58%
Total Retail Ireland	**26,264**	**3,698**	**14.1%**	**1,900**	**51%**

31 December 2013 Retail Ireland mortgages	Retail Ireland mortgages €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %
Owner occupied mortgages	20,437	2,051	10.0%	869	42%
Buy to let mortgages	6,263	1,745	27.9%	994	57%
Total Retail Ireland	26,700	3,796	14.2%	1,863	49%

Defaulted Retail Ireland mortgages at 30 June 2014 were €3.7 billion or 14.1% of advances compared to €3.8 billion or 14.2% of advances at 31 December 2013.

The reduction in Owner occupied defaulted loans and the slowdown in default formation for Buy to Let mortgages reflects the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

Building on the positive momentum achieved during 2013, there has been a reduction in Owner occupied defaulted loans in the six months ended 30 June 2014, decreasing to €1.9 billion at 30 June 2014 from €2.1 billion at 31 December 2013. This reduction further reflects the considerable ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

Defaulted Buy to let mortgages increased marginally by €42 million to €1.8 billion at 30 June 2014 (€1.7 billion at 31 December 2013). While there has been an increase in defaulted loans since 31 December 2013, the overall pace of increase during the first six months of 2014 was significantly slower than the equivalent period in 2013. While increased repayments as 'interest only' periods come to an end and customers move to fully amortising loans continue to impact Buy to Let borrowers, the slowdown in default formation for Buy to let mortgages also reflects improved rental market conditions, particularly evident in primary urban areas.

Asset quality (continued)

Properties in possession

At 30 June 2014, the Group had possession of properties held as security as follows:

TABLE: 5a

Properties in possession Retail Ireland mortgages	30 June 2014 Number of properties in possession at balance sheet date	30 June 2014 Balance outstanding before impairment provisions €m	31 December 2013 Number of properties in possession at balance sheet date	31 December 2013 Balance outstanding before impairment provisions €m
Owner occupied	146	41	129	37
Buy to let	101	26[1]	85	26[1]
Total residential properties in possession	**247**	**67**	**214**	**63**

Disposals of properties in possession

TABLE: 5b

Disposals of properties in possession Retail Ireland mortgages	30 June 2014 Number of disposals during the period	30 June 2014 Balance outstanding after impairment provisions €m	31 December 2013 Number of disposals during the year	31 December 2013 Balance outstanding after impairment provisions €m
Owner occupied	50	5	86	10
Buy to let	30	4[1]	63	11[1]
Total disposals of properties in possession	**80**	**9**	**149**	**21**

[1] *Balance outstanding before value of additional collateral applied.*

During the six months ended 30 June 2014, the Group disposed of 80 properties (year ended 31 December 2013: 149 properties were disposed).

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

For the six months ended 30 June 2014, the proceeds from disposals of Owner occupied properties were €5 million (year ended 31 December 2013: €10 million).

For the six months ended 30 June 2014, the proceeds from disposals of Buy to let properties before value of additional collateral applied were €4 million (year ended 31 December 2013: €9 million).

In addition, the Group disposed of a further 143 properties through fixed charge receivers during the six months ended 30 June 2014 (year ended 31 December 2013: 166).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has an established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.
It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 30 June 2014.

TABLE: 6a

30 June 2014 Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans		Defaulted loans[2]		All loans	
	Balance €m	Number of accounts[3]	Balance €m	Number of accounts[3]	Balance €m	Number of accounts[3]
Owner occupied						
Full Interest	165	1,212	74	506	239	1,718
Reduced payment (greater than full interest)	275	2,131	203	1,050	478	3,181
Term extension	374	4,173	89	736	463	4,909
Capitalisation of arrears	264	1,810	38	211	302	2,021
Hybrids	404	2,840	101	649	505	3,489
Other	16	122	17	96	33	218
Total	**1,498**	**12,288**	**522**	**3,248**	**2,020**	**15,536**
Buy to let						
Full Interest	81	390	97	310	178	700
Reduced payment (greater than full interest)	106	580	90	355	196	935
Term extension	147	1,019	33	211	180	1,230
Capitalisation of arrears	49	268	26	82	75	350
Hybrids	179	787	57	190	236	977
Other	-	1	1	6	1	7
Total	**562**	**3,045**	**304**	**1,154**	**866**	**4,199**
Total						
Full Interest	246	1,602	171	816	417	2,418
Reduced payment (greater than full interest)	381	2,711	293	1,405	674	4,116
Term extension	521	5,192	122	947	643	6,139
Capitalisation of arrears	313	2,078	64	293	377	2,371
Hybrids	583	3,627	158	839	741	4,466
Other	16	123	18	102	34	225
Total	**2,060**	**15,333**	**826**	**4,402**	**2,886**	**19,735**

[1] *Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 30 June 2014, this mortgage loan is not included in the stock of active forbearance measures.*

[2] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

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

Asset quality (continued)

Forbearance measures (continued)

31 December 2013 Formal forbearance measures[1] - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans Balance €m	 Number of accounts[3]	Defaulted loans[2] Balance €m	 Number of accounts[3]	All loans Balance €m	 Number of accounts[3]
Owner occupied						
Full interest	205	1,452	116	785	321	2,237
Reduced payment (greater than full interest)	262	1,787	240	1,326	502	3,113
Term extension	351	3,923	96	835	447	4,758
Capitalisation of arrears	194	1,384	33	160	227	1,544
Hybrids	256	1,775	73	468	329	2,243
Other	23	126	20	114	43	240
Total	1,291	10,447	578	3,688	1,869	14,135
Buy to let						
Full interest	97	438	62	267	159	705
Reduced payment (greater than full interest)	101	466	60	270	161	736
Term extension	132	917	29	180	161	1,097
Capitalisation of arrears	30	170	22	70	52	240
Hybrids	89	423	34	123	123	546
Other	1	4	-	3	1	7
Total	450	2,418	207	913	657	3,331
Total						
Full interest	302	1,890	178	1,052	480	2,942
Reduced payment (greater than full interest)	363	2,253	300	1,596	663	3,849
Term extension	483	4,840	125	1,015	608	5,855
Capitalisation of arrears	224	1,554	55	230	279	1,784
Hybrids	345	2,198	107	591	452	2,789
Other	24	130	20	117	44	247
Total	1,741	12,865	785	4,601	2,526	17,466

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2013, this mortgage loan is not included in the stock of active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to either the number of customers or the number of properties.

The total number of accounts in forbearance has increased from 17,466 at 31 December 2013 to 19,735 accounts at 30 June 2014. The balances on accounts in forbearance have increased from €2.5 billion at 31 December 2013 to €2.9 billion at 30 June 2014. This overall increase reflects the Group's progress in implementing restructure and resolution strategies.

For Owner occupied mortgages, 15,536 accounts or €2.0 billion are in forbearance at 30 June 2014 (31 December 2013: 14,135 accounts or €1.9 billion). For Buy to let mortgages, 4,199 accounts or €0.9 billion are in forbearance at 30 June 2014 (31 December 2013: 3,331 accounts or €0.7 billion).

At 30 June 2014, there were a further 1,333 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2013: 1,724 accounts).

In addition to the forbearance pertaining to Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 30 June 2014, there were 1,832 properties where a fixed charge receiver had been appointed or approved, compared to 1,385 properties at 31 December 2013.

Asset quality (continued)

Forbearance measures (continued)

Term extension is the largest forbearance category by number of accounts with 6,139 accounts at 30 June 2014 (31 December 2013: 5,855 accounts), followed by hybrid forbearance treatments with 4,466 accounts at 30 June 2014 (31 December 2013: 2,789 accounts).

A total of 567 accounts or €75 million new term extensions were extended during the period. A further 386 accounts or €46 million changed to term extension from another forbearance measure, while 559 accounts or €67 million changed forbearance measure. A total of 8 accounts or €1 million exited during the period. A reduction of 102 accounts relates to redeemed accounts; a reduction of €18 million was due to those redeemed accounts and principal repayments made during the period.

Hybrids increased to 4,466 accounts or €0.7 billion at 30 June 2014 from 2,789 accounts or €0.5 billion at 31 December 2013. A total of 903 accounts or €0.2 billion new hybrid measures were put in place during the period, 1,103 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 306 accounts or €47 million changed to another forbearance measure. A reduction of 23 accounts relates to redeemed accounts; a reduction of €7 million was due to those redeemed accounts and principal repayments made during the period.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 4,116 accounts or €0.7 billion at 30 June 2014, compared to 3,849 accounts or €0.7 billion at 31 December 2013. A total of 1,442 accounts or €0.2 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the period. A further 255 accounts or €40 million changed their forbearance measure to reduced payment (greater than full interest), while 442 accounts or €83 million changed to another forbearance measure. A total of 961 accounts or €0.2 billion exited during the period. A reduction of 27 accounts relates to redeemed accounts; a reduction of €21 million was due to those redeemed accounts and principal repayments made during the period.

At 30 June 2014, 2,418 accounts or €0.4 billion were subject to full interest forbearance compared to 2,942 accounts or €0.5 billion at 31 December 2013. A total of 982 accounts or €0.2 billion of new full interest forbearance measures were extended during the period, 57 accounts or €9 million changed to full interest, while 502 accounts or €76 million changed from full interest to another forbearance measure. A total of 1,000 accounts or €0.2 billion exited forbearance during the period. A reduction of 61 accounts relates to redeemed accounts; a reduction of €7 million was due to those redeemed accounts and principal repayments made during the period.

Capitalisations of arrears increased to 2,371 accounts or €0.4 billion at 30 June 2014 from 1,784 accounts or €0.3 billion at 31 December 2013. A total of 572 accounts or €94 million had capitalisation of arrears applied during the period. A further 118 accounts or €28 million changed to capitalisation of arrears from another forbearance measure, while 91 accounts or €16 million changed to another forbearance measure. A reduction of 12 accounts relates to redeemed accounts; a reduction of €8 million was due to those redeemed accounts and principal repayments made during the period.

‘Other’ forbearance measures decreased to 225 accounts or €34 million at 30 June 2014 from 247 accounts or €44 million at 31 December 2013.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of active forborne Retail Ireland mortgages (before impairment provisions) during the six months ended 30 June 2014.

TABLE: 6b

Reconciliation of forborne loan stock by non-default / default status - Retail Ireland mortgages (before impairment provisions)	Owner occupied		Buy to let		All loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
All						
Opening balance at 1 January 2014	**1,869**	**14,135**	**657**	**3,331**	**2,526**	**17,466**
New forbearance extended	494	3,356	287	1,241	781	4,597
Exited forbearance						
- Improved to or remained in non-default	(134)	(849)	(28)	(142)	(162)	(991)
- Improved / stabilised and remained in default	(70)	(440)	(19)	(84)	(89)	(524)
- Disimproved to or within default	(95)	(500)	(15)	(86)	(110)	(586)
- Redemptions, principal repayments and other	(44)	(166)	(16)	(61)	(60)	(227)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-
Closing balance at 30 June 2014	**2,020**	**15,536**	**866**	**4,199**	**2,886**	**19,735**
Non-defaulted loans						
Opening balance at 1 January 2014	**1,291**	**10,447**	**450**	**2,418**	**1,741**	**12,865**
New forbearance extended	299	2,211	155	744	454	2,955
Exited forbearance						
- Remained in non-default	(124)	(783)	(27)	(137)	(151)	(920)
- Disimproved to default	(14)	(75)	(3)	(15)	(17)	(90)
- Redemptions, principal repayments and other	(37)	(131)	(14)	(51)	(51)	(182)
Transfers within forbearance between non-defaulted and defaulted loans	83	619	1	86	84	705
Closing balance at 30 June 2014	**1,498**	**12,288**	**562**	**3,045**	**2,060**	**15,333**
Defaulted loans						
Opening balance at 1 January 2014	**578**	**3,688**	**207**	**913**	**785**	**4,601**
New forbearance extended	195	1,145	132	497	327	1,642
Exited forbearance						
- Improved to non-default	(10)	(66)	(1)	(5)	(11)	(71)
- Improved / stabilised and remained in default	(70)	(440)	(19)	(84)	(89)	(524)
- Disimproved and remained in default	(81)	(425)	(12)	(71)	(93)	(496)
- Redemptions, principal repayments and other	(7)	(35)	(2)	(10)	(9)	(45)
Transfers within forbearance between non-defaulted and defaulted loans	(83)	(619)	(1)	(86)	(84)	(705)
Closing balance at 30 June 2014	**522**	**3,248**	**304**	**1,154**	**826**	**4,402**

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

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page illustrates the movement in forborne accounts and balances between 1 January 2014 and 30 June 2014 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the period;
- Those accounts which exited forbearance measures during the period, either:
  - Improved to or remained in non-default
  - Improved / stabilised and remained in default
  - Disimproved to or within default
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2014 and remained in forbearance stock at 30 June 2014); and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The ‘non-default / default’ status of accounts which exited forbearance during the period is determined at the date of exit.

Asset quality (continued)

Forbearance measures (continued)

A total of 19,735 accounts or €2.9 billion of account balances were in forbearance at 30 June 2014, compared to 17,466 accounts or €2.5 billion at 31 December 2013. Of these, 4,597 accounts or €0.8 billion new forbearance measures were put in place during the six months ended 30 June 2014, of which 2,955 accounts or €0.5 billion were classified as 'non-defaulted loans' while 1,642 accounts or €0.3 billion were classified as 'defaulted loans'. Of those that exited forbearance during the period 991 accounts or €0.2 billion improved to or remained in non-default, 524 accounts or €89 million remained in default with improved or stabilised arrears and 586 accounts or €0.1 billion disimproved arrears to or within default. A reduction in the forbearance stock of 227 accounts relates to redeemed accounts during the period; a reduction of €60 million was due to those redeemed accounts and principal repayments made during the period.

For Owner occupied mortgages, 15,536 accounts or €2.0 billion of account balances were in forbearance at 30 June 2014 compared to 14,135 accounts or €1.9 billion at 31 December 2013. Of these, 3,356 accounts or €0.5 billion new forbearance were measures put in place during the period of which 2,211 accounts or €0.3 billion were classified as 'non-defaulted loans', while 1,145 accounts or €0.2 billion were classified as 'defaulted loans'. Of those that exited forbearance during the period 849 accounts or €0.1 billion improved to or remained in non-default, 440 accounts or €70 million remained in default with improved or stabilised arrears and 500 accounts or €95 million disimproved arrears to or within default. A reduction of 166 accounts relates to redeemed accounts during the period; a reduction of €44 million was due to those redeemed accounts and principal repayments made during the period.

For Buy to let mortgages, 4,199 accounts or €0.9 billion of account balances were in forbearance at 30 June 2014 compared to 3,331 accounts or €0.7 billion at 31 December 2013. Of these, 1,241 accounts or €0.3 billion were new forbearance measures put in place during the period to date of which 744 accounts or €0.2 billion were classified as 'non-defaulted loans' while 497 accounts or €0.1 billion were classified as 'defaulted loans'. Of those that exited forbearance during the period 142 accounts or €28 million improved to or remained in non-default, 84 accounts or €19 million remained in default with improved or stabilised arrears and 86 accounts or €15 million disimproved arrears to or within default. A reduction of 61 accounts relates to redeemed accounts during the period; a reduction of €16 million was due to those redeemed accounts and principal repayments made during the period.

Mortgage Arrears

The Group has invested in its Mortgage Arrears Resolution Strategy (MARS), its infrastructure and continues to implement restructuring and resolution options for customers. The increased level in forbearance treatments reflects the ongoing effectiveness of the Group's MARS strategy in supporting customers encountering mortgage difficulties.

The Group's defined Mortgage Arrears Resolution Strategy relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non-repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

Retail UK mortgages

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

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

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

At 30 June 2014, lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE: 1

Retail UK mortgages - Volumes (before impairment provisions)	**30 June 2014 £m**	31 December 2013 £m
Standard mortgages	8,940	9,236
Buy to let mortgages	8,053	8,302
Self certified mortgages	3,079	3,259
Total Retail UK mortgages	**20,072**	**20,797**

Retail UK mortgages were £20.1 billion at 30 June 2014 compared to £20.8 billion at 31 December 2013. The decrease of £0.7 billion or 3% reflects continuing attrition of the book as customer repayments exceeded our new business generation.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office (including via the Group's recently launched distribution arrangement with Legal & General) and through the branch network in Northern Ireland.

Of the £8.9 billion standard mortgages, 58% are on a 'principal and interest'[1] repayment basis (31 December 2013: 57%). Of the Self certified mortgages of £3.1 billion, 22% are on a 'principal and interest' repayment basis (31 December 2013: 22%). Of the Buy to let mortgages of £8.1 billion, 9% are on a 'principal and interest' repayment basis (31 December 2013: 9%). Overall 67% of the UK Retail mortgage portfolio at 30 June 2014 are on an 'interest only'[2] repayment basis (31 December 2013: 68%).

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
[2] *'Interest only' mortgages consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' on mortgage products offered in the UK may extend for the full period of the mortgage.*

Book composition (continued)

Origination profile

TABLE: 2

30 June 2014 **Origination profile of Retail UK mortgage loan book (before impairment provisions)**	**Total Retail UK mortgage loan book** **Balance £m**	 **Number of accounts[1]**	**Defaulted loans** **Balance £m**	 **Number of accounts[1]**
2000 and before	462	12,248	22	507
2001	207	3,150	4	45
2002	260	3,647	7	66
2003	588	6,816	22	170
2004	667	7,394	25	203
2005	1,700	15,663	48	345
2006	2,497	22,216	70	459
2007	4,137	34,523	111	750
2008	5,193	42,403	136	910
2009	871	7,174	8	64
2010	732	5,393	2	17
2011	524	3,778	1	10
2012	727	4,329	-	3
2013	887	4,918	1	2
2014	620	3,387	-	-
Total	**20,072**	**177,039**	**457**	**3,551**

31 December 2013 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book Balance £m	 Number of accounts[1]	Defaulted loans Balance £m	 Number of accounts[1]
2000 and before	525	13,648	20	466
2001	221	3,329	4	41
2002	284	3,913	8	80
2003	644	7,335	23	177
2004	721	7,913	25	188
2005	1,794	16,387	53	370
2006	2,626	23,144	77	510
2007	4,382	36,168	112	758
2008	5,454	44,228	159	1,040
2009	1,003	8,001	8	66
2010	829	5,918	2	16
2011	623	4,302	1	8
2012	792	4,625	-	3
2013	899	4,909	-	1
Total	20,797	183,820	492	3,724

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

The tables above illustrate that at 30 June 2014, £3.9 billion or 19% of the Retail UK mortgage loan book originated before 2006, £11.8 billion or 59% between 2006 and 2008 and £4.4 billion or 22% in the years since.

Defaulted Retail UK mortgages were £0.5 billion (31 December 2013: £0.5 billion) or 2% of the Retail UK mortgage loan book at 30 June 2014, of which £0.3 billion or 1.6% were originated between 2006 and 2008 (31 December 2013: £0.4 billion or 1.7%).

Book composition (continued)

Risk profile

TABLE: 3a

30 June 2014 Risk profile of Retail UK mortgage loan book (before impairment provisions)	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	8,485	95%	7,658	95%	2,569	84%	18,712	93%
1-90 days past due but not impaired	307	3%	252	3%	344	11%	903	5%
Defaulted loans	148	2%	143	2%	166	5%	457	2%
Total Retail UK mortgages	**8,940**	**100%**	**8,053**	**100%**	**3,079**	**100%**	**20,072**	**100%**

31 December 2013 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	8,763	94%	7,885	95%	2,724	84%	19,372	94%
1-90 days past due but not impaired	327	4%	249	3%	357	11%	933	4%
Defaulted loans	146	2%	168	2%	178	5%	492	2%
Total Retail UK mortgages	9,236	100%	8,302	100%	3,259	100%	20,797	100%

The above tables illustrate that £18.7 billion or 93% of the total Retail UK mortgage loan book at 30 June 2014 was classified as 'neither past due nor impaired' compared to £19.4 billion or 94% at 31 December 2013.

The '1-90 days past due but not impaired' category amounted to £0.9 billion or 5% of the total Retail UK mortgage loan book at 30 June 2014 compared to £0.9 billion or 4% at 31 December 2013.

The defaulted loans category amounted to £0.5 billion or 2% of the total Retail UK mortgage loan book at 30 June 2014 compared to £0.5 billion or 2% at 31 December 2013.

Defaulted Standard mortgages remained stable at £148 million at 30 June 2014 from £146 million at 31 December 2013.

Defaulted Buy to let mortgages reduced from £168 million at 31 December 2013 to £143 million at 30 June 2014 driven by low interest rates and rental increases supporting borrowers in clearing arrears.

Defaulted Self certified mortgages decreased to £166 million at 30 June 2014 compared to £178 million at 31 December 2013.

The Buy to let portfolio reduced by £249 million or 3% in the six months ended 30 June 2014 while the Self certified portfolio reduced by £180 million or 5.5% in the same period.

Book composition (continued)

Arrears profile

TABLE: 3b

Mortgage arrears - Defaulted loans (number of accounts)	30 June 2014 %	31 December 2013 %	30 June 2013 %
Standard mortgages	1.84%	1.69%	1.43%
Buy to let mortgages	1.60%	1.76%	1.73%
Self certified mortgages	4.19%	4.27%	4.05%

Mortgage arrears - Defaulted loans (value)	30 June 2014 %	31 December 2013 %	30 June 2013 %
Standard mortgages	1.66%	1.58%	1.53%
Buy to let mortgages	1.78%	2.02%	2.08%
Self certified mortgages	5.39%	5.46%	5.26%

Data published by the Council Mortgage Lenders (CML) for March 2014 indicates that the proportion of the Retail UK mortgage book in default (greater than 90 days but excluding possessions and receivership cases) remains below the UK industry average of 1.59% across all segments (Retail UK equivalent: 1.45%).

Loan to value profiles - total loans

TABLE: 3c

30 June 2014	Standard		Buy to let		Self certified		Total Retail UK mortgage portfolio	
Loan to value (LTV) ratio of total Retail UK mortgages	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	1,946	22%	1,567	19%	466	15%	3,979	20%
51% to 70%	2,775	31%	3,240	40%	1,130	37%	7,145	36%
71% to 80%	1,788	20%	1,461	18%	660	21%	3,909	19%
81% to 90%	1,288	14%	1,129	14%	532	17%	2,949	15%
91% to 100%	722	8%	444	7%	238	9%	1,404	7%
Subtotal	**8,519**	**95%**	**7,841**	**98%**	**3,026**	**99%**	**19,386**	**97%**
101% to 120%	296	3%	162	2%	36	1%	494	2%
121% to 150%	65	1%	30	-	8	-	103	1%
Greater than 150%	60	1%	20	-	9	-	89	-
Subtotal	**421**	**5%**	**212**	**2%**	**53**	**1%**	**686**	**3%**
Total	**8,940**	**100%**	**8,053**	**100%**	**3,079**	**100%**	**20,072**	**100%**
Weighted average LTV[1]:								
Stock of Retail UK mortgages at period end[1]		66%		65%		68%		66%
New Retail UK mortgages during period[1]		71%		63%		n/a		71%

Book composition (continued)

Loan to value profiles - total loans (continued)

31 December 2013 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%	1,774	19%	1,025	12%	350	11%	3,149	15%
51% to 70%	2,079	22%	2,901	35%	885	27%	5,865	28%
71% to 80%	1,916	21%	1,890	23%	786	24%	4,592	22%
81% to 90%	1,691	18%	1,355	16%	723	22%	3,769	18%
91% to 100%	1,007	11%	781	10%	403	13%	2,191	11%
Subtotal	8,467	91%	7,952	96%	3,147	97%	19,566	94%
101% to 120%	634	7%	283	3%	93	3%	1,010	5%
121% to 150%	82	1%	45	1%	9	-	136	1%
Greater than 150%	53	1%	22	-	10	-	85	-
Subtotal	769	9%	350	4%	112	3%	1,231	6%
Total	9,236	100%	8,302	100%	3,259	100%	20,797	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at period end[1]		71%		71%		73%		71%
New Retail UK mortgages during period[1]		70%		65%		n/a		70%

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

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 66% at 30 June 2014, 66% for Standard mortgages, 68% for Self certified mortgages and 65% for Buy to let mortgages. The weighted average LTV for new Residential mortgages written during the six months ended 30 June 2014 was 71%, 71% for Standard mortgages and 63% for Buy to let mortgages.

Property values are determined by reference to the original or latest property valuations held, indexed to the 'Nationwide UK House Price Index' published by the UK's Nationwide Building Society. In tables 3c and 3d the June 2014 or December 2013 'Nationwide UK House Price Index' as appropriate, is the index applied to the relevant valuations.

At 30 June 2014, £19.4 billion (97%) of the Retail UK mortgage book was in positive equity, comprising £8.5 billion or 95% of Standard mortgages, £7.8 billion or 98% of Buy to let mortgages and £3.0 billion or 99% of Self certified mortgages. This improvement reflects the upward movement in house prices in the period with house prices increasing by 7.42% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

At 30 June 2014, the total calculated negative equity in the Retail UK mortgage book was £74 million, which comprised £65 million (87%) related to mortgages classified as 'neither past due nor impaired', £3 million (5%) related to mortgages classified as '1-90 days past due but not impaired' and £6 million (8%) related to mortgages that were defaulted.

Book composition (continued)

Loan to value profiles - defaulted loans

TABLE: 3d

30 June 2014

Loan to value (LTV) ratio of total Retail UK mortgages - defaulted loans	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	37	25%	14	10%	10	6%	61	13%
51% to 70%	29	20%	40	28%	48	29%	117	26%
71% to 80%	24	16%	22	15%	33	20%	79	17%
81% to 90%	20	14%	28	20%	39	23%	87	19%
91% to 100%	19	13%	25	17%	24	15%	68	15%
Subtotal	**129**	**88%**	**129**	**90%**	**154**	**93%**	**412**	**90%**
101% to 120%	12	8%	12	8%	7	4%	31	7%
121% to 150%	5	3%	2	2%	2	1%	9	2%
Greater than 150%	2	1%	-	-	3	2%	5	1%
Subtotal	**19**	**12%**	**14**	**10%**	**12**	**7%**	**45**	**10%**
Total	**148**	**100%**	**143**	**100%**	**166**	**100%**	**457**	**100%**

31 December 2013

Loan to value (LTV) ratio of total Retail UK mortgages - defaulted loans	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	28	19%	10	6%	6	3%	44	9%
51% to 70%	25	17%	35	21%	33	19%	93	19%
71% to 80%	20	14%	34	20%	38	21%	92	19%
81% to 90%	25	17%	30	18%	43	24%	98	19%
91% to 100%	20	13%	32	19%	40	22%	92	19%
Subtotal	118	80%	141	84%	160	89%	419	85%
101% to 120%	21	14%	20	12%	12	7%	53	11%
121% to 150%	5	4%	5	3%	3	2%	13	3%
Greater than 150%	2	2%	2	1%	3	2%	7	1%
Subtotal	28	20%	27	16%	18	11%	73	15%
Total	146	100%	168	100%	178	100%	492	100%

Asset quality

Composition and impairment

TABLE: 4

30 June 2014 Retail UK mortgages	**Retail UK mortgages £m**	**Defaulted loans £m**	**Defaulted loans as % of advances %**	**Impairment provisions £m**	**Impairment provisions as % of defaulted loans %**
Standard mortgages	8,940	148	1.7%	31	21%
Buy to let mortgages	8,053	143	1.8%	43	30%
Self certified mortgages	3,079	166	5.4%	28	17%
Total Retail UK	**20,072**	**457**	**2.3%**	**102**	**22%**

31 December 2013 Retail UK mortgages	Retail UK mortgages £m	Defaulted loans £m	Defaulted loans as % of advances %	Impairment provisions £m	Impairment provisions as % of defaulted loans %
Standard mortgages	9,236	146	1.6%	34	23%
Buy to let mortgages	8,302	168	2.0%	51	30%
Self certified mortgages	3,259	178	5.5%	31	17%
Total Retail UK	20,797	492	2.4%	116	24%

Retail UK mortgages were £20.1 billion at 30 June 2014 compared to £20.8 billion at 31 December 2013. The decrease of £0.7 billion or 3% reflects continuing attrition of the book as customer repayments exceeded our new business generation.

Defaulted Retail UK mortgages were £457 million at 30 June 2014 compared to £492 million at 31 December 2013 attributable to an increase in Standard mortgages of £2 million and decreases in Self certified mortgages of £12 million and in Buy to let mortgages of £25 million compared to 31 December 2013.

The overall impairment provision coverage ratio on the defaulted Retail UK mortgages book has decreased to 22% (31 December 2013: 24%).

Asset quality (continued)

Properties in possession

At 30 June 2014, the Group had possession of properties held as security as follows:

TABLE: 5a

Properties in possession Retail UK mortgages	**30 June 2014** Number of properties in possession at balance sheet date	**30 June 2014** Balance outstanding before impairment provisions £m	31 December 2013 Number of properties in possession at balance sheet date	31 December 2013 Balance outstanding before impairment provisions £m
Standard mortgages	45	8	57	8
Buy to let mortgages	77	9	79	11
Self certified mortgages	51	10	47	10
Total residential properties in possession	**173**	**27**	**183**	**29**

Disposals of properties in possession

TABLE: 5b

Disposals of properties in possession Retail UK mortgages	**30 June 2014** Number of disposals during the period	**30 June 2014** Balance outstanding after impairment provisions £m	31 December 2013 Number of disposals during the year	31 December 2013 Balance outstanding after impairment provisions £m
Standard mortgages	83	8	205	19
Buy to let mortgages	129	11	314	23
Self certified mortgages	62	9	131	19
Total disposals of properties in possession	**274**	**28**	**650**	**61**

During the six months ended 30 June 2014, the Group disposed of 274 properties (for the year ended 31 December 2013: 650 properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the six months ended 30 June 2014, the proceeds from disposals of Standard mortgages was £9 million (year ended 31 December 2013: £22 million).

For the six months ended 30 June 2014, the proceeds from disposals of Buy to let mortgages was £13 million (year ended 31 December 2013: £25 million).

For the six months ended 30 June 2014, the proceeds from disposals of Self certified mortgages was £10 million (year ended 31 December 2013: £20 million).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances.

A forbearance request, by the borrower, will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term; and
- other: comprising primarily a combination of forbearance measures and an element of temporary payment suspensions.

During the six months ended 30 June 2014, the total number of new loans entering forbearance was 91 with balances of £8 million with a total of 180 loans £21 million of balances exiting forbearance. Of the loans exiting forbearance 109 repaid their loan in full or in part.

The prominence of interest only as the most common measure is consistent with expectations and reflects the overall UK market. Such concessions are now granted for a period of six months and then reviewed with a view to achieving a sustainable means to repay the mortgage within an agreed time frame. Capitalisations continue to be the least common of forbearance measure.

Asset quality (continued)

Forbearance measures (continued)

Although the volume of forborne accounts has reduced from £232 million to £219 million (a decrease of 6%), the distribution of forborne cases across sub-segments based on performance has remained static. As at 30 June 2014, the volume regarded as satisfactory or acceptable stood at 65.3% against 63.4% as at 31 December 2013. There was minimal movement in percentage terms across the other sub-segments.

The table below sets out Retail UK mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 30 June 2014.

TABLE: 6a

30 June 2014 Forbearance measures - Retail UK mortgages (before impairment provisions)	Non-defaulted loans		Defaulted loans[2]		All loans	
	Balance £m	Number of accounts[3]	Balance £m	Number of accounts[3]	Balance £m	Number of accounts[3]
Standard mortgages						
Full interest	67	611	7	70	74	681
Term extension	17	257	1	21	18	278
Capitalisation of arrears	5	29	1	3	6	32
Other	2	18	-	5	2	23
Total	**91**	**915**	**9**	**99**	**100**	**1,014**
Buy to let						
Full interest	21	227	2	17	23	244
Term extension	7	66	1	4	8	70
Capitalisation of arrears	15	107	-	3	15	110
Other	-	7	-	2	-	9
Total	**43**	**407**	**3**	**26**	**46**	**433**
Self certified						
Full interest	45	331	6	40	51	371
Term extension	3	24	-	2	3	26
Capitalisation of arrears	13	54	3	14	16	68
Other	1	9	2	4	3	13
Total	**62**	**418**	**11**	**60**	**73**	**478**
Total						
Full interest	133	1,169	15	127	148	1,296
Term extension	27	347	2	27	29	374
Capitalisation of arrears	33	190	4	20	37	210
Other	3	34	2	11	5	45
Total	**196**	**1,740**	**23**	**185**	**219**	**1,925**

[1] *Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 30 June 2014, this mortgage loan is not included in the stock of current active forbearance measures.*
[2] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
[3] *The number of accounts does not equate to the number of customers.*

Asset quality (continued)

Forbearance measures (continued)

31 December 2013 Forbearance measures[1] - Retail UK mortgages (before impairment provisions)	Non-defaulted loans		Defaulted loans[2]		All loans	
	Balance £m	Number of accounts[3]	Balance £m	Number of accounts[3]	Balance £m	Number of accounts[3]
Standard mortgages						
Full interest	72	656	8	79	80	735
Term extension	17	258	1	18	18	276
Capitalisation of arrears	5	31	1	4	6	35
Other	2	23	-	4	2	27
Total	96	968	10	105	106	1,073
Buy to let						
Full interest	22	230	2	16	24	246
Term extension	7	62	-	2	7	64
Capitalisation of arrears	15	107	1	4	16	111
Other	1	6	-	-	1	6
Total	45	405	3	22	48	427
Self certified						
Full interest	46	345	9	56	55	401
Term extension	4	27	-	1	4	28
Capitalisation of arrears	15	61	2	12	17	73
Other	1	8	1	4	2	12
Total	66	441	12	73	78	514
Total						
Full interest	140	1,231	19	151	159	1,382
Term extension	28	347	1	21	29	368
Capitalisation of arrears	35	199	4	20	39	219
Other	4	37	1	8	5	45
Total	207	1,814	25	200	232	2,014

1 *Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2013, this mortgage loan is not included in the stock of current active forbearance measures.*
2 *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the period. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
3 *The number of accounts does not equate to the number of customers.*

Asset quality (continued)

Forbearance measures (continued)

The volume and number of forborne accounts at 30 June 2014 and 31 December 2013 are set out in Table 6a. This is a point in time reflection of forbearance positions and movement in forbearance over the period. 2014 opened with 2,014 accounts (£232 million) where forbearance had been granted. This reduced to 1,925 accounts (£219 million) at 30 June 2014.

Overall the number and balances of accounts in forbearance have decreased. In addition the number of accounts in default has also reduced from £25 million of balances (200 accounts) at 31 December 2013 to £23 million (185 accounts) at 30 June 2014. This is a reflection of the current low interest rate environment and an active review and customer contact programme.

The level of forborne loans at 30 June 2014 represents 1.1% of the total book and is in line with 31 December 2013.

The number of accounts in forbearance has decreased from 2,014 at 31 December 2013 to 1,925 accounts at 30 June 2014. The balances on accounts in forbearance have also reduced from £232 million to £219 million over the same period.

Accepting payments of interest only for a defined period is the largest forbearance measure employed with 1,296 accounts at 30 June 2014 (31 December 2013: 1,382 accounts), followed by term extensions with 374 accounts at 30 June 2014 (31 December 2013: 368 accounts).

For Standard mortgages 1,014 accounts or £100 million are in forbearance at 30 June 2014 (31 December 2013: 1,073 accounts or £106 million). For Buy to let mortgages, 433 accounts or £46 million are in forbearance at 30 June 2014 (31 December 2013: 427 accounts or £48 million). For Self certified mortgages, 478 accounts or £73 million are in forbearance at 30 June 2014 (31 December 2013: 514 accounts or £78 million).

At 30 June 2014, £148 million or 1,296 Retail UK Residential mortgage accounts were subject to interest only payments, compared to £159 million or 1,382 accounts at 31 December 2013.

At 30 June 2014, £29 million or 374 Retail UK Residential mortgage accounts were subject to term extension, compared to £29 million or 368 accounts at 31 December 2013. These loans may have been granted a temporary term extension pending sale of the property or maturity of a repayment vehicle.

At 30 June 2014, £37 million or 210 Retail UK Residential mortgage accounts were subject to capitalisation of arrears, compared to £39 million or 219 accounts at 31 December 2013.

In addition to the forbearance pertaining to the Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 30 June 2014, there were 215 properties where a Fixed Charge Receiver had been appointed or approved, compared to 272 properties at 31 December 2013.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of forborne Retail UK mortgages (before impairment provisions) during the six months ended 30 June 2014.

TABLE: 6b

Reconciliation of forborne loan stock by non-default / default status - Retail UK mortgages (before impairment provisions)	Standard mortgages Balance £m	Standard mortgages Number of accounts[1]	Buy to let Balance £m	Buy to let Number of accounts[1]	Self certified Balance £m	Self certified Number of accounts[1]	All loans Balance £m	All loans Number of accounts[1]
All loans								
Opening balance at 1 January 2014	**106**	**1,073**	**48**	**427**	**78**	**514**	**232**	**2,014**
New forbearance extended	4	60	2	20	2	11	8	91
Exited forbearance								
- Improved to or remained in non-default	(4)	(44)	-	(2)	(1)	(12)	(5)	(58)
- Improved / stabilised and remained in default	-	(3)	-	(1)	(1)	(5)	(1)	(9)
- Disimproved to or within default	-	(3)	-	-	-	(1)	-	(4)
- Redemptions, principal repayments and other	(6)	(69)	(4)	(11)	(5)	(29)	(15)	(109)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-	-	-
Closing balance at 30 June 2014	**100**	**1,014**	**46**	**433**	**73**	**478**	**219**	**1,925**
Non-defaulted loans								
Opening balance at 1 January 2014	**96**	**968**	**45**	**405**	**66**	**441**	**207**	**1,814**
New forbearance extended	4	49	2	16	1	8	7	73
Exited forbearance								
- Remained in non-default	(4)	(43)	-	(2)	(1)	(10)	(5)	(55)
- Disimproved to default	-	(1)	-	-	-	-	-	(1)
- Redemptions, principal repayments and other	(6)	(51)	(3)	(9)	(4)	(24)	(13)	(84)
Transfers within forbearance between non-defaulted and defaulted loans	1	(7)	(1)	(3)	-	3	-	(7)
Closing balance at 30 June 2014	**91**	**915**	**43**	**407**	**62**	**418**	**196**	**1,740**
Defaulted loans								
Opening balance at 1 January 2014	**10**	**105**	**3**	**22**	**12**	**73**	**25**	**200**
New forbearance extended	-	11	-	4	1	3	1	18
Exited forbearance								
- Improved to non-default	-	(1)	-	-	-	(2)	-	(3)
- Improved / stabilised and remained in default	-	(3)	-	(1)	(1)	(5)	(1)	(9)
- Disimproved and remained in default	-	(2)	-	-	-	(1)	-	(3)
- Redemptions, principal repayments and other	-	(18)	(1)	(2)	(1)	(5)	(2)	(25)
Transfers within forbearance between non-defaulted and defaulted loans	(1)	7	1	3	-	(3)	-	7
Closing balance at 30 June 2014	**9**	**99**	**3**	**26**	**11**	**60**	**23**	**185**

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

Asset quality (continued)

Forbearance measures (continued)

The table on the previous page illustrates the movement in forborne accounts and balances between 1 January 2014 and 30 June 2014 and illustrates the following:.

- Those accounts for which new forbearance measures were put in place during the period;
- Those accounts which exited forbearance measures during the period, either:
  - Improved to or remained in non-default
  - Improved / stabilised and remained in default
  - Disimproved to or within default
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2014 and remained in forbearance stock at 30 June 2014); and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The non-default / default status of accounts which exited forbearance during the period is determined at the date of exit.

A total of 1,925 accounts or £219 million of account balances were in forbearance at 30 June 2014, compared to 2,014 or £232 million at 31 December 2013. Of these, 91 accounts or £8 million new forbearance measures were put in place during the period, of which 73 accounts or £7 million were classified as 'non-defaulted loans' while 18 accounts or £1 million were classified as 'defaulted loans'. Of those that exited forbearance during the period, 58 accounts or £5 million exited to non-default status, 9 accounts or £1 million remained in default with an improved or stabilised status, and 4 accounts within default with disimproved status. A reduction in the forbearance stock of 109 accounts relates to redeemed accounts during the period; a reduction of £15 million was due to those redeemed accounts and principle payments during the period.

For standard mortgages, 1,014 accounts or £100 million of account balances were in forbearance at 30 June 2014, compared to 1,073 accounts or £106 million at 31 December 2013.

For Buy to let mortgages 433 accounts or £46 million of account balances were in forbearance at 30 June 2014, compared to 427 accounts or £48 million at 31 December 2013.

For self-certified mortgages 478 accounts or £73 million of account balances were in forbearance at 30 June 2014, compared to 514 accounts or £78 million at 31 December 2013.

Other loans and advances to customers (excluding Residential mortgages)

The following disclosures refer to the forbearance of the other loans and advances to customers (excluding Residential mortgages). These provide additional detail and analysis on the quality of the stock of forborne loans.

Asset quality

Forbearance measures

The Group continues to extend significant support to customers who are experiencing current difficulties in meeting their debt servicing commitments by restructuring loans on a sustainable basis using a range of short term and longer term forbearance solutions.

The range of forbearance solutions employed by the Group varies depending on the individual circumstances of the customer, and may result in an amendment to the timing of the contractual cash flows and / or an amendment to the other terms of a loan. Typically, a breach or expected breach of covenants is the first early indication of a borrower's actual or potential difficulty with servicing debt commitments. Therefore adjustment, non-enforcement or waiver of covenant(s) is frequently an important constituent part of a resolution strategy agreed with a customer, particularly in loan portfolios where covenants are a standard feature of facility agreements. These 'covenant forbearance' arrangements (for example, a waiver of a loan-to-value covenant breach) are unlikely, of themselves, to result in an impact to the timing of contractual cash flows. Other forbearance arrangements are more likely to have a direct impact on the timing of cash flows.

Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred and if a specific provision is required will always take place prior to a decision to grant forbearance to the customer. Where a loan is subject to forbearance and no specific provision is required, the loan is reported as forborne. However, where a specific provision is required, the loan is reported as impaired and is no longer reported as forborne.

Forbearance effectiveness
It is the Group's policy to measure the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and for the customer.

The performance of forbearance measures is measured taking account of:

- the strategy that is being followed with the customer with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

Each business unit within the Group has an operating infrastructure in place to assess and, where appropriate, implement suitable forbearance arrangements. Such arrangements are implemented on either a temporary or a permanent basis. Temporary forbearance occurs where the measure has a specific term and will expire at some point in the future in advance of maturity of the loan. Permanent forbearance occurs where the measure is intended to remain in place for the remainder of the loan term.

The choice of forbearance measure is considered on a case by case basis bearing in mind the individual circumstance and risk profile of each borrower.

An exposure is restored to 'non-forborne' status for reporting purposes on the expiration date of the forbearance measure.

Asset quality (continued)

Forbearance measures (continued)

The nature and type of forbearance measures include:

- **Term extension:** an arrangement where the original term of the loan is extended, all interest is fully serviced and a revised repayment arrangement is agreed for the principal balance;
- **Adjustment or non-enforcement of covenants:** an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjusts the covenant(s) to reflect the changed circumstances of the borrower;
- **Facilities in breach of terms placed on demand:** an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- **Reduced payments (full interest):** an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- **Reduced payments (greater than full interest) incorporating some principal repayments:** a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- **Capitalisation of arrears:** an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- **Other:** Additional, less frequently applied, forbearance arrangements include short term / temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

At 30 June 2014, the stock of forborne other loans and advances to customers[1] (excluding Residential mortgages), analysed by forbearance type is as follows:

TABLE: 1 *(not part of interim financial statements)*

Formal forbearance measures - Other loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	30 June 2014 Non-defaulted loans[1] balance €m	30 June 2014 Defaulted loans[2] balance €m	30 June 2014 Total loans balance €m	31 December 2013 Non-defaulted loans[1] balance €m	31 December 2013 Defaulted loans[2] balance €m	31 December 2013 Total loans balance €m
Republic of Ireland SME						
Term extension	565	74	639	615	64	679
Adjustment or non-enforcement of covenants	104	-	104	106	10	116
Facilities in breach of terms placed on demand	11	33	44	17	47	64
Reduced payment (full interest)	208	32	240	228	50	278
Reduced payment (greater than full interest)	209	34	243	225	52	277
Capitalisation of arrears	25	9	34	27	9	36
Other	22	6	28	23	14	37
Total	**1,144**	**188**	**1,332**	**1,241**	**246**	**1,487**
UK SME						
Term extension	95	8	103	65	14	79
Adjustment or non-enforcement of covenants	46	-	46	64	-	64
Facilities in breach of terms placed on demand	6	13	19	5	14	19
Reduced payment (full interest)	10	1	11	22	13	35
Reduced payment (greater than full interest)	12	-	12	39	-	39
Capitalisation of arrears	-	2	2	-	1	1
Other	133	2	135	54	2	56
Total	**302**	**26**	**328**	**249**	**44**	**293**
Corporate						
Term extension	392	8	400	441	-	441
Adjustment or non-enforcement of covenants	479	44	523	648	-	648
Reduced payment (full interest)	-	-	-	9	-	9
Reduced payment (greater than full interest)	39	-	39	9	-	9
Capitalisation of arrears	12	-	12	13	-	13
Other	258	-	258	246	-	246
Total	**1,180**	**52**	**1,232**	**1,366**	**-**	**1,366**
Investment property						
Term extension	2,585	232	2,817	2,532	305	2,837
Adjustment or non-enforcement of covenants	633	2	635	683	4	687
Facilities in breach of terms placed on demand	74	83	157	173	22	195
Reduced payment (full interest)	120	43	163	156	46	202
Reduced payment (greater than full interest)	256	43	299	309	38	347
Capitalisation of arrears	24	45	69	17	61	78
Other	272	8	280	247	18	265
Total	**3,964**	**456**	**4,420**	**4,117**	**494**	**4,611**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the period. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

Formal forbearance measures - Other loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	30 June 2014 Non-defaulted loans[1] balance €m	30 June 2014 Defaulted loans[2] balance €m	30 June 2014 Total loans balance €m	31 December 2013 Non-defaulted loans[1] balance €m	31 December 2013 Defaulted loans[2] balance €m	31 December 2013 Total loans balance €m
Land and development						
Term extension	173	34	207	163	49	212
Facilities in breach of terms placed on demand	-	19	19	2	31	33
Reduced payment (full interest)	13	3	16	16	4	20
Reduced payment (greater than full interest)	7	1	8	5	2	7
Other	2	1	3	4	3	7
Total	**195**	**58**	**253**	**190**	**89**	**279**
Consumer						
Term extension	138	-	138	165	-	165
Total	**138**	**-**	**138**	**165**	**-**	**165**
Total						
Term extension	3,948	356	4,304	3,981	432	4,413
Adjustment or non-enforcement of covenants	1,262	46	1,308	1,501	14	1,515
Facilities in breach of terms placed on demand	91	148	239	197	114	311
Reduced payment (full interest)	351	79	430	431	113	544
Reduced payment (greater than full interest)	523	78	601	587	92	679
Capitalisation of arrears	61	56	117	57	71	128
Other	687	17	704	574	37	611
Total	**6,923**	**780**	**7,703**	**7,328**	**873**	**8,201**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the period. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

The Group's other loans and advances to customers (excluding Residential mortgages) at 30 June 2014 were €40.5 billion before impairment provisions (31 December 2013: €41.1 billion), of which €7.7 billion or 19% was classified and reported as forborne (31 December 2013: €8.2 billion or 20%). Property and construction exposures represent 61% of all forborne loans (excluding Residential mortgages) at 30 June 2014, 37% relate to non-property SME and Corporate lending, with Consumer Lending representing just 2% of forborne loans at 30 June 2014. The percentage of loans classified and reported as forborne and the percentage split of such forborne loans by portfolio has remained broadly consistent with the position at 31 December 2013.

The total volume of forborne loans reduced by €0.5 billion during the period, with reductions experienced across all forbearance measures with the exception of 'other' measures which increased during the period. This trend is consistent with the impact of an improvement in market conditions and liquidity in the Republic of Ireland.

The increase in 'other' forbearance measures during the period reflected the impact of new forbearance measures granted in the restructuring of a small number of large corporate transactions.

Further information on the movements in forborne loans during the period is set out later in this section.

Total loans and advances to customers in the **non-property SME and Corporate** portfolio at 30 June 2014 were €20.9 billion before impairment provisions, of which €2.9 billion or 14% was classified and reported as forborne (31 December 2013: €3.1 billion or 15%). Customers in the non-property SME and Corporate sector have a number of options typically available to deal with adverse trading conditions, particularly in times of depressed economic conditions in their primary markets, such as reducing operating overheads, sourcing new markets, asset sales and renegotiating terms with suppliers, before their ability to continue to meet their debt servicing commitments is at risk.

Within the non-property SME and Corporate portfolio, the total **Republic of Ireland SME** loans and advances to customers before impairment provisions at 30 June 2014 were €10.0 billion, of which €1.3 billion or 13% was classified and reported as forborne (31 December 2013: €1.5 billion or 14%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 48% of forborne loans at 30 June 2014 (31 December 2013: 46%) with reduced payment (greater than full interest) accounting for 18% (31 December 2013: 19%) and a further 18% accounted for by reduced payment (full interest) (31 December 2013: 19%).

Forbearance resolution strategies for the Group's Republic of Ireland SME lending are assessed on a case-by-case basis taking account of the individual customer's circumstances and risk profile. Short term resolution arrangements are typically implemented in cases where a customer's cash flow difficulties are considered to be only short term in nature and are expected to improve in the near term due to a change in the customer's operating circumstances. Where cash flow difficulties are considered more long term, and where all other available options of dealing with adverse trading conditions have been considered, longer term forbearance solutions, such as term extensions, are implemented. The longer term strategies look to potential cash flows over a longer time horizon.

The total **UK SME** loans and advances to customers before impairment provisions at 30 June 2014 were €2.7 billion, of which €0.3 billion or 12% was classified and reported as forborne (31 December 2013: €0.3 billion or 9%). Within the UK SME portfolio, term extension and loan covenant amendments / waivers are the two primary forbearance measures, accounting for a combined 45% of forborne loans at 30 June 2014 (31 December 2013: 49%).

The total **Corporate** loans and advances to customers before impairment provisions at 30 June 2014 were €8.3 billion, of which €1.2 billion or 15% was classified and reported as forborne (31 December 2013: €1.4 billion or 17%). Loan covenant amendments / waivers account for 42% of forborne loans with term extensions accounting for a further 32% at 30 June 2014 (31 December 2013: 47% and 32% respectively). Covenants are a standard feature of most facilities originated within the corporate lending portfolio given the larger, structured nature of the facilities. Typically, breach of covenant is the first early indication of actual or potential financial difficulties of a borrower and, as such, a waiver or resetting of covenant levels is frequently an important element of any resolution strategy agreed with a borrower to address its new operating circumstances. Where a waiver or resetting of covenants of itself is not sufficient to address a borrower's financial difficulties, and given the relatively shorter term maturity profile of the portfolio, extension of the loan term represents the main alternative solution to assist customers that are experiencing financial difficulties.

Asset quality (continued)

Forbearance measures (continued)

In the **Investment property** portfolio, total loans and advances to customers at 30 June 2014 were €13.6 billion before impairment provisions, of which €4.4 billion or 33% was classified and reported as forborne (31 December 2013: €4.6 billion or 34%). Defaulted forborne loans were €0.5 billion (or 10% of total forborne loans) as at 30 June 2014 (31 December 2013: €0.5 billion or 11%). Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 64% of total forborne loans at 30 June 2014 (31 December 2013: 62%), with covenant amendments / waivers accounting for 14% (31 December 2013: 15%), and reduced payment (greater than full interest) accounting for 7% (31 December 2013: 4%). Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility and / or amending or adjusting the covenants are the most common longer term arrangements utilised.

The level of the Group's **Land and development** portfolio classified and reported as forborne, €0.3 billion or 8% at 30 June 2014 (31 December 2013: €0.3 billion or 9%), is reflective of the challenged nature of this sector which has seen significant declines in land values resulting in the majority of the portfolio being already specifically provisioned.

Total loans and advances to customers in the **Consumer** portfolio at 30 June 2014 were €2.9 billion before impairment provisions, of which €0.1 billion or 5% was classified and reported as forborne (31 December 2013: €0.2 billion or 6%). The €0.1 billion of forborne balances at 30 June 2014 relate to personal loans that have had their term extended as part of a consolidated debt restructure.

Asset quality (continued)

Forbearance measures (continued)

TABLE: 2

30 June 2014

Reconciliation of forborne loan stock by non-default / default status - Other loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	Non-property SME and Corporate			Property and Construction			
	Republic of Ireland SME €m	UK SME €m	Corporate €m	Investment property €m	Land and development €m	Consumer €m	All loans €m
All loans							
Opening balance at 1 January 2014	**1,487**	**293**	**1,366**	**4,611**	**279**	**165**	**8,201**
New forbearance extended	166	106	120	387	13	14	806
Exited forbearance							
- Improved to or remained in non-default	(67)	(11)	(40)	(94)	(14)	-	(226)
- Remained in / disimproved to default without specific provision	(32)	(13)	-	(68)	(7)	-	(120)
- Disimproved to default with specific provision	(64)	-	(97)	(112)	(6)	(7)	(286)
- Redemptions, principal repayments and other	(171)	(24)	(148)	(293)	(2)	(34)	(672)
Transfers within forbearance between non-defaulted and defaulted loans	3	-	-	(3)	-	-	-
Transfers between sub product class	10	7	-	(7)	(10)	-	-
Transfers between business units	-	(30)	31	(1)	-	-	-
Closing balance at 30 June 2014	**1,332**	**328**	**1,232**	**4,420**	**253**	**138**	**7,703**
Non-defaulted loans							
Opening balance at 1 January 2014	**1,241**	**249**	**1,366**	**4,117**	**190**	**165**	**7,328**
New forbearance extended	139	101	120	280	4	14	658
Exited forbearance							
- Remained in non-default	(56)	(11)	(40)	(93)	(11)	-	(211)
- Disimproved to default without specific provision	(7)	(4)	-	(33)	(1)	-	(45)
- Disimproved to default with specific provision	(35)	-	(97)	(61)	(2)	(7)	(202)
- Redemptions, principal repayments and other	(151)	(21)	(148)	(290)	(3)	(34)	(647)
Transfers within forbearance between non-defaulted and defaulted loans	5	9	(52)	53	27	-	42
Transfers between sub product class	8	9	-	(8)	(9)	-	-
Transfers between business units	-	(30)	31	(1)	-	-	-
Closing balance at 30 June 2014	**1,144**	**302**	**1,180**	**3,964**	**195**	**138**	**6,923**
Defaulted loans							
Opening balance at 1 January 2014	**246**	**44**	**-**	**494**	**89**	**-**	**873**
New forbearance extended	27	5	-	107	9	-	148
Exited forbearance							
- Improved to non-default	(11)	-	-	(1)	(3)	-	(15)
- Remained in default without specific provision	(25)	(9)	-	(35)	(6)	-	(75)
- Disimproved to default with specific provision	(29)	-	-	(51)	(4)	-	(84)
- Redemptions, principal repayments and other	(20)	(3)	-	(3)	1	-	(25)
Transfers within forbearance between non-defaulted and defaulted loans	(2)	(9)	52	(56)	(27)	-	(42)
Transfers between sub product class	2	(2)	-	1	(1)	-	-
Closing balance at 30 June 2014	**188**	**26**	**52**	**456**	**58**	**-**	**780**

Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.

Asset quality (continued)

Forbearance measures (continued)

At 30 June 2014, €7.7 billion of the Group's other loans and advances to customers (excluding Residential mortgages) were classified and reported as forborne. This represented a reduction of €0.5 billion from the level classified and reported as forborne at 31 December 2013.

The reduction in forborne loans during the period reflected the fact that €1.3 billion of forborne loans exited forbearance during the period while €0.8 billion of loans were granted new forbearance during the period.

Term extensions and loan covenant amendments / waivers were the most common principal forbearance measure utilised for new forborne loans during the period. This is consistent with experience in previous periods and the nature of the underlying portfolios, which include a large proportion of loans that have shorter term maturities and financial covenants, as part of the facility terms, to facilitate improved credit management of these portfolios.

Of the new forborne loans during the period, €0.4 billion or 48% was from the Group's Investment property portfolio, €0.2 billion or 21% was from the Republic of Ireland SME loan portfolio and €0.1 billion or 15% was from the Corporate portfolio.

Of the loans that exited forbearance during the period, €0.2 billion improved to or remained in non-default. €211 million, or 93% of these loans, had been categorised as non-default at 31 December 2013, and, €15 million categorised as default at 31 December 2013 improved to non-default. €120 million in forborne loans remained in or dis-improved to default without a specific provision. €68 million or 57% of these loans were in the Investment portfolio.

€0.3 billion in forborne loans dis-improved to default with a specific provision, of these €0.1 billion or 29% had been classified as default at 31 December 2013. The Investment property portfolio accounted for 39% of the total, with 34% from Corporate and 22% from Republic of Ireland SME portfolios.

When a specific provision is raised on a forborne loan, the loan ceases to be classified as forborne. It is expected that most loans that ultimately require a specific provision will previously have experienced a breach of loan terms and, in a large proportion of these cases, some element of forbearance will have been granted in order to provide flexibility to both the Group and the borrower to explore the optimum resolution for both parties.

The volume of loans that exited forbearance during the period due to repayment, redemptions or sales reflected the impact of an improvement in market conditions and liquidity in the Group's principal markets during the period. €0.4 billion or 66% of these movements were in the Investment property and Corporate portfolios.

At 30 June 2014, €0.8 billion or 10% of total forborne loans were classified as default (31 December 2013: €0.9 billion or 11%).

2 Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the six months ended 30 June 2014 and the year ended 31 December 2013. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 11.

Average balance sheet

	6 months ended 30 June 2014			Year ended 31 December 2013		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest[1] €m	Rate %
Assets						
Loans and advances to banks	9,274	20	0.42	10,866	51	0.47
Loans and advances to customers	84,227	1,517	3.60	87,832	3,229	3.68
Available for sale financial assets and NAMA senior bonds	16,557	202	2.44	16,049	389	2.42
Other financial assets at fair value through profit or loss	1	-	-	12	-	-
Total interest earning assets	**110,059**	**1,739**	**3.16**	**114,759**	**3,669**	**3.20**
Non interest earning assets	21,323	-	-	21,821	-	-
Total assets	**131,382**	**1,739**	**2.65**	**136,580**	**3,669**	**2.69**
Liabilities and stockholders' equity						
Deposits from banks	7,876	35	0.88	15,307	137[1]	0.90
Customer accounts	56,871	350[1]	1.23	57,569	974[1]	1.69
Debt securities in issue	16,639	100[1]	1.20	14,910	247[1]	1.66
Subordinated liabilities	1,774	93	10.48	1,628	178	10.90
Total interest bearing liabilities	**83,160**	**578**	**1.39**	**89,414**	**1,536**	**1.72**
Current accounts	17,296	-	-	15,703	-	-
Non interest bearing liabilities	22,986	-	-	23,403	-	-
Stockholders' Equity	7,940	-	-	8,060	-	-
Total liabilities and stockholders' equity	**131,382**	**578**	**0.88**	**136,580**	**1,536**	**1.12**

[1] *Excludes the cost of the ELG scheme of €21 million (31 December 2013: €129 million) which is included within interest expense.*

The yield on average interest bearing liabilities (including current accounts) for the six months ended 30 June 2014 was 1.15% (year ended 31 December 2013: 1.46%)

3 Rates of exchange

Principal rates of exchange used in the preparation of the accounts are as follows:

	30 June 2014		30 June 2013		31 December 2013	
	Closing	**Average**	Closing	Average	Closing	Average
€ / US$	1.3658	1.3704	1.3080	1.3134	1.3791	1.3281
€ / Stg£	0.8015	0.8213	0.8572	0.8508	0.8337	0.8493

4 Credit ratings

Ireland - Senior debt	**30 June 2014**	31 December 2013
Standard & Poor's	A- (Positive)	BBB+ (Positive)
Moody's	Baa1 (Stable)	Ba1 (Stable) [1]
Fitch	BBB+ (Stable)	BBB+ (Stable)
DBRS	A (Low) (Stable)	A (Low) (Negative trend)

BOI - Senior debt	**30 June 2014**	31 December 2013
Standard & Poor's	BB+ (Negative)	BB+ (Stable)
Moody's	Ba3 (Negative)	Ba3 (Negative)
Fitch	BBB (Negative)	BBB (Stable)
DBRS	BBB (High) (Negative trend)	BBB (High) (Negative trend)

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK