2011 Annual Report

Year ended 31 December 2011

Forward Looking Statements

This document contains “forward looking statements” with respect to certain of the group’s plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events that are often beyond the group’s control. For example, certain insurance risk disclosures are dependent on choices about assumptions and models, and by their nature are best estimates. Actual future gains and losses could differ materially from those that have been estimated. Other factors that could cause actual results to differ materially from those estimated by the forward looking statements include, but are not limited to, Irish domestic and global economic business conditions, interest rates, equity and property prices, the impact of competition, inflation and deflation, changes to customers’ saving, spending and borrowing habits and the group’s success in managing the above factors.

As a result, the actual future financial condition and performance of the group may differ from the targets and goals set out in the forward looking statements. The group has no obligation to update any forward looking statement contained in this annual report.

Investor and shareholder information and services including these annual reports, are available on-line at www.irishlifepermanent.ie.

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Irish Life & Permanent Group Holdings plc

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Continuing operations:		
Operating (loss)/profit before impairment charges and gain on subordinated liability management exercise	**(65)**	51
Provision for impairment - loans and receivables	**(1,434)**	(420)
Provision for impairment - repossessed assets	**(6)**	-
Gain on subordinated liability management exercise	**1,000**	-
Operating loss before taxation	**(505)**	(369)
Taxation	**81**	48
Loss after taxation from continuing operations	**(424)**	(321)
Discontinued operations:		
(Loss)/profit after taxation from discontinued operations	**(4)**	193
Loss for the year	**(428)**	(128)

Statement of Financial Position funding metrics	2011 €m	2010 €m
Shareholders equity	**3,517**	1,616
Total assets		
Continuing Operations	**43,196**	43,677
Discontinued Operations	**28,841**	32,022
Loans and receivables to customers (after impairment provisions)	**33,677**	36,581
Impairment provisions	**(2,298)**	(883)
Impairment provision %	**6.4%**	2.4%
Customer accounts (deposits)	**14,373**	13,382
Loan to deposit ratio	**227%**	249%
Capital Ratios		
Continuing Operations - Irish Life & Permanent plc		
Available capital	**2,756**	1,681
Risk weighted assets	**15,408**	15,809
Equity Tier 1 capital ratio	**17.9%**	10.6%
Discontinued Operations		
New business Annual Premium Equivalent ("APE")		
Irish Life Assurance and Irish Life Investment Managers	**541**	535
Irish Life International (sold 31/8/2011)	**17**	37
Total APE	**558**	572
New business Present Value New Business Premiums ("PVNBP")		
Irish Life Assurance and Irish Life Investment Managers	**4,604**	4,437
Irish Life International (sold 31/8/2011)	**174**	371
Total PVNBP	**4,778**	4,808
Irish Life Assurance plc		
Available capital (€millions)	**769**	947
Solvency cover (times)	**1.9**	2.4

Chairman’s Statement

2011 has been one of the most significant years in the history of the Irish Life & Permanent Group plc (“IL&PGH”, or the “Group”), which culminated in July 2011 with the acquisition by the Irish Government of a 99.2% shareholding in the Group as a consequence of the capital injection required to meet PCAR requirements. As a consequence, IL&PGH had to delist from the main stock exchange markets in Dublin and London and list on Irish Stock Exchange’s Enterprise Securities Market (“ESM”) in Dublin. The ESM listing should not impact shareholders ability to trade shares,

The Board deeply regrets this outcome and the resultant loss of value for many shareholders. It would like to acknowledge the significant contribution the Irish Government and taxpayers have made to the Group and its banking subsidiary Irish Life & Permanent plc (“IL&P”) and to the Banking sector in Ireland as a whole.

Recapitalisation

The significant changes in the Group outlined above are a consequence of the outcome of the Prudential Capital Assessment Review (“PCAR”) and the Prudential Liquidity Assessment Review (“PLAR”) exercises undertaken by the Central Bank of Ireland (“Central Bank”) in 2011 as part of the Financial Measures Programme (“FMP”) agreed between the Government and the EU, IMF and the ECB in November 2010. The aim of the programme was to place the Irish Banking system in a position where it could fund itself and generate capital without further reliance on the Irish or European monetary authorities.

The results of these reviews, which were announced on the 31 March 2011, determined that the Group’s banking operations required a further €4.0 billion of capital - €3.6 billion of equity capital (including a buffer of €0.3 billion) and €0.4 billion of convertible contingent capital notes.

The €4.0 billion of additional capital was required to ensure that the Group’s banking business would be able to meet the Central Bank’s new minimum Tier 1 equity ratio of 10.5% in a base case and 6% in a stressed scenario and to cover possible losses associated with the requirement to de-leverage the bank’s balance sheet to achieve the new maximum loan to deposit ratio of circa 122.5%, as defined under PCAR by 31 December 2013.

It was expected that the Group would have been able to generate approximately €1.3 billion of the €4.0 billion capital requirement from internal resources and a combination of a liability management exercise in relation to the Bank’s Tier 2 debt and the sale of Irish Life Limited and its subsidiaries (together the "Life Group").

The Life Group conducts its operations through the Group's life assurance, fund management, general insurance and brokerage, third party administration and other reporting segments.

The only alternative source of funding at that time for the remaining €2.7 billion capital requirement was the Irish Government. In July 2011, following receipt of a Court Order under the Credit Institutions (Stabilisation) Act 2010 (the “Stabilisation Act”), the Government subscribed €2.3 billion of the required capital for which it obtained a 99.2% stake in the Group. At the same time it also subscribed €0.4 billion by way of convertible contingent capital notes.

The liability management exercise generated an accounting profit of €1.0 billion, following the buy back of €1.2 billion of IL&P’s subordinated debt at a capital cost of €0.2 billion. This is offset by the regulatory capital deduction association with IL&P’s ownership of the Life Group.

In late 2011, an extensive disposal process was undertaken to sell the Life Group and this attracted significant interest from a broad range of potential acquirers. Each of these recognised the exceptionally strong franchise which Irish Life has in the Irish market and the low risk nature of its business model. However, the very challenging market conditions, particularly the perceived worsening of the financial crisis and stability of the Eurozone, resulted in the Life Group’s sales process being suspended in November 2011.

Following the suspension of the Life Group’s sales process, the State committed to provide further support to the Group to meet its remaining capital requirements by 30 June 2012, in accordance with the FMP.

On the 28 March 2012, the Minister, having consulted with the Governor of the Central Bank of Ireland, made an application to the High Court under the Stabilisation Act, seeking an order directing IL&P to enter into the Share Purchase Agreement to effect the sale of the Life Group to the State. The Direction Order, which was published on 30 March 2012, following the passing of the required waiting period under the legislation, is expected to become effective on 16 April 2012.

IL&P expects therefore to sign an irrevocable Share Purchase Agreement after 16 April 2012 in which it will agree to sell its 100% interest in the Life Group to the Irish State in return for which it will receive a consideration of €1.3 billion on 29 June 2012 when the sale is expected to complete. The Life Group is therefore treated as "Held for Sale" in the attached financial statements and the results of the Life Group for the year ended 31 December 2011 are reported as discontinued operations.

Separation – Banking and Life Business

The legal separation of the Group's banking and life assurance businesses will result in a number of changes in the composition of the board and corporate governance structures for both entities.

I have received a waiver from the Financial Regulator from its governance requirements that prohibit the holding of the position of Chairman of more than one credit institution and/or insurance undertaking at any one time and will, as a result, continue to act as Chairman of both the bank and the Life Group until the end of the year to facilitate a smooth transition to stand alone businesses.

Mr Kevin Murphy and Mr David McCarthy will assume the roles of Chief Executive and Finance Director respectively of the Irish Life Group. It is therefore the intention that Mr Murphy and Mr McCarthy will resign from the board of Irish Life & Permanent Group Holdings plc and from all related directorships, immediately following the signing of the Share Purchase Agreement to effect the sale of the Life Group.

Mr Jeremy Masding, who was appointed as Chief Executive of **permanent tsb** with effect from 14 February 2012, and who was co-opted to the Boards of Irish Life & Permanent Group Holdings plc and Irish Life & Permanent plc with effect from 28 February 2012, will assume the role of Chief Executive of Irish Life & Permanent Group Holdings plc immediately following Mr Murphy's resignation.

A formal process for the selection of the bank's senior leadership team will commence upon the endorsement of the strategic plan by the State and EU/ECB/IMF.

Restructuring

The investment made by the Irish Government in the Group qualifies as State Aid under EU regulations, as a result of which the Group submitted a restructuring plan in July 2011 for review and approval by the EU. An updated restructuring plan was submitted in February 2012 for review / approval by the EU. In the memorandum of understanding ("MOU") issued on 10 February under the EU/IMF programme of support, the State issued the following statement with respect to the Group's banking businesses.

"During February, we will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the state on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews. The authorities will make a decision on the proposed way ahead by end April. We will prepare an updated restructuring plan for ILP that will detail the actions needed to ensure the bank's long-term viability, in line with EC state aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability".

With the full support of the Government and the EU, the Group is undertaking a full strategic review of its banking operations. The review will determine if there is a viable, stand-alone bank and what actions are required to deliver shareholder value over time.

We are confident that the strategic plan will deliver a fact-based, distinctive and financially robust business model that will enable the bank to participate fully in the Irish financial services market in the future.

Group performance

Trading conditions were challenging across all of the Group's business segments, as the negative impact of high unemployment and lower incomes together with further house prices falls resulted in increased arrears levels and reduced demand for the Group's products.

Chairman's Statement

The Group reported an increased loss after taxation from continuing operations, which excludes the Life Group, of €424 million (2010: €321 million loss) due to lower net interest income as a result of higher costs under the Government's Eligible Liabilities Guarantee scheme ("ELG") and a number of once off expenses in the period. A €1.0 billion gain realised on the liability management exercise offset a corresponding €1.0 billion increase in loan impairment charges, due primarily to the adverse macro economic factors outlined above.

The Life Group realised an operating profit including share of profits of associated undertaking of €96 million. (2010: €212 million profit). The decrease in operating profit is mainly due to the impact of negative volatility in the equity and bond markets on short term investment fluctuations and economic assumption changes resulting in a movement of €85m (2011: €73 million negative 2010: €12 million positive). In addition the Life Group made a profit on disposal of its subsidiary ILI, of €4 million (2010: €nil). IL&P made a once off impairment charge of €104 million to write down the carrying value of the Life Group at 31 December 2011 to €1.3 billion, the agreed sale price. As this impairment charge relates to the Life Group, which is being treated as discontinued, the results of discontinued operations are an loss of €4 million after taxation (2010: €193 million profit).

As wholesale debt markets remain closed to the Group, the Group continues to rely on the European Central Bank and the Central Bank (the "Monetary Authorities") for liquidity support. The Group continues to receive support from the Irish Government's guarantee scheme ("ELG") and has increased its core retail deposits in what is a very competitive environment.

The acquisition of €3.6 billion of deposits from the Irish Nationwide Building Society ("INBS") in February 2011 helped to offset significant outflows of corporate deposits.

The Group's equity Tier 1 ratio for continuing operations was 17.9% (2010: 10.6%) at 31 December 2011 well above the European Capital Requirement Directive ("CRD") requirements of 8% and the Central Bank's new minimum requirement of 10.5%.

Irish Life Assurance plc had regulatory capital of €769 million (2010: €947 million), which covered its minimum statutory capital requirement 1.9 times (2010: 2.4 times) after distributions of €143 million to its parent and repaying the VIF loan of €100 million.

Changes at Board level

During the year there were a number of changes at Board level. Gillian Bowler, who stepped down as Chairman of the Group in 2011, has made an important contribution to the Group over many years. On behalf of the Board and everyone in the Group, I want to thank Gillian for her years of service and to wish her success and happiness in the future.

Mr Breffni Byrne, Ms Danuta Gray and Mr Roy Keenan also stepped down from the Board during the year and I want to pay tribute to their hard work and dedication to the Group and to wish them well in the future. I would like to welcome Ms Emer Daly, who joined the Board in September 2011 and has also assumed the role of Chairman of the Audit Committee.

As mentioned above Mr Kevin Murphy and Mr David McCarthy will resign from the board of Irish Life & Permanent Group Holdings plc immediately following the signing of the Share Purchase Agreement to effect the sale of the Life Group. I want to thank Kevin and David for the substantial contribution they have made to the Group, especially during the most recent difficult period and, in particular, for the significant assistance they provided to me since assuming the role of Chairman.

I would also like to take this opportunity to welcome Mr Jeremy Masding to the Board. Mr Masding who was appointed Chief Executive of **permanent tsb** with effect from 14 February 2012, will assume the role of Chief Executive of Irish Life & Permanent Group Holdings plc immediately following the resignation of Mr Kevin Murphy.

Chairman’s Statement

Outlook

The Board would like to reassure all our customers that the planned separation of its banking and life businesses will not affect customer accounts or policies and that the Boards and the management teams of both businesses remain fully committed to ensuring that all obligations to our customers are met.

The significant recapitalisation of the Group’s banking business will provide it with the foundation from which to build a successful and profitable business providing a competitive alternative to the two main pillar banks.

Finally, I would like to express my appreciation to staff throughout the Group for their ongoing commitment and dedication through these difficult times.

Alan Cook

Chairman   30 March 2012

Group Chief Executive's Review

2011 was a very significant year for the Group, with the Irish Government acquiring a 99.2% shareholding in the Group and following the Central Bank of Ireland's assessment of the need for an additional €4.0 billion of capital, the resulting requirement to separate the Group's banking and life operations. As these matters have been comprehensively dealt with in the Chairman's Statement, I will concentrate on providing a review of the financial performance for the year.

Financial performance

The Group's continuing operations, excluding the Life Group, reported a net loss after tax of €424 million (2010: €321 million loss).

The Life Group is classified as held for sale in the accompanying financial statements and their results for the year ended 31 December 2011 are shown in discontinued operations. The Group's results therefore primarily consist of the Irish retail banking business and its UK mortgage business.

The Group's banking business contributed an operating loss (before impairments and the gain from the liability management exercise) of €65 million (2010: €51 million profit). The decrease of €116 million on the 2010 outcome was primarily due to increased net interest income offset by higher government guarantee charges, restructuring charges associated with the voluntary severance scheme, costs associated with the acquisition of the INBS deposits and other costs associated with the Group restructuring.

Net interest income for the period, before the cost of the ELG scheme, was €426 million (2010: €402 million), reflecting an increase in the reported net interest margin ("NIM")[1] 0.96% (2010: 0.86%). The margin benefited from the increases in standard variable mortgage rates offset by the rising cost of both deposit and term funding. The 2011 NIM also benefited from the increase in the level of ECB drawings through 2011 which averaged €12.1 billion (2010: €9.4 billion) and which carry a lower cost of funds.

Impairment provisions increased to €1.4 billion (2010: €0.4 billion), due to the continued distress of the Irish economy and the impact of changes in key assumptions that drive impairment levels. This included further house price declines with peak to trough house price falls now assumed to be 55% (2010: 43%), the move to specific provisioning for accounts greater than 90 days in arrears (2010: 180 days in arrears) and the significant increase in the number of accounts greater than 90 days in arrears.

Capital

The bank's regulatory capital increased to €2.8 billion (2010: €1.7 billion), giving it an Equity Tier 1 capital ratio of 17.9% (2010: 10.6%), well above the Capital Requirement Directive ("CRD") requirements of 8% and the Central Bank's new minimum target of 10.5%.

The excess capital, together with the acquisition of the Life Group for €1.3 billion by the Irish Government will leave the Group's banking business well capitalised to be able to absorb losses arising from the deleveraging process and loan impairments anticipated under the PCAR stress scenario and also generate free cash flow to fund new lending.

Funding

Funding continues to be the primary challenge for the banking system in Ireland and for the Group's banking business. In common with other Irish banks, and as a consequence of the Irish banks' and the Irish State's credit rating downgrades, wholesale debt markets are effectively closed to the bank for unsecured unguaranteed issuances.

In late 2011 the Group raised €2.7 billion of unguaranteed funds secured on its UK mortgage book.

The bank participates in the ELG Scheme. In the absence of the scheme for the past two years, it would have been unable to raise the debt required to fund its operations or to bolster its retail and corporate deposits with balances above those guaranteed under the Deposit Guarantee Scheme.

[1] Net interest margin is the ratio of net interest income and the average interest earning assets for the period.

However, the cost of the ELG scheme was €173 million for the year ended 31 December 2011 (2010: €97 million), an increase of €76 million due to the addition of INBS deposits acquired in February 2011, the refinancing of older term debt and an increase in the costs charged under the ELG scheme.

The average level of liabilities covered under the ELG scheme during the year was €15.6 billion (2010: €12.3 billion). In addition, in 2010, €6.0 billion was covered under the Credit Institutions (Financial Support) Scheme 2008 ("CIFS"), which ended in September 2010.

At 31st December the Net Stable Funding Ratio as defined by the Basel Committee on Banking Supervision was 59% (2010: 58%).

In February 2011, in line with its strategy of growing its deposit funding, the bank successfully acquired INBS's €3.6 billion deposit portfolio. This acquisition contributed to the increase in the Group's Republic of Ireland ("ROI") retail deposit book to €12.7 billion in 2011 (2010: €11.1 billion). Corporate deposits fell by 38% to €2.3 billion (2010: €3.7 billion) due to outflows caused by the uncertainty created by the sovereign debt crisis.

The loan-to-deposit ratio improved to 227% (2010: 249%) due to a reduction in the level of outstanding loan balances as exceptionally low levels of new lending and increased retail deposits were offset by scheduled repayments and redemptions.

In January 2012, the Group completed the acquisition of the Irish deposit book of Northern Rock (€0.5 billion) which will further strengthen the bank's funding base.

Asset quality

New lending activity in the Group's banking businesses decreased further to €0.4 billion (2010: €0.6 billion), divided equally between mortgages and consumer finance while redemptions and repayments were €1.8 billion, resulting in a net decrease in outstanding loan balances before impairment provisions to €36.0 billion (2010: €37.5 billion), a decrease of 4%.

The housing market in Ireland remains extremely weak. House prices continue to decline and together with the uncertainties caused by high unemployment and the negative impact of existing austerity measures on disposable incomes, transaction levels have reduced to historically low levels. These factors are also reflected in a significant increase in arrears throughout the year, with the number of accounts greater than 90 days in arrears increasing by 71% to 20,816 cases (2010: 12,200 cases), representing 12.0% (2010: 6.8%) of the portfolio. The number of owner occupier mortgages included in these numbers was 16,919 (2010: 10,347) representing 12.1% (2010: 6.3%) of the outstanding cases compared with an industry average in 2011 of 9.2%.

The total impairment provisions balance increased to €2.3 billion (2010: €0.9 billion) with the result that the Group's overall provision coverage increased by 4.0% to 6.4% of the gross loans and receivables balances (2010: 2.4%).

Operating expenses

Operating expenses were €348 million (2010: €279 million) with the increase due to a number of once off costs incurred in the year, including restructuring charges associated with the voluntary severance scheme, costs associated with the acquisition of the INBS deposits and other costs associated with the Group restructuring.

Discontinued operations

Discontinued operations consists of Irish Life Limited and its subsidiaries (together the "Life Group"). The Life Group conducts its operations through the Group's life assurance, fund management, general insurance, 3rd party administration and other reporting segments.

Sales for the Life Assurance ("ILA") and Fund Management ("ILIM") businesses in 2011 on an Annual Premium Equivalent ("APE") basis were €541 million (2010: €535 million)., excluding sales of €17 million (2010: €37 million) for its former subsidiary Irish Life International ("ILI"), which was sold during the year. Increased sales in ILIM reflected in strong inflows of €2.8 billion (2010: €2.5 billion) were offset by a reduction in sales in ILA, due primarily to the adverse economic environment with unemployment remaining high coupled with lower disposable incomes.

The Life Group realised an operating profit including share of profits of associated undertaking of €96 million. (2010: €212 million profit). The decrease in operating profit is mainly due to the impact of negative volatility in the equity and bond markets on short term investment fluctuations and economic assumption changes resulting in a movement of €85m (2011: €73 million negative 2010: €12 million positive). In addition the Life Group made a profit on disposal of its subsidiary ILI, of €4 million (2010: €nil). IL&P made a once off impairment charge of €104 million to write down the carrying value of the Life Group at 31 December 2011 to €1.3 billion, the agreed sale price. As this impairment charge relates to the Life Group, which is being treated as discontinued, the results of discontinued operations are an loss of €4 million after taxation (2010: €193 million profit).

Irish Life Assurance plc had regulatory capital of €769 million (2010: €947 million), which covered its minimum statutory capital requirement 1.9 times (2010: 2.4 times) after making distributions of €143 million to its parent IL&P and repayment of the €100 million VIF loan.

The Life Assurance business has recently announced the addition of the Allied Irish Bank plc's network of 243 branches to its bancassurance network, which will provide significant opportunities for the business.

Outlook

The operational separation of the Group's banking and life businesses on 30 March, will facilitate the completion of the recapitalisation of the Group's banking business by the Irish Government.

The State has indicated in the Memorandum of Understanding ("MOU") issued on 10 February 2012 that a decision will be taken in late April on the actions required to ensure the viability of the Group's banking operations. We await the outcome of that review and remain confident that the strategic plan will present a viable option for the Group's banking businesses.

Kevin Murphy

Group Chief Executive

30 March 2012

Group income statement

Continuing Operations

Continuing operations represents primarily the Group's Irish retail banking and UK mortgage businesses.

The Group's Irish banking division, operating under the **permanent tsb** brand, provides a full range of retail banking products and services through its nationwide network of branches as well as through intermediaries and directly over the phone and internet. It is a leading provider of residential mortgages in addition to current account and retail deposit facilities. Strategically, the focus of its banking business is to service the residential owner occupier mortgage and consumer finance credit markets and to offer a wide range of current account and deposit products and life assurance products through its bancassurance arrangements with Irish Life, and other services into its retail customer base.

The business in the UK consists of a closed mortgage book to the professional landlord sector operating through the Group's subsidiary company Capital Home Loans ("CHL").

Discontinued Operations

Discontinued operations include the results of the Group's Life Assurance and Fund Management and related businesses (the "Life Group").

Summary Group Income Statement	**2011** **€m**	2010 €m
Continuing operations:		
Net interest income	**253**	305
Net other income	**30**	25
Operating income	**283**	330
Operating expenses	**(348)**	(279)
Operating (loss)/profit before provision for impairment charges and gain on subordinated liability management exercise	**(65)**	51
Provision for impairment – loans and receivables	**(1,434)**	(420)
Provision for impairment – repossessed assets	**(6)**	-
Gain on subordinated liability management exercise	**1,000**	-
Loss before taxation	**(505)**	(369)
Taxation	**81**	48
Loss after taxation - continuing operations	**(424)**	(321)
Discontinued operations:		
(Loss)/profit after taxation - discontinued operations	**(4)**	193
Loss for the year	**(428)**	(128)

The Group reported a loss after taxation for the year from continuing operations of €424 million (2010: €321 million).

Operating and Financial Review

Net interest income

Net interest income ("NII") for the year was €253 million (2010: €305 million) which is broken down by division both before and after ELG scheme costs as follows:

Net interest income	2011 €m	2010 €m
- Banking Ireland	**461**	409
- Banking UK	**(35)**	(7)
	426	402
ELG Scheme	**(173)**	(97)
Net interest income	**253**	305

Banking Ireland increased its NII by €52 million to €461 million (2010: €409 million) as asset repricing together with higher yields on the Group's treasury assets more than offset higher funding costs. As a result of the increase in NII before ELG costs, the overall net interest margin ("NIM") increased to 96bps (2010: 86bps). The key drivers of the improvement in NIM are as follows:

NIM year ended 31 December 2010 (bps)	86
Asset re-pricing	14
Wholesale funding	(10)
Retail deposit funding	(4)
Other	10
NIM year ended 31 December 2011 (bps)	96

Asset repricing contributed a 14bps improvement in NIM. Higher funding costs reduced NIM by 10bps, reflecting the higher cost associated with the refinancing of maturing wholesale funding and with the requirement to access funding from the Central Bank Emergency Liquidity Assistance ("ELA") scheme, partly offset by the positive impact of higher overall average balances from the ECB, which carry a lower funding rate.

Higher costs of deposits due to the very competitive demand for deposits in the market place reduced NIM by 4 bps, while a higher yield on treasury assets and free funds together with a combination of other factors contributed 10bps improvement.

Banking UK which consists of CHL, the Group's UK closed book mortgage business, reported a NII loss of €35 million (2010: €7 million loss), with the increased loss reflecting the higher average funding costs against the relatively fixed income nature of its loan book, which is predominantly interest only tracker mortgages.

The cost of the ELG scheme increased by €76m to €173m (2010: €97m), due to a combination of higher rates being charged under the scheme together with an increase in the average ELG balances covered from €12.3 billion in 2010 to €15.6 billion in 2011.

The average annual fee was 1.11% (2010: 0.79%). A further average balance of €6.0 billion was covered under the CIFS Scheme in 2010 on which €13 million of fees were paid, the cost of which is included in net other income in 2010 discussed below.

Net other income

Net other income, which comprises mainly current account fees, general insurance and bureau de change commissions and trading profits or losses was €30 million for 2011 (2010: €25 million). The following table provides a summary of net other income:

Net other income	2011 €m	2010 €m
Fees and commission income	**60**	54
Fees and commission expenses	**(12)**	(12)
CIFS expenses	**-**	(13)
Loss on debt buy backs	**(41)**	-
Gain on debt cancellation	**19**	-
Other	**4**	(4)
Net other income	**30**	25

The overall level of fees earned increased slightly due to the full year impact of new fees initiatives introduced during 2010.

CIFS expenses represent the costs of the CIFS Scheme referred to above.

During the year IL&P incurred a loss of €41 million (2010: €nil) as a result of participation in the buy back programme of debt securities issued by other Irish credit institutions. The amount bought back was €77 million.

The Group realised a gain of €19 million (2010: €nil) on the cancellation of €74 million of the Group's own bonds acquired as part of the acquisition of the INBS deposits.

Operating expenses

Operating expenses were €348 million (2010: €279 million), with the increase of €69 million due primarily to a number of once off items incurred during the year as set out in the following table:

Operating expenses	2011 €m	2010 €m
Operating expenses	**272**	266
Restructuring costs	**35**	13
Amortisation of INBS intangible asset	**21**	-
INBS costs	**7**	-
Once off project fees	**13**	-
Net operating expenses	**348**	279

The Group incurred €35 million (2010: €13 million) of expenses associated with a voluntary severance restructuring programme undertaken in the Group's banking business in 2011 which will result in a reduction of 350 employees and increased use of automation.

There was a €21 million charge (2010: €nil) due to the amortisation of a core deposit intangible that arose on the acquisition of the INBS deposits and costs of €7 million associated with the INBS employees who temporarily transferred to the Group's banking business.

Professional fees of €13 million were incurred in connection with the Group restructuring, the liability management exercise and a number of other projects during the year.

Excluding the once off items, operating expenses were in line with the 2010 level with Banking UK accounting for €12 million (2010: €10 million) of operating expenses.

Provision for impairments

Loans and Receivables

The provision for impairment charges on loans and receivables to customers was €1.4 billion (2010: €0.4 billion), an increase of €1.0 billion, reflecting further falls in house prices, a key driver of the estimated required level of impairment provisions, together with further increases in arrears due to the weak economic conditions, including sustained high unemployment and lower income levels.

€0.5 billion of the increased provisions was due to a change in the assumption for peak to trough house price falls to 55% (2010: 43%). A further €0.3 billion of the increase was due to changes in the assessment of specific provisions for accounts greater than 90 days in arrears in line with the Central Bank's current best practice guidelines. In 2010 specific provisions were only made for balances greater than 180 days in arrears. The remaining €0.2 billion of the increase was due to the further deterioration of the quality of the loan book.

The charge can be broken down across the loans portfolios as follows:

	2011 €m	2010 €m
Core		
- Owner occupier	**580**	155
- Buy-to-let	**591**	88
ROI residential mortgages	**1,171**	243
Consumer finance – term / other	**35**	31
	1,206	274
Non-core		
UK residential mortgages	**26**	27
Commercial	**179**	105
Consumer finance – finance leases	**23**	14
	228	146
Total	**1,434**	420

The increased charge on ROI residential mortgages accounts for €0.9 billion of the increase with a particularly large increase in the provisions for loan impairments for the Group's buy-to-let book in Ireland, relative to the size of the book. The other noteworthy increase was against the Group's commercial loan book.

Repossessed Assets

An impairment provision of €6m was incurred in connection with the write down of the carrying value of repossessed properties to fair value.

Gain on liability management exercise

The Group successfully completed a liability management exercise, whereby the bank bought back €1.2 billion of its subordinated debt for €0.2 billion, generating a profit of €1.0 billion.

Operating and Financial Review

Taxation

The increase in the taxation credit for the Group to €81 million (2010: €48 million) is due to increased losses.

Discontinued operations

An analysis of the results of discontinued operations is provided later in this review.

Summary Group Statement of Financial Position	**2011 Continuing Operations €m**	**2011 Discontinued Operations €m**	**2011 Total €m**	2010 Continuing Operations €m	2010 Discontinued Operations €m	2010 Total €m
Assets						
Loans and receivables to customers	**33,677**	**-**	**33,677**	36,581	-	36,581
Loans and receivables to banks	**1,623**	**-**	**1,623**	971	2,594	3,565
Debt securities	**6,657**	**-**	**6,657**	4,673	7,425	12,098
Other assets	**1,180**	**-**	**1,180**	1,448	-	1,448
Assets held for sale – Life Group*	**-**	**28,841**	**28,841**	-	22,003	22,003
Assets held for sale – Bank**	**59**	**-**	**59**	4	-	4
Total assets	**43,196**	**28,841**	**72,037**	43,677	32,022	75,699
Liabilities and equity						
Customer accounts	**14,373**	**-**	**14,373**	13,382	-	13,382
Deposits by banks	**16,966**	**-**	**16,966**	16,808	338	17,146
Debt Securities in issue	**8,356**	**-**	**8,356**	10,034		10,034
Subordinated liabilities	**317**	**-**	**317**	1,470	216	1,686
Other liabilities	**680**	**-**	**680**	653	-	653
Liabilities held for sale – Life Group*	**-**	**27,828**	**27,828**	-	31,182	31,182
Total liabilities	**40,692**	**27,828**	**68,520**	42,347	31,736	74,083
Total Equity			**3,517**			1,616
Total Liabilities and equity			**72,037**			75,699

The presentation of the 2010 Group Statement of Financial Position analysed between continuing and discontinued operations is provided to facilitate comparison with the 2011 Group Statement of Financial Position. In the discontinued operations 2010 as presented above, assets held for sale of €22.0 billion include assets related to Irish Life International of €2.1 billion while liabilities held for sale include €2.0 billion related to Irish Life International.

*Assets and liabilities held for Sale – Life Group

The assets and liabilities of the Life Group are treated as held for sale in the 2011 Group Statement of Financial Position.

**Assets held for sale – Bank

Certain financial assets of the bank's consumer finance loan book and bank branches for sale are treated as held for sale in the 2011 Group Statement of Financial Position.

Loans and receivables to customers

The following table provides a summary of the loans and receivables balances and the related provision balance by portfolio, split between core and non-core.

Loans and Receivables to Customers	**Loans and Receivables Balance**	**Impairment Provision**	**Net balance**	Loans and Receivables Balance	Impairment Provision	Net Balance
	2011	**2011**	**2011**	2010	2010	2010
	€m	**€m**	**€m**	€m	€m	€m
Core						
- Owner occupier	**18,740**	**(855)**	**17,885**	19,490	(274)	19,216
- Buy-to-let	**6,679**	**(774)**	**5,905**	6,850	(172)	6,678
ROI residential mortgages	**25,419**	**(1,629)**	**23,790**	26,340	(446)	25,894
Consumer finance – term / other	**412**	**(123)**	**289**	468	(93)	375
	25,831	**(1,752)**	**24,079**	26,808	(539)	26,269
Non-core						
UK residential mortgages	**7,493**	**(78)**	**7,415**	7,527	(63)	7,464
Commercial	**1,863**	**(406)**	**1,457**	1,904	(223)	1,681
Consumer finance – finance leases	**585**	**(62)**	**523**	907	(58)	849
	9,941	**(546)**	**9,395**	10,338	(344)	9,994
	35,772	**(2,298)**	**33,474**	37,146	(883)	36,263
Classified as held for sale*			**(56)**			-
Deferred fees, discounts and fair value adjustments			**259**			318
Loans and receivables to customers			**33,677**			36,581

* Certain financial assets of the bank's consumer finance loan book are treated as held for sale in the 2011 Group Statement of Financial Position

The Group's loans and receivables to customers decreased by €2.9 billion to €33.7 billion (2010: €36.6 billion), €1.4 billion of which is due to an increase in loan impairment provisions with the remaining €1.5 billion reduction due to capital repayments and redemptions of €1.8 billion significantly exceeding the low level of new business of €0.4 billion during the year.

In addition, €56 million of assets associated with certain loans within the Group's consumer finance loan book are classified as held for sale. The total impairment provision balance increased by €1.4 billion to €2.3 billion (2010: €0.9 billion) which brings the provision balance to 6.4% of the gross loans and receivables balances at the end of 2011 (2010: 2.4%).

ROI Residential Mortgages

ROI residential mortgages account for 71% of the gross loans and receivables balances, with the split between owner occupier and buy-to-let representing 74% and 26% respectively. The net balance on ROI residential mortgages decreased by €2.1 billion, due to impairment charges of €1.2 billion, with the remaining €0.9 billion due to regular repayments and redemptions of €1.1 billion, partly offset by new loans of €0.2 billion in the year.

The significant increase in impairments was due to a combination of an increase in the peak to trough house price fall assumption to 55% (2010: 43%), the specific provisioning for balances past due but not impaired greater than 90 days in line with the Central Bank's current best practice (2010: greater than 180 days) and a further significant deterioration in the arrears profile. The arrears profile for ROI residential mortgages is set out in the following table:

ROI Residential Mortgages	Owner Occupier 2011 €m	Buy-to-let 2011 €m	Total 2011 €m	Owner Occupier 2010 €m	Buy-to-let 2010 €m	Total 2010 €m
Neither past due nor impaired	**14,546**	**4,417**	**18,963**	16,674	5,668	22,342
Past due but not impaired	**2,466**	**881**	**3,347**	2,230	776	3,006
Impaired	**1,728**	**1,381**	**3,109**	586	406	992
ROI residential mortgages	**18,740**	**6,679**	**25,419**	19,490	6,850	26,340
Impaired*	**1,728**	**1,381**	**3,109**	586	406	992
Past due but not impaired** greater than 90 days	**982**	**287**	**1,269**	1,021	405	1,426
Non performing loans	**2,710**	**1,668**	**4,378**	1,607	811	2,418
NPL as % of total	**14.5%**	**25.0%**	**17.2%**	8.2%	11.8%	9.2%
Impairment provisions charge	**580**	**591**	**1,171**	155	88	243
Impairment provisions balance	**855**	**774**	**1,629**	274	172	446
Provisions as % of NPL	**31.5%**	**46.4%**	**37.2%**	17.1%	21.2%	18.4%
Arrears cases – number	**16,919**	**3,897**	**20,816**	10,347	1,853	12,200
Arrears cases - %	**12.1%**	**11.5%**	**12.0%**	6.8%	6.5%	6.8%
Weighted Average LTV	**110%**	**134%**		92%	103%	

* Impaired loans are defined as loans with a specific impairment provision attaching to them.

** A financial asset is "past due but not impaired" where repayment of interest and / or principal is overdue at least one day and the loan is not specifically provided for. For further analysis see Note 36, Financial Risk Management.

ROI Residential Mortgages (continued)

The ROI Residential loan book continues to be negatively impacted by the sustained adverse macro economic environment in Ireland, including further falls in house prices, sustained high levels of unemployment and lower income levels as a result of the austerity measures.

The significant deterioration in the profile of the buy-to-let book can be explained by the adverse macro economic factors referred to above, significantly reduced rental levels from their peak together with higher interest rates and the increased burden of higher capital repayments as interest only periods come to an end. The impact of the continued fall in house prices has been particularly severe on these loans with the weighted average LTV increasing to 134%.

Management continue to invest resources to manage the significant number of mortgages in arrears, which has increased from 6.8% to 12.0%, and now represent 20,816 cases. The number of owner occupier mortgages in arrears included in the above numbers is 16,919 (2010: 10,347) representing 12.1% (2010: 6.8%) of the outstanding cases compared with an industry average in 2011 of 9.2%.

Consumer finance – Term loans / other

The Irish consumer finance portfolio, which includes credit card and unsecured personal loans, decreased slightly to €412 million (2010: €468 million) due to reduced demand in the period. The level of impairment provisions increased to €123 million (2010: €93 million) to provide for losses on unsecured loans.

UK Residential Mortgages

The UK residential mortgages are substantially interest only tracker mortgages to the professional landlord investment property sector in the UK. This division has been closed to new business since 2008 and continues to decline slowly reflecting ongoing debt repayments. The net balances at 31 December 2011 were €7.4 billion (2010: €7.5 billion), as repayments of €0.3 billion during the year were partly offset by an increase arising from the translation of sterling balances to euro of €0.2 billion.

94% of the book is buy-to-let and the level of impaired loans was €0.1 billion, or 1% of the total book at 31 December 2011. The total level of non performing loans remained constant and the impairment provisions provided coverage of 30% of non performing loans. The weighted average LTV of the portfolio was 88% (2010: 87%).

The total number of cases in arrears was on a par with the prior year level at 1,396 (2010:1,387), representing 3.2% (2010: 3.1%) of the total portfolio.

Commercial

The Irish commercial mortgage portfolio, which was closed to new business in 2008 and which is substantially interest only, has decreased slightly to €1.86 billion (2010: €1.90 billion).

The commercial sector has also been impacted by the worsening economic conditions in Ireland, the negative impact on property values and significantly reduced rent rolls in the commercial portfolio, which is reflected in an increase in the level of impaired loans from €0.3 billion to €0.6 billion, representing 34% (2010: 15%) of the total portfolio. The level of loans greater than 90 days past due but not impaired fell during the year but the total level of non performing loans was €0.7 billion at 31 December 2011 (2010: €0.5 billion), against which there are impairment provisions of €0.4 billion (2010: €0.2 billion) giving a coverage of 56% (2010: 47%).

The number of cases in arrears increased to 1,021 (2010: 656) and now represent 27.5% (2010: 16.9%) of the portfolio.

Consumer finance – Finance leases

The consumer finance result represents principally the Group's Irish car finance business, which was identified as non-core as part of the PLAR process.

The impairment provisions increased to €62 million (2010: €58 million).

Loans and receivables to banks

The movement in loans and receivables to banks during the year for continuing operations is summarised as follows:

Loans and receivables to banks	2011 €m	2010 €m
Balance as at 1 January	**3,565**	4,925
Discontinued operations	**(2,594)**	(2,321)
Balance as at 1 January - continuing operations	**971**	2,604
Net deposits / (withdrawals)	**652**	(1,633)
Balance as at 31 December – continuing operations	**1,623**	971

As the Life Group is classified as held for sale the balances relating to the Life Group are excluded to show the movement for continuing operations only.

€135m of the increase in loans and receivables to banks during the year was due to the acquisition of €135 million of loans and receivables to banks as part of the acquisition of the INBS deposits. The balance was due to the requirement to place funds relating to the Group's securitisation vehicles on deposit with other banks.

Debt securities

The movement in debt securities during the year is summarised as follows:

Movement in debt securities	2011 €m	2010 €m
Balance as at 1 January	**12,098**	15,780
Discontinued operations	**(7,425)**	(8,373)
Balance as at 1 January - Continuing operations	**4,673**	7,407
Maturities / disposals	**(2,194)**	(3,374)
Additions	**4,093**	933
Other movements	**85**	(293)
Total movement	**1,984**	(2,734)
Balance as at 31 December – continuing operations	**6,657**	4,673

As the Life Group is classified as held for sale the balances relating to the Life Group are excluded to show the movement for continuing operations only.

Included in debt securities is the bank's treasury asset portfolio of €6.7 billion (2010: €4.7 billion), of which the amounts held in sovereign bonds, amount to €2.3 billion (2010: € 2.9 billion).

€2.8 billion of the additions represent NAMA bonds acquired from the INBS as part of the acquisition of the €3.6 billion of INBS deposits, acquired during the year.

Customer accounts

Customer accounts, which comprise demand, notice and term deposits as well as credit balances on current accounts increased to €14.4 billion at 31 December 2011 (2010: €13.4 billion) are summarised as follows:

	2011 €m	2010 €m
Customer Accounts		
- Retail current accounts	**2,115**	2,248
- Retail other accounts	**10,631**	8,907
- Corporate accounts	**2,310**	3,690
Customer accounts and deposits (ROI)	**15,056**	14,845
Inter Group balances	**(683)**	(1,463)
Total customer accounts	**14,373**	13,382

The net increase in retail other accounts (demand, notice and term accounts) by €1.7 billion to €10.6 billion (2010: €8.9 billion) is primarily due to the acquisition of the INBS deposit book in February 2011, offset by deposit attrition during the year due to intense price competition in the market place and the uncertainty created by both the PCAR process and rating downgrades.

Corporate accounts were €2.3 billion (2010: €3.7 billion), a net decrease of €1.4 billion in the year, representing withdrawals by a number of corporate customers who remained concerned about the uncertainties caused by the sovereign crisis and include a €0.8 billion reduction in deposits placed by the Life Group with the Bank.

The loan-to-deposit ratio[2] improved to 227% (2010: 249%), primarily reflecting the decrease in the loans and receivables to customers balance. The Group continues to work to reduce this ratio through a combination of increasing retail deposit balances and deleveraging the loan book. Subsequent to the year end the Group acquired €0.5 billion of retail deposits from Northern Rock which will further improve this ratio.

Wholesale funding

The Group's wholesale funding is summarised in the following table:

Wholesale funding sources – continuing sources	2011 €m	2010 €m
Debt securities in issue		
- Bonds and medium term notes	**5,531**	6,928
- Other debt securities	**615**	947
- Non recourse funding	**2,210**	2,159
	8,356	10,034
Deposits by banks		
- Placed by European Central Bank ("ECB")	**11,658**	13,755
- Placed by Central Bank	**2,302**	-
- Other banks and institutions	**2,670**	1,354
- Repos	**310**	1,591
- Other	**26**	108
	16,966	16,808
Wholesale funding > 1 year to maturity	**8,256**	8,533
Wholesale funding < 1 year to maturity	**100**	1,501
Drawings from Monetary Authorities (net)		
Maximum (billion)	**19.5**	13.8
Average (billion)	**14.8**	9.4

Debt securities in issue

As there were no new debt issuances during the year as wholesale debt markets remain effectively closed to the Group, the balance on debt securities in issue decreased by €1.6 billion to €8.4 billion as at 31 December 2011 (2010: €10.0 billion) due to scheduled repayments during the year.

[2] Loan to deposit ratio is the ratio of loans and receivable to customers balance (including intra-group loans) and customer accounts (including deposits from non-banking operations).

Deposits by banks

Total deposits from banks were €17.0 billion (2010: €16.8 billion – excluding the €0.4 billion associated with the Life Group).

The Group has a pool of collateralised assets that can be used as security with a range of counterparties including the European Central Bank ("ECB") and the Central Bank (the "Monetary Authorities"). During 2011, a portion of these assets were used as security for ECB drawings with an average level of drawings for the twelve months to 31 December 2011 of €12.1 billion (2010: €9.4 billion).

The level of deposits from the ECB decreased by €2.1 billion, due to a reduction in the level of available collateral and this was offset by an increase in drawings under the Central Bank's Emergency Liquidity Assistance ("ELA").

Subordinated liabilities

The movement in subordinated liabilities for the year ended 31 December 2011 is summarised as follows:

Movement in subordinated liabilities	2011 €m	2010 €m
Balance as at 1 January	**1,686**	1,644
Discontinued operations	**(216)**	(212)
Balance as at 1 January – continuing operations	**1,470**	1,432
Movements:		
Amortisation	**20**	38
Maturities	**(259)**	-
Liability management exercise	**(1,190)**	-
Issued to Government	**276**	-
Balance as at 31 December – continuing operations	**317**	1,470

The Group's subordinated liabilities were €0.3 billion as at 31 December 2011 (2010: €1.5 billion excluding the €0.2 billion issued by the Life Group).

In addition to the scheduled repayments in the early part of the year as certain bonds matured, the Group completed a liability management exercise as part of its capital raising initiatives whereby it repurchased €1.2 billion of subordinated liabilities at a cash (capital) cost of €0.2 billion, realising a gain of €1.0 billion.

The Group issued €0.4 billion of subordinated convertible contingent capital notes to the Government as part of the required recapitalisation of the Group. €0.1 billion was deemed to be a capital contribution calculated by reference to the difference between the deemed interest rate of 21.5% and the actual rate payable on the notes of 10%.

Shareholders' equity

The movement in shareholders equity for the year ended 31 December 2011 is summarised as follows:

Movement in shareholders' equity	2011 €m	2010 €m
Balance as at 1 January	**1,616**	2,006
Movements:		
Loss attributable to shareholders	**(428)**	(128)
New equity capital	**2,254**	-
Capital contribution	**132**	-
Available for sale	**(28)**	(258)
Revaluation losses	**(14)**	(9)
Other movements	**(15)**	5
Balance as at 31 December	**3,517**	1,616

Shareholders' equity increased to €3.5 billion as at 31 December 2011 (2010: €1.6 billion).

The loss attributable to shareholders for the year ended 31 December 2011 was €428 million (2010: €128 million).

The new equity capital represents the issue of €2.3 billion of equity to the Irish Government in July 2011.

The capital contribution arose on the issue of the contingent convertible capital notes to the Government during the year as explained above.

The available for sale ("AFS") reserve movement for the year was a loss of €28 million (2010: €258 million loss).

Bank regulatory capital

The bank's regulatory capital position can be summarised as follows:

	2011 €m	2010 €m
Total available capital (Tier 1)	**2,756**	1,681
Total required capital (*Calculated at 8%)*	**1,233**	1,265
Excess own funds	**1,523**	416
Risk-weighted assets	**15,408**	15,809
Equity Tier 1 ratio	**17.9%**	10.6%

The total available Tier 1 capital increased to €2.8 billion (2010: €1.7 billion) reflecting the receipt of €2.3 billion investment from the Irish Government as part of the bank's recapitalisation. €1.3 billion of regulatory capital will become available following the sale of the Life Group to the Government.

The total required capital using the minimum 8% (2010: 8%) capital requirement has decreased slightly to €1.2 billion (2010: €1.3 billion). The decrease in required capital mirrors the reduction in risk weighted assets by €0.4 billion to €15.4 billion (2010: €15.8 billion). The decrease in required capital is mainly due to the lower level of loans and receivables to customers as at 31 December 2011.

The increase in the bank's equity Tier 1 capital ratio to 17.9% (2010: 10.6%) is primarily the result of the capital contribution received from the Irish Government which will be used to absorb credit losses anticipated under the PCAR stress scenario and losses associated with the required deleveraging.

Life assurance and fund management

Sale of Life Group

The Group announced on 28 March 2012 that it had agreed to sell its 100% interest in Irish Life Limited and its subsidiaries (together the "Life Group") to the Irish Government. The Life Group conducts its operations through the Group's life assurance, fund management, general insurance, administration and other reporting segments.

As the sale is expected to complete on 29 June 2012, the results of operations for the Life Group for the year ended 31 December 2011 are reported as discontinued operations and the assets and liabilities of the Life Group are classified as held for sale.

Background

The Group's life assurance business, Irish Life Assurance plc ("ILA"), is the leader in the life and pensions market in Ireland. The business operates a multi-channel distribution strategy for its products and services through its two main sub-divisions, Retail Life and Corporate Life.

Of particular importance has been the development of its bancassurance operation which it successfully developed in the **permanent tsb** network and subsequently extended to a number of other credit institutions with branch networks in Ireland thereby expanding its customer base. It has recently announced the addition of the Allied Irish Bank plc's network of 243 branches to its bancassurance network.

The Group's fund management business, Irish Life Investment Managers ("ILIM"), provides investment management services for the Group's life and pensions business in addition to managing large segregated funds. ILIM offers a wide range of active, consensus and multi manager funds with a key focus of the business being on product innovation. The business has grown strongly in the past number of years and now ranks as the largest fund manager in Ireland as measured by domestic funds under management.

The strength of the Group's businesses has been recognised in the insurance industry and the business was recently awarded both the Irish Brokers Association and the Professional Insurance Brokers Association award for the top life company.

Life assurance

Irish Life Assurance sales on an Annual Premium Equivalent ("APE") basis, excluding the sales of €17 million (2010: €37 million) from its former subsidiary Irish Life International ("ILI") which it sold during the year decreased by €26 million to €257 million for 2011 (2010: €283 million) .

Overall Life APE margins were 7.3% in 2011 (2010: 12.3%), reflecting the relatively fixed cost base of the business against falling sales.

Retail Life

The Group's Retail Life business is a market leader in the sale of life and pensions products to the retail market in Ireland, with a comprehensive product range covering pensions, protection, investment and regular savings. Its key strength is the breadth and depth of its distribution channels where it maintains a strong presence across all the key channels such as independent brokers, bancassurance (through **permanent tsb** and tied arrangements via EBS and Ulster Bank), and direct sales with employed and self-employed advisers as well as a franchise operation. The market for retail life and pensions in Ireland has fallen by 55% since 2007 and Irish Life's sales reflect this.

Total APE sales for 2011 were €130 million (2010: €146 million), 11% down on prior year due to lower sales across all product categories, except pensions, which in total, were in line with the prior year's level.

Total sales on a Present Value New Business Premiums ("PVNBP") basis declined 8% to €934 million (2010: €1.01 billion), which reflects stronger relative performance in single premium pension sales which were up 16% at €448 million (2010: €387 million), as all other product categories were down a combined 22% to €486 million (2010: €627 million).

The PTSB bancassurance channel represented 18% (2010: 22%) of the Retail Life PVNBP sales performance 2011 and remains a key priority for the business

Persistency experience in Retail Life, which continued to be poor in 2011, improved in the second half compared to earlier in the year. Management continue to actively monitor experience and have implemented a number of initiatives to improve persistency.

Retail Life reduced its operating costs by 11% in the period to reflect lower market activity.

Operating and Financial Review

Corporate Life

The Corporate Life division which sells pension and risk schemes to employers and affinity groups in Ireland, distributed principally through pension consultants and brokers (including Cornmarket, a specialist affinity broker and a wholly owned subsidiary of the Group) is the market leader with an estimated market share of 38%. The key business drivers of sales growth are employment and salary growth in the Irish economy, together with the opportunity generated from an increase in the trend of moving from defined benefit to defined contribution pension schemes.

APE sales were down €10 million to €127 million in 2011 (2010: €137 million) while on a PVNBP basis, sales were down €71 million to €832 million (2010: €903 million), principally due to rising unemployment and salary freezes which also impact on persistency.

Persistency experience in Corporate Life was broadly in line with the aggregate assumptions for 2011.

Fund Management

Irish Life Investment Managers ("ILIM") attributes its market leading position to continual product development allowing it to provide the most appropriate investment solutions to meet the needs of its clients.

In 2011 ILIM increased funds under management by €1.1 billion to €32.8 billion at 31 December 2011 (2010: €31.7 billion), of which €24.9 billion (2010: €27.1 billion) is managed on behalf of Group companies with the balance being managed on behalf of ILIM's own direct customers.

Of the gross new fund inflows of €2.8 billion in 2011 (2010: €2.5 billion), sales to new clients were €1.0 billion (2010: €1.0 billion) while sales to existing clients were €1.8 billion (2010: €1.5 billion).

The Life Group

The Life Group realised an operating profit of €77 million (2010: €203 million profit). Management consider the segmental analysis as set out in the following table to be the most appropriate format to discuss the results of the Life Group.

	2011 €m	2010 €m
Life Assurance	**23**	163
Fund Management	**16**	16
Brokerage /Administration	**16**	14
Consolidation adjustments	**22**	10
Operating Profit	**77**	203
Share of associate profits	**19**	9
Gain on disposal of ILI	**4**	-
Profit before Tax	**100**	212
Taxation	**-**	(19)
Life Group Profit after taxation	**100**	193
Impairment	**(104)**	-
Discontinued operations (loss)/profit	**(4)**	193

The overall reduction in the profit of Life operations from €163 million in 2010 to €23 million in 2011 is primarily due to a combination of adverse market conditions and a reduction in business levels.

Life sales (excluding ILI) were down about 9%. There was a reduction in risk and other experience variance profit, with lower interest rates reducing return on shareholder assets. Increased volatility in the equity and bond markets had a negative impact on both short term investment fluctuations and the effect of economic assumption changes which resulted in a loss of €73 million compared with a net gain in 2010 of €12 million.

While persistency experience continues to be mixed, this does not have a material impact on the current year IFRS financial results but will reduce future IFRS profits.

Costs associated with the early repayment of the VIF loan, required as part of the preparation of the Life Group for sale, were €13 million (2010: €nil).

Fund Management, Brokerage and 3rd party Administration businesses reported results in line with the prior year.

Consolidation adjustments include the allocation of corporate costs of €7m (2010: €6m) and reflect the impact of different accounting treatment for intercompany items eliminated on consolidation.

The Group's share of results of associate undertakings increased during the year to €19 million (2010: €9 million).

A once off impairment charge of €104 million has been booked to reduce the carrying value of the Life Group to the agreed sale price and estimated fair value of €1.3 billion.

Assets and Liabilities held for Sale

In accordance with IFRS, the assets and liabilities classified as held for sale presented below represent those balances included in the consolidated statement of financial position and as such are net of the elimination of intercompany balances between the Life Group and the Group's banking business.

Assets and Liabilities held for sale

	2011	2010
	€m	€m
Other Assets		
Debt securities	**7,510**	7,425
Loans and receivables to banks	**3,446**	2,594
Equity shares and units in unit trusts	**11,792**	13,777
Investment properties	**1,650**	1,825
Reinsurance assets	**2,118**	2,011
Shareholder value of in-force business	**621**	699
Assets held for sale - ILI	**-**	2,085
Other assets - assets held for sale	**1,704**	1,606
Total Life Group assets	**28,841**	32,022
Other liabilities		
Investment contract liabilities	**22,153**	24,067
Insurance contract liabilities	**4,484**	4,238
Liabilities held for sale – ILI	**-**	2,041
Other liabilities – liabilities held for sale	**1,191**	1,390
Total liabilities	**27,828**	31,736

Total assets decreased from €32.0 billion in 2010 to €28.8 billion at 31 December 2011. €2.1 billion of the decrease is due to the sale of ILI during the year, with a corresponding €2.0 billion reduction in liabilities.

There was a €2.0 billion decrease in the value of equity shares and units in unit trusts which is reflected in the decrease of €1.9 billion in the value of investment contract liabilities reflecting the unit linked nature of the business.

Loans and receivables to banks of €3.5 billion (2010: €2.6 billion) exclude €0.4 billion (2010: €1.3 billion) of Life Group deposits with **permanent tsb** which are eliminated on consolidation.

Life asset portfolio

The value of the Group's life operations is exposed to market movements in assets, currencies and interest rates. This is due to the fact that the non-linked insurance and investment liabilities and the shareholder value of in-force are calculated using assumptions regarding investment returns and interest rates. To the extent that actual returns and interest rates differ from the assumptions used, variances will arise, which may be positive or negative.

The Group's life business is a relatively low-risk operation. Its unit-linked portfolio of €22 billion represents 92% (net of reinsurance) of the life assurance and fund management businesses' liabilities. The unit-linked investment risk is primarily borne by policyholders.

In the non-linked insurance and investment portfolio, the Group's policy is to match liability flows with high quality assets, principally sovereign bonds. The average duration of the non-linked liabilities is 10.2 years while the average duration of the assets matching these liabilities is 10.3 years.

The credit profile of the fixed-rate securities held in the non-linked portfolio is as follows:

Credit profile of the fixed-rate securities held in the non-linked portfolio	**2011**	2010
	%	%
Aaa	**81**	77
Aa	**3**	10
Other	**16**	13
	100	100

Given the close duration match of assets and liabilities, any mark to market adjustments in the portfolio due to changes in yield curves are generally matched by equal and opposite movements in the value of the liabilities.

The life assurance and fund management businesses' shareholder assets are mainly held in cash, property and fixed interest assets.

Capital

The table below sets out the movement in Life Assurance and Fund Management regulatory capital in the year ended 31 December 2011.

Life assurance and fund management regulatory capital	**2011** **€m**	2010 €m
At 1 January	**978**	685
Capital generated from existing business	**218**	327
New business strain	**(59)**	(75)
STIFs and economic variances	**(70)**	(27)
Dividend paid	**(151)**	(13)
Release due to sale of ILI	**(25)**	-
VIF loan	**(115)**	100
Other	**8**	(19)
Regulatory capital as at 31 December	**784**	978

ILA's available capital, included in the table above was €769 million (2010: €947 million) which, when compared with its minimum capital requirement of €402 million (2010: €401 million) gave it a solvency cover of 1.9 (2010: 2.4) times the minimum and well above the 1.5 times required by the Central Bank of Ireland.

The capital generated from existing businesses decreased by €109 million to €218 million (2010: €327 million) due mainly to a large increase in 2010 in the level of reinsurance cover under the stop loss reinsurance treaty, a €49m impact of change in expense reserving methodology in 2010 and a €20m impact from the change in the morbidity assumption for income protection products.

The new business strain was €59 million (2010: €75 million) reflecting the reduced level of new business sales in the year.

The short-term investment fluctuations ("STIFs") and economic variances contributed a loss of €70 million (2010: €27 million loss).

During the year the Life Assurance and Fund Management part of the Life Group paid a dividend of €151 million (2010: €13 million) to its parent company and also paid €25 million in connection with the sale of ILI during the year.

The VIF loan drawn down in 2010 was repaid during the year in preparation for the sale of the Life Group.

Change in shareholder value of in-force business

The following table summarises the change in shareholder value of in-force business for the year ended 31 December 2011 and 2010:

	€m	€m
New business	**73**	100
Expected return on existing business	**(83)**	(83)
Experience variances	**2**	(9)
Operating assumption changes	**(23)**	(41)
Short-term investment fluctuations	**(12)**	2
Economic assumption changes	**22**	-
Deduction re surplus in pension scheme	**(31)**	-
Total	**(52)**	(31)

Note 16, Shareholder value of in-force business, details various assumptions used for both 2011 and 2010 in the calculation of the shareholder value of in-force business.

Risk Management

Risk factors

Set out below are the risk factors that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects in the next 12 months. The risk factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties as there may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant but which in the future may become significant.

As a result of the challenging conditions in financial markets in the Eurozone and continuing weakness in the Irish and UK economies, the precise nature of all risk and uncertainties that it faces cannot be predicted as many of these risks are outside the Group's control.

Reference is also made to the disclaimer in respect of Forward Looking Statements set out on the inside front cover.

Financial measures programme 2011

The results of the Central Bank's Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") for the Group's banking business were announced on 31 March, 2011.

The Central Bank determined that the Group's banking business required an additional €4.0 billion of regulatory capital - € 3.6 billion by way of equity capital (including a buffer of €0.3 billion) and contingent convertible debt capital of €0.4 billion.

It was expected that the Group would have been able to generate approximately €1.3 billion of the €4.0 billion capital requirement from internal resources through a combination of a liability management exercise in relation to the Bank's Tier 2 debt and the sale of the Group's life assurance and fund management businesses (the "Irish Life Group").

The only alternative source of funding for the remaining €2.7 billion capital requirement was the Irish Government. In July 2011, following receipt of a Court Order ("Capitalisation Direction Order") under the Credit Institutions (Stabilisation) Act 2010 (the "Stabilisation Act"), the Government subscribed €2.3 billion of the required capital for which it obtained a 99.2% stake in the Group. At the same time it also subscribed €0.4 billion by way of convertible contingent capital notes.

The Group generated €0.2 billion from internal resources and although a successful liability management exercise realised an accounting profit of €1.0 billion, the full regulatory capital benefit of which will only be realised following the disposal of the Irish Life Group.

In 2011 an extensive disposal process undertaken to sell the Irish Life Group was suspended in November 2011 due to the very challenging market conditions at that time. It is now expected that the State will provide €1.3 billion of additional capital by taking 100% ownership of the Life Group as consideration.

Legal challenge to direction order

The Capitalisation Direction Order has been challenged by a number of the shareholders of IL&P Group Holdings plc. The Group is not a party to the proceedings which have been instituted against the Minister for Finance ("the Minister").

Government control and intervention

The Irish Government is the majority owner of the Group as the holder of in excess of 99% of the Group's issued share capital.

The Credit Institutions (Stabilisation) Act 2010 (the "Stabilisation Act"), signed into law in December 2010, provides extensive powers to the Minister to recapitalise and restructure the Irish banking industry including, but not limited to, the disposal of assets by a Relevant Institution, assuming the shareholder powers of a Relevant Institution, and directing the drawing up of restructuring plans by a Relevant Institution). In exercising these powers, the Minister can apply to the High Court, following consultation with the Governor of the Central Bank and a relevant financial institution, including the Group. The introduction of the Stabilisation Act has created a mechanism for State intervention in the banking industry to an unprecedented degree which could have a significant adverse impact on the Group's operations.

The Central Bank and Credit Institutions (Resolution) Act 2011 (the "Resolution Act") passed into law on 20 October 2011, establishes a framework to facilitate the orderly management and resolution of distressed credit institutions. The Resolution Act applies to banks, building societies and credit unions licensed in Ireland other than those entities which are Relevant Institutions under the Stabilisation Act. The liquidation powers under the Resolution Act also apply to Relevant Institutions under the Stabilisation Act.

The Minister has the power to seek direction orders, special management orders, subordinated liabilities orders and transfer orders from the Irish High Court ("Orders") under the Stabilisation Act. The Minister may seek an Order only if the Minister has consulted with the Central Bank and is of the opinion that making the Order is necessary in accordance with the provisions of the Stabilisation Act. The Minister must apply to the Irish High Court ex parte for approval of the relevant Order.

The introduction of new policies or the amendment of existing policies by the Government or the introduction of revised capital or deleveraging targets by the Central Bank may materially adversely affect the Group's business and financial condition. Policies in respect of the banking sector, including its supervision, regulation, capitalisation and structure, have and will continue to have a major impact on the Group. There can be no guarantee that the current policies will be continued.

In addition, current and future budgetary policy, taxation and other measures adopted by the State to deal with the economic situation in Ireland may have an adverse impact on Group's customers ability to repay.

Capital management

Capital adequacy, and its effective management, is critical to the Group's ability to operate its businesses and to pursue its strategy. The Group's business and financial condition could be affected if the amount of capital is insufficient due to materially worse than expected financial performance (including for example, reductions in earnings as a result of impairment charges, increases in risk weighted assets and timing of disposal of certain assets and/or the minimum regulatory requirements imposed on the Group, the manner in which existing regulatory capital is calculated, the instruments that qualify as regulatory capital and the capital to which those instruments are allocated, could be subject to change in the future).

EU Restructuring Plan

As a result of the investment made by the Irish Government on 27 July 2011 the Group submitted a restructuring plan ("EU Restructuring Plan") to the European Commission on 31 July 2011, for approval under the EU's State aid rules.

An updated restructuring plan was submitted in February 2012 for review / approval by the EU. In the memorandum of understanding ("MOU") issued on 10 February under the EU/IMF programme of support, the State issued the following statement with respect to the Group's banking businesses.

"During February, we will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the state on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews. The authorities will make a decision on the proposed way ahead by end April. We will prepare an updated restructuring plan for ILP that will detail the actions needed to ensure the bank's long-term viability, in line with EC state aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability".

The European Commission is required to consider whether the EU Restructuring Plan demonstrates the Group's long-term viability without reliance on state support, that there is adequate burden sharing by the Group (and its equity/debt capital holders) and that measures are taken to limit distortions of competition arising from the state aid.

The Group could be subject to a variety of risks arising from this review, as the European Commission could impose conditions on the Group in connection with the approval of the EU Restructuring Plan that could include (without limitation):

- Rejection of the Group's EU Restructuring Plan on the basis that it does not adequately demonstrate the long term viability of the Group, as a result of which the Group would need to be broken up;

- Compelling the Group to reduce its balance sheet substantially, including through divestment of certain businesses, brands or the Group's branches in addition to those already anticipated as a result of the required deleveraging process; and/or
- Imposing certain behavioural restrictions on the Group, which could include: (i) prohibiting the Group from doing business on more favourable terms than other market participants; (ii) prohibiting the Group from providing certain products to certain markets or segments of markets; (iii) restricting the Group's ability to pay dividends on shares or interest payments on debt securities, including hybrid capital instruments; or (iv) prohibiting proposed mergers or acquisitions by the Group in Ireland, the United Kingdom and/or in other markets.

The EU Restructuring Plan, to be agreed with the European Commission, may also give rise to additional costs related to the legal and financial assessment of potential transactions for the Group. Its implementation may also result in increased operating and administrative costs for the Group.

Any of the above factors in the context of the EU Restructuring Plan could have a materially adverse effect on (among other things) the Group's business and financial condition.

Difficult economic conditions

Ireland and the UK

The Group's businesses are subject to the inherent risks arising from the macroeconomic and other general business conditions in Ireland and the UK where its business operations are located and also in the wider Eurozone economies.

Adverse developments, such as the continued downturn in economic activity has resulted in a decline in demand for business products and services, weak consumer confidence, lower personal expenditure and consumption, increases in debt service burden of customers and limitations on the general availability of credit.

These factors have significantly affected, and may continue to affect, the Group's customers and, as a consequence, the demand for, and supply of, the Group's products and services and in turn the Group's results, financial condition and prospects.

The magnitude of the fiscal adjustment agreed under the EU/IMF Programme, in addition to the low level of consumer and business confidence resulting from the economic downturn, unemployment, decreases in asset values and declining business activity, is likely to have a significant impact on economic activity in Ireland.

The Group has already suffered significant losses due to the increased risk of default and the impact of declining asset values on the value of collateral.

The Group has also experienced reductions in business activity, increased funding costs and funding pressures, decreased asset values, decreased sales, additional write-downs and impairment charges with consequent adverse effects on its results of operations and financial condition.

The precise nature of all the risks and uncertainties the Group faces as a result of the economic outlook is difficult to predict, as many of the items are outside the Group's control.

European Union

In addition to the specific risks associated with Ireland and the UK discussed above, economic, monetary and political conditions and stability remain uncertain in the EU. If economic and financial conditions in the EU or the Eurozone component of the EU deteriorate, or if fears persist that one or more EU/Eurozone members will default or restructure its or their indebtedness, or if Eurozone members are forced or choose to withdraw from the euro, the cost and availability of funding available to European banks, including the Group, may be affected, or such events could otherwise materially adversely affect the Group's business, financial condition and results of operations, including the value of its assets.

Funding and Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its contractual payment obligations, including funding commitments, as they fall due, resulting in an inability to support normal business activity and/or failing to meet liquidity regulatory requirements. The risk is inherent in banking operations and can be heightened by a number of factors, including an over reliance on a particular source of wholesale funding, changes in credit ratings or market dislocation.

Credit markets worldwide have experienced severe reductions in the level of liquidity and term funding during prolonged periods in recent years and the Group has seen the availability of funding in wholesale markets which it has traditionally accessed severely disrupted or not available. The downgrading of the Group and sovereign credit ratings, the withdrawal of the Irish Government from the funding markets and the EU/IMF Programme of Financial Support for Ireland have caused the withdrawal of funds from Irish banks.

As a result, the Group has been required to rely on shorter term funding with a consequent reduction in overall liquidity and to increase its recourse to liquidity schemes provided by Central Banks. The Group's ability to maintain material levels of funding from Central Banks is dependent on the continued eligibility of its collateral. Any reduction in the Group's eligible collateral could restrict its ability to continue to access this funding source.

This would further limit its access to funding and liquidity and could further materially affect the Group's results, financial conditions and prospects.

Minimum liquidity levels

The Central Bank requires that the bank's level of liquidity be maintained, based on various cash flow stress tests, in order to ensure that the bank's funding profile has an appropriate spread of maturities. The key limits applied are that the bank must have sufficient available liquidity to cover 100 per cent of outflows over the next 8 days and 90 per cent of outflows over the subsequent 9 to 30 days. As a consequence of the industry-wide funding difficulties experienced from the last quarter of 2010, particularly the increased reliance on ECB funding which is short term in nature as it rolls over frequently, the Bank has breached and is currently in breach of these limits.

Loss of customer deposits

The Group relies on customer deposits to fund a considerable portion of its loan portfolio, the ongoing availability of which is sensitive to factors outside of its control. Loss of consumer or retail confidence in the Group's banking businesses generally, amongst other things, could result in unexpectedly high levels of corporate or retail deposit withdrawals which could materially adversely affect the Group's business and financial condition.

Government guarantee schemes

The ELG Scheme and the deposit guarantee scheme (the "Deposit Guarantee Scheme"), pursuant to which the Group's customers benefit from a Government guarantee of their deposits, are important in retaining and growing deposits in the Group's banking business which are key elements of its funding strategy.

On the 8 December 2011 the ELG Scheme was extended to 31 December 2012, subject to six-monthly State aid approval by the European Commission. The extension of the ELG Scheme is currently approved by the European Commission until 30 June 2012. Debt securities and deposits issued under the ELG Scheme before 30 June 2012 will be covered up to maturity, subject to a maximum maturity of five years.

In advance of the 30 June 2012 expiry date, the ELG Scheme will be subject to review by the European Commission. The cancellation or material amendment of the ELG scheme could impact the retention of deposits, particularly by corporate customers.

Deleveraging risk

The PLAR 2011 established funding targets for banks in order to reduce leverage in the overall Irish banking system. The central target is the loan to deposit ratio (LDR), which requires the reduction of the balance sheets of domestic banks. The target LDR for all banks is 122.5 per cent by December 2013. There is a risk that this target will lead to an increase in competition for deposits among all banks with the result that the bank may not be able to retain the same level of deposits and/or may have to pay higher rates to retain or attract deposits. This would result in the need to deleverage some of its core business which could have an impact on the bank's viability, profitability and financial position.

The PLAR estimated that approximately €2.2 billion of the total €4.0 billion capital requirement would be required to cover losses associated with a sale of its UK mortgage book and its Irish commercial loan book, both of which would be required to allow the bank to achieve the new Central Bank maximum loan to deposit ratio of 122.5% by December 2013.

There is no guarantee that these loans can be sold and if sold, will realise the levels assumed in the PLAR.

Credit risk

Credit risk is the risk of loss arising from a counterparty failing to meet its contractual obligations to the Group in respect of loans or other financial transactions and includes concentration risk and country risk.

Risks arising from changes in credit quality and the recoverability of both secured and unsecured loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality or behaviour of the Group's borrowers, counterparties and their guarantors, or adverse changes arising from a general deterioration in global economic conditions or systemic risks in the financial system, have reduced, and are expected to continue to reduce, the recoverability and value of the Group's assets.

Deterioration in economic conditions will continue to increase the credit risks faced by the Group by way of increased impairment losses on bank lending. The current slowdown in the Irish and UK economies has resulted in a contraction in both the Irish and UK housing markets. In addition, higher unemployment and increased costs of funding may put further strain on borrowers' capacity to repay loans. These and other economic factors may cause prices of property or other assets to fall further, thereby reducing the value of collateral on many of the Group's loans and increasing write-downs and impairment losses.

Systemic risk

Recently the credit environment has been adversely affected by significant instances of fraud and default. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. The Group has been exposed to increased risk as a result of failures of financial institutions during the global economic crisis. Defaults by, or even reductions in the perceived creditworthiness of, one or more corporate borrowers, or financial institutions, or the financial services industry generally have led to market-wide liquidity problems, losses and defaults.

This risk is sometimes referred to as ''systemic risk'' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis and therefore could adversely affect the Group.

Credit ratings

The Group's credit ratings have been subject to change and may change in the future which could impact its cost, access to and sources of financing and liquidity. In particular, any future reductions in the long-term or short-term credit ratings of the Group's banking business would further increase the Group's borrowing costs, require the Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit the Group's access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements.

As a result, any further reductions in the Group's long-term or short-term credit ratings could adversely affect the Group's access to liquidity and its competitive position, increase its funding costs and have a material adverse impact on the Group's earnings, cash-flow and financial condition or result in a loss of value in the securities.

The Group's un-guaranteed long-term unsecured senior debt is rated Ba3 (negative outlook) and the Bank deposit rating Ba2 (negative outlook) by Moody's. Both are rated BB- (negative watch) by Standard & Poor's. The Group's short-term debt is rated Not-prime by Moody's and B by Standard & Poor's. Long-term and short-term debt issued by the Group and covered by the Government Guarantee Scheme or by the Eligible Liabilities Guarantee Scheme carries the sovereign rating and is rated Ba1/Not-prime by Moody's and BBB+/A-2 by Standard & Poor's.

Sovereign risk

As at 31 January 2012, the long-term (outlook) / short-term sovereign credit ratings for Ireland were BBB+ (Stable) / A-2 from Standard and Poor's. The current ratings are the result of a number of downgrades of the sovereign since early 2009 when Standard & Poor's had rated Ireland AAA (credit watch Stable). Further downgrades would be likely to further delay a return to normal market funding for the State. As the guarantor of certain liabilities of the Group under the ELG Scheme, further sovereign downgrades are also likely to impact adversely on the Group's credit rating and cost of funding for certain securities guaranteed under this scheme and are likely to restrict refinancing of wholesale funding and could also result in the withdrawal of deposits from the Group.

Risk Management

Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet its business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, equity prices or foreign exchange rates.

Changes in interest rate levels and spreads may affect the interest rate margin realised between lending and borrowing rates, the impact of which may be heightened during periods of liquidity stress, such as those experienced in the past 4 years.

A large portion of the Group's mortgage book consists of tracker mortgages where the loans are priced at fixed margins over the ECB refinancing rate, which does not therefore allow the Group the flexibility to vary the rate where it would otherwise be desirable or appropriate to do so, in response to market movements.

While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the impact that such changes could have on the Group's financial performance and prospects.

The results of the Group's banking operations are affected by the management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. The composition of the Group's assets and liabilities, and any gap position resulting from this composition can cause the banking income to vary with changes in interest rates. A mismatch of interest-earning assets and interest-bearing liabilities in any given period will, in the event of changes in interest rates, have an effect on results from the Group's banking business.

Operational risk

The Group's businesses are dependent on their ability to process and report, accurately and efficiently, a large number of complex transactions across numerous and diverse products, while complying with a number of different legal and regulatory regimes.

Operational risks are inherently present in the Group's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error, fraud, or from external events.

Although the Group has implemented risk controls and loss mitigation actions designed to identify and rectify weaknesses in existing procedures, this system of internal controls is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring.

Any weakness in the Group's internal control systems or breaches or alleged breaches of such laws or regulations could result in increased regulatory supervision, enforcement actions and other disciplinary action, and have a material adverse impact on the Group's results, financial condition and prospects, as well as reputational damage which could exacerbate such adverse impact.

Pension Fund Risk

Pension fund risk is the risk associated with the uncertainty surrounding required contributions to the Group's defined benefit pension schemes. The risk arises because the value of the asset portfolios and returns from them may be less than expected or because changes in interest rates or other financial parameters may give rise to increases in the estimated value of the schemes' liabilities. Furthermore, increases in longevity may increase the value of the scheme's liabilities. Professional consulting actuaries are regularly appointed by the pension fund trustees to assess and review the funding status and the underlying risk profile of each of the Group pension schemes. The results of such reviews are used to drive strategic decision making to reduce risk. In addition, stress testing is performed by pension actuaries to assess the Asset/Liability Mismatch ("ALM") impact of various stress scenarios, including adverse market and macroeconomic conditions. The asset mix within each scheme is monitored closely and rebalanced on an annual basis to ensure that the scheme's investment strategy is adhered to.

Following a full review of each pension scheme in 2006 and wide consultation with staff and pension fund members, the Group's defined benefit pension schemes were closed to new members and the asset mix of the funds were altered in order to reduce ALM risk. Furthermore, it was communicated to existing members that pension benefits were not guaranteed. It was specifically pointed out that if the combination of contributions and investment returns are not sufficient to provide for the specified benefits, then either more money would need to be added, by way of increased contributions from either or both pension scheme members and the Group, or else the benefits promised would have to be reduced, or a combination of both.

Reputation Risk

Reputation risk, meaning the risk to earnings and capital from negative public opinion, is inherent in the Group's business. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, from the level of direct and indirect Government support or from actual or perceived practices in the banking and financial industry. Negative public opinion may adversely affect the Group's ability to keep and attract customers and, in particular, corporate and retail deposits which in turn may adversely affect the Group's financial condition and results of operations. The Group cannot be sure that it will be successful in avoiding damage to its business from reputational risk.

Legal and regulatory risk

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory investigation and other risk. Disputes, legal proceedings and regulatory investigations are subject to many uncertainties, and their outcomes are often difficult to predict.

Adverse regulatory action or adverse judgements in litigation could result in restrictions or limitations on the Group's operations or result in a material adverse impact on the Group's reputation, results of operations or financial condition.

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Group operates may adversely affect the Group's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements.

The Group may be exposed to potential regulatory action arising from certain transactions between the Group and Anglo Irish Bank Corporation plc (now known as IBRC) which were made public in February 2009.

The Group has no reason to believe that any such litigation and/or regulatory action will have a material effect on its results of operation, profit or loss and financial condition.

Life assurance risk

Life assurance risk is the potential volatility in the amount and timing of insurance claims caused by unexpected changes in mortality, longevity or morbidity. Mortality risk is the risk of deviations in timing and amounts of cash flows (premiums and benefits) due to the incidence or non-incidence of death. Longevity risk is the risk of such deviations due to increasing life expectancy trends among policyholders and pensioners, resulting in payout amounts higher than those that the Group originally accounted for. Morbidity risk is the risk of deviations in timing and amount of cash flows (such as claims) due to the incidence or non-incidence of disability and sickness.

The Group is a major participant in the Irish life and pensions market, and as such is exposed to changes in policyholder mortality, longevity and morbidity experience. Changes in mortality, longevity or morbidity rates of policyholders could, therefore, significantly affect the Group's results. In its pricing and reserving policies, the Group assumes that current rates of mortality for annuitants continuously improve over time, taking account of relevant actuarial data.

The Group's life assurance business is also subject to persistency risk, which is the risk that policyholders may not continue with their insurance for the full term of the contract, or may do so at a reduced level, in which case the Group's life assurance business will receive less fees from the provision of insurance services than envisaged at the inception of the contract.

A material change in relation to life assurance or persistency risks could materially and adversely affect the results, financial condition and prospects of the Group's life assurance business.

In addition, within the Group's life assurance business, the risk discount rate used to calculate the embedded value of the business, which is the principal performance measure used by the Group in respect of its life assurance activities, will fluctuate in line with market interest rates and this can have a material impact on the reported results of this business, which in turn may adversely affect the Group's results, financial condition and prospects.

In addition, volatility of equity and property values and investment performance can affect investor confidence, which in turn can impact both sales and retention. Since 2008, the Group has experienced a deterioration in persistency as customers moved to cash products due to the fall in investor confidence. Whilst the Group seeks to mitigate this risk through diversification of the portfolio and by offering products which will meet customer needs in these more turbulent market conditions, current market conditions are impacting on customers' risk appetite, particularly for equity and property products.

For certain property linked funds of the Group's life assurance business, there is the ability for the Group to defer encashments for up to six months to allow it time to sell relevant properties. However, if any such properties cannot be sold within this time period the Group may have to provide liquidity for these funds which could adversely affect the Group's results, financial condition and prospects.

The performance of the investment markets (equities, property and gilts) has a direct impact on the Group's financial results. The Group is exposed to direct equity/property holdings within the Group's life assurance shareholder assets and from the indirect impact of changes in the value of equities/properties held in policyholder funds from which the Group's life assurance operations derive management fees. The Group's assets include sovereign bonds and other assets carrying a sovereign guarantee. The Group is consequently exposed to sovereign default risk.

Group risk management framework

In the context of group risk management, risk is defined as unexpected future events leading to variability in performance and damage to earnings capacity, capital positioning, business reputation or cash flows; or any unexpected future event damaging the Group's ability to achieve its strategic, financial, or overall business objectives.

Risk taking is fundamental to a financial institution's business profile and hence prudent risk management, limitation and mitigation forms an integral part of the Group's governance structure. The Group operates a proactive Enterprise Risk Management ("ERM") approach in the identification, assessment and management of risk. This framework underpins profitable and prudent risk taking throughout the Group.

The Group ERM is designed to ensure that all material risks are identified and managed and that business strategy across the Group is implemented in full recognition of these risks.

In 2009, the board commissioned international risk management and strategy consultants Oliver Wyman to review the Group's Corporate Governance framework and to advise on any changes necessary to ensure the Group was operating in line with emerging international best practice. The board accepted and implemented the recommendations made by Oliver Wyman in this regard.

In addition, the board established a board committee, the Board Risk and Compliance Committee, to provide oversight and advice to the board on risk governance, and to support the board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite.

Risk appetite and strategy

The board sets overall policy in relation to the type and level of risk that the Group is permitted to assume. To achieve this, the board has established a formal risk appetite statement. The risk parameters identified in the risk appetite statement are applied in practice throughout the business. These risk parameters are closely aligned with the Group's strategic and business objectives.

Risk parameters established in the risk appetite statement address core group values, such as solvency stability, earnings stability, prudent liquidity management, prudent credit risk management and operational risk management. Risk parameters have been established based on relevant internal and external data.

The Group risk appetite statement has been developed through an iterative process involving all the key functions of the Group. The board holds the final responsibility for approval of the risk appetite statement.

Risk Management

Risk governance

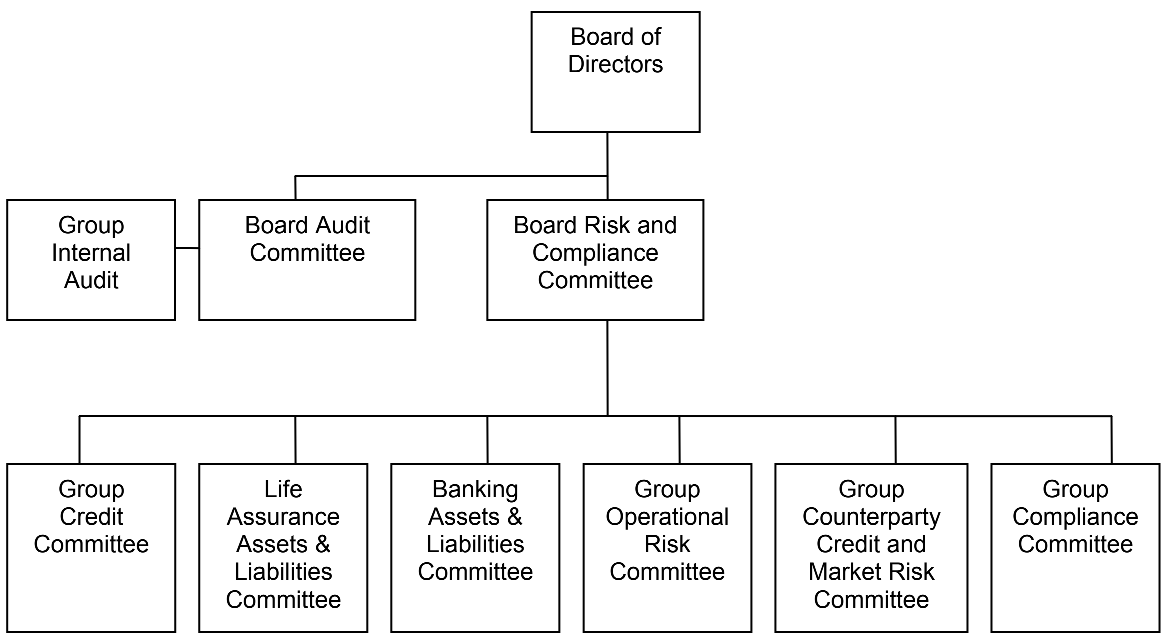
The board is ultimately responsible for the governance of risk throughout the Group and establishing mechanisms and structures to control and manage risk. In addition, the board approves overall policy in relation to the types and level of risk that the Group is permitted to assume in the implementation of strategic and business plans. The Group's risk governance framework was established by:

– Reviewing the risks applicable to the Group and selecting the methodology and reporting structures best placed to identify, capture and monitor these risks,

– Developing relevant risk policies with appropriate terms of reference, mandates and committee composition,

– Benchmarking the Group's structures against industry guidelines for risk governance.

The risk governance structure, which is subject to ongoing review and amendment by the Board of Directors, is set out below.



The risk governance structure facilitates reporting and escalation of risk issues from the bottom up, and communication and guidance of Group risk policy and risk decisions from the top down.

Board Risk and Compliance Committee

The Board Risk and Compliance Committee has responsibility for oversight and advice to the board on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management, the setting of compliance policies and principles and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance. The Board Risk and Compliance Committee supports the board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite.

The Board Risk and Compliance Committee is responsible for monitoring adherence to the Group risk appetite statement. Where exposures exceed levels established in the appetite statement, the Board Risk and Compliance Committee is responsible for developing appropriate responses. This is facilitated by the periodic review of a key risk indicators report calibrated to the risk appetite statement.

The Board Risk and Compliance Committee, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it. These committees are the Group Credit Committee, the Banking Assets & Liabilities Committee, the Life Assurance Assets & Liabilities Committee, the Group Operational Risk Committee, the Group Counterparty Credit and Market Risk Committee, and the Group Compliance Committee. The terms of reference for each committee, whose members include members of Group senior management, are reviewed regularly by the Board Risk and Compliance Committee.

Group Internal Audit

Group Internal Audit's mission, as per its Board approved charter, is to add value to, and improve the Group's operations through the risk-based, independent assessment of the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes. Group Internal Audit's primary responsibility is to the Group's Board of Directors through the Audit Committee. All activities undertaken within, and on behalf of, the Group are within the scope of Group Internal Audit; this includes the activities of subsidiaries and the work of risk and control functions established by the Group.

To fulfil its mission, Group Internal Audit:

- Undertakes regular group-wide assessments of current and emerging risks to determine audit needs;
- Evaluates the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes regarding the:
  - reliability and integrity of operational and financial information
  - effectiveness and efficiency of operations
  - safeguarding of assets
  - compliance with laws, regulations and contracts;
- Assesses the implementation of major change initiatives;
- Supports the continuous improvement of the Group's operations through the sharing of best practice;
- Delivers a Board-approved audit plan to a high professional standard; and,
- Regularly reports significant governance, risk management and control issues to the Audit Committee and management's progress in addressing them.

The Head of Group Internal Audit reports directly to the Board of Directors through the Audit Committee for audit assurance purposes and to the Group Chief Executive Officer for administrative purposes. The Audit Committee reviews the scope and nature of the work of Group Internal Audit on an ongoing basis to confirm its independence and undertakes an independent external review of Group Internal Audit on a regular basis. The most recent review was undertaken in 2010.

In the performance of their third line of defence role (Group Risk and Compliance constitutes the second line of defence and business management constitutes the first line of defence), Group Internal Audit has unrestricted access at any time to all records, personnel, properties and information of the Group, its subsidiaries and its affiliates.

Risk Management

Group Credit Committee

The Group Credit Committee is chaired by the Group Finance Director and includes members of Group senior management. It is responsible for developing and implementing credit policy within the Group. The policy addresses all material aspects of credit risk management, including credit risk assessment processes, collateral requirements and the risk grading of individual credit exposures. The credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings, which are in turn linked to the probability of credit default. All credit approvals are subject to a system of tiered individual authorities. Above a certain level, approvals require sign off by the Group Credit Committee. The Group Credit Committee also monitors credit and credit risk exposure and its evolution against the risk appetite set by the board, and oversees the development, implementation and performance of credit risk measurement tools. The committee oversees the application of the Internal Rating Based ("IRB") regulatory capital regime across portfolios, reviews the results of forecasting and stress testing, and monitors regulatory and economic capital consumption against limits set within the risk appetite framework.

Assets and Liabilities Committees ("ALCOs")

The Group has separate ALCOs for its banking and life assurance businesses. The Banking ALCO is chaired by the Group Finance Director and includes members of Group senior management. The Banking ALCO reviews and is responsible for all activities relating to Treasury counterparty credit exposures, funding and liquidity management and strategy, and structural asset and liability management. The Banking ALCO is also responsible for the management of market risk. The Life Assurance ALCO is chaired by the Group Chief Executive and includes members of Group senior management. The Life Assurance ALCO is responsible for the management of risks arising from the life assurance business assets and liabilities.

Group Operational Risk Committee

The Group Operational Risk Committee is chaired by the Group Head of Risk and Compliance and includes core business unit heads from across the Group. The Group Operational Risk Committee provides oversight and management of operational risk within the Group. This oversight includes reputation-impacting events and risks. The committee identifies the Group's top operational risks and ensures appropriate actions are taken by the business to mitigate and manage these risks.

Group Counterparty Credit and Market Risk Committee

The Group Counterparty Credit and Market Risk Committee is chaired by the Group Head of Risk and Compliance and includes management representatives from Treasury and Irish Life Investment Managers. The Group Counterparty Credit and Market Risk Committee is responsible for cascading risk appetite limits to business unit level, setting exposure limits for financial counterparties, and monitoring aggregated counterparty credit risk exposures against limits. The Group Counterparty Credit and Market Risk Committee proposes changes to credit risk limits, policy, guidelines and methodology to the Board Risk and Compliance Committee and recommends appropriate strategies.

Group Compliance Committee

The Group Compliance Committee is chaired by the Group Head of Risk and Compliance and includes core business unit heads from across the Group. The Group Compliance Committee provides oversight and management of compliance within the Group, including setting out the compliance and ethical standards to be observed by staff across the Group in relation to legal, regulatory and market conduct responsibilities. The emphasis is on conducting business following a best practice approach and with a strong customer focus.

Group Actuarial Function

Led by the Group's Chief Actuary, this function is responsible for monitoring and regulating the capital and solvency of the life assurance companies and reports to the boards of the life assurance companies, Life Assurance ALCO and the Board Risk and Compliance Committee on a regular basis. Summary risk reports are prepared for the consideration of the Life Assurance ALCO on a regular basis. Reports, which include asset/liability matching reports, are prepared covering shareholder exposure to market risk. Reports are also prepared reviewing credit risk.

Risk Management

Group Head of Risk and Compliance

The Group Head of Risk and Compliance provides independent oversight of the Group's risk governance and risk management processes. The Group Head of Risk and Compliance reports on an operational level to the Group Chief Executive, has direct access to the Risk and Compliance Committee and reports regularly to the Risk and Compliance Committee.

The Group Head of Risk and Compliance is tasked with:

– Developing and maintaining the Group's Enterprise Risk Management ("ERM") structure;

– Developing and maintaining the Group's Internal Capital Adequacy Assessment Process ("ICAAP");

– Providing independent risk advice to senior management throughout the Group;

– Identifying material risks for the Group and developing appropriate responses to such risks; and

– Policing group-wide adherence to risk policies and the Group's risk appetite statement.

The Group Head of Risk and Compliance is a member of the executive management team and of all risk committees within the Group and directly manages the risk teams and compliance teams throughout the Group.

Risk identification and assessment

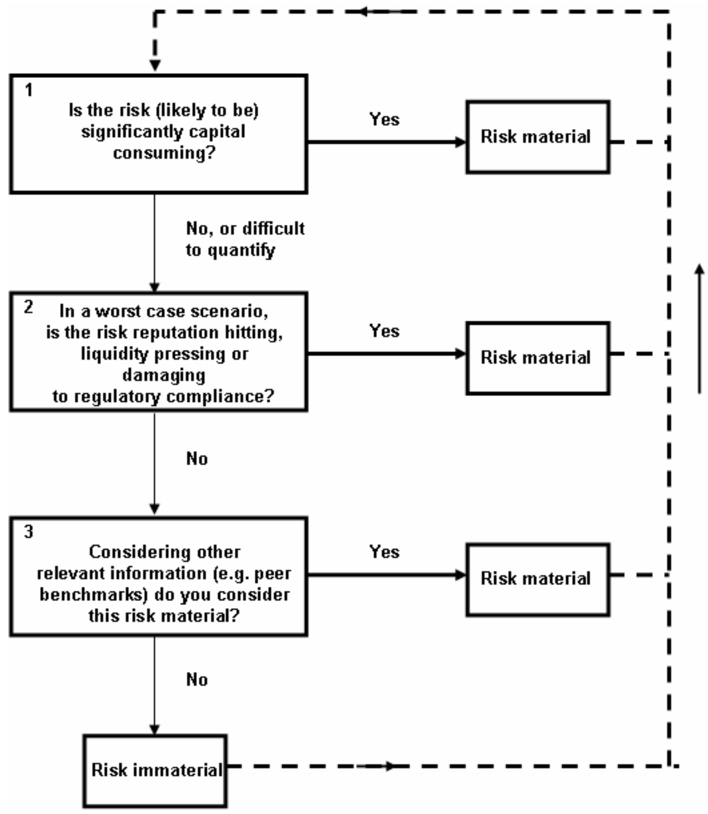
The risk identification and assessment process is overseen by the Group Head of Risk and Compliance, and supported by the Group Risk department. Significant input is also provided by relevant senior management and the specific risk committees.

The risk identification and assessment process operates within a clearly defined structure following four distinct steps.

(1) Risk investigation – Through a consultative process involving relevant members of Group senior management and business unit leaders, risks facing the Group are monitored on an ongoing basis and formally reviewed on an annual basis. The risk identification process utilises a top down approach to identifying significant risks for the Group supported by a bottom up risk identification exercise carried out at business unit level.

(2) Determination of materiality – The Group has a clearly defined definition of materiality in relation to risk assessment. This definition, which is approved by the board, is applied to all identified risks to determine which risks are material for the Group. The materiality assessment is ratified with Group senior management and relevant business leaders.

The determination of a risk's materiality follows an iterative approach as represented in the chart below.



(3) Risk treatment – For each identified risk the Group's approach to management of the risk is established. Risk management techniques include (but are not limited to) limitation, monitoring, mitigation and capitalisation.

(4) Documentation and recording – The risk assessment and treatment of all material risks is documented in full. Documentation is ratified by the relevant risk committees.

Corporate Responsibility

Corporate Responsibility ("CR") refers to how the Group views its obligations to each of its stakeholders: customers, employees, shareholders and the wider community in which the Group operates, together with how it lives up to these obligations in practice.

Customers

Irish Life & Permanent Group Holdings plc ("IL&PGH") engages with its customers through customer satisfaction programmes in Irish Life Retail, Irish Life Corporate Business and **permanent tsb**. Customer satisfaction is measured using indices based on the results of customer surveys**.**

Customer satisfaction is the key measure of the effectiveness of the 'Survive & Prosper' business plan in Irish Life Retail. It is measured monthly using a sample of customers who have experienced one of six key interactions with the company – New Business, Financial Review, Customer Service Centre Enquiry, Enquiry Using Online Service, Maturity/Withdrawal, or a Complaint. The final customer satisfaction index score for 2011 was 79.7% – a decrease of 0.6% on the 2010 score. In an independent survey of satisfaction among brokers carried out in February 2012, Irish Life Retail achieved a score of 79.2% an increase of 2.0% on the previous year's score of 77.2%.

The Irish Life Corporate Business ("ILCB") customer service index measures actual performance against target service levels across twelve key administrative services carried out for clients. The customer service index score for 2011 was 94.1% – a decrease of 0.5% on the 2010 outcome. ILCB also commissions an independent yearly survey of brokers and consultants to assess their levels of satisfaction with insurance companies operating in the group business market. ILCB topped this survey with a satisfaction score of 79% (11% ahead of the next best company).

In **permanent tsb**, there are three methods of assessing performance on customer service:

- An annual customer satisfaction index ("CSI") where 2,500 customers are asked their views on service across a number of activities;
- 'Moments of Truth' surveys where customers are asked to comment on a recent branch experience (more than 9,000 customers surveyed in 2011); and
- Participation in a pan-European retail banking service quality study involving over 40 other banks in 17 countries.

The CSI conducted in February and March of 2011 resulted in a satisfaction score of 84.9%. In the European service quality study, **permanent tsb's** satisfaction performance continues to rate extremely highly in comparison with the participating banks.

Employees

Summary workforce data			
Year	**Average annual turnover**	**Total number of employees at year end**	**Training and development days**
2011	15.7%	4,407	14,100
2010	9.7%	4,654	14,600
2009	7.8%	5,024	14,700

Total Group employee numbers have continued to reduce - employee numbers at end 2011 were 4,407. This compares with almost 5,500 at end 2008 - a fall of 1,100 over the three-year period. The reduction in 2011 included 378 employees who availed of voluntary severance ("VSS") and voluntary early retirement ("VER") schemes. Turnover increased from 9.7% in 2010 to 15.7% in 2011. When staff who left under VSS and VER schemes are excluded, turnover increased from 5.2% in 2010 to 7.9% in 2011. Data on the composition of the workforce is published each year in the Group's Corporate Responsibility Report including gender, age profile and length of service.

The number of training days delivered of 14,100 is lower than last year but is consistent with a reduced number of Group employees. The Group is committed to the personal and professional development of employees and has tailored its approach to suit the current business environment. A range of learning methodologies is used including: e-learning courses, podcasts, knowledge libraries, shared video content, e-mentoring and online competency testing. The e-learning courses produced in 2011 included a course covering code of conduct on mortgage arrears and an environmental awareness programme.

The Group runs Health & Well-being programmes each year in Irish Life and **permanent tsb**. They focus on a variety of health aspects including physical fitness, diet and lifestyle.

Corporate Responsibility

Community Activities

The Group's main community programmes to date are built on a partnership approach to community involvement. In 2006, three partners were selected with the necessary scale and expertise to work with IL&PGH to develop the Group's main community programmes. These were:

Community Partner	Programme
Age Action Ireland	Care & Repair Services for older people in Ireland
Trinity Foundation	Trinity long-term study on ageing in Ireland
Foroige	The **permanent tsb** Foróige Youth Citizenship Awards

Irish Life & Permanent's commitment to the Trinity long-term ageing study runs for ten years to the end of 2016 and for the other two programmes our commitment ran for five years to the end of 2011. The main programmes account for more than 75% of total community budgets. The balance is used to fund the following range of other activities:

- Staff charities: all funds raised by employees for charities selected by them are matched by the Group;
- Small donations to charities and community organisations; and
- Mentoring programme for school students.

Total investment in community programmes and activities in 2011 was €1.2m compared with €1.3m in 2010. In addition, the Group made a loan contribution of €750,000 to the Social Finance Foundation to support community-based projects around Ireland.

The Age Action Ireland Care & Repair programme is a minor repairs and a home visiting service for older people in Ireland. Following five years of development of the programme, it achieved the highest level of jobs/visits since it began of more than 13,000 in 2011. A key factor in expanding the services has been the creation of Care & Repair franchises around Ireland. At the end of 2011, there were 17 of these in place and they accounted for more than 50% of total activity in the year.

Irish Life has discontinued its sponsorship of the Care & Repair programme from the end of 2011 but agreed to make two further financial contributions to help sustain the programme until 2013. The first of these payments - for €175,000 - was made in December 2011 and the final payment of €100,000 will be made in December 2012. These payments are intended to sustain the programme while Age Action seeks a new sponsor.

TILDA is the first long-term study of ageing carried out in Ireland. Irish Life is the anchor sponsor of this study and the other sponsors are the Irish Government and The Atlantic Philanthropies. The study will cost €29m over 10 years and Irish Life's contribution to date is €1.6m. Wave 1 of the study began in September 2009 and was completed in February 2011. The second wave of data collection will begin in 2012. An initial findings report on the study was published in May 2011 and received wide coverage in the media.

In 2011**, permanent tsb** completed the fifth year of its sponsorship of the Foróige Youth Citizenship Programme and Awards. For the second time, the awards were televised in two programmes broadcast on TV3 in November 2011. Ten projects were selected to be showcased for the TV awards and a majority of these were from outside the Foróige organisation.

Environment

	2011	2010	2009
Total energy consumption (GWh)	**25.0**	27.3	26.8
CO2 emissions (tonnes)*	**14,320***	14,608	12,275
Total waste (tonnes)	**969**	1,017	1,258
Waste recycled (%)	**84%**	77%	79%
Total paper use (tonnes)**	**576**	536	542

**For calculating CO_2 emissions, data on suppliers' CO_2 emissions published by the Irish Commission for Energy Regulation (CER) has been used. This data is published yearly at mid-year by the CER. CO2 emissions for 2011 have been estimated using 2010 factors- the amended figure will be published in next year's report.*

*** as restated*

In December 2010, the Group achieved accreditation to the ISO 14001 international environmental standard for the Group Head Office building in Dublin. The accreditation is subject to annual review and the first annual review took place in November 2011. Following this review, the accreditation was confirmed for another year.

Total energy consumption in 2011 at 25.0GWh showed a reduction of 8% on 2010. This was mainly due to episodes of unusually severe cold weather in 2010 that did not recur in 2011 and energy savings achieved from decommissioning computer server hardware and the installation of high efficiency air-conditioning in our group data centre.

In 2011, the Group recycled 84% of total Group waste against 77% in 2010. This increase followed a reduction in recycling levels in 2010. The Group took action in 2011 to address the reduced level of recycling of waste from its Group Head Office building in Dublin. The building is located in a serviced office complex and following a review with the centre property managers, additional waste segregation at centre level was introduced.

A full review of IL&PGH's work in this area can be found in its seventh annual Corporate Responsibility Report. This report is available on the Group website www.irishlifepermanent.ie.

Board of Directors

Alan Cook

(director join date: 13 April 2011)

Chairman

Alan (58) is a fellow of the Chartered Insurance Institute (UK) and has extensive experience in financial services and public service in the UK and elsewhere. He is an experienced chairman, non-executive director and successful financial services general manager with strong people skills and experience of leading large scale change in both the private and public sectors. He is a former Managing Director of the UK Post Office, where he transformed the loss making organisation back into profit through cost reduction and growth in personal financial services. He is a former Chief Operating Officer of Prudential (UK and Europe) and a former Chief Executive of National Savings and Investments (the Government Agency responsible for raising finance for the UK Government through the retail savings market). He is also a former non-executive director of the Office of Fair Trading and the Financial Ombudsman Service. Alan is a current non-executive director of Sainsbury Bank plc and is also Chairman of the Highways Agency in England and a non Executive Director of the UK Department of Transport.

Kevin Murphy

*(director join date: 21 April 1999)**

Group Chief Executive

Kevin (60) was appointed Group Chief Executive in June 2009. An actuary and an employee of Irish Life since 1972, he was appointed a main board director following the merger of Irish Life and Irish Permanent in 1999. Kevin has progressed through a series of leadership roles across the organisation which have included CEO positions at the Group's investment management and life divisions prior to his appointment as Group CEO. Kevin has been a director of Group companies for over 20 years and has extensive financial services experience and qualifications to fulfil his executive office. He is a former president of the Society of Actuaries in Ireland and is a member of the board of the Irish Stock Exchange. It is expected that Kevin will resign from the Board immediately following the signing of the Share Purchase Agreement to effect the sale of the Irish Life Group as set out in the Chairman's Statement and will assume the role of Chief Executive of the Irish Life Group.

Bernard Collins

(director join date: 2 March 2010)

Independent Non-Executive

Bernard (63) was formerly vice president of international operations and director of the international board of Boston Scientific Corporation. He is a non-executive director of a number of companies in the medical device/life science sectors and is also currently Chairman of the VHI. He is a former non-executive director of the IDA. Bernard has over 30 years international general management and multifunctional experience in both large and small businesses and has worked in business in the UK, Switzerland and in the USA, including serving on the Board of a US public company and as Chairman of their Audit Committee. He brings to the board an expertise in strategy formulation, change management and organisational development. He regularly challenges the status quo and provides an entrepreneurial perspective to board deliberations.

Emer Daly

(director join date: 20 September 2011)

Independent Non-Executive

Emer (48) is a Fellow of the Institute of Chartered Accountants and has worked in senior roles with PricewaterhouseCoopers and AXA Insurance. She is currently a non-executive Director of Friends Provident International Ltd (FPI) based in the Isle of Man. FPI runs the international arm of Friends Provident plc and has branches in the Far East and Middle East providing a range of life assurance and wealth management services. Emer also Chairs FPI's Audit Risk and Compliance Committee. Emer is also Chairman of the Board of the Dublin Dental University Hospital, a member of the Department of Foreign Affairs Audit Committee and lectures in Risk Management in the UCD Graduate Business School. She was previously a non-executive Director of Eirgrid plc where she chaired the Audit Committee and Pensions Committee and was a member of the Remuneration Committee. She was also a member of the Property Registration Authority and of the Audit Committee of the Department of Justice and Equality. Emer brings her extensive skills and expertise in accounting and risk management to the board and her past experience is of particular benefit as chair of the Audit Committee.

Margaret Hayes

*(director join date: 22 December 2008)**

Independent Non-Executive

Margaret (57) is a former Secretary General and Accounting Officer for the Department of Tourism and Trade, then Tourism Sport and Recreation and finally Community, Rural and Gaeltacht Affairs. She also served in the Revenue Commissioners and other Government Departments. She led Ireland's negotiations on the conclusion of the Uruguay round of the GATT and the establishment of the World Trade Organisation (WTO). She has served on a number of State Boards including Bord Bia and the Irish Trade Board, and was a member of the National Economic and Social Council. She is a barrister and currently a member of the Irish Bar and is also a member of the Panel of Interviewers for the Public Appointments Commission. Margaret brings a wide range of economic and social policy experience, as well as extensive administrative and managerial experience, and legal training, to the deliberations of the Board. Margaret was nominated by the Minister for Finance to join the Board under the Government Guarantee Scheme in December 2008. Notwithstanding the background to Margaret's appointment as a public interest director, the Chairman and the Nomination Committee have each reviewed Margaret's conduct and performance during 2011 and have re-affirmed their opinion that Margaret continues to exercise independent judgement and character in the execution of her duties to the Company.

Sandy Kinney

(director join date: 17 August 2010)

Independent Non-Executive

Sandy (53) is an experienced bank board director with a professional background in accounting and finance. Since 2003 she has been a non-executive director of the Skipton Building Society in the UK and was Chair of Skipton Board Audit Committee for 5 years until early 2007 and again since late 2010. Skipton Building Society is the UK's fourth largest building society and has a national presence represented by its 103 branches with over 850,000 members and operates in the area of mortgage and investment products. More recently Sandy has also joined the board of MBNA Europe Bank Limited. In 2005 Sandy was appointed by the FSA as a non-executive director to the Financial Services Compensation Scheme (FSCS). FSCS was successful (as declared by the UK Treasury Select Committee) in its efficient management of £23 billion of payouts, including complex funding arrangements. She completed her full 6 year term with the FSCS in June 2011. She is a Fellow of the Chartered Institute of Management Accountants and has previously been a financial services partner in both PricewaterhouseCoopers and KPMG in London. She brings skills and expertise in accounting and risk management to the board and her experience of UK financial services at board level and in a regulatory environment is of particular benefit to the company

Ray MacSharry

*(director join date: 22 December 2008)**

Independent Non-Executive

Ray (73) is a former EU Commissioner, Minister for Finance, Minister for Agriculture and Governor of the European Investment Bank. He has served as a non-executive director of Bank of Ireland Group, Jefferson Smurfit Group plc and Ryanair plc and is former Chairman of London City Airport, Green Property plc and eircom plc. Ray brings significant public service and business experience to the deliberations of board. His knowledge and skills in the political and economic areas are of particular benefit to the company. Ray was nominated by the Minister for Finance to join the Board under the Government Guarantee Scheme in December 2008. Notwithstanding the background to Ray's appointment as a public interest director, the Chairman and the Nomination Committee have reviewed Ray's conduct and performance during 2011 and have re-affirmed their opinion that Ray continues to exercise independent judgement and character in the execution of his duties to the Company.

Board of Directors

Jeremy Masding

(director join date: 28 February 2012)

Executive

Jeremy (46) was appointed as the Chief Executive of permanent tsb with effect from 14 February 2012 and subsequently joined the Board as an executive director. Jeremy is an experienced career banker having worked with Barclays Bank in a variety of different roles between 1984 and 2007 which included Branch Banking, International Banking and in Head Office as a Director of Strategy Development. In later years, he was a Board Director of Barclaycard responsible for UK Consumer Finance. For a year (1998/1999) he worked on secondment from Barclays with the Cabinet Office in the UK. More recently, Jeremy has been Chairman of the Richmond Group (2010-2012), an independent loan broker and lender, and Group Chief Executive of Central Trust plc (2007-2009), a specialist loan broker and lender. Jeremy is an Associate and Fellow of the Chartered Institute of Bankers and holds an MBA from Manchester Business School. It is expected that Jeremy will be appointed Group Chief Executive immediately following the resignation of Kevin Murphy from the Board.

David McCarthy

*(director join date: 13 February 2009)**

Executive

David (51) is Group Finance Director and has worked within the Group in various capacities since 1990 having previously worked with Coopers & Lybrand (now PricewaterhouseCoopers) in Ireland and the UK. A business school graduate of Trinity College Dublin he is a Fellow of the Institute of Chartered Accountants, a Fellow of the Institute of Bankers and a Fellow of the Royal Society of Arts. He is a former non-executive director of Alcatel (Ireland) Limited, Software Resources Limited and Crampton Housing Limited and is the long-serving Chairman of Energy Action Limited, a registered charity. He is a director of a number of companies within the Group including the associated company Allianz-Irish Life Holdings plc. It is expected that David will resign from the Board immediately following the signing of the Share Purchase Agreement to effect the sale of the Irish Life Group as set out in the Chairman's Statement and will assume the role of Finance Director of the Irish Life Group.

Pat Ryan

(director join date: 15 December 2009)

Independent Non-Executive

Pat (65) is a qualified actuary and has an extensive background in Risk, Banking and Treasury. He worked for AIB Bank from 1972 until his retirement in 2002. During the period 1995 to 2002, Pat was Group Treasurer and Chief Risk Officer with AIB Group and chaired the Group's Credit Committee and Assets and Liabilities Committee. As Chief Risk Officer he was responsible for formulating high level risk policies, setting standards and the development of strategic risk management initiatives. Pat is currently a director of AXA Life Europe Limited and J&E Davy. He holds an M.Sc in Economics and a Bachelor of Commerce degree from University College Dublin, and is a Fellow of the Institute of Bankers in Ireland. He is a Fellow of the Society of Actuaries in Ireland and of the Institute and Faculty of Actuaries in the UK. Pat's mix of skills and training in treasury, risk and actuarial matters are of significant benefit to the board and his role as chairman of the Risk & Compliance Committee has been of particular benefit to the company over the last year.

Ciarán Long (59)

Company Secretary

Appointed Company Secretary in May 2004* and acts as secretary to each of the board committees. An actuary and an employee of Irish Life since 1969, he has held senior executive positions in both the life and pensions businesses and is a former general manager and director of the Corporate Life business. Most of his time with Irish Life has been spent in the pensions area and he is the company appointed trustee in each of the staff pension schemes. Ciarán is a former director of the Retirement Planning Council and is a former member of the Pensions Board.

Board of Directors

Board Committees

Risk and Compliance

	since:
Pat Ryan (Chairman)	02-Feb-10
Sandy Kinney	11-Feb-11
Emer Daly	24-Oct-11

Audit

	since:
Emer Daly (Chairman)	26-Oct-11
Margaret Hayes	25-Feb-09*
Pat Ryan	02-Feb-10

Nomination

	since:
Alan Cook (Chairman)	21-Oct-11
Pat Ryan	13-Dec-11
Ray MacSharry	20-Oct-11
Bernard Collins	13-Dec-11

Remuneration and Compensation

	since:
Bernard Collins (Chairman)	15-Jun-11
Alan Cook	05-May-11
Ray MacSharry	24-Mar-09*
Pat Ryan	23-Mar-10

Senior Independent Director

Pat Ryan

* denotes date of original appointment to the board or committee of Irish Life & Permanent plc, the former listed holding company of the Group.

Directors' Report

The directors present their annual report and audited consolidated and company financial statements to the shareholders for the year ended 31 December 2011.

Results

The Group loss after tax and non controlling interests for the year was €428m (2010: €128m loss) and was arrived at as shown in the Consolidated Income Statement. No dividends (2010: none) were paid during the year. €74m has been transferred from distributable to non-distributable reserves (2010: €59m) and distributable reserves have been increased by €1m in respect of the sale of own shares acquired for the benefit of policyholders (2010: €4m).

Dividends

No dividends were paid or proposed for 2011 (2010: nil).

Review of the business and likely future developments

A detailed review of the Group's performance during the year and an indication of likely future developments are set out in the Chairman's Statement and the Business Review. Information on the key performance indicators and principal risks and uncertainties in the business is provided as required by European Accounts Modernisation Directive (2003/51/EEC). The key performance indicators are included in the Business Review section, with the Group's key performance indicators in the Group Performance Review and the Bank and Life Assurance divisions' key performance indicators in the respective sections of the Divisional Performance Review. The principal risks and uncertainties are outlined in the Risk Factors in the Risk Management section and under Going Concern within the Corporate Governance section.

Accounting Policies

As required by European Union ("EU") law from 1 January 2005, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and adopted by the EU as set out in Group accounting policies in Note 1, Basis of preparation and significant accounting policies to the financial statements.

Corporate Governance

The report on Corporate Governance, as outlined in the Corporate Governance section, forms part of the Directors' Report.

Directors

The names of the directors, together with a detailed description of the skills, expertise and experience that each of the directors brings to the board, appear in the Board of Directors section. On the 13 April 2011, Alan Cook was co-opted to the board as an independent non-executive director and appointed chairman. Emer Daly was co-opted to the board on the 20 September 2011 as an independent non-executive director and Jeremy Masding was co-opted to the board as an executive director on the 28 February 2012. It is intended that Mr Masding will be appointed as Chief Executive Officer immediately following the resignation of Kevin Murphy from the board. At an EGM held on the 20 July 2011, Piotr Skoczylas was appointed to the board subject to receipt of approval by the Central Bank of Ireland. On the 22 December 2011, the Central Bank of Ireland issued confirmation that they had no objection to the appointment of Mr Skoczylas subject to Mr Skoczylas undertaking specified training relevant to the retail banking sector. It is expected that Mr Skoczylas will complete this training in early April 2012 at which time his appointment to the board will be ratified. Gillian Bowler retired from the board on the 13 April 2011, Breffni Byrne and Danuta Gray retired from the board on the 18 May 2011 at the conclusion of the Company's AGM and Roy Keenan retired from the board on the 31 October 2011.

It is expected that Kevin Murphy and David McCarthy will resign from the board immediately following the signing of the Share Purchase Agreement to effect the sale of the Irish Life Group as set out in the Chairman's Statement. Bernard Collins will retire from the board at the 2012 AGM and will not offer himself for re-appointment by election.

In accordance with the practice first adopted in May 2009 and the updated provisions of the UK Corporate Governance Code published in June 2010, unless otherwise stated above all current directors will retire at the 2012 AGM and, being eligible, will offer themselves for re-appointment by election. Details of the directors' and secretary's interest in the share capital of the company and of transactions involving directors are set out in Note 56, Related parties to the financial statements. None of the directors' service contracts have notice periods exceeding 12 months.

Share Capital and Shareholders

Credit Institutions (Stabilisation) Act 2010

Under the terms of the Credit Institutions (Stabilisation) Act 2010 (the "Act") the Minister for Finance (the "Minister") may, in certain circumstances, direct the company to undertake actions which may impact on the pre-existing legal and contractual rights of shareholders. Directions that could impact on the rights attaching to the ordinary and preference shares set out below include the dis-application of shareholder pre-emption rights, an increase in the company's authorised share capital, the issue of shares to the Minister or to another person nominated by the Minister, or amendments to the company's memorandum and articles of association. On the 26th July 2011, the Company was directed by the Irish High Court (under a Direction Order made on the application of the Minister for Finance under the Act) to issue €2.3 billion of new equity capital to the Minister for Finance.

Authorised Share Capital

On the 27 July 2011, the Group increased the number of authorised €0.32 ordinary shares from 400,000,000 to 70,400,000,000 by the creation of 70,000,000,000 additional authorised shares. On this same date, each €0.32 ordinary share (both issued and un-issued) was subsequently sub-divided into 320 ordinary shares of €0.001 each. Following this sub-division, 289 ordinary shares out of every 320 ordinary shares was consolidated and re-designated into one deferred share of €0.289 and the remaining 31 ordinary shares were consolidated into one ordinary share of €0.031.

Following the creation, subdivision and consolidation of capital outlined above, the authorised share capital of the Company is €22,828,000,000 divided into 70,400,000,000 Ordinary Shares of €0.031 each ("Ordinary Shares"), 300,000,000 Non-Cumulative Preference Shares of €1 each ("Euro Preference Shares") and 70,400,000,000 Deferred Shares of €0.289 each ("Deferred Shares"), STG£100,000,000 divided into 100,000,000 Non-Cumulative Preference Shares of STG£1 each ("Sterling Preference Shares") and US$200,000,000 divided into 200,000,000 Non-Cumulative Preference Shares of US$1 each ("Dollar Preference Shares").

Ordinary Shares

As at 31 December 2011, the Company had 36,525,797,323 (2010: 276,782,351) Ordinary Shares in issue in that class. During 2011, 36,249,014,972 shares were issued to the Minister for Finance of Ireland, no shares were issued under the Group's share option and profit share schemes. At 31 December 2011 Irish Life Assurance plc, a subsidiary of the Group, held 4.2m (2010: 5.4m) shares representing 0.01% (2010: 1.9%) of the issued share capital of the company. These shares are held on behalf of policyholders and in accordance with section 9(1) of the Insurance Act, 1990, carry no voting rights. In addition, at 31 December 2011 Irish Life & Permanent Group Holdings plc holds, through an employee benefit trust, 457,914 shares (2010: 457,914). Each Ordinary Share carries one vote and the number of voting rights as at 31 December 2011 was 36,521,551,607 (2010: 271,403,524).

On the 27 July 2011, Irish Life & Permanent plc (a wholly owned subsidiary of the company) issued €0.4 billion of Convertible Contingent Capital Notes to the Minister for Finance of Ireland. The Convertible Contingent Capital Notes have a five year and one day maturity, which will convert or be exchanged immediately and mandatorily in their entirety into Ordinary Shares at nominal value if either a capital deficiency or a non-viability event occurs as defined in the terms and conditions relating to the Convertible Contingent Capital Notes set out in Note 32 of the accompanying financial statements.

Deferred Shares

As at 31 December 2011, the Company had 276,782,351 (2010: nil) Deferred Shares in issue in that class. On a winding up of, or other return of capital (other than on a redemption of shares of any class in the capital of the Company) by the Company, the holders of the Deferred Shares shall be entitled to participate on such return of capital or winding up of the Company, this entitlement being limited to the repayment of the amount paid up or credited as paid up on such Deferred Shares and shall be paid only after the holders of the Ordinary Shares, the Euro Preference Shares, the Dollar Preference Shares and the Sterling Preference Shares respectively shall have received payment in respect of such amount as is paid up or credited as paid up on all such shares in addition to the payment in cash of €10,000,000 to the Holder of each Ordinary Share then in issue, the purpose of which is to ensure that the Deferred Shares have no economic value. Deferred shares carry no voting or dividend rights and shall not be transferable at any time, other than with the prior written consent of the Directors.

Preference Shares

The general rights attaching to Sterling Preference Shares, Euro Preference Shares and Dollar Preference Shares ("Preference Shares") shall rank pari-passu as regards the right to receive dividends and the rights on a winding up of, or other return of capital by, the company.

Notwithstanding, such Preference Shares may be issued with such rights and privileges, and subject to such restrictions and limitations, as the directors shall determine in the resolution approving the issue of Preference Shares. Whenever the directors have power to determine any of the rights, privileges, limitations or restrictions attached to any of the Preference Shares, the rights, privileges, limitations or restrictions so determined need not be the same as those attached to the Preference Shares which have then been allotted or issued. Preference Shares which have then been allotted or issued shall constitute a separate class of shares. Preference Shares shall entitle the holders thereof to receive a non-cumulative preferential dividend ("Preference Dividend") which shall be calculated at such annual rate (whether fixed or variable) and shall be payable on such dates and on such other terms and conditions as may be determined by the directors prior to allotment thereof.

(A) Provisions applying to Preference Shares

The following provisions shall apply in relation to any particular Preference Shares if so determined by the directors prior to the allotment thereof:

a. the Preference Shares shall rank as regards the right to receive dividends in priority to any Ordinary Shares in the capital of the company;

b. a Preference Dividend may only be paid from distributable profits and distributable reserves of the company;

c. a Preference Dividend may only be paid if it would not breach or cause a breach of the Central Bank of Ireland's capital adequacy requirements from time to time applicable to the company;

d. Preference Shares shall carry no further right to participate in the profits and reserves of the company other than the Preference Dividend and if on any occasion an instalment of the Preference Dividend is not paid in cash for the reasons described in sub-paragraph (b) or sub-paragraph (c) above, the preference shareholders shall have no claim in respect of such instalment;

e. each holder of Preference Shares shall, on the date for payment of Preference Dividend instalment, if such instalment had not been paid in cash, be allotted such additional nominal amount of Preference Shares of the class in question, credited as fully paid, as is equal to an amount which would have been paid to the holder had such relevant instalment been paid in cash plus an amount equal to the associated tax credit to which the holder would have been entitled had the relevant instalment been paid in cash.

(B) Capital

On a winding up of, or other return of capital (other than on a redemption of shares of any class in the capital of the company) by the company, the preference shareholders shall in respect of the Preference Shares held by them be entitled to receive, out of the surplus assets available for distribution to the company's members, an amount equal to the amount paid up or credited as paid up on the Preference Shares (including any premium paid to the company in respect thereof) together with any Preference Dividend which is due for payment after the date of commencement of the winding up or other return of capital but which is payable in respect of a period ending on or before such date and any Preference Dividend accrued prior to the date of return of capital.

The amounts payable or repayable in the event of a winding up of, or other return of capital (other than on a redemption of shares of any class in the capital of the company) by, the company, shall be so paid pari-passu with any amounts payable or repayable in that event upon or in respect of any further Preference Shares of the company ranking pari-passu with the Preference Shares as regards repayment of capital, and shall be so paid in priority to any repayment of capital on any other class of shares of the company. The preference shareholders shall not be entitled in respect of the Preference Shares held by them to any further or other right of participation in the assets of the company.

(C) Redemption

Unless otherwise determined by the directors either generally or in relation to any particular Preference Shares prior to allotment thereof, the Preference Shares shall, subject to the provisions of the Acts, be redeemable at the option of the company where the company shall give to the holders of the Preference Shares to be redeemed not less than 30 days' and not more than 60 days' notice in writing of the date on which such redemption is to be effected.

(D) Voting

The preference shareholders shall be entitled to receive notice of any General Meeting of the company and a copy of every circular or other like document sent out by the company to the holders of Ordinary Shares and to attend any General Meeting of the company but shall not, in respect of the Preference Shares, be entitled to speak or vote upon any resolution other than a resolution for winding up the company or a resolution varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the relevant Preference Shares unless at the date of such meeting the most recent instalment of the Preference Dividend due to be paid prior to such meeting shall not have been paid in cash in which event the preference shareholders shall be entitled to speak and vote on all resolutions proposed at such meeting.

At a separate General Meeting of any class of preference shareholders, on a show of hands each preference shareholder present in person shall have one vote and on a poll each preference shareholder present in person or by proxy shall have one vote in respect of each Preference Share held by him and whenever preference shareholders are entitled to vote at a General Meeting of the company then, on a show of hands, each preference shareholder present in person shall have one vote and on a poll each preference shareholder present in person or by proxy shall have such number of votes in respect of each Preference Share held by him as the directors may determine prior to the allotment of such shares.

If the most recent instalment of the Preference Dividend has not been paid a majority of any class of Preference Shares in issue may requisition, and the directors shall procure, that an Extraordinary General Meeting of the company shall be convened forthwith.

(E) Restriction on capitalisation

Save with the written consent of the holders of not less than 66 2/3 % in nominal value of each class of Preference Shares, or with the sanction of a resolution passed at a separate General Meeting of the holders of each class of Preference Shares where the holders of not less than 66 2/3 % in nominal value of the relevant class of Preference Shares have voted in favour of such resolution, the directors shall not capitalise any part of the amounts available for distribution if, after such capitalisation the aggregate of such amounts would be less than a multiple, determined by the directors prior to the allotment of each class of Preference Shares, of the aggregate amount of the annual dividends (exclusive of any associated tax credit) payable on Preference Shares then in issue ranking as regards the right to receive dividends or the rights on winding up of, or other return of capital by the company, pari-passu with or in priority to the Preference Shares, or authorise or create, or increase the amount of, any shares of any class or any security convertible into the shares of any class ranking as regards the right to receive dividends or the rights on winding up of, or other return of capital by the company, in priority to the Preference Shares.

(F) Further Preference Shares

The company may from time to time create and issue further Preference Shares ranking as regards participation in the profits and assets of the company pari-passu with the Preference Shares and so that any such further Preference Shares may be denominated in any currency and may carry as regards participation in the profits and assets of the company rights identical in all respects to those attaching to the Preference Shares or rights differing therefrom.

The creation or issue of, or the variation, alteration or abrogation of or addition to the rights, privileges, limitations or restrictions attaching to, any shares of the company ranking after the Preference Shares as regards participation in the profits and assets of the company and, provided that, on the date of such creation or issue, the most recent instalment of the dividend due to be paid on each class of Preference Share in the capital of the company prior to such date shall have been paid in cash, the creation or issue of further Preference Shares ranking pari-passu with the Preference Shares as provided for above, shall be deemed not to be a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attached to the Preference Shares. If any further Preference Shares of the company shall have been issued, then any subsequent variation, alteration or abrogation of or addition to the rights, privileges, limitations or restrictions attaching to any of such further Preference Shares shall be deemed not to be a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attaching to the Preference Shares, provided that the rights attaching to such further Preference Shares thereafter shall be such that the creation and issue by the company of further Preference Shares carrying those rights would have been permitted.

Variation of rights

Whenever the share capital is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class, and may be so varied or abrogated either whilst the company is a going concern or during or in contemplation of a winding-up.

Allotment of shares

Subject to the provisions of the Articles of Association relating to new shares, the shares shall be at the disposal of the directors and (subject to the provisions of the Articles and the Acts) they may allot, grant options over or otherwise dispose of them to such persons on such terms and conditions and at such times as they may consider to be in the best interests of the company and its shareholders, but so that no share shall be issued at a discount and so that, in the case of shares offered to the public for subscription, the amount payable on application on each share shall not be less than one-quarter of the nominal amount of the share and the whole of any premium thereon.

Holders resident in the USA

The board may at its discretion give notice to certain holders resident in the USA calling for a disposal of their shares within 21 days or such longer period as the board considers reasonable. The board may extend the period within which any such notice is required to be complied with and may withdraw any such notice in any circumstances the board sees fit. If the board is not satisfied that a disposal has been made by the expiry of the 21 day period (as may be extended), no transfer of any of the shares to which the notice relates may be made or registered other than a transfer made pursuant to a procured disposal of the said shares by the board, or unless such notice is withdrawn.

Refusal to transfer

The directors in their absolute discretion and without assigning any reason therefore may decline to register:

I. any transfer of a share which is not fully paid save however, that in the case of such a share which is admitted to listing on the Stock Exchange, such restriction shall not operate so as to prevent dealings in such share of the company from taking place on an open and proper basis;

II. any transfer to or by a minor or person of unsound mind; or

The directors may decline to recognise any instrument of transfer unless:

III. the instrument of transfer is accompanied by the certificate of the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer (save where the transferor is a Stock Exchange Nominee);

IV. the instrument of transfer is in respect of one class of share only;

V. the instrument of transfer is in favour of not more than four transferees; and

VI. it is lodged at the office or at such other place as the directors may appoint.

Voting Rights

The Directors have been notified as at 4 March 2012 of the following substantial interests in voting rights held:

– Minister for Finance of Ireland 99.2% (36,525,797,323 shares)

No person holds securities carrying special rights. There are no particular restrictions on voting rights, except that shares held by Irish Life Assurance plc pursuant to section 9(1) of the Insurance Act 1990 carry no voting rights. The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of its shares or on voting rights.

Director Appointments

As set out in the Corporate Governance section, the company has complied or explained against the provisions of the UK Corporate Governance Code and separately has no rules governing the appointment and replacement of directors or the amendment of the company's Articles of Association outside of the provisions thereto in the said articles. Under the terms of the Government Guarantee Scheme the Minister for Finance may nominate two directors for appointment to the board of the company.

In addition the Credit Institutions (Stabilisation) Act 2010 (the "Act") provides broad powers to the Minister for Finance to take a range of actions in relation to banks covered by the Act including the composition of their boards.

Directors' Report

Annual General Meetings

At its annual general meetings, the members normally authorise the company:

- To allot relevant securities within section 20 of the Companies (Amendment) Act, 1983 up to a maximum amount equal to the lesser of (a) the aggregate of the authorised but as yet un-issued ordinary share capital of the company or (b) one third of the total amount of the company's issued ordinary share capital. The authority at (b) was last granted by shareholders at the Company's AGM on 18 May 2011 and will expire on the earlier of the date of the next AGM or 18 August 2012.
- To disapply the strict statutory pre-emption provisions in connection with a rights issue to deal with legal or practical problems that may arise in respect of shareholders resident in certain territories and/or to deal with any fractional entitlements or any other issue of equity securities for cash up to an aggregate nominal amount of 5% of the nominal value of the company's issued share capital. This authority was last granted by shareholders at the Company's AGM on 18 May 2011 and will expire on the earlier of the date of the next AGM or 18 August 2012.

Change of control of the company

If any person or company obtains control of the company, the company's share option schemes contain provisions for the exercise of share options, provided these have not lapsed, even if the performance conditions have not been satisfied or, with the agreement of an acquiring company, exchange the subsisting options for new options in the acquiring company.

The company's Long-term Incentive Plan contains similar provisions where awards may vest immediately to the extent determined by the directors or, with the agreement of an acquiring company, exchange the subsisting awards for new awards in the acquiring company.

In the event of a change of control of the company there are no agreements (other than under normal employment contracts) between the company, its directors or employees providing for compensation for loss of office that might occur.

Shareholder Rights

The rights attaching to shares as set out in this Directors report are subject to the provisions of the Credit Institutions (stabilisation) Act 2010**.**

Accounting Records

The directors believe that they have complied with Section 202 of the Companies Act, 1990 with regard to books of account by employing financial personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the company are maintained at the company's registered office, Irish Life Centre, Lower Abbey Street, Dublin 1 and the principal offices of the Group and its subsidiaries, as shown on the inside back cover of this report.

Political Donations

The directors have satisfied themselves that there were no political contributions during the year, which require disclosure under the Electoral Act, 1997.

Subsidiaries and Associated Companies

The principal subsidiaries and associated undertakings and the Group's interests therein are shown in Note 55, Principal subsidiaries and associated undertakings to the financial statements.

Branches outside the State

The Group's subsidiary, Irish Life & Permanent plc has established branches, within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993 (which gave effect to EU Council Directive 89/666/EEC), in the United Kingdom.

Independent Auditor

In accordance with Section 160(2) of the Companies Act, 1963 the Auditor, KPMG, Chartered Accountants and Registered Auditor, will continue in office.

On behalf of the Board

Alan Cook Chairman	**Kevin Murphy** Group Chief Executive
David McCarthy Group Finance Director	**Ciarán Long** Company Secretary

Corporate Governance

UK Corporate Governance Code

The directors endorse the UK Corporate Governance Code ("the Code") which sets out Principles of Good Governance and a Code of Best Practice. Although not required under the rules of the Enterprise Securities Exchange (the ESM") on which the Company is listed, the Directors have agreed that a statement should be made in relation to compliance with the Code.

The directors have developed a code of practice which deals with, among other matters, issues of corporate governance. This code of practice is designed to ensure that the main principles and the supporting principles of good governance set out in Section 1 of the Code are applied within the Group.

In 2009, the board commissioned international risk management and strategy consultants Oliver Wyman to review the Group's Corporate Governance framework and to advise on any changes necessary to ensure the Group was operating in line with emerging international best practice. The board accepted and implemented the recommendations made by Oliver Wyman in this regard.

In November 2010 the Central Bank of Ireland issued a Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the CBI Code"). This CBI Code imposes minimum core standards upon all credit institutions and insurance undertakings with additional requirements upon entities which are designated as major institutions. Both Irish Life & Permanent plc and Irish Life Assurance plc have been designated as major institutions under the CBI Code.

Compliance with the Code.

Section E.2.4 of the Code requires that a company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting. Due to the timing on the appointment of a new Chairman (13 April 2011) and the subsequent time required to design and produce a Chairman's statement, the last issue of AGM documentation was posted to shareholders on the 21 April 2011, 17 working days before the meeting. This was still within statutory limits being 27 calendar days before the AGM date.

Section B.6.2 of the Code requires that evaluation of the board should be externally facilitated at least every three years. The last externally facilitated board evaluation was completed in 2008.

It was agreed by the directors that external facilitation of the board would be deferred from 2011 to 2012 given the significant re-structuring of the Group and its boards following the injection of capital by the Minister for Finance and the impending sale of the company's life and pensions business.

With the above exceptions, the company has complied fully throughout the most recent accounting period with the provisions set down in sections A-E of the Code including the application of its principles as set out in this report. The auditor's report within the Annual Report covers their review of the company's compliance with provisions C.1.1, C.2.1 and C.3.1 to C.3.7 of the Code.

Role of the Board

There is an effective board to lead and control the Group. The board has reserved to itself for decision a formal schedule of matters pertaining to the Group and its future direction, such as the Group's commercial strategy, major acquisitions and disposals, board membership, appointment and removal of the Group Chief Executive and the Company Secretary, executive remuneration, trading and capital budgets, and risk management policies. All strategic decisions are referred to the board. Documented rules on management authority levels and on matters to be notified to the board are in place, supported by an organisational structure with clearly defined authority levels and reporting responsibilities.

The board currently comprises seven non-executive and two executive directors. While there is no optimum number of non-executive and executive directors, and the membership of the board is kept continuously under review, the board is satisfied that its current size and structure is appropriate to meet the requirements of the business. Other than as part of its ongoing refreshment together with the expected changes set out in the Director's report, there are no further changes currently planned in the structure or membership of the board. Biographies of each of the directors are set out in the Board of Directors section. The wide range of qualifications, skills and experience that is encapsulated in the biographies is harnessed to the maximum possible effect in the deliberations of the board. Having directors with a mix of public service, financial, risk management, consumer related and general business experience has been of particular benefit as the company has had to deal with a particularly challenging environment.

The roles of the Chairman and the Group Chief Executive are separated and are clearly defined, set out in writing and agreed by the board. The board considers all the non-executive directors to be independent of management and free of any business or other relationship which would interfere with the exercise of their independent judgement. The Chairman, on appointment, met the independence criteria set out in the Code. The board has nominated Pat Ryan as the Senior Independent Non-executive Director.

The board had nineteen scheduled board meetings during 2011 and also met on other occasions as considered necessary. Full board papers are sent to each director in sufficient time before board meetings and any further papers or information are readily available to all directors on request. The board papers include the minutes of all committee meetings which have been held since the previous board meeting and the chairman of each committee is available to report on the committee's proceedings at board meetings if appropriate. Attendance at scheduled board and committee meetings is outlined later on in this section. The board receives formal reports on Group compliance matters at each of its meetings.

The board has a formal performance review process to assess how the board and its committees are performing. This process, normally facilitated every three years by external consultants, comprises a detailed and rigorous examination by directors of all aspects of board and committee performance. The review of performance for 2011 was facilitated by the Chairman - external consultants were last used in 2008. The performance of each individual director is also assessed on an annual basis by the Chairman and is discussed with the director concerned. The non-executive directors, led by the senior independent director, evaluate the performance of the Chairman, taking into account the views of executive directors.

The Chairman meets at least once a year with the non-executive directors without the executives present.

Procedures are in place for directors, in furtherance of their duties, to take independent professional advice and training, if necessary, at the Group's expense. The Group has arranged directors' and officers' liability insurance cover in respect of legal action against its directors. Appropriate training is arranged for directors on first appointment and the Chairman also ensures that the directors continually update their skills and knowledge through appropriate seminars and presentations.

The Company Secretary is responsible for advising the board through the Chairman on all governance matters.

All directors have direct access to the Company Secretary.

Any Director who has any material concern about the overall corporate governance of the Company must report the concern without delay to the board in the first instance and if the concern is not satisfactorily addressed by the board within 5 business days, the director must promptly report the concern directly to the Central Bank advising of the background to the concern and any proposed remedial action. This is without prejudice to the director's ability to report directly to the Central Bank.

Board Committees

The board has established a number of committees which operate within defined terms of reference. These committees are the Audit Committee, the Risk and Compliance Committee, the Remuneration and Compensation Committee and the Nomination Committee, all of which are committees of the board. All of these committees are composed of non-executive directors, all of whom are considered by the board to be independent. Membership, the chairmanship and the terms of reference of each committee are reviewed annually. Detailed terms of reference for each of the committees are available on request and on the Group's website www.irishlifepermanent.ie. In accordance with the terms of the Code, the Chairman of the Group is not a member of the Audit Committee.

Audit Committee

The Audit Committee comprises Emer Daly (Chairman), Margaret Hayes and Pat Ryan. The board ensures that the chairman of the committee has recent and relevant financial experience.

The Audit Committee provides a link between the board and the external auditors, is independent of the Group's management and is responsible for making recommendations in respect of the appointment of external auditors and for reviewing the scope of the external audit. It also has responsibility for reviewing the Group's annual report and financial statements, preliminary announcement, half-yearly accounts, Interim Management Statements and the effectiveness of the Group's internal control systems and risk management process.

The committee monitors the Group's internal audit, compliance and risk management procedures and considers issues raised and recommendations made by the external auditors and by the Group Internal Audit function. The committee meets at least annually with the external auditors in confidential session without management being present. The committee reviews the arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee reviews the non-audit services provided by the external auditors based on the policy approved by the board in relation to the provision of such services. Fees paid in respect of audit, other assurance services, tax advisory services and non-audit services are outlined in Note 48, Administration and other expenses to the financial statements. Other assurance services are services carried out by the auditors by virtue of their role as auditors and include assurance related work, regulatory returns and accounting advice. In line with best practice, the auditors do not provide services such as financial information system design and valuation work which could be considered to be inconsistent with the audit role.

The amount of fees paid to external auditors was €7.8m (including VAT) payable to KPMG, of which €7.4m (including VAT) was payable to KPMG Ireland and €0.4m (including VAT) was payable to KPMG overseas affiliates. €2.6m (including VAT) was paid to KPMG for other assurance services and €3.6m (including VAT) was paid in respect of non audit services and tax advisory services (€5.8m (including VAT) to KPMG Ireland and €0.4m (including VAT) to KPMG overseas affiliates.

Risk and Compliance Committee

The Risk and Compliance Committee comprises Pat Ryan (Chairman), Emer Daly and Sandy Kinney. The board ensures that the chairman of the committee has relevant risk management and / or compliance experience.

The Risk and Compliance Committee has responsibility for oversight and advice to the board on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management, the setting of compliance policies and principles and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance.

The Risk and Compliance Committee supports the board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite.

The Risk and Compliance Committee is responsible for monitoring adherence to the Group risk appetite statement. Where exposures exceed levels established in the appetite statement, the Risk and Compliance Committee is responsible for developing appropriate responses. This is facilitated by the periodic review of a key risk indicators report calibrated to the risk appetite statement.

The Risk and Compliance Committee, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it. These committees are the Group Credit Committee, the Banking Assets & Liabilities Committee, the Life Assurance Assets & Liabilities Committee, the Group Operational Risk Committee, the Group Counterparty Credit and Market Risk Committee and the Group Compliance Committee. The terms of reference for each committee, whose members include members of Group senior management, are reviewed regularly by the Risk and Compliance Committee.

Remuneration and Compensation Committee

The Remuneration and Compensation Committee comprises Bernard Collins (Chairman), Alan Cook, Ray MacSharry and Pat Ryan. This committee considers all aspects of the performance and remuneration of executive directors and senior executives and sets the remuneration of these executives, having consulted with the Chairman, the Group Chief Executive and the other non-executive directors. The committee also has responsibility for setting the remuneration of the Chairman (without the Chairman being present) and the Group Chief Executive.

During 2011 the committee used the Executive Compensation Practice of Towers Watson for advice on executive director and senior management remuneration. Services provided to the Group by other Towers Watson practices include the valuation of the Irish Progressive Staff Pension Scheme and the tsb Staff Pension Scheme by its actuarial practice.

Nomination Committee

This committee comprises Alan Cook (Chairman), Bernard Collins, Pat Ryan and Ray MacSharry. The committee is charged with responsibility for bringing recommendations to the board regarding the appointment of new directors and of a new Chairman. The Chairman does not attend the committee when it is dealing with the appointment of a successor to the Chairman. Decisions on board appointments are taken by the full board. The committee uses external consultants to assist in identifying and considering candidates from a wide range of backgrounds in the context of a description of the role and capabilities required for a particular appointment. All directors are subject to re-appointment by election by the shareholders at the first opportunity after their appointment.

The committee keeps under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace. This committee is also responsible for reviewing the effectiveness of the board's operations, including the chairmanship and composition of board committees.

In 2011, the Committee carried out a review of the size and composition of the board and were satisfied that the current board size and composition was appropriate to the circumstances of the Company and that the board had the necessary knowledge, skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out its duties. The Committee reviewed the role of the Chairman and Group Chief Executive and was satisfied that the Chairman and Group Chief Executive met the relevant standards set out respectively in sections 8.3-8.4 and 9.3-9.4 of the CBI Code.

Subject to satisfactory performance, non-executive directors are typically expected to serve two three-year terms, although the board, following rigorous review, may extend an invitation to serve a further three-year term. The form of appointment letter for non-executive directors is available for inspection and is also included on the Group's website (www.irishlifepermanent.ie). The remuneration of the non-executive directors is determined by the board within the parameters decided by the shareholders and on the advice of the Chairman and the Group Chief Executive. The term of office of the Chairman is six years regardless of any previous term as a director.

Under the Articles of Association directors are required to submit themselves to shareholders for re-appointment by election to the board every three years, however the board, in accordance with good corporate governance principles has adopted a practice of all directors submitting themselves for re-appointment by election at each annual general meeting.

Attendance at Scheduled Board and Board Committee Meetings during the year ended 31 December 2011

	Board		Audit		Risk and Compliance		Remuneration & Compensation		Nomination	
	A	B	A	B	A	B	A	B	A	B
Non-executive Directors										
Gillian Bowler	5	5	-	-	-	-	4	3	-	-
Breffni Byrne	9	9	4	4	2	2	-	-	4	4
Bernard Collins	19	19	-	-	2	2	3	3	1	1
Alan Cook	13	12	-	-	-	-	4	3	2	1
Emer Daly	4	4	2	2	3	1	-	-	-	-
Danuta Gray	9	8	-	-	-	-	5	4	4	4
Margaret Hayes	18	18	8	8	-	-	-	-	-	-
Roy Keenan	16	16	7	7	7	7	-	-	5	5
Sandy Kinney	19	18	-	-	9	8	-	-	-	-
Ray MacSharry	18	17	-	-	-	-	8	6	6	4
Pat Ryan	19	19	8	8	9	9	8	8	1	1
Executive Directors										
Kevin Murphy	19	19	-	-	-	-	-	-	-	-
David McCarthy	19	19	-	-	-	-	-	-	-	-

Column A: number of scheduled meetings held during the period the director was a member of the Board and/or Committee.

Column B: number of scheduled meetings attended during the period the director was a member of the Board and/or Committee.

Corporate Governance

Communication with Shareholders

The Group has an ongoing programme of meetings between its senior executives, Government, institutional shareholders, analysts and brokers. These meetings, which are governed by procedures designed to ensure that price sensitive information is not divulged, are wide ranging and are designed to facilitate a two-way dialogue based upon the mutual understanding of objectives.

Major shareholders can meet with the Chairman or the Senior Independent Director on request. In addition, major shareholders are invited to meet newly appointed non-executive directors.

The board is kept appraised of the views of shareholders and the market in general through the feedback from the meetings' programme. Analysts' reports on the company are also circulated to the board members on a regular basis. Finally, the Group periodically commissions independent sample surveys of shareholders and stockbroker analysts to ascertain market perceptions of the Group and any issues arising. The results of these surveys are provided to the board.

The annual report is designed, through the Chairman's Statement and the Business Review, in addition to the detailed financial information contained in the report, to present a balanced and understandable assessment of the Group's position and prospects. The Group uses its internet website (www.irishlifepermanent.ie) to provide information and access to investors. The investor relations section of the website is updated with the company's stock exchange releases and formal presentations to analysts and investors as they are made.

The directors comply with the Code as it relates to the disclosure of proxy votes, the separation of resolutions and the attendance of Committee Chairmen at the annual general meeting.

Internal Control

The board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Code has a requirement for the directors to review annually the effectiveness of the Group's system of internal controls.

This requires a review of the system of internal controls to cover all controls including:

- Financial;
- Operational;
- Compliance; and
- Risk Management.

Formal guidance for directors on the implementation of the requirements entitled "Internal Control: Guidance for Directors on the Combined Code", was published in September, 1999 ("the Turnbull guidance"). The board has established the procedures necessary to implement the Turnbull guidance and was fully compliant with it during 2011 and up to the date of approval of the financial statements.

The Audit Committee has reviewed the effectiveness of this system of internal controls and reported thereon to the board.

The directors have responsibility for maintaining a system of internal controls which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

The board has delegated to executive management the planning and implementation of the system of internal controls within an established framework which applies throughout the Group.

Risk Management

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group for the year under review and up to the date of approval of the financial statements. This risk management process is regularly reviewed by the board in accordance with the guidance provided by Turnbull. The board confirms that no significant control weaknesses were identified in the review process despite the significant challenges posed by the current environment. The Group's approach to risk management is further detailed in the Risk Management section.

The Audit Committee reviews the internal audit programmes. The Head of Group Internal Audit reports regularly to the Audit Committee. The Audit Committee also reviews the half-year and annual financial statements and the nature and extent of the external audit. There are formal procedures in place for the external auditors to report findings and recommendations to the Audit Committee. Any significant findings or identified risks are examined so that appropriate action can be taken.

The Risk and Compliance Committee reviews the compliance and risk management programmes and monitors total risk levels across the Group, in line with the overall policy approved by the board. The Risk and Compliance Committee supports the board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite. The Group Head of Risk and Compliance reports regularly to the Risk and Compliance Committee.

The Group has in place a Speaking Up (or "whistle-blowing") Policy, which allows all staff and other people, who work with or for the Group, to raise any concerns they may have about suspected wrongdoing within the Group, and ensures that anyone raising a concern in good faith can feel safe and confident that the Group will treat the concern seriously, provide adequate protection and ensure fair treatment for the person raising the concern. In addition, the Group has in place a Code of Ethics, which lays down the standards of responsibility and ethical behaviour to be observed by all employees of the Group.

The Group's business involves the acceptance and management of a range of risks. The Group's system of internal controls is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

Internal Control Procedures

The Group's internal control procedures are designed to safeguard the Group's net assets, support effective management of the Group's resources, and provide reliable and timely financial reporting both internally to management and those charged with governance and externally to other stakeholders. They include the following:

- An organisational structure with formally defined lines of responsibility and delegation of authority.
- Established systems and procedures to identify, control and report on key risks. Exposure to these risks will be monitored mainly by the Risk and Compliance Committee through the operations of the committees accountable to it.

  These committees include the Group Credit Committee, the Banking Assets & Liabilities Committee, the Life Assurance Assets & Liabilities Committee, the Group Operational Risk Committee, the Group Counterparty Credit and Market Risk Committee and the Group Compliance Committee. Their activities are described in the Risk Management section. The terms of reference of these committees, whose members include executive directors and senior management, are reviewed regularly by the board.
- The preparation and issue of financial reports, including the consolidated annual accounts is managed by the Group Finance department with oversight from the Audit Committee. The Group's financial reporting process is controlled using documented accounting policies and reporting formats issued by the Group Finance department to all reporting entities (including subsidiaries) within the Group in advance of each reporting period end. The Group Finance department supports all reporting entities with guidance in the preparation of financial information. The process is supported by a network of finance and actuarial managers throughout the Group, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion of reconciliations of financial information to processing systems. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of financial data. The financial information for each entity is subject to a review at reporting entity and Group level by senior management. The half year and annual accounts are also reviewed by the Audit Committee in advance of being presented to the Board for their review and approval.
- Comprehensive budgeting systems are in place with annual financial budgets prepared and approved by the board. Actual results are monitored and there is regular consideration by the board of progress compared with budgets and forecasts.
- There are clearly defined capital investment control guidelines and procedures set by the board.

- Responsibilities for the management of credit, investment and treasury activities are delegated within limits to line management. In addition, Group and divisional management has been given responsibility to set operational procedures and standards in the areas of finance, tax, legal and regulatory compliance, internal audit, human resources and information technology systems and operations.
- The internal audit function, which has a group wide remit, acts as the third line of defence and is responsible for carrying out a risk-based, independent assessment of the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes. The Head of Group Internal Audit reports directly to the Board of Directors through the Audit Committee for audit assurance purposes and to the Group Chief Executive Officer for administrative purposes.
- The Audit Committee reviews the scope and nature of the work of Group Internal Audit on an ongoing basis to confirm its independence and undertakes an independent external review of Group Internal Audit on a regular basis.
- Compliance in the Group is controlled centrally under the Group Head of Risk and Compliance. Divisional compliance officers are in place in all of the Group's operating divisions. The Group Head of Risk and Compliance reports to the Group Chief Executive and the Risk and Compliance Committee and has direct access to the Board Risk and Compliance Committee.
- There is a risk management framework in place in each business throughout the Group whereby executive management reviews and monitors, on an ongoing basis, the controls in place, both financial and non financial, to manage the risks facing that business.

Going Concern

The financial information has been prepared on the going concern basis. In making its assessment of the Group's ability to continue as a going concern, the Board of Directors has taken into consideration the significant economic, political and market risks and uncertainties that currently impact Irish financial institutions and the Group.

The time period that the Board of Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2011 is a period of twelve months from the date of approval of these financial statements ("the period of assessment").

Given the current economic environment in Ireland the Group is increasingly exposed to potential changes in government policy in relation to the economy and the financial sector. Property prices remain weak and unemployment levels remain high which has impacted the Group's impairment provisions and profitability. Based on financial projections prepared by management which take into account the Irish State's indication that it will fund the remaining capital requirement arising from the March 2011 PCAR review together with continued access to Monetary Authorities liquidity support schemes, the Board of Directors are satisfied that the Group has adequate resources, both capital and funding, to meets its immediate and estimated funding requirements for the period of assessment.

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish Banking system agreed in the joint EU/IMF/EC programme of support for Ireland. The Act applies to banks which have received financial support from the State, Building Societies and Credit Unions. The Group by way of the Government Guarantee has received such support.

In July 2011, the Minister of Finance, following a High Court order made under the Credit Institutions (Stabilisation) Act 2010, invested €2.7 billion of capital into the Group, becoming a 99.2% shareholder of the Group. This capital support together with a liability management programme completed in August brought the Bank's equity Tier 1 ratio as at 31 December 2011 to 17.9%, exceeding the minimum 10.5% required by the Central Bank or Ireland. This level of excess regulatory capital will allow for potential impairment losses on the Group's mortgage portfolio together with potential losses arising from the March 2011 PLAR review requirement to deleverage the Group's statement of financial position.

In the Memorandum of Understanding update of 6 March 2012, issued under the EU / IMF / EC Programme of Financial Support for Ireland, the Minister of Finance confirmed that by the end of April 2012 a decision on the proposed way ahead for the Group would be made and by the end of June 2012 a restructuring plan that will detail the actions needed to ensure the bank's long-term viability would be prepared. In this regard, the Group is considering the necessary actions to ensure the bank's long term viability. The future of the Group will be dependent on the outcome of this review. However, it is difficult to predict at this date what the proposed actions following this review will be and what conditions might be imposed on the Group.

The Minister of Finance also confirmed that by the end of June 2012 that the recapitalisation of the Group as identified in the 2011 PCAR would be completed.

The directors have also taken into consideration the following matters in making their assessment of going concern:

- the Irish Government, following a consultation with the Governor of the Central Bank of Ireland, has made an application to the High Court seeking an order directing the Company to enter into a Share Purchase agreement to effect the sale of the Life Group to the State for €1.3 billion. This would meet the remaining capital requirement from the PCAR review and will further strengthen the funding base of the Group's banking business;

- the financial impact of delivering the 2011 PLAR deleveraging plans is difficult to predict given the status of the economic cycle the wider European Union currently operates in. While the Group remains committed to these plans the timing and market in which this deleveraging operates could have a significant impact on the financial performance and capital of the Group;

- the Group's ability to continue to access liquidity and funding, in particular from the European Central Bank and the Central Bank of Ireland (the "Monetary Authorities") liquidity facilities. Any inability to access these facilities would pose a significant liquidity risk the Group. Following downgrading of the Group's credit ratings, the Group's schedule of debt repayments and the Group's inability to raise funds on the wholesale funding markets, the significance of access to funding from the Monetary Authorities has increased. At 31 December 2011 the Group had €11.7 billion of collateralised funding from the European Central Bank and €2.3 billion of special liquidity facilities from the Central Bank of Ireland. Based on the criteria currently applied by the Monetary Authorities, including the recent collateral eligibility changes, the Group's participation in the ECB's 3 year LTRO which optimised the bank's collateral usage, and the potential to restructure existing securitisations to enable them to qualify for ECB eligibility, the Group expects to have sufficient collateral to enable it to continue to access these facilities to meet its immediate and estimated liquidity and funding requirements;

- the potential impact of the significant economic, political and market risks and uncertainties, that are inherent in the Group's businesses and that continue to impact the Group, including further house price falls, continued high level of unemployment together with lower income levels. The risks have a direct impact on the Group's loan arrears levels, impairment provisions and as a consequence profitability and regulatory capital levels; and

- The risk that minimum regulatory capital requirements may increase in the future and that the Central Bank of Ireland may change the manner in which it applies existing regulatory requirements. If the Group is required to increase its capital position there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources.

The risk and uncertainties set out above and the options available to the Group for the period of assessment have been considered by the Board. The Board are satisfied that it is appropriate to prepare the financial statements on a going concern basis in light of the impending sale of the Life Group and its positive impact on capital and internal funding sources, the expected continued availability of Monetary Authorities funding, the excess regulatory capital at the end of 2011, and the review that is being undertaken by the Group to determine the action plans to ensure the bank’s long term viability, which will be agreed with the relevant stakeholders.

Directors' Report on Remuneration

This report sets out the remuneration policy for the Group's senior executives and directors. It has been prepared by the Remuneration and Compensation Committee and approved by the Board.

Remuneration and Compensation Committee

The members of the Remuneration and Compensation Committee are, as outlined in the report on Corporate Governance, Bernard Collins (Chairman), Alan Cook, Ray MacSharry and Pat Ryan. As can be seen from their profiles in the Board of Directors section, each of them brings a wealth of experience in terms of the management and oversight of large consumer-focussed organisations where the remuneration and motivation of staff and executives was of crucial importance. Specific skills in the management and assessment of risk issues were added with Pat Ryan's appointment to the committee in March 2010. The committee had eight scheduled meetings during 2011 and in addition individual members met with senior management and external reward advisers on several occasions to discuss emerging regulatory requirements relating to remuneration issues.

Remuneration policy

During 2010 the committee conducted a review of remuneration policy in light of the requirements of the third capital requirements directive ("CRD III") relating to remuneration. The committee was advised by reward experts Towers Watson.

Arising from the review the governance of remuneration policy and practice has been strengthened with increased Remuneration Committee involvement in oversight and approval of remuneration arrangements. In particular a range of changes in reward practice have been introduced to ensure that the risk dimensions are adequately managed and that the risk adjustment measures are sufficiently strong to reduce excessive risk-taking incentives provided by short-term measures. These include deferral and clawback arrangements. Adjustments have also been introduced in the remuneration practice for key control function staff. Changes and adjustments have been, or are being made, in line with the respective regulatory requirements and effective dates set for banks, insurance undertakings and investment firms.

Specific measures have been introduced to ensure that remuneration packages reflect the current and potential risks involved in the cost and quantity of capital required to support the risks taken, the cost and quantity of the liquidity risks assumed in the conduct of the business and a consistency with the timing and likelihood of potential future revenues.

At an overall level, the committee ensures that the risk appetite statement and business plan informs the remuneration policy. The committee had the remuneration practice for 2011 reviewed and was satisfied that it was "fit for purpose" and fully in line with the risk appetite statement.

In framing the Group's remuneration policy the board confirms that it has complied with the UK Corporate Governance Code. The Group's policy on senior executive remuneration (including executive directors) is to reward executives competitively in order to ensure that the Group continues to attract and retain high calibre executives and that they are properly motivated to perform in line with business strategy, objectives, values and long-term interests of the shareholders mindful of the range of regulatory changes that have taken place and capital requirements and ability to pay. The policy is also designed to ensure that there are adequate succession plans in place. The control function within the Group now makes direct input into compensation issues within the business units. The Group Head of Risk and Compliance meets separately with the committee to discuss risk and compliance issues. The committee will continue to have the reward strategy reviewed on an annual basis to ensure it complies with emerging regulatory developments and relevant market practices.

Non-executive directors

Non-executive directors are remunerated solely by way of fees in respect of their board membership, full details of which are set out below.

Executive directors

The remuneration of the executive directors in 2011 comprises a basic salary, certain benefits and pension entitlements. In addition, executive directors participate in the Group's employee profit-sharing scheme, long-term share incentive awards and share option schemes. Each of these elements is discussed below including details of the total remuneration.

Basic salary

The basic salary is reviewed annually having regard to competitive market practice and Government guidelines. No increases in basic salary were granted to executive directors in 2011.

Benefits

Executive directors are entitled to a company car or a car allowance. The Group also pays private health insurance on behalf of the executive directors and their families. In addition, executive directors may avail of subsidised house purchase loans. Loans to executive directors are on the same terms and conditions as loans to other eligible Irish Life & Permanent Group Holdings plc management.

Bonus and long-term incentive plans

No bonus payments were made to executive directors during 2010 or 2011. The Remuneration and Compensation Committee has asked its reward advisers Towers Watson to review the bonus and long-term incentive policy and make appropriate recommendations having regard to the pensions, insurance, investment management and banking businesses in which the Group operates.

A share-based long-term incentive plan for senior management was approved by shareholders in 2006 and all awards made under the plan have now lapsed. The committee currently has no plans to operate this share-based long-term incentive plan in the future.

This plan enabled awards to be granted to executive directors, in common with other senior executives selected by the Remuneration and Compensation Committee, which would vest for participants on the attainment of certain performance criteria. Awards under the plan would have a three-year performance period and the performance criteria would be:

- 12½% of the share awards vest for cumulative return on capital ("ROC") over the performance period of 48%,
- 50% of the share awards vest for ROC of 60% and awards vest on a linear scale between 12½% and 50% for ROC between 48% and 60%,
- 12½% of the share awards vest if the Total Shareholder Return ("TSR") for the Group at least matches the weighted average TSR of the FTS Eurofirst 300 Banking and Insurance indices,
- 50% of the share awards vest if the TSR for the Group exceeds the weighted average TSR of the FTS Eurofirst 300 Banking and Insurance indices plus 8% p.a. Awards vest on a linear scale between 12½% and 50% for TSR between the two levels specified.

In any financial year the value of an award (based on share price at the date the award would be made multiplied by the number of shares allocated under the award) should not exceed 100% of a participant's salary. The last award under the plan was made in 2008 and this award lapsed on 2 March 2011 having failed to attain the required performance criteria.

Pensions

There are two defined-benefit pension arrangements in place for executive directors:

- Irish Life Assurance plc Pension Scheme - Kevin Murphy and David McCarthy are members of this defined benefit scheme.
- Irish Permanent Executive Pension Scheme - David McCarthy was a member of this defined benefit scheme but his membership of this scheme ceased on 30 November 2011 when he transferred to the Irish Life Assurance plc Pension Scheme.

The Group contributes to these pension schemes. Pension benefits are determined solely in relation to basic salary.

Directors' fees from another company

Where an executive director of the Group is remunerated for service as a non-executive director of another company and retains such remuneration, the amount of this remuneration is disclosed.

The following sections are audited and form part of the financial statements.

Share option schemes

No share options were granted in 2010 or 2011. The Group has two share option schemes in place which conform to the guidelines of the Irish Association of Investment Managers and were approved by the shareholders in 2000 and 2001. The option schemes were designed to encourage staff and in particular senior executives to identify with shareholder interests.

The 2001 scheme is now closed, all share options have lapsed and no further options may be allocated under it. Executive directors, in common with other senior executives, held options under this scheme but these have all lapsed.

The 2000 scheme is now also closed for new option grants, however existing option grants with a price range of €9.675 to €14.85 continue in force. Executive directors and other senior executives hold options under this scheme. Under the 2000 scheme, 50% of the options are exercisable only if growth in the Group's Earnings per Share ("EPS") in the three-year period after grant exceeds growth in the Consumer Price Index ("CPI") plus 5% p.a. compounded over the period. The balance of the options are exercisable in equal instalments after the fourth and fifth anniversary of the date of grant subject to growth in EPS in the three-year period after grant exceeding growth in CPI plus 10% p.a. compounded and EPS growth being in the top 25% of a peer group of financial service companies. Following the introduction of IFRS and as permitted under the scheme the directors have amended the calculation basis for EPS to reflect the EV earnings basis which the directors believe is a more realistic measure of the performance of a life business and is the measure used by the investment community to assess the performance of life businesses. There is no change to the EPS growth criteria.

The requirement that EPS growth be in the top 25% of a peer group of financial services companies has, as permitted under the scheme, been deleted since it is not possible to obtain comparable EPS growth information, following the introduction of IFRS for all quoted companies in Europe in 2005. The performance conditions attached to options granted between 2002 and 2004 have all been achieved and the performance conditions for options granted in 2008 which were due to be measured in 2011 fell away in January 2010 pursuant to a "change in control" clause in their terms following the implementation of a court-sanctioned Scheme of Arrangement. The 2008 options have a current exercise price of €10.377 per share.

Options under the above scheme were issued at the market price on the day preceding the date of the grant. Options are granted at no consideration. The aggregate exercise price of options granted under the share options schemes may not exceed eight times an executive's emoluments. In total, not more than 15% of the issued share capital of the Group can be put under option in any ten-year period. In addition, over any three-year period the number of shares which may be placed under option may not exceed 4.5% of the Group's issued share capital. Options lapse if not exercised within ten years of grant.

Profit-sharing schemes

There were no payouts under the profit-sharing schemes in 2010 or in 2011. The Group operated a Revenue-approved employee profit-sharing scheme on terms approved by the shareholders in 2001. All employees, including executive directors of the company, and certain subsidiaries who meet the criteria laid down in the schemes, could participate in this scheme. This scheme is now closed and no further payouts will be made.

Directors' service contracts

In accordance with the UK Corporate Governance Code there are no directors' service contracts with notice periods exceeding twelve months or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits.

Directors' Report on Remuneration (Audited)

Executive directors' remuneration and pension benefits

The remuneration payable (excluding pension contributions by the Group) to executive directors who held office for any part of the financial year is as follows:

		Salary		**Benefit in kind**		**Other remuneration**		**Total**	
	Note	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
		€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Kevin Murphy	1	**500**	500	**82**	34	**4**	4	**586**	538
David McCarthy		**500**	497	**30**	31	**4**	4	**534**	532
		1,000	997	**112**	65	**8**	8	**1,120**	1,070

Note 1: Kevin Murphy's remuneration does not include fees of €13,500 paid to him in 2011 with respect to his Irish Stock Exchange non-executive directorship.

Aggregate remuneration for executive directors amounted to €1.3m (2010: €1.4m). This figure includes a share option grant expense of €nil (2010: €nil), a long-term incentive plan expense of €nil (2010: €0.1m) and normal pension contributions of €0.2m (2010: €0.2m).

The cost of executive directors is allocated between the company and its principal subsidiaries based on duties carried out for those companies.

The directors' pension benefits under the various defined-benefit pension schemes in which they are members are as follows:

	Increase in accrued pension during the year [1]		**Transfer value of the increase in accrued pension** [2]		**Total accrued pension** [3]	
	2011	2010	**2011**	2010	**2011**	2010
	€000	€000	**€000**	€000	**€000**	€000
Kevin Murphy	**(2)**	8	**(45)**	193	**305**	299
David McCarthy	**5**	11	**79**	153	**236**	225
	3	19	**34**	346	**541**	524

1. Increases are after adjustment for inflation and reflect additional pensionable service and earnings.
2. The transfer value of the increase in accrued benefits represents the amounts that the pension scheme would transfer to another pension scheme, in relation to the benefits accrued during the year in the event of the member leaving service.
3. Total accumulated amounts of accrued benefits payable at normal retirement ages.

Directors' Report on Remuneration (Audited)

Executive directors' share options

	Scheme	As at 1 January 2011	Lapsed during the year	Forfeited during the year	Exercise price	As at 31 December 2011	Earliest exercise date	Latest exercise date
Kevin Murphy								
	2001	**17,418**	17,418	-	13.85	**-**	27/06/2004	26/06/2011
	2000	**17,930**	-	-	14.85	**17,930**	18/04/2005	17/04/2012
	2000	**28,864**	-	-	9.68	**28,864**	08/04/2006	07/04/2013
	2000	**22,620**	-	-	13.21	**22,620**	08/10/2007	07/10/2014
	2000	**48,182**	-	-	10.38	**48,182**	04/03/2011	03/03/2018
		135,014				**117,596**		
David McCarthy								
	2001	**18,564**	18,564	-	13.85	**-**	27/06/2004	26/06/2011
	2000	**25,656**	-	-	14.85	**25,656**	18/04/2005	17/04/2012
	2000	**45,884**	-	-	9.68	**45,884**	08/04/2006	07/04/2013
	2000	**36,336**	-	-	13.21	**36,336**	08/10/2007	07/10/2014
	2000	**30,644**	-	-	10.38	**30,644**	04/03/2011	03/03/2018
		157,084				**138,520**		

The official closing price of the shares at 31 December 2011 was €0.02 (31 December 2010: €1.08) and the price range during 2011 was €0.02 to €1.06 (2010: €0.51 to €3.94). Executive directors' and non-executive directors' shareholdings in the company are detailed in Note 56, related parties of the financial statements.

Long-term incentive plan

Conditional shares awarded under the long-term incentive plan are as follows:

	Granted in 2007	Granted in 2008	Lapsed in 2010	Lapsed in 2011	Total as at 31 December 2011*
Kevin Murphy	26,595	48,182	(26,595)	(48,182)	**0**
David McCarthy	16,914	30,644	(16,914)	(30,644)	**0**

*The awards made in 2008 lapsed on 2 March 2011 having failed to attain the required performance criteria. All awards made under the plan have now lapsed.

Directors' Report on Remuneration (Audited)

Non-executive directors' remuneration

Fees paid to non-executive directors are reviewed annually. Non-executive directors who perform additional services outside the normal duties of a director may receive additional fees. Directors who received additional fees include Roy Keenan as Senior Independent Director, as a member of the Audit Committee and as Chairman of the Audit Committee until his retirement in October 2011, Breffni Byrne as Chairman of the Audit Committee (for five months until his retirement in May 2011), Emer Daly as Chairman of the Audit Committee since October 2011, Pat Ryan as Chairman of the Risk & Compliance Committee and as a member of the Audit Committee and Margaret Hayes as a member of the Audit Committee.

The remuneration payable in respect of each non-executive director is as follows:

	Notes	**2011 €000**	2010 €000
Gillian Bowler	1	**50**	200
Breffini Byrne	2	**35**	84
Bernard Collins	8	**56**	47
Alan Cook	3	**150**	-
Emer Daly	4	**28**	-
Danuta Gray	2	**24**	56
Margaret Hayes		**64**	64
Eamonn Heffernan	5	**-**	25
Roy Keenan	6	**78**	83
Sandy Kinney	9	**56**	19
Ray MacSharry		**56**	56
Liam O'Reilly	5	**-**	25
Pat Ryan	7	**73**	63
		670	722

Note 1: Gillian Bowler retired from the board in April 2011.
Note 2: Breffni Byrne and Danuta Gray retired from the board in May 2011.
Note 3: Alan Cook joined the board in April 2011.
Note 4: Emer Daly joined the board in September 2011.
Note 5: Eamonn Heffernan and Liam O'Reilly retired from the board in May 2010.
Note 6: Roy Keenan retired from the board in October 2011.
Note 7: Pat Ryan became Chairman of the Risk and Compliance Committee during 2011.
Note 8: Bernard Collins joined the board in March 2010.
Note 9: Sandy Kinney joined the board in August 2010.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the consolidated and company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and company financial statements for each financial year. Under company law the directors are required to prepare the consolidated financial statements in accordance with IFRSs, as adopted by the European Union ("EU"), and have elected to prepare the company financial statements in accordance with IFRSs as adopted by the EU and in relation to the company as applied in accordance with the provisions of the Companies Acts, 1963 to 2009. In preparing the consolidated and company financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board ("IASB").

The consolidated and company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the group and company. The Companies Acts, 1963 to 2009 provide in relation to such financial statements, that references in the relevant part of these Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the consolidated and company financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state that the financial statements comply with IFRSs as adopted by the EU, IFRSs issued by the IASB and, in the case of the company as applied in accordance with the Companies Act, 1963 to 2009; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts, 1963 to 2009 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Under applicable law and the requirements of the ESM rules, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration that comply with that law and those rules. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations"), the directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the group and the company and a responsibility statement relating to these and other matters, included below. The directors have also elected to prepare a corporate governance statement.

The directors are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website **www.irishlifepermanent.ie.** Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors, whose names and functions are listed in the Board of Directors section, confirm that to the best of each person's knowledge and belief:

- the consolidated financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the group at 31 December 2011 and its loss for the year then ended;
- the company financial statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2009, give a true and fair view of the assets, liabilities and financial position of the company at 31 December 2011; and
- the directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

30 March 2012

Independent Auditor's Report to the Members of Irish Life & Permanent Group Holdings plc

We have audited the consolidated and company financial statements (the ''financial statements'') of Irish Life & Permanent Group Holdings plc for the year ended 31 December 2011 which comprise the Consolidated and Company Statement of Financial Position, the Consolidated Income Statement, the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely for the company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Independent Auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union and have been properly prepared in accordance with the Companies Acts 1963 to 2009 and, in the case of the consolidated financial statements, Article 4 of the IAS Regulation. We also report to you, in our opinion whether proper books of account have been kept by the company; whether at the financial position date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company Statement of Financial Position is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the ESM regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review, at the request of the directors, whether the Corporate Governance Statement reflects the group's compliance with the nine provisions of the 2008 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only; the Directors' Report, the Overview, including the Chairman's Statement and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditor's Report to the Members of Irish Life & Permanent Group Holdings plc

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2011 and of its loss for the year then ended;
- the company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the company's affairs as at 31 December 2011;
- the consolidated and company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009 and Article 4 of the IAS Regulation; and
- the company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Emphasis of matter – going concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates a number of material economic, political and market risks and uncertainties that impact the group and the Irish banking system. These include the outcome of the decision which the State has indicated in the Memorandum of Understanding issued on 10 February 2012 will be taken in late April 2012 on the way forward for the group and the related actions needed to ensure the long term viability of the group's banking operations, together with the group's continuing ability to access funding from the Eurosystem and the Irish Central Bank to meet its liquidity requirements. These conditions indicate the existence of material uncertainties that may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The Company Statement of Financial Position is in agreement with the books of account.

In our opinion the information given in the Directors' Report and the description in the annual corporate governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated group financial statements is consistent with the financial statements.

The net assets of the company, as stated in the company statement of financial position are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Paul Dobey
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC Dublin 1

30 March 2012

Consolidated Statement of Financial Position
as at 31 December 2011

	Notes	**2011 €m**	2010 €m
Assets			
Cash and balances with central banks	6	**88**	312
Items in course of collection	6	**109**	124
Assets classified as held for sale	5	**28,900**	2,089
Debt securities	7,11	**6,657**	12,098
Equity shares and units in unit trusts	8	-	13,777
Derivative assets	9	**247**	1,255
Loans and receivables to customers	10,11	**33,677**	36,581
Loans and receivables to banks	12	**1,623**	3,565
Investment properties	13	-	1,825
Reinsurance assets	36	-	2,011
Prepayments and accrued income		**190**	385
Interest in associated undertaking	14	-	124
Property and equipment	15	**95**	200
Shareholder value of in-force business	16	-	699
Intangible assets	17	**116**	30
Goodwill	18	-	70
Deferred tax assets	31	**184**	112
Other assets	19	**141**	150
Deferred acquisition costs	20	-	188
Retirement benefit asset	21	**10**	104
Total assets		**72,037**	75,699
Liabilities			
Deposits by banks (including central banks)*	22	**16,966**	17,146
Liabilities classified as held for sale	5	**27,828**	2,041
Customer accounts	23	**14,373**	13,382
Debt securities in issue	24	**8,356**	10,034
Derivative liabilities	9	**300**	503
Investment contract liabilities	25	-	24,067
Insurance contract liabilities	26	-	4,238
Outstanding insurance and investment claims		-	108
Accruals		**99**	158
Other liabilities	28	**137**	321
Provisions	29	**14**	17
Current tax liabilities		-	9
Deferred front end fees	30	-	48
Deferred tax liabilities	31	**-**	172
Retirement benefit liability	21	**130**	153
Subordinated liabilities	32	**317**	1,686
Total liabilities		**68,520**	74,083
Equity			
Share capital	33, 34	**1,212**	89
Share premium	33	**1,495**	364
Other reserves	33	**(991)**	(1,048)
Retained earnings	33	**1,801**	2,211
Total equity		**3,517**	1,616
Total liabilities and equity		**72,037**	75,699

*Deposits by banks (including central banks) includes both €11.7bln (2010: €13.8bln) and €2.3bln (2010: €nil) of ECB and Irish Central Bank funding respectively.

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Consolidated Income Statement
for the year ended 31 December 2011

	Notes	2011 €m	2010 €m
Continuing operations			
Interest receivable	41	**1,363**	1,150
Interest payable	41	**(1,110)**	(845)
Net interest income		**253**	305
Fees and commission income	42	**60**	54
Fees and commission expenses	42	**(12)**	(25)
Trading income	43	**1**	(3)
Other operating income	53	**19**	-
Other operating expense	7	**(38)**	(1)
Gain on subordinated liability management exercise	32	**1,000**	-
Total operating income		**1,283**	330
Administrative expenses	48	**(304)**	(257)
Depreciation and amortisation			
Property and equipment	15, 48	**(13)**	(14)
Intangible assets	17, 48	**(25)**	(6)
Impairment			
Property and equipment	15	**(5)**	-
Assets and liabilities classified as held for sale	5 (d)	**(1)**	(1)
Loss on the disposal of property and equipment	15	**-**	(1)
Total operating expenses		**(348)**	(279)
Operating profit before provisions		**935**	51
Provisions for impairment			
Loans and receivables	11(a)	**(1,434)**	(420)
Repossessed assets	11(c)	**(6)**	-
		(1,440)	(420)
Operating loss before taxation		**(505)**	(369)
Taxation	51	**81**	48
Loss from continuing operations		**(424)**	(321)
Discontinued operations			
(Loss) / profit from discontinued operations	4	**(4)**	193
Loss for the year		**(428)**	(128)
Attributable to:			
Owners of the parent			
Continuing operations		**(424)**	(321)
Discontinued operations		**(4)**	193
		(428)	(128)

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Notes	2011 €m	2010 €m
Loss for the year		**(428)**	(128)
Other comprehensive income			
Continuing operations			
Revaluation of owner occupied property	51	**(5)**	(7)
Currency translation adjustment reserve			
Gains on hedged investment in foreign operations		**-**	2
Losses on hedging of investment in foreign operations		**-**	(2)
		-	-
Change in value of available-for-sale financial assets			
Change in fair value of AFS financial assets	51	**(76)**	(320)
Impairment of AFS securities recycled to income statement	11	**-**	9
Transfer to income statement on asset disposal	51	**37**	-
		(39)	(311)
Amortisation of AFS securities reclassified to loans and receivables	7, 51	**7**	15
		(37)	(303)
Cash flow hedge reserve			
Change in fair value	9	**(2)**	-
Other comprehensive income from continuing operations		**(39)**	(303)
Tax on other comprehensive income	51	**5**	42
Other comprehensive income, net of tax from continuing operations		**(34)**	(261)
Discontinued operations			
Revaluation of owner occupied property	51	**(12)**	(7)
Other comprehensive income from discontinued operations		**(12)**	(7)
Tax on other comprehensive income	51	**2**	1
Other comprehensive income, net of tax, from discontinued operations		**(10)**	(6)
Total comprehensive income for the year		**(472)**	(395)
Attributable to:			
Owners of the parent			
Continuing operations		**(458)**	(582)
Discontinued operations		**(14)**	187
Total comprehensive income for the year		**(472)**	(395)
Earnings per share		**Cent**	Cent
Basic			
From continuing operations	52	**(2.7)**	(118.8)
From discontinued operations	52	**-**	71.4
Diluted			
From continuing operations	52	**(2.7)**	(118.8)
From discontinued operations	52	**(0.0)**	71.4

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Attributable to owners of the parent												
	Share capital €m	Share premium €m	Capital contribution reserve €m	Revaluation reserve €m	Available for sale reserve €m	Cash flow hedge reserve €m	Currency translation adjustment reserve €m	Share based payments reserve €m	Other capital reserves €m	Own share reserve €m	Distributable reserve €m	Non-distributable reserve €m	Total €m
As at 1 January 2011	**89**	**364**	**-**	**56**	**(253)**	**-**	**(2)**	**7**	**(856)**	**(51)**	**442**	**1,820**	**1,616**
Loss for the year	-	-	-	-	-	-	-	-	-	-	(428)	-	(428)
Other comprehensive income (net of tax)													
Revaluation losses (net of tax)	-	-	-	(14)	-	-	-	-	-	-	-	-	(14)
Available for sale reserve:													
Change in value of available for sale financial assets (net of tax)	-	-	-	-	(66)	-	-	-	-	-	-	-	(66)
AFS securities reserve transferred to income statement on disposal (net of tax)	-	-	-	-	32	-	-	-	-	-	-	-	32
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	-	6	-	-	-	-	-	-	-	6
Cash flow hedge reserve:													
Change in fair value (net of tax)	-	-	-	-	-	(2)	-	-	-	-	-	-	(2)
Total other comprehensive income	**-**	**-**	**-**	**(14)**	**(28)**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**(44)**
Total comprehensive income for the year ended 31 December	**-**	**-**	**-**	**(14)**	**(28)**	**(2)**	**-**	**-**	**-**	**-**	**(428)**	**-**	**(472)**
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners													
Issue of share capital (note 34)	1,123	1,131	-	-	-	-	-	-	-	-	-	-	2,254
Capital contribution component of contingent capital notes (note 32)	-	-	132	-	-	-	-	-	-	-	-	-	132
Fair value adjustment of the mandatory conversion feature of contingent capital notes (note 32)	-	-	(14)	-	-	-	-	-	-	-	-	-	(14)
Reversal of share based payment expense on forfeits / lapse options	-	-	-	-	-	-	-	(1)	-	-	1	-	-
Change in own shares at cost	-	-	-	-	-	-	-	-	-	1	-	-	1
Transfer between reserves	-	-	-	(16)	-	-	-	-	-	-	(74)	90	-
Realised loss on own shares	-	-	-	-	-	-	-	-	-	14	(14)	-	-
Balance at 31 December 2011	**1,212**	**1,495**	**118**	**26**	**(281)**	**(2)**	**(2)**	**6**	**(856)**	**(36)**	**(73)**	**1,910**	**3,517**
Of which discontinued operations	**-**	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**-**	**(36)**	**248**	**1,068**	**1,300**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Attributable to owners of the parent										
	Share capital	Share premium	Revaluation reserve	Available for sale reserve	Currency translation adjustment reserve	Share based payments reserve	Other capital reserves	Own share reserve	Distributable reserve	Non-distributable reserve	Total
	€m	€m	€m	€m	€m	€m	€m	€m		€m	€m
As at 1 January 2010	89	135	68	5	(2)	9	7	(66)	703	1,058	2,006
Transactions with owners, recorded directly in equity											
Impact of Scheme of Arrangement											
Cancellation of share capital and share premium	(89)	(135)	-	-	-	(9)	233	-	-	-	-
Issue of share capital of IL&PGH	89	998	-	-	-	9	(1,096)	-	-	-	-
Pre-acquisition reserves of subsidiaries	-	-	-	-	-	-	-	-	(703)	703	-
Court authorised movements in reserves	-	(634)	-	-	-	-	-	-	634	-	-
As at 15 January	89	364	68	5	(2)	9	(856)	(66)	634	1,761	2,006
Loss for the year	-	-	-	-	-	-	-	-	(128)	-	(128)
Other comprehensive income (net of tax)											
Revaluation losses (net of tax)	-	-	(9)	-	-	-	-	-	-	-	(9)
Change in value of AFS financial assets (net of tax)	-	-	-	(279)	-	-	-	-	-	-	(279)
Impairment of AFS securities recycled to income statement (net of tax)	-	-	-	8	-	-	-	-	-	-	8
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	13	-	-	-	-	-	-	13
Total other comprehensive income	-	-	(9)	(258)	-	-	-	-	-	-	(267)
Total comprehensive income for the year ended 31 December	-	-	(9)	(258)	-	-	-	-	(128)	-	(395)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Revaluation losses realised on sale (net of tax)	-	-	(2)	-	-	-	-	-	2	-	-
Revaluation on transfer of held-for-sale assets	-	-	(1)	-	-	-	-	-	1	-	-
Equity-settled transactions	-	-	-	-	-	1	-	-	-	-	1
Release of share option / LTIP reserve	-	-	-	-	-	(3)	-	-	3	-	-
Change in own shares at cost	-	-	-	-	-	-	-	4	-	-	4
Realised loss on own shares	-	-	-	-	-	-	-	11	(11)	-	-
Transfer between reserves	-	-	-	-	-	-	-	-	(59)	59	-
Balance at 31 December 2010	89	364	56	(253)	(2)	7	(856)	(51)	442	1,820	1,616

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	Notes	2011 €m	2010 €m
Cash flows from operating activities			
Loss before taxation for the year		**(509)**	(157)
Adjusted for:			
Depreciation, amortisation and impairment of property, equipment and intangibles		**56**	47
Impairment losses on loans and receivables	11(a)	**1,434**	420
Impairment losses on repossessed assets	11(c)	**6**	
Impairment of assets classified as held for sale	4	**104**	-
Other mortgage related adjustments		**42**	40
Loss on disposal of property and equipment		**-**	1
(Profit) on disposal of subsidiary undertaking	5	**(4)**	-
Fair value losses on investment properties	13,45	**113**	90
Realised and unrealised losses / (profits) on financial assets assets recognised in investment return	45	**884**	(1,431)
Other realised and unrealised (profits) / losses on financial assets excluding trading assets		**(6)**	180
Interest on subordinated liabilities		**45**	50
Interest on VIF Loan		**9**	-
Amortisation of up front payment on VIF Loan		**9**	-
Gain on subordinated liability management exercise	32	**(1,000)**	-
Loss on debt securities buyback programmes	7	**41**	-
Equity-settled share-based payment expenses		**-**	1
Share of results of associated undertaking	14	**(19)**	(9)
Change in investment contract liabilities due to unrealised movements		**-**	(105)
Amortisation of bond discounts		**(42)**	-
Deferred interest costs		**(66)**	-
Other provisions including pensions	21,29	**83**	48
Other non-cash items*		**(8)**	11
(Increase) / decrease in operating assets			
Loans and receivables to banks		**(845)**	(359)
Loans and receivables to customers		**1,536**	1,677
Other financial assets, including derivative assets		**2,405**	2,425
Investment properties		**62**	(145)
Reinsurance assets		**(107)**	(32)
Shareholder value of in-force business		**52**	31
Other assets		**(26)**	(180)
Deferred acquisition costs		**11**	6
Retirement benefit assets		**(14)**	(14)
Increase / (decrease) in operating liabilities			
Deposits by banks (including central banks)		**111**	(1,887)
Customer accounts		**(2,588)**	(1,218)
Debt securities in issue		**(1,400)**	(3,501)
Insurance contract liabilities		**246**	204
Investment contract liabilities		**(2,007)**	2,118
Payables related to direct insurance contracts		**8**	(6)
Deferred front end fees		**(6)**	(7)
Derivative liabilities		**(258)**	(22)
Other liabilities and accruals		**26**	(7)
Provisions used		**(53)**	(70)
Retirement benefit liabilities		**(28)**	(24)
Net cash flows from operating activities before tax		**(1,703)**	(1,825)
Tax paid		**(5)**	2
Net cash flows from operating activities		**(1,708)**	(1,823)

* Other non-cash items principally comprise movements in step up interest costs adjustments and exchange rates.

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	2011 €m	2010 €m
Cash flows from investing activities			
Purchase of property and equipment	15	**(18)**	(14)
Proceeds from sale of property and equipment		**1**	3
Purchase of intangible assets	17	**(12)**	(7)
Investment in restricted cash	6	**(673)**	-
Net cash inflow on sale of subsidiary	5	**19**	
Consideration paid on acquisition of subsidiary	53	**(29)**	-
Cash / loans and receivables to banks acquired as part of acquisition of subsidiary	53	**135**	-
Dividends received from associated undertaking	14	**14**	7
Net cash flows from investing activities		**(563)**	(11)
Cash flows from financing activities			
Net proceeds from share issue	34,35	**2,254**	-
Net proceeds from issue of new subordinated liabilities	32	**394**	-
Redemption of subordinated liabilities	32	**(449)**	-
Interest paid on subordinated liabilities		**(22)**	(49)
Receipt of VIF loan		**-**	100
Payment of up-front interest on VIF loan		**-**	(10)
Repayment of VIF loan		**(100)**	-
Payment of interest and penalties on VIF loan		**(9)**	-
Net cash flows from financing activities		**2,068**	41
(Decrease) in cash and cash equivalents		**(203)**	(1,793)
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents as at 1 January		**1,384**	2,836
(Decrease) in cash and cash equivalents		**(203)**	(1,793)
Effect of exchange translation adjustments		**1**	341
Cash and cash equivalents as at 31 December^**	6	**1,182**	1,384

**The net cash flow excludes restricted cash as per Note 6, Cash and Cash Equivalents.

^ Cash and cash equivalents as at 31 December 2011 includes bank overdraft of€1m classified within Other liabilities as per Note 5(a), Assets and liabilities classified as held for sale.

Company Statement of Financial Position

as at 31 December 2011

	Notes	2011 €m	2010 €m
Assets			
Interest in subsidiary undertakings	14	**1,085**	1,085
Total assets		**1,085**	1,085
Equity			
Share capital	33,34	**1,212**	89
Share premium	33	**1,495**	364
Other reserves	33	**6**	7
Retained earnings	33	**(1,628)**	625
Total equity		**1,085**	1,085
Total liabilities and equity		**1,085**	1,085

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Company Statement of Comprehensive Income
for the year ended 31 December 2011

	Notes	**2011 €m**	2010 €m
Loss for the year	14	**(2,254)**	-
Other comprehensive income		**-**	-
Tax on other comprehensive income		**-**	-
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year		**(2,254)**	-

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Company Statement of Changes in Equity
for the year ended 31 December 2011

	Share capital	Share premium	Share based payments reserve	Other reserves	Distributable reserve	Non-distributable reserve	Total
	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2011	**89**	**364**	**7**	**-**	**625**	**-**	**1,085**
Loss for the year	**-**	**-**	**-**	**-**	**(2,254)**	**-**	**(2,254)**
Other comprehensive income (net of tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year ended 31 December	**-**	**-**	**-**	**-**	**(2,254)**	**-**	**(2,254)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Issue of share capital (note 34)	**1,123**	**1,131**	**-**	**-**	**-**	**-**	**2,254**
Equity settled transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Release of share-based payment expense on forfeits / lapse of options	**-**	**-**	**(1)**	**-**	**1**	**-**	**-**
Balance at 31 December 2011	**1,212**	**1,495**	**6**	**-**	**(1,628)**	**-**	**1,085**

Company Statement of Changes in Equity
for the year ended 31 December 2010

	Share capital	Share premium	Share based payments reserve	Other reserves	Distributable reserve	Non distributable reserve	Total
	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2010	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity							
Impact of Scheme of Arrangement							
Cancellation of shares[1]	-	-	-	-	-	-	-
Investment in IL&P plc[2]	89	998	8	2,489	-	-	3,584
Recognition of distributable reserves[3]	-	(634)	-	-	634	-	-
Impairment of investment in IL&P plc[4]	-	-	1	(2,489)	(9)	-	(2,497)
As at 15 January 2010	89	364	9	-	625	-	1,087
Profit / (loss) for the year	-	-	-	-	-	-	-
Other comprehensive income (net of tax)	-	-	-	-	-	-	
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year ended 31 December	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Equity-settled transactions	-	-	1	-	-	-	1
Release of share-based payment reserve	-	-	(3)	-	-	-	(3)
Balance at 31 December 2010	89	364	7	-	625	-	1,085

1 This is in respect of the purchase and subsequent cancellation of 119,031 ordinary shares, the value of which amounted to €0.038m.

2 The recognition of the issue of shares and share options in return for the investment in Irish Life & Permanent plc on 15 January 2010. The investment of €3,584,366,000 represents the book value of Irish Life & Permanent plc reserves as at 31 December 2008.

3 For the company to have the ability to make distributions to the company's new shareholders who were previously shareholders of Irish Life & Permanent plc, the High Court approved an application to create a distributable reserve (SPA reduction reserve) through a reduction in the share premium account.

4 Following the initial recognition of the company's investment in Irish Life & Permanent plc, an impairment occurred to recognise the investment at its recoverable amount, the market value for Irish Life & Permanent plc on 15 January 2010.

On behalf of the Board

Alan Cook
Chairman

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

Ciarán Long
Company Secretary

Company Statement of Cash Flows
for the year ended 31 December 2011

	Notes	2011 €m	2010 €m
Loss before taxation for the year		**(2,254)**	-
Adjusted for:			
Impairment of investment in subsidiary	14	**2,254**	-
Net cash flows from operating activities before tax		**-**	-
Tax paid		**-**	-
Net cash flows from operating activities		**-**	-
Cash flows from investing activities			
Increase in investment in subsidiary	14	**(2,254)**	-
Net cash flows from investing activities		**(2,254)**	-
Cash flows from financing activities			
Issue of ordinary share capital	34	**2,254**	-
Net cash flows from financing activities		**2,254**	-
Increase / (decrease) in cash and cash equivalents		**-**	-
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents as at beginning of year		**-**	-
Increase / (decrease) in cash and cash equivalents		**-**	-
Cash and cash equivalents at 31 December		**-**	-

Notes to the Group Financial Statements

Notes to the Group Financial Statements

1. Basis of preparation and significant accounting policies

Introduction

Irish Life & Permanent Group Holdings plc is a parent company domiciled in Ireland. The consolidated financial statements for the year ended 31 December 2011 consolidate the individual financial statements ("the financial statements") of the company and its subsidiaries (together referred to as "the group") and show the group's interest in associates using the equity method of accounting.

On 15 January 2010, Irish Life & Permanent plc ("IL&P") was acquired by Irish Life & Permanent Group Holdings plc ("IL&PGH"). On this date under a scheme of arrangement sanctioned by the High Court, 276,782,344 Irish Life & Permanent plc ordinary shares were cancelled and Irish Life & Permanent Group Holdings plc subsequently issued the 276,782,344 ordinary shares to the shareholders of Irish Life & Permanent plc on a one-for-one basis. On the same day, Irish Life & Permanent plc issued 276,782,344 ordinary shares to Irish Life & Permanent Group Holdings plc. Consequently, Irish Life & Permanent plc is a 100% subsidiary of Irish Life & Permanent Group Holdings plc.

The individual and consolidated financial statements of the company were authorised for issue by the directors on 30 March 2012.

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2011 are set out below.

Basis of preparation

As required by European Union (EU) law from 1 January 2005, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. The individual financial statements of the company ("company financial statements") have been prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2009, which permits a company that publishes its company and consolidated financial statements together to take advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members, its company income statement and related notes.

The 2011 IFRS financial information has been prepared on a consistent basis with the annual report and financial statements for 2010 with the exception of amendments to standards applied in the current reporting period as detailed within this note.

Going concern

The time period that the Board of Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2011 is a period of twelve months from the date of approval of these financial statements ("the period of assessment").

Given the current economic environment in Ireland the group is increasingly exposed to potential changes in government policy in relation to the economy and the financial sector. Property prices remain weak and unemployment levels remain high which has impacted the group's impairment provisions and profitability. Based on financial projections prepared by management which take into account the Irish State's indication that it will fund the remaining capital requirement arising from the March 2011 PCAR review together with continued access to Monetary Authorities liquidity support schemes, the Board of Directors are satisfied that the group has adequate resources, both capital and funding, to meets its immediate and estimated funding requirements for the period of assessment.

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish Banking system agreed in the joint EU / IMF / EC programme of support for Ireland. The Act applies to banks who have received financial support from the State, Building Societies and Credit Unions. The group by way of the Government Guarantee has received such support.

In July 2011, the Minister for Finance, following a High Court order made under the Credit Institutions (Stabilisation) Act 2010, invested €2.7bln of capital into the group, becoming a 99.2% shareholder of the group. This capital support together with a liability management programme completed in August brought the Bank's equity Tier 1 ratio as at 31 December 2011 to 17.9%, exceeding the minimum 10.5% required by the Central Bank of Ireland. This level of excess regulatory capital will allow for potential impairment losses on the group's mortgage portfolio together with potential losses arising from the March 2011 PLAR review requirement to deleverage the group's statement of financial position.

In the Memorandum of Understanding update of 6 March 2012, issued under the EU / IMF / EC Programme of Financial Support for Ireland, the Minister of Finance confirmed that by the end of April 2012 a decision on the proposed way ahead for the group would be made and by the end of June 2012 a restructuring plan that will detail the actions needed to ensure the bank's long-term viability would be prepared. In this regard, the group is considering the necessary actions to ensure the bank's long term viability. The future of the group will be dependent on the outcome of this review. However, it is difficult to predict at this date what the proposed actions following this review will be and what conditions might be imposed on the group.

1. Basis of preparation and significant accounting policies (continued)

The Minister for Finance also confirmed that by the end of June 2012 that the recapitalisation of the group as identified in the 2011 PCAR would be completed.

The directors have also taken into consideration the following matters in making their assessment of going concern:

• the Irish Government, following a consultation with the Governor of the Central Bank of Ireland, has made an application to the High Court seeking an order directing the Company to enter into a Share Purchase agreement to effect the sale of the Life Group to the State for €1.3bln. This would meet the remaining capital requirement from the PCAR review and will further strengthen the funding base of the group's banking business;

• the financial impact of delivering the 2011 PLAR deleveraging plans is difficult to predict given the status of the economic environment the wider European Union currently operates in. While the group remains committed to these plans, the timing and market in which this deleveraging operates could have a significant impact on the financial performance and capital of the group;

• the group's ability to continue to access liquidity and funding, in particular from the European Central Bank and the Central Bank of Ireland (the "Monetary Authorities") liquidity facilities. Any inability to access these facilities would pose a significant liquidity risk to the group. Following downgrading of the group's credit ratings, the group's schedule of debt repayments and the group's inability to raise funds on the wholesale funding markets, the significance of access to funding from the Monetary Authorities has increased. At 31 December 2011 the group had €11.7bln of collateralised funding from the European Central Bank and €2.3bln of special liquidity facilities from the Central Bank of Ireland. Based on the criteria currently applied by the Monetary Authorities, including the recent collateral eligibility changes, the group's participation in the ECB's 3 year LTRO which optimised the bank's collateral usage and the potential to restructure existing securitisations to enable them to qualify for ECB eligibility, the group expects to have sufficient collateral to enable it to continue to access these facilities to meet its immediate and estimated liquidity and funding requirements;

• the potential impact of the significant economic, political and market risks and uncertainties, that are inherent in the group's business operations which continue to impact the group, including further house price falls, continued high level of unemployment together with lower income levels. The risks have a direct impact on the group's loan arrears levels, impairment provisions and as a consequence profitability and regulatory capital levels; and

• the risk that minimum regulatory capital requirements may increase in the future and that the Central Bank of Ireland may change the manner in which it applies existing regulatory requirements. If the group is required to increase its capital position there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources.

The risk and uncertainties set out above and the options available to the group for the period of assessment have been considered by the Board. The Board are satisfied that it is appropriate to prepare the financial statements on a going concern basis in light of the impending sale of the Life Group and its positive impact on capital and internal funding sources, the expected continued availability of Monetary Authorities funding, the excess regulatory capital at the end of 2011, and the review that is being undertaken by the group to determine the action plans to ensure the bank's long term viability, which will be agreed with the relevant stakeholders.

Adoption of new accounting standards

The IFRSs adopted by the EU applied by the company and group in the preparation of these consolidated financial statements are those that were effective for accounting periods ending on or before 31 December 2011.

Standards and interpretations which are effective for annual periods beginning on or after 1 July 2010 and have been adopted in the current reporting period are detailed below:

Title	Impact on company and consolidated financial statements
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 3: Business Combinations (Amendment)	This amendment clarifies the amendment to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, which eliminates the exemption for contingent consideration, does not apply to contingent consideration that arose from business combinations whose acquisition date precede the application of IFRS 3 (revised 2008). This amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 3: Business Combinations (Amendment)	The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 3: Business Combinations (Amendment)	The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle the holder to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. This amendment did not have a material impact on the consolidated financial statements of the group.
IAS 27: Consolidated and Separate Financial Statements (Amendment)	The amendment eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under IAS 39. This includes the effect on accumulated foreign exchange differences on such investments. This amendment did not have a material impact on the consolidated financial statements of the group.

1. Basis of preparation and significant accounting policies (continued)

Standards and interpretations which are effective for annual periods beginning on or after 1 January 2011 and have been adopted in the current reporting period are detailed below;

Title	Impact on company and consolidated financial statements
IAS 24: Related Party Disclosures	The definition of related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for the government and government-related entities. For these entities the general disclosures requirements of IAS 24 will not apply. Instead, alternative disclosures will be included. As the group chose to partially early adopt this standard at 31 December 2010, this amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 1: First time adoption of International Financial Reporting Standards	IFRS 1 has been amended to allow first time adopters to utilise the transition provisions in IFRS 7. Normally first time adopters are not permitted to use transition provisions. These provisions give relief from providing comparative information in the disclosures required by the amendment to IFRS 7 in the first year of application. This amendment did not have a material impact on the consolidated financial statements for the group.
IFRS 1: First time adoption of International Financial Reporting Standards (Amendment)	This amendment clarifies that if a first time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 1: First time adoption of International Financial Reporting Standards (Amendment)	This amendment allows first time adopters to use an event driven fair value as deemed cost, even if the event occurs after the date of transition but before the first IFRS financial statements are issued. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 1: First time adoption of International Financial Reporting Standards (Amendment)	This amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRS 7: Financial Instruments: Disclosures (Amendment)	This amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. This amendment did not have a material impact on the consolidated financial statements of the group.
IAS 1: Presentation of Financial Instruments (Amendment)	This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This amendment did not have a material impact on the consolidated financial statements of the group.
IAS 34: Interim Financial Reporting (Amendment)	This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and adds disclosure requirements around: 1) the circumstances likely to affect fair values of financial instruments and their classification; 2) transfers of financial instruments between different levels of the fair value hierarchy; 3) changes in classification of financial assets; and 4) changes in contingent liabilities and assets. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRIC 13: Customer Loyalty Programmes (Amendment)	The amendment clarifies the meaning of fair value in the context of measuring award credits under customer loyalty programmes. This amendment did not have a material impact on the consolidated financial statements of the group.
IFRIC 14: Prepayments of a Minimum Funding Requirement (Amendment)	IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. This amendment did not have a material impact on the consolidated financial statements of the group.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these consolidated financial statements. The group is currently assessing the impact of adopting these amendments, however, they are not expected to have a significant effect on the consolidated financial statements of the group in 2012.

1. Basis of preparation and significant accounting policies (continued)

Comparative amounts
The comparative IFRS financial information for 2010 has been prepared on a consistent basis, with the exception of discontinued operations.

Basis of measurement
The consolidated and company financial statements are presented in millions of Euro. They have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair values: derivative financial instruments, trading financial instruments and other financial instruments designated at fair value through profit or loss, certain risks in hedged financial instruments, financial assets classified as available for sale, investment properties and share-based payments on initial recognition.

In addition, earnings of the life assurance in-force business are included on an embedded value ("EV") basis and where assets and liabilities are classified as held for sale, and are within the measurement provisions of IFRS, they are included at the lower of carrying value and fair value less cost to sell.

(i) Estimates and assumptions
The preparation of financial statements in conformity with IFRSs, as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities that are not objectively verifiable.

Actual results may differ from the estimates made. The estimates and assumptions are reviewed on an ongoing basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by management relate to insurance liabilities, investment valuations and investment contract liabilities, impairment of loans, deferred tax, pension assets and liabilities, assets and liabilities classified as held for sale, interest rates, demographic and other factors. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2, Critical accounting judgements and estimates.

(ii) Accounting for subsidiaries
Consolidated financial statements
Subsidiaries are those entities (including special purpose entities and unit trusts) controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the operating and financial policies of an entity in order to gain economic benefits. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Financial statements of subsidiaries are prepared up to the financial position date.

The result of subsidiaries acquired, other than the combination of Irish Permanent plc and Irish Life plc, are included in the consolidated income statement from the date of acquisition. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control.

The combination of the businesses of Irish Life plc and Irish Permanent plc, which occurred in 1999, has been included in the consolidated financial statements using merger accounting rules whereby the assets and liabilities of the acquired entity were included at their previous carrying amounts as if the businesses had always been combined. The merger adjustment, which is the difference between the fair value of the shares issued to effect the merger and the nominal value of the shares acquired, is dealt with on consolidation through reserves. In accordance with S149 (5) of the Companies Act 1963, pre-acquisition profits of Irish Life plc are presented in accordance with merger accounting rules in retained earnings.

All significant inter-company transactions and balances are eliminated on consolidation.

The group has a controlling interest in an investment unit trust that is consolidated into the consolidated financial statements. The non-controlling interest liability is included in investment contract liabilities.

Company financial statements
Investments in subsidiaries are shown at cost in the company financial statements unless they are impaired, in which case they are recorded at their recoverable amount. Investments in subsidiaries are assessed for impairment when dividends are received from the subsidiary in excess of the underlying subsidiary profit for that year.

(iii) Interest in associates
Associates are entities over which the group has significant influence but which it does not control. Consistent with IAS 28 Investment in Associates, it is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the entity.

Interests in associates are accounted for on consolidation under the equity method. The investment in the associate is initially recorded at cost and increased or decreased each year by the group's share of the post-acquisition profit or loss of the associate and other movements recognised directly in the equity of the associated undertaking. Goodwill arising on the acquisition of an associate is included in the carrying amount of the investment (net of any accumulated impairments).

(iv) Interest in joint ventures
A joint venture is an entity in which the group has joint control. Interests in joint ventures are accounted for on consolidation under the equity method. The investment in the joint venture is initially recorded at cost and increased or decreased each year by the group's share of the post-acquisition profit or loss of the joint venture and other movements recognised directly in other comprehensive income and equity of the joint venture. Goodwill arising on the acquisition of a joint venture is included in the carrying amount of the investment (net of any accumulated impairments).

1. Basis of preparation and significant accounting policies (continued)

(v) Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date (date on which control is transferred), fair value and the amount of non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree at either the fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed to the profit or loss as incurred. The assets and liabilities arising on a business combination are measured at their fair value at the acquisition date. Any contingent consideration to be transferred to the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IAS 39, Financial Instruments: Recognition and Measurement in the income statement.

(vi) Foreign currencies
Foreign currency transactions are translated into the functional currency of the entity at the exchange rate prevailing at the date of the transaction. Monetary and non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the reporting date. Exchange movements on these are recognised in the income statement.
The results and financial position of group entities which have a functional currency different from euro are translated into euro as follows:

- Assets and liabilities, including goodwill and fair value adjustments, are translated at the rates of exchange ruling at the reporting date;
- Income and expenses are translated at the average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of reserves called the currency translation adjustment reserve.

On consolidation, exchange differences arising from the translation of borrowings and currency instruments designated as hedges of the net investment in overseas subsidiaries are also taken to a separate component of other comprehensive income to the extent to which the hedge is deemed to be effective. The ineffective portion of any net investment hedge is recognised in the income statement immediately. On disposal or partial disposal of an overseas subsidiary, the appropriate portion of the separate component of other comprehensive income is included in the gain or loss on disposal.

(vii) Investment properties
Investment properties consist of land and buildings which are held for long-term rental yields and capital growth. Investment properties are carried at fair value with changes in fair value included in the income statement within the net investment return. Valuations are undertaken at least annually by external chartered surveyors at open market value in accordance with IAS 40 Investment Property and with guidance set down by their relevant professional bodies.

(viii) Financial assets
The group classifies its financial assets on initial recognition as held for trading (“HFT”), designated at fair value through profit and loss (“FVTPL”), available for sale (“AFS”), held to maturity (“HTM”) or loans and receivables. All derivatives are classified as HFT unless they have been designated as hedges. Purchases and sales of financial assets are recognised on the trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are initially recorded at fair value. However, with the exception of assets classified as HFT or FVTPL, the initial fair value includes direct and incremental transaction costs. The fair value of assets traded on an active market is based on current bid prices. In the absence of current bid prices, the group establishes a fair value using various valuation techniques. These include recent transactions in similar items, discounted cash flow projections, option pricing models and other valuation techniques used by market participants.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or the group has transferred substantially all the risks and rewards of ownership.

All financial assets attributable to life operations are carried at FVTPL to eliminate an inconsistency that would otherwise arise between the valuation of assets and liabilities.

Debt securities
Debt securities may be classified as HFT, FVTPL, HTM, AFS or loans and receivables.

Debt securities classified as HFT or FVTPL are measured at fair value and transaction costs are taken directly to the income statement.

All debt securities held as part of the group’s life assurance operations are classified as FVTPL. Realised and unrealised gains together with income earned on these assets are shown as investment return in the income statement through profit / loss from discontinued operations.

Where the group’s banking operations hold debt securities as HFT, realised and unrealised gains together with interest are shown as trading income in the income statement.

Debt securities classified as HTM, subsequent to initial recognition, are measured at amortised cost less any allowance for impairment. Income on these investments is recorded on an effective interest basis as interest receivable in the income statement. Impairment losses, where they arise, and foreign exchange movements are reflected in the income statement.

1. Basis of preparation and significant accounting policies (continued)

Debt securities classified as AFS, subsequent to initial recognition, are measured at fair value with unrealised gains and losses, other than currency translation differences, recognised in a separate reserve within other comprehensive income. Realised gains and losses, impairment losses and foreign exchange movements are reflected in the income statement unless the asset is subject to a fair value hedge, in which case changes in fair value resulting from the risk being hedged are recorded in net interest income. Income on debt securities classified as AFS is recognised on an effective interest basis and included as interest receivable in the income statement.

In 2008, in compliance with the amendments to IAS 39 Financial Statements: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (October 2008), the group reclassified debt securities from the available-for-sale category to a loans and receivables category. The securities reclassified meet the qualifying criteria per the amendment to the standard and the group has the intention and the ability to hold these financial assets for the foreseeable future or until maturity. The impact of this reclassification is detailed in Note 7, Debt securities.

Debt securities classified as loans and receivables are measured at amortised cost, based on an effective interest rate which was determined at the date of reclassification.

Equities and units in unit trusts
Equities are classified as HFT or FVTPL. Realised and unrealised gains together with dividend income on equities are reported as net investment return in the income statement. Dividends are recognised in the income statement when the group's right to receive payment is established.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the group has no intention of trading. Loans and receivables, subsequent to initial recognition, are held at amortised cost less allowance for incurred impairment losses unless they are part of a fair value hedge relationship. Income is recognised on an effective interest basis as interest receivable in the income statement.

Where loans and receivables are part of a fair value hedging relationship the accumulated change in the fair value resulting from the hedged risk is recognised together with the movements in the fair value of the related hedging instrument in the income statement.

Cash and cash equivalents
Cash and cash equivalents include liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(ix) Impairment provisions
A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

Payments relating to impaired loans and receivables are used to recognise the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

Individually assessed loans and receivables
Credit exposures are assessed for objective evidence based on current information and events at the date of assessment. The group assesses the key portfolios (ROI and UK residential mortgage loans; Commercial loans; Consumer finance loans) for individual impairment at least quarterly. Each portfolio is assessed based, in the first instance, on the days in arrears. Further individually significant loans are assessed for impairment based on available objective evidence, on a case-by-case basis at each statement of financial position date. Generally ROI mortgages, residential and commercial, and UK buy to let mortgages are individually assessed once they are greater than 90 days in arrears. UK home loans are assessed once they are greater than 180 days in arrears. Objective evidence may include the following:

- Breach of contract such as delinquency in interest or principal repayments;
- Significant financial difficulty of the borrower;
- For reasons relating to the borrower's financial difficulty a concession is granted that would not otherwise be considered;
- It is probable that the borrower will enter bankruptcy or other financial re-organisation; and
- Significant exceptional events.

For those loans where objective evidence of impairment exists, impairment losses are determined by considering the following factors:

- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigants) and likelihood of having to repossess; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Where loans are impaired the written down value of the impaired loan is compounded back to the net realisable balance over time using the effective interest rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount. The impairment provisions on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. Further details are disclosed in Note 36, Financial risk management on key principles applied in respect of property collateral held by the group.

1. Basis of preparation and significant accounting policies (continued)

Collectively assessed loans and receivables

Loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the group has incurred as a result of events occurring before the statement of financial position date, which the group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future.

The collective impairment provision is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the statement of financial position date is likely to be greater or less than that suggested by historical experience.

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in the mortgage loan portfolios are recorded on an individual basis when individual loans are reviewed. At this point, such loans are removed from the group assessed under collective methods.

When appropriate empirical information is available, the group utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and estimated losses to approximate the amount of loans that will eventually be written off as a result of the events occurring before the statement of financial position date which the group is not able to identify on an individual loan basis, and that can be reliably estimated. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, discounted at the effective interest rate of the portfolio, and the carrying amount of the portfolio.

Write-off of loans and receivables

Loans (and the related impairment provisions) are normally written off, either partially or in full, when the loan is deemed uncollectible or forgiven. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. Where there are insufficient funds from the realisation of the security the group must determine whether there is a reasonable expectation of further recovery. Where management determine that there is no realistic expectation of further recovery then the outstanding debt may be written off.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision account accordingly. The write-back is recognised in the income statement.

Restructuring strategies - Residential mortgage loans

Strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements include extended payment terms, a reduction in interest rate or principal repayments, approved external debt management plans, the deferral of restructures on loans, restructures and other modifications.

During the period of restructure, there is no clearing down of arrears such that, unless the customer is paying more than their contractual minimum payment, arrears balances will remain and the loan will continue to be reported as in arrears. When customers come to the end of their arrangement period, depending on their circumstances they may be offered a further arrangement or if not suitable they will continue to be managed as a mainstream collections case and, if unable to recover, will then move towards possession.

Under the group's contractual repayment scheme, customers can have their arrears balance capitalised once they have demonstrated they can pay the original contractual minimum payment, but are unable to clear their arrears. This is usually demonstrated by the customer making four contractual monthly payments over the last six months. Customers are able to recapitalise once over a 24 month period.

(x) Derivative instruments

Derivative instruments are used in both the group's banking and life operations and primarily comprise currency forward rate contracts, currency and interest rate swaps, futures contracts, forward rate agreements and options. All derivatives are classified as HFT unless they have been designated as hedges.

All derivatives are held on the statement of financial position at fair value. Fair values are obtained from quoted prices prevailing in active markets, where available. Otherwise, valuation techniques including discounted cash flow analysis and option pricing models are used to value the instruments.

Gains and losses arising on derivatives held by life operations, which are measured at fair value, are recognised in investment return in the income statement through profit / loss from discontinued operations.

Gains and losses arising from derivatives held for trading are recognised in trading income.

1. Basis of preparation and significant accounting policies (continued)

The group's banking operation designates certain derivatives as either:
- hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
- hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Where derivatives are used as hedges, formal documentation is drawn up at inception of the hedge specifying the risk management objectives, the hedging strategy, the component transactions and the methodology that will be used to measure effectiveness. Assessment of hedge effectiveness is carried out at inception as well as on an ongoing basis of the hedge relationship as to whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80%-125%.

Fair value hedge

Movements in the fair value of derivative hedge positions together with the fair value movement in the hedged risk of the underlying instrument are reflected in the income statement under net interest income and investment return.

Cash flow hedge

The effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and included in the cash flow hedge reserve in the statement of changes in equity. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

The amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, the hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified.

(xi) Leases

Lessee

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease period.

Assets held as finance leases are capitalised and included in property and equipment initially at fair value and subsequently at depreciated cost.

Lessor

Assets leased to customers that transfer substantially all the risks and rewards incidental to ownership to the customer are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any provisions for impaired rentals, within loans and receivables to customers. Leasing income is credited to interest income on an actuarial before-tax net investment basis to give a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included as investment properties. Lease income is recognised on a straight-line basis over the term of the lease.

(xii) Securitised assets

The group has entered into funding arrangements to finance specific loans and receivables to customers. All such financial assets are held on the group statement of financial position and a liability recognised for the proceeds of the funding transactions.

(xiii) Financial liabilities

Financial liabilities include deposits, debt securities issued, customer accounts, subordinated debt issued and contingent capital notes. Derivative liabilities and investment contract liabilities are dealt with under separate accounting policies.

Debt securities and subordinated debt issued are initially recognised on the date that they originated, while all other financial liabilities are recognised initially on the trade date, which is the date the group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, less any directly attributable transaction costs and are subsequently measured at amortised cost and the related interest expense is recognised in the income statement using the effective interest method.

A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire. This may happen when payment is made to the lender; the borrower legally is released from primary responsibility for the financial liability; or if there is an exchange of debt instruments with substantially different terms or a substantial modification of the terms of an existing debt instrument. Derecognition conditions are also satisfied when an entity repurchases its own debt instruments issued previously. When a financial liability is extinguished, any difference between the carrying amount of the financial liability and the consideration paid is recognised in profit and loss.

1. Basis of preparation and significant accounting policies (continued)

A financial liability that is classified as a compound financial instrument, containing both debt and equity features, is separated into its equity and debt components on initial recognition. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. The instrument is fair valued at the date of issue using an appropriate valuation technique in the absence of quoted market prices. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, with related interest recognised in profit or loss. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised in the income statement.

(xiv) Product classifications

In accordance with IFRS 4 Insurance Contracts, the group's life assurance products are classified for accounting purposes as either insurance contracts or investment contracts at inception of the contract. Insurance contracts are contracts which transfer significant insurance risk. Contracts which do not transfer significant insurance risk are investment contracts. The group has a small closed book of insurance contracts which have discretionary participation features, all of these contracts also have significant insurance risk and are therefore classified as insurance contracts.

(xv) Insurance contract liabilities

Insurance contract liabilities are determined by the Appointed Actuary. The liabilities include statutory surpluses which have not been allocated to policyholders as well as an assessment of the cost of any significant investment related future options and guarantees contained within the insurance contracts measured on a market consistent basis. Changes in the liabilities are included in the income statement. Statutory surpluses are determined by the Appointed Actuary following the annual investigations. The Board of Directors, acting upon the advice of the Appointed Actuary, allocate a proportion of the statutory surplus to policyholders through an appropriation of declared bonuses.

(xvi) Liability adequacy tests

The group performs liability adequacy tests on its insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient to cover estimated future cash flows. When performing the liability adequacy tests, the group discounts all contractual cash flows and compares this amount to the carrying value of the liability. Any deficiency is immediately charged to the income statement.

(xvii) Investment contract liabilities

Investment contracts are measured at FVTPL to eliminate an inconsistency that would otherwise arise between the valuation of assets and liabilities. Unit-linked liabilities are valued with reference to the value of the underlying net asset value of the group's unitised investment funds at the financial position date. Non-linked investment contracts are measured based on the value of the liability to the policyholder at the financial position date.

Deposits and withdrawals are accounted for directly in the statement of financial position as movements in the investment contract liabilities.

(xviii) Reinsurance

The group cedes insurance premiums and risk in the normal course of business in order to limit the potential for loss. Outward reinsurance premiums are accounted for in the same period as related premiums for the business being reinsured. Reinsurance assets include amounts due from reinsurance companies in respect of paid and unpaid losses and ceded future life and investment policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated statement of financial position.

(xix) Shareholder value of in-force business

As permitted under IFRS 4 Insurance Contracts, insurance contracts are accounted for in accordance with embedded value methods. The shareholder value of in-force business is calculated in accordance with European Embedded Value ("EEV") principles developed by the European Chief Financial Officers' ("CFO") Forum. These Principles are applied to value insurance contracts classified as 'covered business' according to the Principles. The shareholder value of in-force business is calculated as the sum of:

- the required capital, less the cost of holding required capital; and
- the present value of future shareholder cash flows from in-force business ("PVIF"), including an appropriate deduction for the time value of financial options and guarantees.

The cost of holding required capital is defined as the difference between the amount of the required capital and the present value of future releases, allowing for future investment returns, of that capital.

The shareholders' interest in the value of the in-force business is included as an asset on the statement of financial position and the movement in this asset is reflected in the income statement.

The level of required capital reflects the amount of assets attributed to the insurance contracts in excess of that required to back regulatory liabilities whose distribution to shareholders is restricted. The EEV Principles require this level to be at least the level of solvency capital at which the local supervisory authority is empowered to take action and any further amount that may be encumbered by local supervisory restrictions. In light of this, the Directors have set the level of required capital to be 150% of the regulatory minimum solvency margin requirement at the valuation date, including the additional margin required under the Solvency I rules. The directors consider this to be a conservative level of capital to manage the covered business.

The projection assumptions and derivation of the risk discount rate used to calculate the PVIF are shown in Note 16, Shareholder value of in-force business.

1. Basis of preparation and significant accounting policies (continued)

(xx) Property and equipment
Leasehold premises with initial lease terms of less than fifty years and all other equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the costs of such assets to their residual value over their estimated useful lives, which are assessed annually by the directors.

Freehold premises and leasehold premises with initial lease terms in excess of fifty years are revalued at least annually by external valuers. The resulting increase in value is transferred to a revaluation reserve. The revalued premises, excluding the land element, are depreciated to their residual values over their estimated useful lives, which are assessed annually by the directors.

Subsequent costs are included in the asset's carrying amount, only when it is probable that increased future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

The estimated useful lives are as follows:

Freehold buildings	50 years
Leasehold buildings	50 years or term of lease if less than 50 years
Office equipment	5 - 15 years
Computer hardware	3 - 10 years
Motor vehicles	5 years

(xxi) Goodwill
For acquisitions on or before 1 January 2010, the excess of the cost of a business combination over the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition, of subsidiary undertakings, associated undertakings and other businesses, arising is capitalised as goodwill.
Goodwill arising on the acquisition of shares in subsidiaries and associated undertakings prior to 31 December 1996 was written off against reserves in the year of acquisition.

Goodwill arising on acquisitions between 31 December 1996 and 1 January 2004 was recognised on the statement of financial position and amortised on a straight-line basis over its estimated useful life. The group has availed of the transitional arrangements under IFRS 1 First-time Adoption of International Financial Reporting Standards and accordingly the unamortised goodwill at 1 January 2004 is recognised on the statement of financial position at deemed cost, and accumulated amortisation on goodwill arising before 1 January 2004 has not been reversed.

For acquisitions between 1 January 2004 and 31 December 2009, goodwill is carried on the statement of financial position at cost less any accumulated impairment losses.

For acquisitions on or after 1 January 2010, the group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

The group elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value or at its proportionate share of the recognised amount of identifiable net assets.

Goodwill arising on associates is shown as part of the investment in the associate.

Goodwill is subject to an impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable it is written down through the income statement by the amount of any impairment loss identified in the year.

(xxii) Intangible assets
Software
Computer software is stated at cost, less amortisation and provision for impairment, if any. The external costs and identifiable internal costs of acquiring and developing software are capitalised where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

Capitalised computer software is amortised over three to seven years.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

Core deposit intangible assets
Intangible assets include core deposit intangibles which arise from the acquisition of deposit portfolios. Core deposit intangibles are stated at cost (being its fair value on initial recognition) less amortisation and provision for impairment, if any, and are amortised over five years. They are subject to impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable it is written down through the income statement by the amount of any impairment loss identified in the year.

1. Basis of preparation and significant accounting policies (continued)

Other intangible assets

Other intangible assets relate to the client portfolio acquired on the acquisition of a brokerage company.

Other intangible assets are amortised over twenty years. They are subject to an impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable it is written down through the income statement by the amount of any impairment loss identified in the year.

(xxiii) Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following criteria are met:
- its carrying value will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next twelve months.

When an asset (or disposal group), other than a financial asset or rights under an insurance contract is initially classified as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets are recognised in the income statement. Increases in fair value less costs to sell of such assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative loss previously recognised in respect of the asset.

Where the above conditions cease to be met, the assets (or disposal group) are reclassified out of held for sale and included under the appropriate statement of financial position classifications.

Financial assets within the scope of IAS 39, Financial Instruments: Recognition and measurement, and rights under an insurance contract within the scope of IFRS 4, Insurance contracts continue to be measured in accordance with these standards. Retirement benefit assets and liabilities and investment properties continue to be measured in accordance with IAS 19, Employee Benefits and IAS 40 Investment Properties respectively.

(xxiv) Discontinued operations

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale. Discontinued operations are presented in the income statement (including comparatives) as a separate amount, comprising the total of the post tax profit or loss of the discontinued operations for the period together with any post tax gain or loss recognised on the measurement of fair value less costs to sell, or on disposal of the assets / disposal groups constituting discontinued operations.

(xxv) Retirement benefit obligations

The group has both defined benefit and defined contribution schemes.

The group’s net obligation in respect of the defined benefit schemes is calculated separately for each scheme. The net obligation represents the present value of the obligation to employees in respect of service in the current or prior period less the fair value of the plan assets. The present value of the obligation is calculated annually by external actuaries using the projected unit method. The present value of the obligation is determined by discounting the estimated future cash flows. This discount rate is based on the market yield of high quality corporate bonds that have maturity dates approximating to the terms of the pension liability.

Actuarial gains and losses up to 1 January 2004 have been taken directly to reserves. As permitted under IAS 19, the corridor approach has been adopted for actuarial gains and losses arising since that date. Under the corridor approach actuarial gains and losses are recognised only where the cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligations at that opening financial position date; or
- 10% of the fair value of the scheme assets at that opening financial position date.

The limits are applied separately to each scheme, with any resulting excess actuarial gains or losses recognised in the income statement over the expected remaining service lives of the active members of each scheme.

The current and past service cost, the interest cost of the scheme liabilities and the expected return on scheme assets are recognised in the income statement in the period in which they are incurred.

The group pays contractual contributions in respect of defined contribution plans. These contributions are recognised as employee expenses when the related employee service is received.

1. Basis of preparation and significant accounting policies (continued)

(xxvi) Share-based payments

The group operates a number of equity-settled share option schemes based on non-market vesting criteria. The group has availed of the transitional arrangements under IFRS 1 First-time Adoption of International Financial Reporting Standards and no charge is included for share options granted before 7 November 2002 which had not vested by 1 January 2005. For all other options, the fair value of the options is determined at the date of grant and expensed in the income statement over the period during which the employees become unconditionally entitled to the options. The expense is credited to a separate equity reserve on the statement of financial position. At each year end the group revises its estimate of the number of options that it expects to vest and any adjustment relating to current and past vesting periods is charged to the income statement.

The group operates an equity-settled long-term incentive plan. The plan has grants under both market and non-market vesting criteria. The fair value of conditional shares granted is determined at the date of grant; the value determined with reference to market-vesting criteria is expensed in the income statement over the period from the date of grant to vesting date, the value determined with reference to non-market vesting criteria is expensed in the income statement over the period during which the employees become unconditionally entitled to the shares. The expense is credited to a separate reserve in the statement of financial position. For the grant under non market vesting criteria, at each period end the group revises its estimate of the number of options that it expects to vest and any adjustment relating to current and past vesting periods is charged to the income statement.

(xxvii) Termination payments

Termination payments are recognised as an expense when the group is demonstrably committed to a formal plan to terminate employment before the normal retirement date. Termination payments for voluntary redundancies are recognised where an offer has been made by the group, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

(xxviii) Taxation

Taxation comprises both current and deferred tax. Taxation is recognised in the income statement except where it relates to an item in equity which is recognised directly in equity.

Corporation tax payable is provided on taxable profits at current tax rates (ROI 12.5%, UK 26% from 1 April 2011).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method on all temporary differences except those arising on goodwill not deductible for tax purposes, or where the temporary difference arose on the initial recognition of an asset or liability in a transaction which was not a business combination and which at the time of the transaction affects neither accounting profit or taxable profit. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax liabilities and assets are offset only where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(xxix) Premium income and claims recognition on insurance contracts

Premiums are recognised as revenue in the income statement. Single premiums on insurance contracts are recognised on the date the policy is effective. Regular premiums on insurance contracts are recognised on the date the payments are collected, or on the due date in the case of group contracts.

Claims on insurance contracts are recognised as an expense in the income statement. Claims include payments arising due to death or serious illness, maturity and encashment payments, and regular annuity payments along with claims handling costs. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department.

(xxx) Revenue from investment contracts

Fees charged in respect of investment contracts are recognised when the service is provided. Initial fees, which exceed the level of recurring fees are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management services for institutional fund management are also recognised over the period of the service. Premiums and claims in respect of investment contracts are not included in the income statement but are reported as deposits to and withdrawals from investment contract liabilities in the statement of financial position.

(xxxi) Interest receivable and payable

Revenue on assets classified as HTM and AFS as well as loans and deposits is recognised on an effective interest basis. This calculation takes into account interest received or paid, directly attributable fees and commissions and incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the instrument to the net carrying amount of the financial asset or liability at initial recognition.

(xxxii) Acquisition costs

The costs directly associated with the acquisition of new investment management service contracts are deferred to the extent that they are expected to be recoverable out of future revenues to which they relate.

Such costs are amortised through the income statement over the period in which the revenues on the related contracts are expected to be earned, at a rate commensurate with those revenues.

Deferred acquisition costs are reviewed by category of business at the end of each financial year. Should the circumstances which justified the deferral of costs no longer apply, costs to the extent that they are believed to be irrecoverable, are written off. For insurance contracts, acquisition costs, to the extent that they are deferred, are reflected within the shareholder value of in-force business.

1. Basis of preparation and significant accounting policies (continued)

(xxxiii) Other income and expense recognition
Unless included in the effective interest calculation, fees and commissions receivable and payable are recognised on an accruals basis. Expenses are recognised on an accruals basis.

(xxxiv) Sales and repurchase agreements (including stock borrowing and lending)
Financial assets may be lent for a fee or sold subject to a commitment to repurchase them. Such assets are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the group. The liability to the counterparty is included separately on the statement of financial position as appropriate.

Similarly, where financial assets are purchased with a commitment to resell, or where the group borrows financial assets but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the financial assets are not included in the statement of financial position.

The difference between the sale and repurchase price is recognised in the income statement over the life of the agreements using the effective interest rate. Fees earned on stock lending are recognised in the income statement over the term of the lending agreement. Securities lent to counterparties are also retained on the statement of financial position.

(xxxv) Dividends
Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's shareholders. Interim dividends are recognised in equity in the period in which they are paid.

(xxxvi) Purchases and sales of own shares
As permitted under Irish legislation, a subsidiary of the group holds Irish Life & Permanent Group Holdings plc shares on behalf of life assurance policyholders. These shares are required to be treated as though they were purchased by the company for its own benefit and treated as treasury shares and therefore treated as a deduction in arriving at shareholders' equity rather than as an asset. Under IFRS the cost of the shares is required to be deducted from shareholders' equity. However, as the shares are held on behalf of policyholders the liability to the policyholder is carried at fair value. As a result shareholders' equity is also reduced by the unrealised gain or loss on the shares reflected in the measurement of the liability with changes in the unrealised gain and loss during the year resulting in a gain or loss in the income statement. Shares purchased and held by the employee benefit trust in anticipation of share awards that may vest under the long-term incentive plan are treated as treasury shares and therefore treated as a deduction in arriving at shareholders' equity rather than an asset.

(xxxvii) Netting
Assets, liabilities, income and expenses are shown net where there is a legal right to offset and there is an intention and an ability to settle on a net basis.

2. Critical accounting judgements and estimates

Management discussed and agreed with the Audit Committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates.

Critical accounting judgements made by management in applying the group's accounting policies are set out below.

Insurance and investment contracts

Under IFRS, the group accounts for its insurance contracts using the embedded values, calculated based on the European Embedded Value Principles, and investment contracts are accounted for under IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue. Insurance contracts are defined as those contracts which transfer significant insurance risk. Insurance risk is defined as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. Investment contracts are those contracts which carry no significant insurance risk.

Insurance contracts

The group accounts for its insurance contracts using the embedded value basis of accounting which recognises the present value of in-force business (shareholder value of in-force business) as an asset.

Policyholder liabilities for non-linked insurance contracts are estimated by management. This requires management to estimate future policyholder cash flows and to make assumptions regarding the probability and the timing of the occurrence of the insured event, future investment returns and future expenses. The liability will therefore vary with movements in interest rates and with changes in the actual cost of life assurance and annuity benefits where future mortality experience is uncertain. Management follows industry guidelines in setting assumptions, using standard insurance risk tables amended to reflect the group's own experience and where appropriate makes allowance for expected insurance risk improvements or disimprovements. Assumptions and sensitivities are set out in Note 26, Life insurance contracts including life insurance contracts with discretionary participation features ("DPF").

Reinsurance assets for non-linked insurance contracts require the group to estimate future cash flows from reinsurance contracts. The cash flows make assumptions regarding the probability and the timing of the occurrence of the reinsured event, future investment returns and future expenses. The asset will therefore vary with movements in interest rates and with future changes in actual experience. Management follows industry guidelines in setting assumptions using standard insurance risk tables amended to reflect the group's own experience and where appropriate makes allowance for expected insurance risk improvements or disimprovements.

The shareholder value of in-force business is calculated by projecting future surpluses attributable to shareholders and discounting them to the financial position date. Future surpluses depend inter alia on insurance risk, lapse rates, future investment returns, expenses, reinsurance charges, product charges and taxation. Management estimates the future surpluses using industry standard methodologies having regard to both actual experience and current economic conditions. Surpluses are discounted at a risk-adjusted discount rate which is estimated by management based on current interest rates and an estimated risk margin. There is an acceptable range into which these assumptions can validly fall, and the use of different assumptions may cause the shareholder value of in-force business to differ from that assumed at the financial position date. This could significantly affect the income recognised and the value attributed to the in-force business in the financial statements.

Assumptions and sensitivities are set out in Note 16, Shareholder value of in-force business.

Investment contracts

Investment contracts are accounted for as financial instruments under IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue. These are primarily unit-linked contracts whose value is contractually linked to the fair value of the financial assets within the group's unitised investment funds. Initial fees earned and incremental costs (mainly commission) paid on sale of an investment contract are deferred and recognised over the expected life of the contract. The expected life of the contracts is estimated based on current experience and the term of the contracts and is reviewed at least annually. Changes to the expected life could affect the income and cost recognised and the value of the asset and liability in the financial statements. However, given that any changes to expected life will affect both costs and fees, the net impact is unlikely to be significant.

Impairment losses - loans and receivables

Management reviews the group's loan portfolios to assess impairment at least quarterly. Management exercises judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables.

The most significant judgemental area is the calculation of collective impairment provisions. They are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

2. Critical accounting judgements and estimates (continued)

Impairment losses - loans and receivables (continued)

The methods involve the use of statistically assessed historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. Historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the statement of financial position date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience. The key risk factors in the residential mortgage portfolios are account behavioural trends, collateral valuations and current economic conditions.

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the relevant risk factors.

Given the relative size of the ROI residential mortgage portfolio, the key variables include house price which determine the collateral value supporting loans in such portfolios and rates by which defaulted or delinquent accounts are assumed to return to performing status ("cure rate").
A 5% favourable change in the cure rate will reduce the impairment charge by approximately €77million. The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. If average house prices were 10 per cent lower than current estimate of 55% at 31 December 2011, the impairment charge would increase by approximately €406 million.

The foreclosure costs influence the value of the collateral and a 5% increase in foreclosure costs will result in increasing the impairment charge by €99 million.

A collective provision is made for loan losses that have been incurred but have not been separately identified at the statement of financial position date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the residential mortgage portfolio, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective provisions would result in an increase in the collective provision of approximately €49 million.

Financial instruments

The group carries certain financial assets and liabilities at fair value, including all derivatives as well as assets and liabilities of the life assurance operations. Assets and liabilities are priced using a quoted market price where there is an active market for the instrument or by using a valuation model. Valuation models use data such as interest rate yield curves, equity prices, option volatilities and currency rates. Most of these parameters are directly observable from the market. Changes in the fair value of financial assets of the life assurance operations will largely be offset by corresponding changes in the fair value of liabilities and therefore the net impact on equity is unlikely to be significant.

NAMA bonds acquired as part of the Irish Nationwide Building Society ("INBS") business combination have been classified within the loans and receivables debt securities category as these securities have determinable payments, are not quoted in an active market nor held for trading. On initial recognition these bonds have been measured at fair value using a valuation technique which involved management's judgement in determining key inputs such as cashflows generated by the instrument, a risk free discount rate and suitable credit spreads.

Based on management's judgement, held to maturity ("HTM") debt securities acquired as part of the INBS business combination and those acquired with the proceeds from the issues of the contingent capital notes have been classified within the HTM debt securities category as these securities have fixed or determinable payments, fixed maturity and it is the group's intention and ability to hold these securities until maturity.

Contingent capital notes issued to the Irish Government in July 2011, were fair valued on initial recognition using a discounted cash flow valuation model which involved management's judgement in determining key inputs which were market unobservable. Further details are disclosed in Note 32, Subordinated liabilities.

Assets and disposal groups classified as held for sale

Management have followed the accounting requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations in measuring assets and disposal groups classified as held for sale at the lower of its carrying amount and fair value less costs to sell. Management's judgement is required in determining the fair value of such assets and disposal groups. In making this judgement, management considered various factors including the recoverability of the carrying value of such assets and disposal groups, the financial status and business outlook for the disposal group, industry and sector performance along with recent comparable market transactions.

The extent that the sales proceeds differ with the lower of the carrying value and fair value less costs to sell, will be recognised in the income statement at the date of disposal.

Interest receivable and payable

Revenue on assets classified as HTM, AFS or FVTPL as well as on loans and deposits is recognised on an effective interest basis. This calculation takes into account interest received or paid, fees and commissions attributable to the asset or liability and incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the instrument to the net carrying amount of the financial asset or liability at initial recognition. The expected life is calculated based on current experience. Changes to the expected life could affect the income recognised and the value of the asset in the financial statements.

2. Critical accounting judgements and estimates (continued)

Deferred taxation

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits and the reversals of existing taxable temporary differences.

The most noteworthy judgement relates to management's assessment of the recoverability of the deferred tax asset relating to losses. The most significant tax losses arise in the Republic of Ireland tax jurisdiction and their utilisation is dependent on future taxable profits. There is no time restriction on the utilisation of these losses under current Irish legislation.

The Directors have considered the assumptions underpinning the viability restructuring plan submitted to the Central Bank of Ireland and the Department of Finance in January 2012 and have assessed that future taxable profits will be available to recover the deferred tax asset as set out in Note 31, Deferred taxation.

Retirement benefit obligations

The group operates a number of defined benefit and defined contribution pension schemes. For defined contribution schemes, the pension cost recognised in the income statement represents the contributions payable to the scheme. For defined benefit schemes, actuarial valuation of each of the scheme's obligations using the projected unit method and the fair valuation of each of the scheme's assets are performed annually in accordance with the requirements of IAS 19. The actuarial valuation is dependent upon a series of assumptions, the key ones being discount rates, expected rate of return on plan assets, salary increases, pension increases, rate of price inflation and mortality rates. The discount rate used to calculate the defined benefit scheme liabilities is based on the market yield at the reporting date of high quality bonds with a similar duration to that of the schemes' liabilities.

The returns on Irish and overseas equities are set relative to fixed interest returns by considering the long-term expected equity risk premium. The price inflation assumption reflects long-term expectations of both earnings and retail price inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the group's own experience. The impact on the consolidated income statement and the consolidated statement of financial position could be materially different if a different set of assumptions were used.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the financial position date, adjusted for any historic unrecognised actuarial gains or losses, is recognised as a liability in the statement of financial position. An asset arising, for example, as a result of past over funding or the performance of the plan investments, is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions. To the extent that any unrecognised gains or losses at the start of the measurement year in relation to any individual defined benefit scheme exceed 10% of the greater of the fair value of the scheme assets and the defined benefit obligation for that scheme, a proportion of the excess is recognised in the income statement. Further information on retirement benefit obligations, including assumptions is set out in Note 21, Retirement benefit obligations.

3. Segmental information

Segmental information is presented in respect of the group's business segments.

The segmental information is determined based on internal reporting provided to the Strategy Group, the Chief Operating Decision Maker ("CODM") of the group. All the members of the Strategy Group are members of key management personnel as described in Note 56, Related parties. The members include the Group Chief Executive, the Group Finance Director, the Chief Executive of **permanent tsb**, the Chief Executive of Irish Life Investment Managers, the Chief Executive of Irish Life Retail, the Chief Executive of Irish Life Corporate Business, the Group Head of Risk and Compliance, the Group Head of Human Resources and Organisation Development and the Group Chief Information Officer. The Strategy Group is responsible for implementing the strategic management of the group as guided by the board. The Strategy Group reviews key performance indicators and internal management reports on a monthly and on a quarterly basis.

The accounting policies of the segments are the same as for the group as a whole. Transactions between the reportable segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each reportable segment. Revenue from external parties is measured in a manner consistent with that in the income statement. The primary performance measure utilised by the Strategy Group for the Banking-Ireland and UK reportable segments is net interest receivable. The primary performance measure utilised by the Strategy Group for life assurance and fund management reportable segments is operating profit.

The group is not reliant on revenue from transactions with a single external customer in the current or comparative reporting years.

The group is organised into six reportable segments. Management identifies its reportable operating segments by service line consistent with the reports used by the Strategy Group. The reporting segments represent the revenues generated from the group's products and services. The group's products and services have been aligned with the relevant reporting segments. The CODM of the group continues to review segmental information on the same basis as heretofore, even though certain businesses are held for sale as outlined in Note 5, Assets and liabilities classified as held for sale.

These segments and their respective operations are as follows:

Continuing operations

Banking - Ireland	Retail banking services including current accounts, residential mortgages and other loans to the Irish market and internally to other segments. This includes customer accounts acquired from Irish Nationwide Business Society ("INBS") as disclosed in Note 53, Business combinations.
Banking - UK	Retail banking services including residential mortgages and lending services to the UK market and internally to other segments.

Discontinued operations

The Central Bank of Ireland completed Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group in March 2011. This review determined a gross additional capital requirement of €4bln for the group. To meet this additional capital requirement the group is progressing several initiatives including the sale of Irish Life Limited and its subsidiaries (together the "Life Group").

The Life Group conducts its operations through the following reportable segments:

Life assurance	Includes individual and group life assurance and investment contracts, pensions and annuity business written in Irish Life Assurance plc and Irish Life International Limited (until its disposal on 31 August 2011).
Fund management	Investment management services business provided to corporate, pension and charity clients and internally to Irish Life Assurance plc written in Irish Life Investment Managers Limited.
General insurance	Property and casualty insurance carried out through the group's associate company Allianz-Life Holdings plc.
Brokerage, third party administration and other	This includes a number of small business units including third party life assurance administration, insurance brokerage and other group entities.

3. Segmental information (continued)

The segmental results which relate to the group activities are as follows:

2011

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other [1] €m	Reconciliations / eliminations / consolidation adjustments [2] €m	Total €m	Analysed as to: Continuing Operations €m	Analysed as to: Discontinued Operations €m
Net interest receivable										
- external	145	121	(35)	-	-	-	-	231	253	(52)
- inter-segment	143	(156)	(17)	-	-	-	30	-		
Other non-interest income / (expenses)										
- external	49	-	(106)	-	-	34	-	(23)	49	(72)
- inter-segment	-	-	(16)	-	-	16	-	-		
Premiums on insurance contracts, net of reinsurance	-	-	566	-	-	-	-	566	-	566
Other operating income	19	-	-	-	-	-	-	19	19	-
Other operating expenses	(38)	-	-	-	-	-	-	(38)	(38)	-
Investment return										
- external	-	-	(226)	-	-	-	-	(226)	-	(191)
- inter-segment	-	-	13	-	-	-	(8)	5		
Fees from investment contracts and fund management										
- external	-	-	184	8	-	20	-	212	-	212
- inter-segment	-	-	-	35	-	1	(36)	-		
Change in shareholder value of in-force business	-	-	(52)	-	-	-	-	(52)	-	(52)
Gain on subordinated liability management exercise	1,000	-	-	-	-	-	-	1,000	1,000	-
Total operating income / (expenses)	1,318	(35)	311	43	-	71	(14)	1,694	1,283	411
Claims on insurance contracts, net of reinsurance	-	-	(317)	-	-	-	-	(317)	-	(317)
Change in insurance / investment contract liabilities	-	-	237	-	-	-	-	237	-	237
Investment expenses	-	-	(64)	-	-	-	35	(29)	-	(29)
Administrative expenses	(280)	(12)	(128)	(26)	-	(52)	(19)	(517)	(304)	(213)
Depreciation and amortisation	(38)	-	(14)	(1)	-	(3)	8	(48)	(38)	(10)
Impairment	(6)	-	(2)	-	-	-	-	(8)	(6)	(2)
Total operating (expenses) / income	(324)	(12)	(288)	(27)	-	(55)	24	(682)	(348)	(334)
Operating profit / (loss) before provisions	994	(47)	23	16	-	16	10	1,012	935	77
Impairments	(1,414)	(26)	-	-	-	-	-	(1,440)	(1,440)	-
Operating (loss) / profit	(420)	(73)	23	16	-	16	10	(428)	(505)	77
Share of profits of associated undertaking	-	-	-	-	19	-	-	19	-	19
Gain on disposal of subsidiary undertaking	-	-	4	-	-	-	-	4	-	4
Loss on remeasurement to fair value less costs to sell of discontinued operations	-	-	-	-	-	-	(104)	(104)	-	(104)
Taxation	81	-	3	(2)	-	(2)	1	81	81	-
(Loss) / profit for the year	(339)	(73)	30	14	19	14	(93)	(428)	(424)	(4)

3. Segmental information (continued)

2010

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other [1] €m	Reconciliations/ eliminations / consolidation adjustments [2] €m	Total €m	Analysed as to: Continuing Operations €m	Discontinued Operations €m
Net interest receivable										
- external	152	173	(16)	-	-	-	-	309	305	(33)
- inter-segment	160	(180)	(17)	-	-	-	37	-		
Other non-interest income / (expenses)										
- external	26	-	(101)	-	-	25	-	(50)	26	(76)
- inter-segment	-	-	(17)	-	-	17	-	-		
Premiums on insurance contracts, net of reinsurance	-	-	595	-	-	-	-	595	-	595
Other operating expenses	(1)	-	-	-	-	-	-	(1)	(1)	-
Investment return										
- external	-	-	2,158	-	-	-	-	2,158	-	2,190
- inter-segment	-	-	16	-	-	-	(21)	(5)		
Fees from investment contracts and fund management										
- external	-	-	195	7	-	17	-	219	-	219
- inter-segment	-	-	-	35	-	-	(35)	-		
Change in shareholder value of in-force business	-	-	(31)	-	-	-	-	(31)	-	(31)
Total operating income / (expenses)	337	(7)	2,782	42	-	59	(19)	3,194	330	2,864
Claims on insurance contracts, net of reinsurance	-	-	(304)	-	-	-	-	(304)	-	(304)
Change in insurance / investment contract liabilities	-	-	(2,075)	-	-	-	-	(2,075)	-	(2,075)
Investment expenses	-	-	(84)	-	-	-	35	(49)	-	(49)
Administrative expenses	(243)	(9)	(135)	(25)	-	(41)	(11)	(464)	(257)	(207)
Depreciation and amortisation	(19)	(1)	(19)	(1)	-	(3)	-	(43)	(20)	(23)
Impairment	(1)	-	(2)	-	-	(1)	-	(4)	(1)	(3)
Loss on the disposal of property and equipment	(1)	-	-	-	-	-	-	(1)	(1)	-
Total operating (expenses) / income	(264)	(10)	(2,619)	(26)	-	(45)	24	(2,940)	(279)	(2,661)
Operating profit / (loss) before provisions	73	(17)	163	16	-	14	5	254	51	203
Impairment of loans and receivables	(393)	(27)	-	-	-	-	-	(420)	(420)	-
Operating (loss) / profit	(320)	(44)	163	16	-	14	5	(166)	(369)	203
Share of profits of associated undertaking	-	-	-	-	9	-	-	9	-	9
Taxation	42	5	(16)	(2)	-	(2)	2	29	48	(19)
(Loss) / profit for the year	(278)	(39)	147	14	9	12	7	(128)	(321)	193

3. Segmental information (continued)

2011

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other €m	Reconciliations / eliminations / consolidation adjustments [2] €m	Total €m
Assets								
Interest in associate	-	-	-	-	129	-	(129)	-
Held for sale	59	-	-	-	-	-	28,841	28,900
Other assets	42,777	12,700	29,238	23	-	237	(41,838)	43,137
Total assets	**42,836**	**12,700**	**29,238**	**23**	**129**	**237**	**(13,126)**	**72,037**
Liabilities								
Held for sale	-	-	-	-	-	-	27,828	27,828
Other liabilities	40,568	12,757	28,106	7	-	137	(40,883)	40,692
Total liabilities	**40,568**	**12,757**	**28,106**	**7**	**-**	**137**	**(13,055)**	**68,520**
Equity attributable to owners	**2,268**	**(57)**	**1,132**	**16**	**129**	**100**	**(71)**	**3,517**
Capital expenditure	**16**	**-**	**11**	**1**	**-**	**2**	**-**	**30**

2010

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage and third party administration and other €m	Reconciliations / eliminations / consolidation adjustments[2] €m	Total €m
Assets								
Interest in associate	-	-	-	-	124	-	-	124
Held for sale	4	-	2,087	-	-	-	(2)	2,089
Other assets	43,092	12,782	31,270	21	-	178	(13,857)	73,486
Total assets	43,096	12,782	33,357	21	124	178	(13,859)	75,699
Liabilities								
Held for sale	-	-	2,069	-	-	-	(28)	2,041
Other liabilities	42,969	12,771	30,010	10	-	113	(13,831)	72,042
Liabilities	42,969	12,771	32,079	10	-	113	(13,859)	74,083
Equity attributable to owners	127	11	1,278	11	124	65	-	1,616
Capital expenditure	12	-	7	1	-	1	-	21

3. Segmental information (continued)

[1] **Brokerage / third party administration and other**

Brokerage and third party administration services include:

		Analysed as to:	
		Continuing	**Discontinued**
	2011	**Operations**	**Operations**
	€m	**€m**	**€m**
Profit in respect of insurance brokerage company	**13**	**-**	**13**
Profit in respect of third party administration company	**1**	**-**	**1**

		Analysed as to:	
		Continuing	Discontinued
	2010	Operations	Operations
	€m	€m	€m
Profit in respect of insurance brokerage company	12	-	12
Loss in respect of third party administration company	-	-	-

[2] **Reconciliations / eliminations / consolidation adjustments**

The (negative) / positive return adjustments included on the income statement comprise the following adjustments arising on:

		Analysed as to:	
		Continuing	**Discontinued**
	2011	**Operations**	**Operations**
	€m	**€m**	**€m**
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	**5**	**-**	**5**
Differing accounting treatment for assets and liabilities by the bank and life company*	**9**	**-**	**9**
The allocation of corporate costs, net of tax**	**(22)**	**(16)**	**(6)**
Net loss on remeasurement to fair value less costs to sell of discontinued operations	**(85)**	**-**	**(85)**
	(93)	**(16)**	**(77)**

		Analysed as to:	
		Continuing	Discontinued
	2010	Operations	Operations
	€m	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	(5)	-	(5)
Differing accounting treatment for assets and liabilities by the bank and life company*	26	-	26
The allocation of corporate costs, net of tax**	(14)	(9)	(5)
	7	(9)	16

* The bank carries its liabilities at amortised cost while the corresponding assets in the life company are held at fair value.

** These costs relate to group functions and are included here as they are not allocated for the purpose of segmental reporting by the CODM.

Elimination of inter-group rental expenses is also included as these expenses are not expected to be incurred by continuing operations going forward.

3. Segmental information (continued)

The equity effect of these adjustments on the statement of financial position is detailed below:

	2011	2010
	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	(17)	(22)
Differing accounting treatment for assets and liabilities by the bank and life company	31	22
Net loss on remeasurement to fair value less costs to sell of discontinued operations	(85)	-
	(71)	-

Further eliminations are made on the statement of financial position in respect of the following items:

	2011	2010
	€bln	€bln
The elimination of floating-rate notes issued by special purpose vehicles between Banking Ireland and Banking UK reporting segments but held within the group	(5)	(5)
The elimination of inter-group balances between the Banking Ireland and Banking UK reporting segments.	(7)	(7)
The elimination of inter-group balances between the bank and other group entities	(1)	(2)
	(13)	(14)

- Reconciliations / eliminations / consolidation adjustments include inter-segmental interest receivable and payable on deposits and loans together with inter-segmental commission payments and receipts.

4. Discontinued operations

The Central Bank of Ireland completed its Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group in March 2011. This review determined a gross additional capital requirement of €4bln for the group. To assist in meeting this additional capital requirement the group is progressing several initiatives including the sale of Irish Life Limited and its subsidiaries (together the "Life Group"). The Life Group conducts its operations through the group's life assurance, fund management, general insurance and brokerage, third party administration and other reporting segments. As disclosed in Note 3, Segmental information, these reporting segments of the Life Group have been classified as discontinued operations.

The Life Group's assets and liabilities have been classified and accounted for as a disposal group held for sale as disclosed in Note 5(a), Assets and liabilities classified as held for sale. However, Irish Life International ("ILI") a wholly owned subsidiary of Irish Life Limited, is included below as part of the discontinued operations of the Life Group up to its disposal from the group on 31 August 2011 as disclosed in Note 5(b), Assets and liabilities classified as held for sale.

The results of the discontinued operations included in the consolidated income statement and consolidated statement of comprehensive income are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

(a) (Loss) / profit from discontinued operations

	Notes	**2011**	2010
		€m	€m
Net interest income		**(52)**	(33)
Net fee and commission income		**(72)**	(76)
Premiums on insurance contracts	44	**701**	719
Reinsurers' share of premium on insurance contracts		**(135)**	(124)
Investment return	45	**(191)**	2,190
Fees from investment contracts and fund management		**212**	219
Change in shareholder value of in-force business	16	**(52)**	(31)
Total income		**411**	2,864
Claims on insurance contracts	46	**(504)**	(473)
Reinsurers' share of claims on insurance contracts	26	**187**	169
Change in insurance contract liabilities	26	**(246)**	(204)
Change in reinsurers' share of insurance contract liabilities	26	**114**	72
Change in investment contract liabilities	25	**369**	(1,943)
Administrative expenses		**(213)**	(207)
Depreciation and amortisation to date of classification	15,17	**(10)**	(23)
Investment expenses	47	**(29)**	(49)
Impairment to date of classification			
Property and equipment		**(2)**	(3)
Total expenses		**(334)**	(2,661)
Share of profits of associated undertaking	14(a)	**19**	9
Profit on the disposal of subsidiary undertaking	5(b)	**4**	-
Profit before tax		**100**	212
Attributable income tax (expense)	51	**-**	(19)
Loss on remeasurement to fair value less costs to sell*	5(a),15,17	**(104)**	-
(Loss) / profit from discontinued operations (net of tax)		**(4)**	193

* Relates to €5m impairment of property and equipment, €3m impairment of intangible assets, €70m impairment of goodwill and €26m impairment of Shareholder VIF.
Further details are disclosed in Note 5(a), Assets and liabilities classified as held for sale.

(b) Cash flows from discontinued operations

	2011	2010
	€m	€m
Net cash inflows / (out flows) from operating activities	**272**	(43)
Net cash inflows / (out flows) from investing activities	**19**	(1)
Net cash (out flows) / inflows from financing activities	**(278)**	58
Net cash inflows	**13**	14

5. Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale comprises discontinued operations, non-current assets and non-current liabilities held for sale. As at 31 December 2010, some bank branches and the assets and liabilities of Irish Life International Limited ("ILI") were classified as held for sale. During 2011, the disposal of ILI was completed. As at 31 December 2011, the assets and liabilities of Irish Life Limited and its subsidiaries (together the "Life Group") are classified as a disposal group held for sale and some bank financial assets were classified as held for sale.

The assets and liabilities classified as held for sale are set out below

	2011	2010
	€m	€m
Assets classified as held for sale		
(a) Assets of the Life Group	**28,841**	-
(b) Assets of Irish Life International Limited	**-**	2,085
(c) Bank financial assets	**56**	-
(d) Bank branches	**3**	4
	28,900	2,089
Liabilities classified as held for sale		
(a) Liabilities of the Life Group	**27,828**	-
(b) Liabilities of Irish Life International Limited	**-**	2,041
	27,828	2,041

5. Assets and liabilities classified as held for sale (continued)

(a) Assets and liabilities of the Life Group

The assets and liabilities relating to Irish Life Limited and its subsidiaries (the "Life Group") which consist of the group's life assurance, fund management, general insurance and brokerage, third party administration and other reporting segments, have been classified as a disposal group held for sale. This follows the group's intention to dispose of the Life Group to meet the group's additional capital requirements as outlined in Note 4, Discontinued operations.

The Life Group assets and liabilities have been presented in accordance with the criteria of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations. IFRS 5 requires that the Life Group's assets and liabilities be measured at the lower of their carrying amount and their fair value less costs to sell. Management have assessed the fair value of the Life Group to be €1.3bln which is less than its carrying amount. As such, an impairment of €104m has been recorded against goodwill, property and equipment, intangible assets and shareholder value of in-force business. As a result of this impairment, the value of the Life Group's assets and liabilities disclosed in the table below is the lower of their carrying amount and their fair value less costs to sell.

The assets and liabilities of the Life Group are set out below:

	Notes	**2011**
Assets		**€m**
Cash and balances with central banks	6	**94**
Debt securities*	7	**7,510**
Equity shares and units in unit trusts**	8	**11,792**
Derivative assets	9	**791**
Loans and receivables to banks	12	**3,446**
Investment properties	13	**1,650**
Reinsurance assets	36	**2,118**
Prepayments and accrued income		**185**
Interest in associated undertakings	14	**129**
Property and equipment^^^	15	**75**
Shareholder value of in-force business^^^	16	**621**
Intangible assets^^^	17	**19**
Goodwill^^^	18	**-**
Other assets	19	**133**
Deferred acquisition costs	20	**177**
Retirement benefit assets	21	**101**
Assets classified as held for sale* **		**28,841**
Liabilities		
Deposits by banks^	22	**212**
Derivative liabilities	9	**109**
Investment contract liabilities	25	**22,153**
Insurance contract liabilities	26	**4,484**
Outstanding insurance and investment claims		**115**
Accruals		**35**
Other liabilities^^	28	**268**
Provisions	29	**4**
Current tax liabilities		**8**
Deferred front end fees	30	**42**
Deferred tax liabilities	31	**168**
Retirement benefit liabilities	21	**17**
Subordinated liabilities	32	**213**
Liabilities classified as held for sale* **		**27,828**

* Debt securities include €7,429m listed and €81m unlisted.

** Equity shares and units in unit trusts include €11,711m listed and €81m unlisted.

*** The assets and liabilities shown above exclude net €287m inter-company assets, which are eliminated in the consolidated financial statements.

^These represent loans and borrowings of the Life Group from third party banks.

^^ Included in other liabilities are bank overdrafts of €1m.

^^^These assets have been impaired following the classification of the Life Group as held for sale. Please refer to Note 4, Discontinued operations for further details.

5. Assets and liabilities classified as held for sale (continued)

(b) Assets and liabilities of Irish Life International Limited

Irish Life International Limited ("ILI") was a wholly owned subsidiary of Irish Life Limited. As at 31 December 2010 the assets and liabilities related to ILI were presented as held for sale as described in Note 21 of the Annual Report and Financial Statements 2010, Assets and liabilities classified as held for sale.

On 31 August 2011, ILI was disposed of for sale proceeds of €26m and the settlement of intercompany debt of €32m. A profit on disposal of €4m was recognised in the income statement through profit from discontinued operations as disclosed in Note 4, Discontinued operations.

Analysis of assets and liabilities over which control was lost

	Notes	**31 August 2011 €m**	31 December 2010 €m
Assets*			
Cash and balances with central banks	6	**13**	14
Debt securities	7	**362**	397
Equity shares and units in unit trusts	8	**1,419**	1,470
Loans and receivables to banks	12	**141**	146
Property and equipment	15	**1**	1
Intangible assets	17	**1**	1
Goodwill	18	**5**	5
Other assets	19	**1**	-
Deferred acquisition costs	20	**51**	51
		1,994	2,085
Liabilities			
Derivative liabilities	9	**-**	2
Investment contract liabilities	25	**1,886**	1,978
Outstanding investment claims		**2**	2
Accruals		**1**	2
Other liabilities	28	**5**	11
Deferred front end fees	30	**47**	46
		1,941	2,041

*The assets which the group lost control over (at the end of August) include €4m of inter-company assets.

Profit on disposal of subsidiary undertaking

	2011 €m
Total consideration received (sales proceeds and intercompany debt)	**58**
Transaction costs	**(1)**
Net assets at date of disposal	**(53)**
Profit on disposal	**4**

As disclosed in Note 6, Cash and cash equivalents, €26m sale proceeds received for the disposal of ILI is presented as restricted cash as it is held in an escrow account. Funds are available to be released from this escrow account to the group at various periods depending on whether the purchaser makes a successful claim as outlined in the sales agreement. Please refer to Note 54, Commitments and contingencies for further details.

Net cash inflows on disposal of subsidiary undertaking

	2011 €m
Total consideration received in cash and cash equivalents	**32**
Cash and cash equivalents disposed of	**(13)**
Net cash inflow	**19**

5. Assets and liabilities classified as held for sale (continued)

(c) Bank financial assets

Certain financial assets in respect of lending activities of the banking operation, have been classified as held for sale. To assist in meeting the additional capital requirements following the Central Bank of Ireland's Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group, the group is progressing several initiatives including the sale of certain elements of the banking operation's consumer finance lending book of business. Negotiations with a preferred buyer completed in March 2012 for a significant portion of the banking operation's agri-finance lending book of business which is currently held at fair value less costs to sell in accordance with IFRS 5.

The assets of the bank are set out below:

Assets	**2011**
	€m
Loans and receivables to customers	**56**
	56

(d) Bank branches held for sale

Assets classified as held for sale include bank branches that were closed as part of a restructuring programme in 2010. These branches are presented as held for sale within the Banking - Ireland segment.

During the year ended 31 December 2011, two of the eight branches that were held for sale at 31 December 2010 were sold for a fair value of €0.8m resulting in a gain of €0.45m being recognised in the income statement. Six branches remain unsold at 31 December 2011 due to the challenging property market. However, management remains committed to the disposal of the remaining branches therefore these branches continue to be classified as held for sale.

On 31 December 2011, the remaining six branches were remeasured with a fair value of €2.9m (2010:€4.4m), resulting in an impairment loss of €1m (2010: €1m) being recognised in the income statement.

6. Cash and cash equivalents

	2011	2010
	€m	€m
Cash and balances with central banks	**88**	312
Items in the course of collection	**109**	124
Loans and receivables to banks (note 12) *	**1,592**	935
	1,789	1,371
Cash and bank balances included in assets classified as held for sale (note 5(a))**	**94**	-
Cash and bank balances included in assets classified as held for sale (note 5(b))	**-**	14
	1,883	1,385

*Loans and receivables to banks includes restricted cash of €672m (2010:€nil) which relates to cash held by the group's securitisation entities.
** Cash and bank balances included in assets classified as held for sale (note 5(a)) includes restricted cash of €2m (2010: €1.3m) which relates to client monies held by a brokerage subsidiary and a cash balance of €26m held in an escrow account, as part of the ILI disposal transaction.

At 31 December 2011, bank overdrafts of €1m have been reclassified to liabilities (other liabilities) classified as held for sale as presented in Note 5(a), Assets and liabilities classified as held for sale.

7. Debt securities

	2011 €m	2010 €m
Held to maturity	**845**	-
Available for sale	**2,213**	3,400
Loans and receivables	**3,600**	1,279
Designated at FVTPL	**7,510**	7,822
Reclassification to assets classified as held for sale (note 5(a))	**(7,510)**	-
Reclassification to assets classified as held for sale (note 5(b))	**-**	(397)
Gross debt securities	**6,658**	12,104
Less provision (note 11)	**(1)**	(6)
Net debt securities	**6,657**	12,098

Debt securities amounting to €7,510m (2010: €397m) have been reclassified from the 'Designated at FVTPL' category to assets held for sale as disclosed in Note 5(a) and 5(b), Assets and liabilities classified as held for sale.

Debt securities exclude €318m (2010: €176m) issued by Irish Life & Permanent plc and held by Irish Life Assurance plc which have been eliminated on consolidation.

Continuing operations
The banking operations constitute the continuing operations of the group as disclosed in Note 3, Segmental information.

Debt securities, representing a mix of government gilts and corporate bonds, with a carrying value of €0.3bln (2010: €1.6bln) have been pledged to third parties in sale and repurchase agreements. Debt securities of €6.1bln (2010: €2.2bln) have been pledged against deposits made by the ECB (Note 22, Deposits by banks (including central banks)), which includes €2.7bln of NAMA bonds acquired from INBS as discussed below.

As at 31 December 2011, the amount of debt securities eligible for and remaining available to be used, in sale and repurchase agreements as collateral had a carrying value of €276m (2010: €760m).

Included in held to maturity ("HTM") debt securities of €845m are €429m of gilts and corporate bonds acquired from Irish Nationwide Building Society ("INBS") as disclosed in Note 53, Business combinations. They represent securities with fixed maturities and fixed determinable cashflows, which Irish Life & Permanent plc ("IL&P") has the ability and intention to hold until maturity. The remaining balance of HTM debt securities at year end relate to gilts acquired from the proceeds from the issuance of contingent capital notes as disclosed in Note 32, Subordinated liabilities. Loans and receivables debt securities acquired from INBS includes €2.8bln (acquisition date value) of bonds issued by NAMA. Since market prices are not readily available for these securities, they have been classified within the loans and receivables debt securities.

During the current reporting period, IL&P incurred a loss of €41m as a result of participation in the buy back programme of €77m of debt securities issued by other credit institutions as included in total other operating expense of €38m in the income statement.

During the year ended 31 December 2008 the group availed of the amendment to IAS 39 and IFRS 7 issued in October 2008, effective 1 July 2008, which permitted financial assets classified as available for sale ("AFS") that would have met the definition of loans and receivables, had they not been designated as AFS, to be reclassified out of the AFS category to the loans and receivables category as the group has the intention and ability to hold the financial assets for the foreseeable future or until maturity. No items were reclassified during the current accounting period.

The table below sets out the financial assets reclassified and their carrying and fair values:

	Carrying value		Fair value	
	2011 €m	2010 €m	**2011 €m**	2010 €m
AFS debt securities reclassified to loans and receivables	**853**	1,279	**698**	1,123

The movement in the carrying value of debt securities classified as loans and receivables is included in subsequent tables within this note for both the current and prior reporting periods.

The table below sets out the amounts actually recognised in the income statement and other comprehensive income in respect of assets reclassified out of AFS debt securities into loans and receivables.

	Income statement		Other comprehensive income	
	2011 €m	2010 €m	**2011 €m**	2010 €m
Period before reclassification				
Interest income	**-**	-	**-**	-
Net change in fair value	**-**	-	**-**	-
Period after reclassification				
Interest income	**28**	32	**-**	-
Amortisation	**(7)**	(15)	**7**	15
Total for period after reclassification	**21**	17	**7**	15

7. Debt securities (continued)

The table below sets out the amounts that would have been recognised in the periods following reclassification if the reclassification had not been made:

	Income statement		Other comprehensive income	
	2011	2010	**2011**	2010
	€m	€m	**€m**	€m
Interest income	**28**	32	**-**	-
Fair value movement	**-**	-	**1**	(128)
Cumulative impact	**151**	123	**(155)**	(156)

At the date of reclassification, the effective interest rates on reclassified AFS investment securities ranged from 1.5% to 5% with expected recoverable cash flows of €2,098m.

The group has not reclassified any debt securities from available for sale to loans and receivables during the current and prior years.

The impairment provision is analysed in Note11, Provision for impairment. The group has carried out an impairment assessment on its debt securities held. A transfer of €5m (2010: €13m) from the collective provision to the specific provision has been effected in relation to securities which have been specifically identified as impaired. Subsequently €nil (2010: €9m) of this specific provision was utilised in respect of impaired AFS securities and €5m (2010: €4m) was utilised in respect of impaired debt securities classified as loans and receivables.

The carrying value of debt securities for continuing operations is analysed as follows:

	2011
	€m
Government bonds	**2,402**
NAMA bonds	**2,680**
Bonds issued by credit institutions	**1,085**
Other bonds	**490**
	6,657
Listed	**3,967**
Unlisted	**2,690**
	6,657

The movement in HTM, AFS and loans and receivables securities may be classified as follows:

		2011		2010	
	Held to maturity	**Available for sale**	**Loans and receivables**	Available for sale	Loans and receivables
	€m	**€m**	**€m**	€m	€m
As at 1 January	**-**	**3,400**	**1,279**	5,856	1,570
Exchange differences on monetary assets	**-**	**3**	**2**	8	9
Change in fair value recognised in equity	**-**	**(14)**	**2**	(320)	**-**
Impairment recognised in income statement	**-**	**-**	**(5)**	**-**	(4)
Additions	**826**	**530**	**2,737**	933	**-**
Maturities / disposals	**-**	**(1,726)**	**(458)**	(3,063)	(311)
Effective interest	**19**	**20**	**36**	(14)	**-**
Amortisation to statement of comprehensive income	**-**	**-**	**7**	**-**	15
As at 31 December	**845**	**2,213**	**3,600**	3,400	1,279

Discontinued operations

Under a stock lending agreement, Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 5 (a), Assets and liabilities classified as held for sale, has transferred debt securities to third parties of €551m (2010: €1,225m), but has retained substantially all the risks and rewards associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets, the Life Group continues to recognise these assets within debt securities.

In return the Life Group has accepted financial assets as collateral. The fair value of such collateral that the group holds externally with an agent amounted to €576m (2010: €1,342m). Collateral consists of AAA-rated OECD sovereign debt securities. In addition the external agent has provided an indemnity (at a charge) to make good any losses in excess of the collateral should a counterparty default.

These transactions are conducted under terms that are usual and customary to standard stock lending agreements.

7. Debt securities (continued)

The carrying value of debt securities for the Life Group is analysed as follows:

	2011
	€m
Government bonds	**7,060**
Bonds issued by public boards	**60**
Bonds issued by credit institutions	**387**
Other bonds	**3**
	7,510
Listed	**7,429**
Unlisted	**81**
	7,510

The carrying value of debt securities for the group as a whole as at 31 December 2010 is analysed as follows:

	2010
	€m
Government bonds	9,616
Bonds issued by public boards	78
Bonds issued by credit institutions	1,818
Other bonds	586
	12,098
Listed	11,858
Unlisted	240
	12,098

8. Equity shares and units in unit trusts

	2011	2010
	€m	€m
Designated as FVTPL		
Listed	**11,711**	15,085
Unlisted	**81**	162
Reclassification to assets classified as held for sale (note 5(a))	**(11,792)**	-
Reclassification to assets classified as held for sale (note 5(b))	**-**	(1,470)
	-	13,777

Under a stock lending agreement, Irish Life Limited and its subsidiaries ("the Life Group"), which are the discontinued operations as disclosed in Note 5(a), Assets and liabilities classified as held for sale, has transferred equity shares to third parties of €468m (2010: €641m), but has retained substantially all the risks and rewards associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets, the Life Group continues to recognise these assets within equity shares.

In return the Life Group has accepted financial assets as collateral. The fair value of the segregated collateral that the Life Group holds externally with an agent amounted to €502m (2010: €691m). Segregated collateral consists of AAA-rated OECD sovereign debt securities. In addition the external agent has provided an indemnity (at a charge) to make good any losses in excess of the segregated collateral should a counterparty default.

These transactions are conducted under terms that are usual and customary to standard stock lending agreements.

9. Derivative instruments

The group uses derivatives in both its banking and insurance businesses. Within the banking operations derivatives are used to reduce interest and foreign currency exchange rate exposures (fair value hedges) and to generate incremental income for the group (trading). During 2011, the banking operations commenced using derivatives to reduce interest rate exposures utilising cash flow hedges. In the insurance business derivatives are used to match fixed rate or tracker bond liabilities arising on insurance or investment contracts and within the unitised investment funds which match unit-linked policyholder liabilities as part of the efficient portfolio management of these funds.

Derivatives have also been purchased for Constant Proportion Portfolio Insurance (CPPI) unitised investment funds. In turn, the CPPI counterparty has purchased a zero strike option from the insurance company. In the case of derivatives entered into for the benefit of unit-linked policyholders all of the risks are borne by the policyholder. The insurance business previously had a fair value hedge to reduce interest rate exposure on a subordinated debt issue. All derivatives are carried at fair value. Derivatives not qualifying as fair value or cash flow hedges are classified as trading in the note below. The movement in the valuation of life derivatives is included in investment return.

The derivatives used include:
- Currency forward rate contracts which are commitments to purchase and sell currencies, including undelivered spot transactions;
- Currency and interest rate swaps which are commitments to exchange one set of cash flows for another, for example, fixed interest rates for floating interest rates;
- Futures contracts which may be for currency, interest rates or equity indices and are contractual obligations to pay or receive an amount based on changes in exchange rates, interest rates or equity indices;
- Forward rate agreements which are contracts that give rise to a cash settlement at a future date for the difference between a contracted rate of interest and the interest rate at the date of settlement based on a notional principal amount; and
- Options which are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (a call option) or to sell (a put option) at a set date or during a set period a specific amount of a currency or a financial instrument at a specified price. Options may be traded on an exchange or negotiated between two parties.

Further details on the group's risk management policies are set out in Note 36, Financial risk management.

The fair value of derivative instruments is set out below:

	2011		2010	
	Fair value asset €m	**Fair value liability €m**	Fair value asset €m	Fair value liability €m
Derivatives held by banking operations				
- Designated as fair value hedges	**214**	**159**	256	196
- Designated as cash flow hedges	**-**	**2**	-	-
- Embedded derivatives	**9**	**64**	12	51
- Held for trading	**24**	**75**	92	26
	247	**300**	360	273
Derivatives held by life operations				
- Designated as fair value hedges	**-**	**-**	17	-
- Held for trading	**791**	**109**	878	232
- Reclassification to assets and liabilities classified as held for sale (note 5(a))	**(791)**	**(109)**	-	-
- Reclassification to assets and liabilities classified as held for sale (note 5(b))	**-**	**-**	-	(2)
	-	**-**	895	230
Total derivative instruments	**247**	**300**	1,255	503

Banking operations
The banking operations constitute the continuing operations of the group as disclosed in Note 3, Segmental Information and holds the banking operations derivative instruments.

Fair value hedges
The losses recognised in income on the hedging instruments designated as fair value hedges and the gains on the hedged items recognised in income attributable to the hedged risk are analysed below:

	2011 €m	2010 €m
(Losses) / Gains on hedging instruments	**(237)**	497
Gains / (Losses) on hedged items attributable to hedged risk	**244**	(491)
Net gains	**7**	6

9. Derivative instruments (continued)

Cash flow hedges

Movements in the cash flow hedge reserves are shown in the consolidated statement of changes in equity. The hedged cash flows are expected to impact the consolidated statement of comprehensive income in the following periods:

	2011				
	<1 year	**1-2 years**	**2-5 years**	**>5 years**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Forecast receivable cash flows	**2**	**1**	**1**	**-**	**4**
Forecast payable cash flows	**(3)**	**(2)**	**(1)**	**-**	**(6)**
	(1)	**(1)**	**-**	**-**	**(2)**

The total amount recognised in other comprehensive income during the year was a change of €2m (2010: €nil).

Net investment in foreign operations

The following gains / (losses) have been recorded in other comprehensive income in respect of hedging instruments held to manage the group's net investment in foreign operations in addition to the gains / (losses) on the net investment:

	2011	2010
	€m	€m
Net losses in respect of hedging instruments held for net investment in foreign operations	**-**	(2)
Gains in respect of non-derivative hedged net investment in foreign operations	**-**	2
Gains in respect of unhedged net investment in foreign operations	**-**	-
Total gains in respect of net investment	**-**	2

Fair value and cash flow hedges held by the banking operations are analysed as follows:

	2011			2010		
	Contract / notional amount	**Fair value asset**	**Fair value liability**	Contract / notional amount	Fair value asset	Fair value liability
	€m	**€m**	**€m**	€m	€m	€m
Fair value hedges						
Currency swaps	**1,325**	**46**	**-**	1,651	118	-
Interest rate swaps	**8,119**	**168**	**159**	10,858	138	196
	9,444	**214**	**159**	12,509	256	196
Cash flow hedges						
Interest rate swaps	**145**	**-**	**2**	**-**	**-**	**-**
	145	**-**	**2**	-	-	-

Trading derivatives are analysed below. Generally, derivative assets are matched by derivative liabilities and reflect the closing of trading positions by instruments of equal duration.

	2011			2010		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	€m	**€m**	**€m**	€m	€m	€m
Forwards	**2,904**	**6**	**54**	6,185	84	18
Interest rate swaps	**1,336**	**18**	**21**	391	8	8
	4,240	**24**	**75**	6,576	92	26

9. Derivative instruments (continued)

Life operations

The following derivative instruments are held by Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 5(a), Assets and liabilities classified as held for sale.
The life group derivatives are analysed as follows:

	2011			2010		
	Contract / notional amount €m	**Fair value asset €m**	**Fair value liability €m**	Contract / notional amount €m	Fair value asset €m	Fair value liability €m
Designated as fair value hedges						
- Interest rate swap	**-**	**-**	**-**	300	17	-
	-	**-**	**-**	300	17	-
Held for trading						
- Held in unitised / closed funds for the benefit of policyholders	**5,994**	**728**	**38**	6,343	822	36
- Zero strike option to return growth in unitised fund to CPPI counterparty	**71**	**-**	**71**	196	-	196
- Held to match fixed rate and tracker bond liabilities	**439**	**38**	**-**	505	56	-
- Interest rate swap	**200**	**25**	**-**	-	-	-
	6,704	**791**	**109**	7,044	878	232
Total life operations	**6,704**	**791**	**109**	7,344	895	232

Derivatives held in unitised / closed funds for the benefit of unit-linked policyholders are as follows:

	2011			2010		
	Contract/ notional amount €m	**Fair value asset €m**	**Fair value liability €m**	Contract/ notional amount €m	Fair value asset €m	Fair value liability €m
CPPI	**666**	**688**	**-**	744	778	-
Interest rate swaps	**72**	**-**	**4**	67	-	5
Currency swaps	**4,363**	**30**	**29**	4,424	38	23
Equity futures	**893**	**10**	**5**	1,108	6	8
	5,994	**728**	**38**	6,343	822	36

Derivatives held to match fixed-rate and tracker bond liabilities within life insurance operations are analysed as follows:

	2011			2010		
	Contract / notional amount €m	**Fair value asset €m**	**Fair value liability €m**	Contract / notional amount €m	Fair value asset €m	Fair value liability €m
Over-the-counter ("OTC") options	**439**	**38**	**-**	505	56	-
	439	**38**	**-**	505	56	-

10. Loans and receivables to customers

Continuing operations

The banking operations constitute the continuing operations of the group as disclosed in Note 3, Segmental information.

Loans and receivables by category are set out below:

	2011	2010
	€m	€m
Residential mortgage loans		
Held through special purpose vehicles	**25,698**	26,932
Held directly	**7,473**	7,255
	33,171	34,187
Commercial mortgage loans*	**1,863**	1,904
Consumer finance		
Finance leases	**585**	906
Term loans / other	**412**	467
Gross loans and receivables to customers	**36,031**	37,464
Less allowance for impairment - continuing operations (note 11)	**(2,298)**	(883)
Reclassification to assets classified as held for sale (note 5(c))**	**(56)**	-
Net loans and receivables to customers	**33,677**	36,581

* Commercial mortgage loans exclude loans of €427m (2010: €444m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

** Consumer finance loans of €56m in respect of the group's banking operations have been reclassified to assets classified as held for sale as disclosed in note 5(c), Assets and liabilities classified as held for sale.

Net loans and receivables to customers is analysed as follows:

	2011	2010
	€m	€m
Core	**24,340**	26,585
Non-core	**9,337**	9,996
	33,677	36,581

Core loans and receivables relate to loans and receivables in respect of Residential ROI mortgages and consumer finance (excluding finance leases), while non-core loans and receivables relate to loans and receivables in respect of commercial mortgages, finance leases and UK residential mortgages held by subsidiaries.

Loans and receivables can be analysed into fixed and variable-rate loans as follows:

	2011	2010
	€m	€m
Tracker	**22,780**	24,187
Variable rate	**8,957**	9,679
Fixed rate	**1,940**	2,715
	33,677	36,581

The group has established a number of securitisations which involve the selling of pools of residential mortgages to the special purpose vehicles which issue mortgage-backed floating-rate notes ("notes") to fund the purchase of these mortgage pools. The notes are secured by a first fixed charge over the residential mortgages in each pool. The notes may be sold to investors or held by the group and used as collateral for borrowings.

Details of the residential mortgage pools sold to special purpose vehicles and the notes issued by the special purpose vehicles are included below:

		2011	2010
		€bln	€bln
Residential mortgages held through special purpose vehicles		**25.7**	26.9
Notes issued by special purpose vehicles	- rated	**20.6**	23.4
	- unrated	**4.5**	2.9

10. Loans and receivables to customers (continued)

The notes issued by these special purpose vehicles comprise the following:

	2011 €bln	2010 €bln
- Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position (note 24)	**2.7**	3.0
- Held by the European Central Bank ("ECB") as collateral in respect of funds raised under the Eurosystem funding programme (note 22)[1]	**6.6**	17.7
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements	**5.0**	2.3
- Held by the Irish Central Bank as collateral in respect of funds raised under Emergency Liquidity Assistance	**6.3**	-
- Other		
Available collateral	**-**	0.4
Unrated notes	**4.5**	2.9
	25.1	26.3

[1] See Note 22, Deposits by banks (including central banks) for amounts placed by the ECB with Irish Life & Permanent plc.

Details of provisions for loan impairments are set out in Note 11, Provision for impairment.

At 31 December 2011 and 31 December 2010, the group had no facility and consequently no amounts drawn down under the mortgage-backed promissory note programme with the Central Bank and Financial Services Authority of Ireland ("CBFSAI"). Instead the group were participants in the Central Bank of Ireland's emergency liquidity funding facility.

Finance leases (net of provision) relate to the continuing operations of the group and include the following:

	2011 €m	2010 €m
Finance leases receivables gross of future income		
No later than 1 year	**371**	588
Later than 1 year and no later than 5 years	**119**	312
Later than 5 years	**-**	1
	490	901
Unearned future finance income on finance leases		
No later than 1 year	**(15)**	(30)
Later than 1 year and no later than 5 years	**(8)**	(23)
Later than 5 years	**-**	-
	(23)	(53)
Total	**467**	848
Present value of minimum lease payments analysed by residual maturity		
No later than 1 year	**356**	559
Later than 1 year and no later than 5 years	**111**	288
Later than 5 years	**-**	1
	467	848
Provision for uncollectible minimum payments receivable*	**62**	58
Unguaranteed residual values accruing to the benefit of the group	**n/a**	n/a

*This provision is disclosed in Note 11, Provision for impairment within the non-core 'consumer finance' category.

Finance leases normally have a term of five years or less.

11. Provision for impairment

(A) Loans and receivables to customers

Impairment losses on loans and receivables to customers	2011	2010
	€m	€m
Core	1,206	274
Non-core	228	146
Total Impairment losses	1,434	420

Impairment losses by nature of impairment provision	2011	2010
	€m	€m
Specific	1,177	297
Collective	257	123
Total Impairment losses	1,434	420

Impairment losses on loans and receivables to customers by geographical location	2011	2010
	€m	€m
Republic of Ireland ("ROI")		
Owner occupier	580	155
Buy-to-let	591	88
Commercial	179	105
Consumer finance	58	45
	1,408	393
United Kingdom ("UK")		
Owner occupier	1	1
Buy-to-let	25	26
	26	27
Total impairment losses	1,434	420

The impairment charge increased by €1,014 million to €1,434 million during 2011. This increase was driven primarily by the fall in house prices, the continuing decline in the economic environment that resulted in higher levels of arrears, and also due to the movement in the assessment of provision of accounts at 90 days in arrears from 180 days in arrears in the prior year.

A reconciliation of the provision for impairment losses for loans and receivables is as follows:

Total	2011 ROI Residential	UK Residential	ROI Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
As at 1 January	446	63	223	151	883
Charge for the year (as per Income Statement)	1,171	26	179	58	1,434
Increase due to interest booked but not recognised	53	-	15	-	68
Unwinding of discount	(38)	-	(11)	-	(49)
Write down of provision used	(3)	(13)	-	(24)	(40)
Exchange movements	-	2	-	-	2
As at 31 December	1,629	78	406	185	2,298

Core	2011 ROI Residential mortgages	UK Residential mortgages	ROI Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
As at 1 January	446	-	-	93	539
Charge for the year (as per Income Statement)	1,171	-	-	35	1,206
Increase due to interest booked but not recognised	53	-	-	-	53
Unwinding of discount	(38)	-	-	-	(38)
Write down of provision used	(3)	-	-	(5)	(8)
As at 31 December	1,629	-	-	123	1,752

11. Provision for impairment (continued)

Non-core	**ROI Residential mortgages**	**UK Residential mortgages**	**2011 ROI Commercial**	**Consumer finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
As at 1 January	**-**	**63**	**223**	**58**	**344**
Charge for the year (as per Income Statement)	**-**	**26**	**179**	**23**	**228**
Increase due to interest booked but not recognised	**-**	**-**	**15**	**-**	**15**
Unwinding of discount	**-**	**-**	**(11)**	**-**	**(11)**
Write down of provision used	**-**	**(13)**	**-**	**(19)**	**(32)**
Exchange movements	**-**	**2**	**-**	**-**	**2**
As at 31 December	**-**	**78**	**406**	**62**	**546**

Analysis of charge to income statement

	Specific	**2011 Collective**	**Total**
	€m	**€m**	**€m**
Impairment losses	**1,177**	**257**	**1,434**
As at 31 December	**1,177**	**257**	**1,434**

Total	ROI Residential mortgages	UK Residential mortgages	2010 ROI Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
As at 1 January	194	42	113	128	477
Charge for the year (as per Income Statement)	243	27	105	53	428
Recoveries	-	-	-	(8)	(8)
Increase due to interest booked but not recognised	26	-	12	-	38
Unwinding of discount	(16)	-	(7)	-	(23)
Write down of provision used	(1)	(6)	-	(22)	(29)
As at 31 December	446	63	223	151	883

Core	ROI Residential mortgages	UK Residential mortgages	2010 ROI Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
As at 1 January	194	-	-	66	260
Charge for the year (as per Income Statement)	243	-	-	31	274
Increase due to interest booked but not recognised	26	-	-	-	26
Unwinding of discount	(16)	-	-	-	(16)
Write down of provision used	(1)	-	-	(4)	(5)
As at 31 December	446	-	-	93	539

Non-core	Residential mortgages	Residential mortgages	2010 ROI Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
As at 1 January	-	42	113	62	217
Charge for the year (as per Income Statement)	-	27	105	22	154
Recoveries	-	-	-	(8)	(8)
Increase due to interest booked but not recognised	-	-	12	-	12
Unwinding of discount	-	-	(7)	-	(7)
Write down of provision used	-	(6)	-	(18)	(24)
As at 31 December	-	63	223	58	344

Analysis of charge to income statement

	Specific	2010 Collective	Total
	€m	€m	€m
Impairment losses	305	123	428
Recoveries	(8)	-	(8)
As at 31 December	297	123	420

11. Provision for impairment (continued)

Impaired loans for which provisions are held

The table below reflects impaired loans for which provisions are held and an analysis of individually and collectively assessed provision balances across the loans and receivables portfolio.

			2011				
	Loans and receivables	**Impaired loans**	**Impaired Loans as % total loans**	**Provision individually assessed**	**Provision collectively assessed**	**Total impairment provision**	**Provision as % impaired loans**
	€m	**€m**	**%**	**€m**	**€m**	**€m**	**%**
ROI:							
Owner occupier	**18,740**	**1,728**	**9%**	**656**	**199**	**855**	**49%**
Buy-to-let	**6,679**	**1,381**	**21%**	**623**	**151**	**774**	**56%**
UK:							
Owner occupier	**445**	**7**	**2%**	**2**	**1**	**3**	**43%**
Buy-to-let	**7,048**	**92**	**1%**	**59**	**16**	**75**	**82%**
Commercial	**1,863**	**637**	**34%**	**366**	**40**	**406**	**64%**
Consumer finance							
Finance leases	**585**	**67**	**11%**	**20**	**42**	**62**	**93%**
Term loans / other	**412**	**118**	**29%**	**-**	**123**	**123**	**104%**
Total gross lending	**35,772**	**4,030**	**11%**	**1,726**	**572**	**2,298**	**57%**
Impairment provision	**(2,298)**						
Reclassification to assets classified as held for sale (note 5(c))	**(56)**						
Deferred fees, discounts & fair value adjustments	**259**						
At 31 December	**33,677**	**4,030**	**12%**	**1,726**	**572**	**2,298**	**57%**

			2010				
	Loans and receivables	Impaired loans	Impaired Loans as % total loans	Provision individually assessed	Provision collectively assessed	Total impairment provision	Provision as % impaired loans
	€m	€m	%	€m	€m	€m	%
ROI:							
Owner occupier	19,490	586	3%	190	84	274	47%
Buy-to-let	6,850	406	6%	131	41	172	42%
UK:							
Owner occupier	463	15	3%	5	1	6	40%
Buy-to-let	7,064	96	1%	42	15	57	59%
Commercial	1,904	280	15%	163	60	223	80%
Consumer finance							
Finance leases	907	69	8%	14	44	58	84%
Term loans / other	468	86	18%	-	93	93	108%
Total gross lending	37,146	1,538	4%	545	338	883	57%
Impairment provision	(883)						
Deferred fees, discounts & fair value adjustments	318						
At 31 December	36,581	1,538	4%	545	338	883	57%

(B) Debt securities

		2011			2010	
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
As at 1 January	**-**	**6**	**6**	-	19	19
Transfer from collective to specific provision	**5**	**(5)**	**-**	13	(13)	-
Provision utilised - AFS securities*	**-**	**-**	**-**	(9)	-	(9)
Amounts written off during the year - Loans and receivables	**(5)**	**-**	**(5)**	(4)	-	(4)
As at 31 December	**-**	**1**	**1**	-	6	6

* Offset against impairment recycled from other comprehensive income.

(C) Repossessed Assets

In 2011, the group impaired its repossessed assets by €6m (2010: €nil). The impairment charge on repossessed assets include a charge for residential properties of €4m and commercial properties of €2m.

12. Loans and receivables to banks

	2011 €m	2010 €m
Held at amortised cost		
Repayable on demand (note 6)	**1,592**	935
Other loans and receivables to banks	**31**	36
	1,623	971
Designated as FVTPL		
Life operations deposits with banks	**3,446**	2,740
Reclassification to assets classified as held for sale (note 5(a))	**(3,446)**	-
Reclassification to assets classified as held for sale (note 5(b))	**-**	(146)
	1,623	3,565

Loans and receivables to banks amounting to €3,446m (2010: €146m) have been reclassified from the 'Designated as FVTPL' category to assets classified as held for sale as disclosed in Note 5, Assets and liabilities classified as held for sale.

During the current reporting period, the group acquired €135m of loans and receivables to banks from Irish Nationwide Building Society ("INBS"). Further details are outlined in Note 53, Business combinations.

13. Investment properties

Investment properties relates to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale.

	2011	2010
	€m	€m
As at 1 January	**1,825**	1,769
Additions	**58**	241
Additions from subsequent expenditure	**2**	2
Disposals	**(122)**	(97)
Fair value adjustments	**(113)**	(90)
Reclassification to assets classified as held for sale (note 5(a))	**(1,650)**	-
As at 31 December	**-**	1,825

Investment property is held for capital appreciation and income and is let on a commercial basis to third parties. Investment property is carried at fair value as determined by an independent valuer who has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuers apply the Royal Institution of Chartered Surveyors ("RICS") guidance in determining the fair value of properties. In the RICS standards, market value is defined as “the estimated amount for which property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”. The guidance set down by the RICS standards is consistent with fair value as defined within the accounting standards. Fair value takes into account recent occupancy and rental levels and is based on yields which are applied to arrive at the property valuation.

The Irish property investment market continues to suffer from illiquidity and uncertainty around the Irish economy following the EU / IMF Programme of Financial Support for Ireland. The Government’s proposal to legislate to end upward only rent reviews for existing leases has generated increased uncertainty and deterred overseas investor interest. This was only formally withdrawn in the December 2011 annual budget.

The Investment Property Databank ("IPD") provides a benchmark for the institutional commercial property investment market. The total IPD return for the Irish market for 2011 was negative 2.4% (2010: negative 2.4%). The UK market has continued to see a good level of investment transactional activity albeit the weight of investor demand has reduced. This has led to a stabilisation in yield over recent months following a period of yield compression. The UK IPD total return for 2011 was positive 8.1% (2010: positive 14.5%).

At 31 December 2011, €1,511m (2010: €1,679m) of investment properties were held by unit-linked funds.

The yield spreads used in the independent valuations were as follows:

	2011		2010	
Sector	**ROI**	**UK**	ROI	UK
Office				
Prime	**6.00%-9.04%**	**4.25%-7.48%**	6.07%-8.60%	4.04%-7.47%
Suburban	**7.95%-11.41%**	**6.10%-8.14%**	7.28%-11.19%	5.96%-7.69%
Provincial	**7.48%-12.58%**	**6.10%-9.25%**	7.57%-12.24%	6.13%-8.97%
Industrial				
Prime	**7.95%-11.44%**	**7.97%-8.07%**	6.63%-11.02%	7.14%-7.86%
Secondary	**6.9%-11.50%**	**-**	6.00%-11.56%	-
Provincial	**-**	**-**	-	-
Retail				
Prime high street	**5.74%-7.91%**	**4.63%-5.60%**	5.79%-7.97%	4.04%-6.68%
Secondary	**6.51%-10.05%**	**4.76%-4.98%**	6.00%-8.50%	-
Shopping centre	**7.90%-11.58%**	**8.60%**	7.84%-10.47%	7.10%
Retail warehousing	**8.0%-11.0%**	**5.51%-6.45%**	7.45%-8.64%	5.83%-7.50%
Provincial	**7.50%-10.33%**	**5.49%-5.83%**	7.11%-10.14%	5.33%-5.85%

13. Investment properties (continued)

Residential
Residential properties are valued on a capital value per square foot rather than on basis of investment yield. Residential properties represent 1.0% (2010: 1.3%) of total investment property.

Investment properties as at 31 December 2011 are analysed as follows:

	ROI €m	**UK €m**	**Other €m**	**Total €m**
Residential	**13**	**4**	**-**	**17**
Office	**429**	**349**	**265**	**1,043**
Industrial	**105**	**11**	**-**	**116**
Retail	**336**	**138**	**-**	**474**
	883	**502**	**265**	**1,650**

Investment properties as at 31 December 2010 are analysed as follows:

	ROI €m	UK €m	Other €m	Total €m
Residential	21	3	-	24
Office	484	363	274	1,121
Industrial	118	11	-	129
Retail	374	177	-	551
	997	554	274	1,825

The acquisition of certain investment properties on behalf of unit-linked policyholders is funded by borrowings. These borrowings (including accrued interest), which have recourse only to the specific property which they were used to acquire, amounted to €574m at 31 December 2011 (2010: €607m). At 31 December 2011, loans (including accrued interest) of €370m (2010: €368m) were issued by Irish Life & Permanent plc and were eliminated on consolidation. The remaining balance of borrowings is contained within Note 22, Deposits by banks.

At 31 December 2011, there were some breaches of loan-to-value terms and payment defaults relating to non-recourse loans from third party banks secured on residential property included in unit trusts held by unit-linked funds for the benefit of policyholders. There were payment arrears of €1.6m (2010: €0.35m) on loan balances of €11.3m (2010: €5m) at 31 December 2011. These loans have been classified as current.

Property held under long leasehold interest at 31 December 2011 was €51m (2010: €49m). There are no contingent rents on these properties.

14. Interest in subsidiaries and associated undertaking

(A) Group's interest in associated undertaking

The group's interest in associated undertaking is held through Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale.

The group owns 30.43% (2010: 30.43%) of Allianz-Irish Life Holdings plc, an unlisted general insurance company operating in Ireland.

The group's share of Allianz-Irish Life Holdings plc net assets is as follows:

	2011	2010
	€m	€m
As at 1 January	**124**	122
Share of results before tax	**22**	10
Share of tax	**(3)**	(1)
Dividends paid	**(14)**	(7)
Reclassification to assets and liabilities classified as held for sale (note 5(a))	**(129)**	-
As at 31 December	**-**	124

Summary financial information on Allianz-Irish Life Holdings plc (100%) is as follows:

	2011	2010
	€m	€m
Assets	**1,678**	1,650
Liabilities	**1,255**	1,243
Equity	**423**	407
Gross premium written	**443**	437
Profit after tax	**63**	30

The group's share of gains after tax of Allianz-Irish Life Holdings plc for the year ended 31 December 2011 was €19m (2010: €9m) (Note 4, Discontinued operations).

(B) Company's interest in subsidiary undertakings

Acquisition of Irish Life & Permanent plc by Irish Life & Permanent Group Holdings plc

On 15 January 2010, Irish Life & Permanent plc ("IL&P") was acquired by Irish Life & Permanent Group Holdings plc. On this date under a Scheme of Arrangement sanctioned by the High Court, 276,782,344 IL&P ordinary shares were cancelled and Irish Life & Permanent Group Holdings plc subsequently issued the 276,782,344 ordinary shares to the shareholders of IL&P on a one-for-one basis. On the same day, IL&P issued 276,782,344 ordinary shares to Irish Life & Permanent Group Holdings plc. IL&P is now a 100% subsidiary of Irish Life & Permanent Group Holdings plc.

	2011	2010
	€m	€m
As at 1 January	**1,085**	-
Investment in IL&P[1]	**-**	3,584
Increase of investment of IL&P[2]	**2,254**	-
Impairment of investment in IL&P[3]	**(2,254)**	(2,497)
Decrease in investments relating to share options	**-**	(2)
As at 31 December	**1,085**	1,085

1 This investment in Irish Life & Permanent plc represents the book value of IL&P capital and reserves at 31 December 2008.

2 During 2011, Irish Life & Permanent Group Holdings plc increased its investment in IL&P by way of a capital contribution of €2.3bln from the net proceeds of the company share issue to the Irish government.

3 The investment in Irish Life & Permanent plc was assessed for impairment and were impaired by €2,254m at 2011 year end to their recoverable amounts (2010: €2,497m).

Details of the group's principal subsidiary and associated undertakings are set out in Note 55, Principal subsidiary and associated undertakings.

15. Property and equipment

	2011			
	Land and buildings	**Office and computer equipment**	**Motor vehicles**	**Total**
	€m	**€m**	**€m**	**€m**
Cost or valuation				
As at 1 January	**167**	**264**	**19**	**450**
Additions	**1**	**12**	**5**	**18**
Valuation	**(19)**	**-**	**-**	**(19)**
Disposals	**-**	**(1)**	**(6)**	**(7)**
Reclassification to assets classified as held for sale (note 5(a))	**(50)**	**(177)**	**(12)**	**(239)**
As at 31 December	**99**	**98**	**6**	**203**
Depreciation / impairment				
As at 1 January	**14**	**225**	**11**	**250**
Provided in the year				
- Continuing operations	**6**	**6**	**1**	**13**
- Discontinued operations to date of reclassification	**1**	**4**	**2**	**7**
Valuation	**(2)**	**-**	**-**	**(2)**
Disposals	**-**	**(1)**	**(5)**	**(6)**
Impairment				
- Continuing operations	**5**	**-**	**-**	**5**
- Discontinued operations	**-**	**4**	**1**	**5**
Reclassification to assets classified as held for sale (note 5 (a))	**(1)**	**(156)**	**(7)**	**(164)**
As at 31 December	**23**	**82**	**3**	**108**
Net book value as at 31 December	**76**	**16**	**3**	**95**

	2010			
	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
As at 1 January	195	260	21	476
Additions	1	9	4	14
Valuation	(18)	-	-	(18)
Disposals	(4)	(3)	(6)	(13)
Elimination of assets with nil carrying value	(2)	(3)	-	(5)
Reclassification to assets classified as held for sale (note 5(b,d))	(5)	(2)	-	(7)
Reclassification from intangible assets (note 17)	-	3	-	3
As at 31 December	167	264	19	450
Depreciation / impairment				
As at 1 January	12	214	12	238
Provided in the year				
- Continuing operations	6	6	2	14
- Discontinued operations	1	10	2	13
Valuation	(4)	-	-	(4)
Disposals	(2)	(2)	(5)	(9)
Impairment	3	-	-	3
Elimination of assets with nil carrying value	(2)	(3)	-	(5)
Reclassification to assets classified as held for sale (note 5(b,d))	-	(1)	-	(1)
Reclassification from intangible assets (note 17)	-	1	-	1
As at 31 December	14	225	11	250
Net book value as at 31 December	153	39	8	200

15. Property and equipment (continued)

The banking operations constitute the continuing operations of the group as disclosed in Note 3, Segmental Information. A valuation was carried out on the land & buildings in respect of the continuing operations for year end 2011. The valuation was carried out by registered, independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Values take into account recent market transactions for similar properties. Valuations have used yields ranging from 8.25% to 10% (2010: 7.25 to 9.5%).

The net book value of land and buildings for the continuing operations at the 31 December 2011 include the following:

	2011
	€m
Buildings - freehold	**47**
Buildings - leasehold	**12**
Land	**17**
	76

The historic cost of land and buildings in respect of continuing operations is €116m.

For the 2010 net book values detailed below, land and buildings were revalued at 31 December 2010. Valuations were carried out by registered, independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Values take into account recent market transactions for similar properties. Valuations have used yields ranging from 6.07% to 8.2%, depending on the property size and location. In relation to the larger head office buildings in 2010 vacant periods of 2 to 2.5 years have been applied.

The net book value of land and buildings included the following:

	2010
	€m
Buildings - freehold	105
Buildings - leasehold	15
Land	33
	153

The historic cost of land and buildings in the group is €165m.

16. Shareholder value of in-force business

Irish Life Limited and its subsidiaries (the "Life Group") are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale. The Life Group reflects the value of shareholder in-force business generated from their underlying business operations.

The shareholder value of in-force business for insurance contracts is computed using EEV principles issued in May 2004 by the European Chief Financial Officers' forum. Shareholder value of in-force business represents the present value of future shareholder cash flows less a deduction for the cost of required capital and before allowing for tax and includes a deduction for the time value of financial options and guarantees.

(A) Assumptions

The principal assumptions are set out below:

Principal economic assumptions

The assumed future pre-tax returns on fixed interest securities are set by reference to gross redemption yields available in the market at the end of the reporting period. The base interest rate used for the risk discount rate is based on European swap rates for the effective duration of the future cash flows underlying the present value of in-force ("PVIF"), plus a margin of 1.3%. The corresponding return on equities and property is equal to the base interest rate assumption plus the appropriate risk premium.
An asset mix based on the assets held at the valuation date within policyholder funds has been assumed within the projections. The projected shareholder cash flows make no explicit allowance for any potential losses from a future default of EU government guaranteed bonds and EU sovereign debt held.

	31 December 2011	31 December 2010	31 December 2009
Equity risk premium	**3.0%**	3.0%	3.0%
Property risk premium	**2.0%**	2.0%	2.0%
Irish government bond yield	n/a*	n/a*	4.6%
European swap rate	**2.2%**	3.1%	3.3%
Margin	**1.3%**	1.3%	1.3%
Base interest rate	**3.5%**	4.4%	4.6%
Non-market risk margin	**2.1%**	2.1%	2.1%
Market risk margin	**0.8%**	1.0%	0.8%
Risk discount rate	**6.4%**	7.5%	7.5%
Investment return			
- Fixed interest	**0.5% - 5.8%**	0.8% - 5.2%	1.1% - 4.2%
- Equities	**6.5%**	7.4%	7.6%
- Property	**5.5%**	6.4%	6.6%
Expense inflation	**3.0%**	3.0%	3.0%

*The Irish Government bond yield at 31 December 2011 and 31 December 2010 is higher than the base interest rate, but is not believed to be suitable representative base rates due to the dislocation of the market in these bonds at those dates.

The Deloitte's TSM Streamline model is used to derive the cost of FOGs. The model is calibrated to the European swap curve plus a fixed margin of 1.3%, which is consistent with the calibration at 31 December 2010. The use of these yield curves to discount the negative cash flows in the FOG models is consistent with the yield curve used to discount the positive cash flows in the PVIF, as outlined above. The equity volatility rate used in the model is calibrated to the market implied equity volatility rate at 31 December 2011. Ten years of historical weekly data are used to derive the correlation between the returns on different asset classes. Further details of the FOGs is contained in Note 27, Financial options and guarantees.

The model uses the difference between two inverse Gaussian distributions to model the returns on each asset class. This allows the model to produce fat-tailed distributions, and provides a good fit to historical asset return distributions.

16. Shareholder value of in-force business (continued)

(A) Assumptions (continued)

The statistics relating to the model used are set out in the following table:

As at 31 December 2011	**10-Year return**		**20-Year return**	
	Mean[1]	**StDev[2]**	**Mean[1]**	**StDev[2]**
European assets (Euro)				
Bonds	**3.7%**	**4.0%**	**4.1%**	**8.9%**
Equities, Property	**3.7%**	**23.8%**	**4.1%**	**27.7%**
UK assets (Sterling)				
Bonds	**2.1%**	**2.6%**	**3.1%**	**5.8%**
Equities	**2.1%**	**23.3%**	**3.1%**	**25.4%**

As at 31 December 2010	10-Year Return		20-Year Return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
European assets (Euro)				
Bonds	4.7%	3.5%	5.1%	7.7%
Equities, Property	4.7%	24.0%	5.1%	27.1%
UK assets (Sterling)				
Bonds	3.8%	2.7%	4.4%	6.1%
Equities	3.8%	23.3%	4.4%	25.4%

1. The risk-neutral nature of the model means that all asset classes have the same expected return. No value is added by investing in riskier assets with a higher expected rate of return. The means quoted above reflect this.

2. Standard deviations are calculated by accumulating a unit investment for n years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by n and taking the square root. The results are comparable to implied volatilities quoted in investment markets.

Other assumptions

The assumed future mortality and morbidity assumptions are based on published tables of rates, adjusted by analyses of recent operating experience. Persistency assumptions are set by reference to recent operating experience excluding the 2009 persistency experience which is regarded as an extreme event. The adverse persistency experience since 2009 is expected to continue at a reduced level for a number of years. Therefore, the persistency assumptions within the PVIF model have reflected this by allowing for more adverse persistency experience from 2012 to 2015 inclusive, reducing the long-term assumptions thereafter. Actual future persistency experience will continue to be monitored closely against these assumptions.

Further details of assumptions are included in Note 26, Life insurance contracts including life insurance contracts with discretionary participation features ("DPF").

The management expenses attributable to the life assurance business have been analysed between expenses relating to the acquisition of new business and the maintenance of business in-force. No allowance has been made for future productivity improvements in the expense assumptions. Services relating to the covered business are charged on a cost recovery basis. The management expenses reflect the expected employer contributions to the defined benefit pension schemes.

Projected tax has been determined assuming current tax legislation and rates. The value of in-force includes the projected future tax deductions from policyholder funds.

16. Shareholder value of in-force business (continued)

(B) Analysis of the movement in the year

The change in the shareholder value of in-force business asset is analysed in a manner consistent with the presentation requirements of the EEV Principles:

	2011 €m	2010 €m
As at 1 January	**699**	730
Charge to income statement in the year	**(52)**	(31)
Reclassification to assets classified as held for sale (note 5(a))	**(647)**	-
As at 31 December	**-**	699
Analysis of charge to income statement		
New business	**73**	100
Expected return on existing business	**(83)**	(83)
Experience variances	**2**	(9)
Operating assumption changes	**(23)**	(41)
Short-term investment fluctuations	**(12)**	2
Economic assumption changes	**22**	-
Adjustment for accounting surplus in pension schemes	**(31)**	-
Total (as per Note 4(a), Discontinued operations)	**(52)**	(31)

(C) Sensitivity calculations

A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the insurance shareholder value of in-force business asset ("insurance VIF") to changes in key assumptions. The details of each sensitivity are set out below. These figures do not show the impact on shareholder equity, as no allowance is made for associated changes to the insurance contract liabilities or any associated tax effects.

- 1% decrease in risk discount rate would increase the insurance VIF by €70m;
- 1% increase in risk discount rate would reduce the insurance VIF by €62m;
- 10% decrease in maintenance expenses would increase the insurance VIF by €13m;
- 10% improvement in assumed persistency rates would increase the insurance VIF by €10m; and
- 5% decrease in both mortality and morbidity rates would increase the insurance VIF by €15m.

17. Intangible assets

	Software	2011 Core deposits*	Other	Total
	€m	€m	€m	€m
Cost				
As at 1 January	**163**	**-**	**10**	**173**
Additions	**12**	**124**	**-**	**136**
Reclassification to assets classified as held for sale (note 5(a))	**(98)**	**-**	**(10)**	**(108)**
As at 31 December	**77**	**124**	**-**	**201**
Amortisation				
As at 1 January	**141**	**-**	**2**	**143**
Amortisation for the year				
- Continuing operations	**4**	**21**	**-**	**25**
- Discontinued operations to date of reclassification	**3**	**-**	**-**	**3**
Impairment - Discontinued operations	**3**	**-**	**-**	**3**
Reclassification to assets classified as held for sale (note 5(a))	**(87)**	**-**	**(2)**	**(89)**
As at 31 December	**64**	**21**	**-**	**85**
Net book value as at 31 December	**13**	**103**	**-**	**116**

* During the current reporting period, the group acquired a core deposit intangible asset as part of the acquisition of certain assets and liabilities of Irish Nationwide Building Society ("INBS").

Further details are disclosed in Note 53, Business combinations.

	Software	2010 Other	Total
	€m	€m	€m
Cost			
As at 1 January	166	10	176
Additions	7	-	7
Disposals	(1)	-	(1)
Elimination of assets with nil carrying value	(2)	-	(2)
Reclassification to property and equipment (note 15)	(3)	-	(3)
Reclassification to assets classified as held for sale (note 5(b))	(4)	-	(4)
As at 31 December	163	10	173

	Software	2010 Other	Total
	€m	€m	€m
Amortisation			
As at 1 January	132	2	134
Amortisation for the year			
- Continuing operations	6	-	6
- Discontinued operations	10	-	10
Disposals	(1)	-	(1)
Elimination of assets with nil carrying value	(2)	-	(2)
Reclassification to property and equipment (note 15)	(1)	-	(1)
Reclassification to assets classified as held for sale (note 5(b))	(3)	-	(3)
As at 31 December	141	2	143
Net book value as at 31 December	22	8	30

18. Goodwill

	2011	2010
	€m	€m
As at 1 January	**70**	75
Reclassification to assets classified as held for sale (note 5(a))	**(70)**	-
Reclassification to assets classified as held for sale (note 5(b))	**-**	(5)
As at 31 December	**-**	70

Irish Life Limited and its subsidiaries (the "Life Group") were classified as assets and liabilities held for sale as disclosed in Note 5 (a), Assets and liabilities classified as held for sale. The brokerage / third party administration and other operating segment forms part of the Life Group.

Goodwill is allocated to the group's operating divisions which represent the lowest level within the group at which goodwill is monitored for internal management purposes and is not higher than the group's operating segments as reported in Note 3, Segmental information.

	2011	2010
	€m	€m
Brokerage / third party administration and other	**70**	70

19. Other assets

	2011	2010
	€m	€m
Amounts falling due within one year		
Amount due from policyholders	**42**	44
Amount due from intermediaries	**2**	2
Investment trading balances	**6**	-
Repossessed assets*	**57**	38
Other debtors	**167**	66
Reclassification to assets classified as held for sale (note 5(a))**	**(133)**	-
	141	150

* Group management have assessed the repossessed assets in light of the requirements of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations. The management have concluded that these repossessed assets do not meet the criteria to be classified as held for sale in accordance with IFRS 5 as management believe the sale of these assets within the next twelve months is not probable. For further details on repossessed assets, see Note 36, Financial risk management.

** Assets amounting to €42m in respect of the Life Group have been reclassified from 'Amount due from policyholders', €2m from 'Amount due from intermediaries', €6m from 'Investment trading balances' and €83m from 'Other debtors' to assets classified as held for sale as disclosed in Note 5(a), Assets and liabilities classified as held for sale.

20. Deferred acquisition costs

Deferred acquisition costs relate to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale.

	2011	2010
	€m	€m
As at 1 January	**188**	245
Arising in the year	**24**	40
Charge to income arising in the year	**(35)**	(46)
Reclassification to assets classified as held for sale (note 5(a))	**(177)**	-
Reclassification to assets classified as held for sale (note 5(b))	**-**	(51)
As at 31 December	**-**	188

21. Retirement benefit obligations

Defined benefit schemes

The group operates six Irish defined benefit pension schemes and a small UK defined benefit scheme for employees. The group previously operated a further small UK scheme, The Irish Permanent (IOM) Retirement Benefits Scheme, but this was wound up during the year as the employer, Irish Permanent International, has ceased business on the Isle of Man. All of the defined benefit schemes are funded by the payment of contributions into separately administered trust funds. The benefits paid from the defined benefit scheme are based on percentages of the employees' final pensionable pay for each year of credited service.

The pension costs and provisions are assessed in accordance with the advice of independent qualified actuaries. Valuations are carried out every three years by independent actuarial consultants. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection. All of the group's defined benefit pension schemes have been revalued within the timeframe set out by regulatory guidelines with valuation dates ranging between 30 June 2008 to 5 April 2010. Actuarial gains and losses are accounted for under the corridor approach as set out in Note 1, Basis of preparation and significant accounting policies. Critical accounting judgements and estimates relating to retirement benefit obligations are as set out in Note 2, Critical accounting judgements and estimates.

Each of the group's defined benefit pension schemes are administered and accounted for separately. As disclosed in Note 3, Segmental information, Banking operations constitutes the continuing operations of the group, whilst the Life Group constitutes the discontinued operations of the group. Assets and liabilities classified as held for sale (below) refers to the three schemes for which the Life Group is the principal employer.

An annual stamp duty levy of 0.6% (the "Pension Levy") of the market value of assets under management in Irish pension funds was put in place by the Irish Finance (No. 2) Act 2011. The levy will apply in each of the calendar years 2011 to 2014 inclusive, based on the value of the assets on 30 June each year. A decision has been taken that the group and its subsidiaries will not subsidise the cost of this levy. The levy payment amounted to €6.9m in 2011 and resulted in a reduction in the value of scheme assets and has been accounted for as part of unrecognised actuarial (gains) / losses in accordance with the corridor approach applied by the group.

The key financial assumptions used are:

	2011	2010
Actuarial assumptions at the statement of financial position date	%	%
Discount rate	**4.90**	5.00
Expected rate of return on plan assets	**5.00**	5.80
Salary increases [1]	**3.25**	3.25
Pension increases	**2.00**	2.00
Rate of price inflation	**2.00**	2.00

[1] In addition to the salary inflation assumption above an assumed salary scale is also allowed for.

The main post retirement mortality assumptions used at 31 December 2011 were 103% PNM(F)L00-1 year with CSO improvements from 2006 for active / deferred members and pensioners (2010: 108% PNM(F)L00-1 year with CSO improvements from 2006 for active / deferred members and pensioners). On this basis the life expectancies underlying the value of the schemes' liabilities at 31 December 2011 and 31 December 2010 were the following:

		2011 Years	2010 Years
Retiring today age 65	Males	**23.5**	22.8
	Females	**25.0**	24.4
Retiring in 15 years' time aged 65	Males	**25.5**	25.0
	Females	**26.7**	26.2

Amounts recognised in the income statement in respect of these defined benefit schemes are:

	2011	2010
	€m	€m
Current service cost	**35**	34
Past service cost	**1**	1
Interest cost	**68**	69
Expected return on scheme assets	**(69)**	(73)
Amortisation of corridor excess	**1**	1
Changes due to curtailments / settlements	**(8)**	(9)
Recognised actuarial gains & losses due to curtailments	**1**	1
	29	24

This charge has been included in administrative expenses split between discontinued operations: €8m (2010: €7m) (Note 4(a), Discontinued operations) and continuing operations: €21m (2010: €17m).

Unrecognised actuarial gains or losses which are outside the corridor under IAS 19 are amortised in the income statement over the estimated remaining service lives of the members which averaged eighteen years in 2011 (2010: seventeen years).

21. Retirement benefit obligations (continued)

The actual return on scheme assets was €28m (2010: €81m).

The actual return is calculated as follows:

Continuing operations

	2011 €m	2010 €m
Expected return on plan assets	**26**	28
Actuarial gain on plan assets	**(15)**	2
	11	30

Discontinued operations

	2011 €m	2010 €m
Expected return on plan assets	**43**	45
Actuarial gain on plan assets	**(26)**	6
	17	51
Actual Return on plan assets	**28**	81

The expected return on assets is determined by calculating a total return estimate based on weighted average estimated returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

The expected rates of return for equities and property were calculated by allowing for a risk premium over prevailing long-dated bond yields. The equity rate allows for a yield on 30-year Eurozone Government bonds of 3.70% (2010: 4.10%) together with an equity risk premium of 3.30% (2010: 2.90%), giving a total of 7.00% (2010: 7.00%). For property, a risk premium 1.00% lower than for equities was adopted for the years ended 31 December 2011 and 31 December 2010. The expected rate of return on bonds reflected the prevailing yield on the specific portfolio of nominal and inflation linked long-dated bonds for the years ended 31 December 2011 and 31 December 2010. The overall expected rate of return on assets will be reduced by 0.6% for the next three years to reflect the impact of the annual pension levy. The effect on the major categories of plan assets on the overall expected rate of return on assets is set out in the table overleaf on the long-term rate of return expected for each class of asset.

The movements in the present value of defined benefit obligations in the year are:

	2011 €m	2010 €m
Benefit obligation as at 1 January	**(1,340)**	(1,225)
Current service cost	**(35)**	(34)
Interest cost	**(68)**	(69)
Past service cost	**(1)**	(1)
Actuarial gain / (loss) - experience adjustments	**23**	26
- assumption changes	**(46)**	(67)
Curtailments	**14**	9
Contributions by plan participants	**(6)**	(7)
Benefits paid	**35**	28
Reclassification to liabilities classified as held for sale	**731**	-
Benefit obligation as at 31 December	**(693)**	(1,340)

The movement in the fair value of defined benefit assets in the year are:

	2011 €m	2010 €m
Fair value of plan assets as at 1 January	**1,191**	1,093
Expected return on plan assets	**69**	73
Employer contribution	**42**	38
Contributions by plan participants	**6**	7
Actuarial gain / (loss)	**(41)**	8
Benefits paid	**(35)**	(28)
Assets distributed on settlement	**(6)**	-
Reclassification to assets classified as held for sale	**(755)**	-
Fair value of plan assets as at 31 December	**471**	1,191

21. Retirement benefit obligations (continued)

The pension assets and liabilities recognised on the statement of financial position are as follows:

	2011	2010	2009	2008	2007
	€m	€m	€m	€m	€m
Benefit obligation as at 31 December	**(1,424)**	(1,340)	(1,225)	(1,183)	(1,293)
Fair value of plan assets as at 31 December	**1,226**	1,191	1,093	928	1,262
Net obligation	**(198)**	(149)	(132)	(255)	(31)
Unrecognised actuarial losses / (gains)	**162**	100	69	186	(45)
Net recognised retirement benefit obligation	**(36)**	(49)	(63)	(69)	(76)

The pension assets and liabilities recognised on the statement of financial position for 2011 are as follows:

	Continuing operations	**Discontinued operations**	**Total**
	€m	**€m**	**€m**
Benefit obligation as at 31 December	**(693)**	**(731)**	**(1,424)**
Fair value of plan assets as at 31 December	**471**	**755**	**1,226**
Net (obligation) / asset	**(222)**	**24**	**(198)**
Unrecognised actuarial losses	**102**	**60**	**162**
Net recognised retirement benefit obligation	**(120)**	**84**	**(36)**

The experience adjustments arising on plan liabilities and plan assets are as follows:

	2011	2010	2009	2008	2007
	€m	€m	€m	€m	€m
Actuarial (gains) / losses					
- arising on benefit obligation (€m)	**(23)**	(26)	(97)	19	48
- arising on benefit obligation (% plan liabilities)	**(2)**	(2)	(8)	2	4
Actuarial gains / (losses)					
- arising on plan assets (€m)	**(41)**	8	68	(442)	(116)
- arising on plan assets (% of plan assets)	**(3)**	1	6	(48)	(9)

The movement in the present value of defined benefit obligations in the year are:

	2011	2010
Continuing operations	**€m**	€m
Net post retirement benefit obligations as at 1 January	**(126)**	(133)
Expense recognised in income statement	**(21)**	(17)
Contributions paid	**27**	24
	(120)	(126)
Discontinued operations		
Net post retirement benefit obligations as at 1 January	**77**	70
Expense recognised in income statement	**(8)**	(7)
Contributions paid	**15**	14
	84	77
Net post retirement benefit obligations as at 31 December	**(36)**	(49)

21. Retirement benefit obligations (continued)

	2011	2010
Continuing operations	**€m**	€m
Net post retirement benefit assets	**10**	104
Net post retirement benefit liabilities	**(130)**	(153)
	(120)	(49)
Discontinued operations		
Net post retirement benefit assets (Note 5 (a))	**101**	-
Net post retirement benefit liabilities (Note 5(a))	**(17)**	-
	84	-
Net post retirement benefit obligations	**(36)**	(49)

The following tables set out, on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for the group and the company.

	Long-term rate of return expected	**Fair value**	**Plan assets**	Long-term rate of return expected	Fair value	Plan assets
	2011	**2011**	**2011**	2010	2010	2010
	%	**€m**	**%**	%	€m	%
Equities	**6.40**	**642**	**53**	7.00	673	56
Bonds	**3.10**	**484**	**39**	4.10	381	32
Property	**5.40**	**89**	**7**	6.00	78	7
Other	**0.40**	**11**	**1**	2.80	59	5
Fair value of plan assets as at 31 December	**5.00**	**1,226**	**100**	5.80	1,191	100

The 2011 long-term rate of return expected for each of the asset classes above has been reduced by 0.6% to reflect the impact of the pension levy.

The fair value of plan assets includes investments in Irish Life Assurance plc unit-linked funds which on occasion include investments relating to Irish Life & Permanent Group Holdings plc shares or properties occupied by Irish Life & Permanent Group Holdings plc group. As at 31 December 2011, the group's pension scheme assets had an indirect holding in Irish Life & Permanent Group Holdings plc shares of €0.02m (2010: €0.6m) and an indirect holding of properties occupied by the Irish Life & Permanent Group Holdings group of €0.04m (2010: €0.1m).

The group is expected to pay contributions of approximately €31m to the pension schemes in 2012.

If the discount rate was 0.5% lower than the assumption made at 31 December 2011 then the present value of defined benefit obligations would increase by approximately €172m, all of which would be included as unrecognised actuarial losses. A similar effect would arise if the rate of increase in salaries and pensions was to rise by 0.5% over the assumptions used at 31 December 2011.

If the expectation of life post retirement increased by one year, then the present value of defined benefit obligations would increase by approximately €27m, all of which would be included as unrecognised actuarial losses.

22. Deposits by banks (including central banks)

	2011 €m	2010 €m
Deposits by banks (including central banks)	**17,178**	17,146
Reclassification to liabilities classified as held for sale (note 5(a))	**(212)**	-
	16,966	17,146

Deposits by banks include the following:

	2011 €bln	2010 €bln
Placed by the European Central Bank ("ECB")[1]	**11.7**	13.8
Placed by the Irish Central Bank[2]	**2.3**	-
Placed by other banks and institutions[3]	**2.7**	1.4
Held as a result of repurchase agreements	**0.3**	1.6
Other[4]	**-**	0.3
	17.0	17.1

Balances placed by the European Central Bank ("ECB")

	2011	2010
Maximum	**15.1**	13.8
Average	**12.1**	9.4

1 The deposits made by the ECB are secured on €6.6bln (2010: €17.7bln) notes issued by special purpose vehicles controlled by the group and €9.5bln (2010: €2.2bln) of debt security assets, of which €3.3bln are bonds issued and bought by the group itself (2010: €nil). The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles which are included in Note 10, Loans and receivables to customers.

2 Included in the deposits made by the Irish Central Bank is €2.3bln worth of exceptional liquidity facility (2010: €nil). These deposits are secured on €6.3bln (2010: €nil) notes issued by special purpose vehicles controlled by the group and a further €230m under a Ministerial Guarantee.

3 These deposits are collateralised on €5bln (2010: €2.3bln) of notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements which are included in Note 10, Loans and receivables to customers. Included in these deposits is €nil (2010: €0.2bln) placed by the National Treasury Management Agency ("NTMA").

4 At 31 December 2010, other deposits include loan capital raised of €100m by Irish Life Assurance plc (Note 35, Analysis of equity and capital) secured on the in-force book of business. The directors made the strategic decision to repay this loan in full on 13 May 2011 and subsequently incurred a penalty fee of €3.6m due to the early repayment.

23. Customer accounts

	2011	2010
	€m	€m
Repayable on demand	3,593	3,510
Other	10,780	9,872
	14,373	13,382

At 31 December 2011, customer accounts exclude deposits of €683m (2010: €1,463m) from the group's non-banking operations including deposits held for the benefit of unit-linked policyholders.

During the current reporting period, the group acquired €3.6bln of customer accounts from Irish Nationwide Building Society ("INBS"). Further details are outlined in Note 53, Business combinations.

24. Debt securities in issue

	2011	2010
	€m	€m
At amortised cost:		
Bonds and medium-term notes	**5,531**	6,928
Other debt securities in issue	**615**	947
Non-recourse funding	**2,210**	2,159
	8,356	10,034

Repayable in not more than 1 year	**100**	1,501
Repayable in more than 1 year but not more than 2 years	**2,775**	116
Repayable in more than 2 year but not more than 5 years	**2,362**	5,032
Repayable in more than 5 years	**3,119**	3,385
	8,356	10,034

Bonds and medium-term notes exclude €37m (2010: €35m) of debt securities issued by the group held in the group's life assurance operations which have been eliminated on consolidation.

During the current reporting period, the group acquired €74m of Irish Life & Permanent plc bonds from Irish Nationwide Building Society ("INBS"), which the group subsequently redeemed. Further details are outlined in Note 53, Business combinations.

Other debt securities in issue

Other debt securities in issue at 31 December 2011 included €615m (2010: €805m) advances secured on notes issued by special purpose vehicles which are secured on residential property loans. These loans which have not been derecognised are shown within loans and receivables to customers. The funding is shown as a separate liability.

Non-recourse funding

At 31 December 2011, the group had advances secured on residential property of €2,065m and consumer finance loans of €145m subject to non-recourse funding. These loans, which have not been derecognised, are shown within loans and receivables to customers and the non-recourse funding is shown as a separate liability.

The residential property securitisations involve the selling of pools of mortgages to special purpose entities which issue mortgage-backed floating notes ("notes") to fund the purchase of these mortgage pools. The non-recourse funding is collateralised on €2.7bln (2010: €3bln) of the notes in issue by the special purpose vehicles, as disclosed in Note 10, Loans and receivables to customers.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios and any related income generated by the portfolios, without recourse to Irish Life & Permanent plc. Irish Life & Permanent plc is not obliged to support any losses in respect of the mortgages subject to the non-recourse funding and does not intend to do so. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to Irish Life & Permanent plc. The providers of this funding have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security, and that they will not seek recourse in any other form.

The consumer finance loans securitisations involved the issuance of notes ("notes") which are secured on car finance loans. Two notes were issued: A notes which are floating rate notes and B notes which are fixed rate notes with a total principal of €211m. The group holds €66m of these notes which have been eliminated on consolidation.

25. Investment contract liabilities

Irish Life Limited and its subsidiaries (the "Life Group") are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale. The Life Group reflects investment contract liabilities incurred as a result of its business operations.

The value of the Investment financial options and guarantees shown in the tables below are calculated using a stochastic model. This is discussed in more detail in Note 16, Shareholder value of in-force business.

		2011	
	Gross	**Reinsurance**	**Net**
	€m	**€m**	**€m**
Unit-linked liabilities	**21,848**	**(39)**	**21,809**
Non-linked and guaranteed tracker liabilities	**253**	**-**	**253**
Investment financial options and guarantees	**52**	**-**	**52**
Reclassification to liabilities classified as held for sale (note 5(a))	**(22,153)**	**39**	**(22,114)**
As at 31 December	**-**	**-**	**-**

		2010	
	Gross	Reinsurance	Net
	€m	€m	€m
Unit-linked liabilities	25,724	(57)	25,667
Non-linked and guaranteed tracker liabilities	290	-	290
Investment financial options and guarantees	31	-	31
Reclassification to liabilities classified as held for sale (note 5(b))	(1,978)	-	(1,978)
As at 31 December	24,067	(57)	24,010

The non-controlling share of unit trust refers to the portion of unit trusts consolidated in the financial statements which are attributable to Irish Life Assurance plc policyholders. The trusts are consolidated where Irish Life Assurance plc is deemed percentage holdings to have a controlling interest. At 31 December 2011, the unit trusts consolidated are all owned 100% by Irish Life Assurance plc, therefore the non-controlling interest is zero.

The change in liabilities during the year ended 31 December 2011 is analysed as follows:

		2011	
	Gross	**Reinsurance**	**Net**
	€m	**€m**	**€m**
As at 1 January	**24,067**	**(57)**	**24,010**
Premiums	**2,867**	**(1)**	**2,866**
Claims	**(4,317)**	**15**	**(4,302)**
Fees deducted	**(164)**	**-**	**(164)**
Exchange movements	**(19)**	**-**	**(19)**
Change in investment contract liabilities	**(373)**	**4**	**(369)**
Change in the value of liabilities classified as held for sale as at 31 December 2010 (note 5(b))	**92**	**-**	**92**
Non-controlling interest:			**-**
- Change in investment contract liabilities	**-**	**-**	**-**
- Investment in non-controlling interest in unit trust	**-**	**-**	**-**
Reclassification to liabilities classified as held for sale (note 5(a))	**(22,153)**	**39**	**(22,114)**
As at 31 December	**-**	**-**	**-**

The change in liabilities during the year ended 31 December 2010 is analysed as follows:

		2010	
	Gross	Reinsurance	Net
	€m	€m	€m
As at 1 January	24,032	(91)	23,941
Premiums	3,993	(1)	3,992
Claims	(3,705)	37	(3,668)
Fees deducted	(174)	-	(174)
Exchange movements	35	-	35
Change in investment contract liabilities	2,038	(2)	2,036
Non-controlling interest:			
- Change in investment contract liabilities	(93)	-	(93)
- Investment in non-controlling interest in unit trust	(81)	-	(81)
Reclassification to liabilities classified as held for sale (note 5(b))	(1,978)	-	(1,978)
As at 31 December	24,067	(57)	24,010

26. Life insurance contracts including life insurance contracts with discretionary participation features ("DPF")

Irish Life Limited and its subsidiaries (the "Life Group") are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale. The Life Group reflects insurance contract liabilities incurred as a result of its business operations.

(A) Analysis of insurance contract liabilities

		2011	
	Gross	**Reinsurance**	**Net**
	€m	**€m**	**€m**
Unit-linked liabilities	**491**	**-**	**491**
Non-linked liabilities			
- without discretionary participation features	**3,966**	**(2,015)**	**1,951**
- with discretionary participation features	**27**	**-**	**27**
Reclassification to liabilities classified as held for sale (note 5(a))	**(4,484)**	**2,015**	**(2,469)**
As at 31 December	**-**	**-**	**-**

		2010	
	Gross	Reinsurance	Net
	€m	€m	€m
Unit-linked liabilities	574	-	574
Non-linked liabilities			
- without discretionary participation features	3,628	(1,901)	1,727
- with discretionary participation features	36	-	36
As at 31 December	4,238	(1,901)	2,337

The change in liabilities during the year ended 31 December 2011 is analysed as follows:

	Gross	**Reinsurance**	**Net**
	€m	**€m**	**€m**
As at 1 January	**4,238**	**(1,901)**	**2,337**
Premiums	**701**	**(135)**	**566**
Claims	**(504)**	**187**	**(317)**
Expected return on insurance contract liabilities	**83**	**(50)**	**33**
Return credited to policyholders	**(20)**	**-**	**(20)**
Fees deducted	**(297)**	**64**	**(233)**
Change in economic assumptions	**271**	**(163)**	**108**
Change in operating assumptions	**7**	**(17)**	**(10)**
Exchange differences	**1**	**-**	**1**
Other	**4**	**-**	**4**
Reclassification to liabilities classified as held for sale (note 5(a))	**(4,484)**	**2,015**	**(2,469)**
As at 31 December	**-**	**-**	**-**

26. Life insurance contracts including life insurance contracts with discretionary participation features ("DPF") (continued)

The change in liabilities during the year ended 31 December 2010 is analysed as follows:

	Gross €m	Reinsurance €m	Net €m
As at 1 January	4,034	(1,829)	2,205
Premiums	719	(124)	595
Claims	(473)	169	(304)
Expected return on insurance contract liabilities	71	(42)	29
Return credited to policyholders	50	-	50
Fees deducted	(372)	131	(241)
Change in economic assumptions	252	(207)	45
Change in operating assumptions	(40)	1	(39)
Exchange differences	1	-	1
Other	(4)	-	(4)
As at 31 December	4,238	(1,901)	2,337

(B) Assumptions

The liabilities for insurance contracts are calculated in accordance with insurance regulations in force in Ireland.

Liabilities for unit-linked insurance contracts include amounts reflecting the value of the underlying funds in which the policy is invested.

Liabilities are calculated using either the net or the gross premium method. In calculating the appropriate liability for non-linked liabilities including the closed book of business with discretionary participation features, it is necessary to make assumptions on a range of items.

The assumptions which have the most significant impact on the measurement of liabilities are:
- Interest rates
- Mortality and morbidity
- Expenses

The interest rates gross of tax used are as follows:

	2011	2010
Regular premium business		
- No DPF	**2.30% to 3.72%**	2.50% to 3.94%
- With DPF	**1.01% to 3.09%**	1.76% to 3.06%
Single premium business	**0.29% to 5.22%**	0.15% to 4.58%

Mortality and morbidity assumptions are based on the standard industry published tables amended where appropriate to reflect the group's current experience and to allow for expected improvements or disimprovements in mortality. The tables used for 2011 and 2010 are as follows:

	2011	2010
Lives assured		
- Non-linked	**55%-90% AM / AF00 select**	55%-90% AM / AF00 select
- Linked	**100% AM / AF00 ultimate**	100% AM / AF00 ultimate
Annuities		
- Males	**104% PNMA00**	104% PNMA00
- Females	**104% PNFA00**	104% PNFA00
- Future mortality rates to improve on medium cohorts basis with minimum improvement of	**1.62% p.a.**	1.50% p.a.
Disability rates		
- Inception: Males	**80%-320% CMIR (12)**	80%-320% CMIR (12)
- Inception: Females	**160%-640% CMIR (12)**	160%-640% CMIR (12)
- Termination	**45%-230% CIDA rates**	45%-230% CIDA rates
Serious illness rates		
- Smokers	**163% of IC94 with 3% p.a. future deterioration**	163% of IC94 with 3% p.a. future deterioration
- Non-smokers	**100% of IC94 with 3% p.a. future deterioration**	100% of IC94 with 3% p.a. future deterioration

Expense assumptions are based on the current year expenses and size of book. Expense inflation assumption is 3.0% (2010: 3.0%).

26. Life insurance contracts including life insurance contracts with discretionary participation features ("DPF") (continued)

(C) Changes in assumptions

The principal changes in assumptions since 31 December 2010 were:

- Interest rates used were changed to reflect the actual market interest rates at 31 December 2011. This increased liabilities by €112m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.

- The benefit inflation assumption was reduced to reflect a reduction in inflation which reduced liabilities by €4m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.

- Expense assumptions were changed to reflect current unit costs. This reduced liabilities by €17m after allowing for reinsurance.

- Annuitant mortality assumptions were changed to reflect expected future mortality levels. This increased liabilities by €7m after allowing for reinsurance.

(D) Sensitivities

The following indicates the sensitivities of insurance liabilities to changes in the assumptions:

- 1% decrease in interest rates would increase liabilities by €206m after allowing for reinsurance;

- 1% increase in interest rates would decrease liabilities by €182m after allowing for reinsurance;

- 10% decrease in maintenance expenses would decrease liabilities by €9m after allowing for reinsurance; and

- 5% decrease in both mortality and morbidity rates would decrease liabilities by €12m after allowing for reinsurance.

The above are based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in assumptions may be correlated. Changes in interest rates would be linked to equivalent changes in the value of the assets backing the insurance reserves. Changes to insurance contract liabilities will also have an impact on the tax charge, which is not reflected in the figures above.

27. Financial options and guarantees

The main options and guarantees for which financial options and guarantees (“FOG”) costs have been determined are:

(a) Investment guarantees on certain unit-linked funds, where the unit returns to policyholders are smoothed subject to a minimum guaranteed return (in the majority of cases the minimum guaranteed change in unit price is 0%, usually representing a minimum return on the original premium). An additional management charge is levied on policyholders investing in these funds, compared to similar unit-linked funds without this investment guarantee. This extra charge is included in calculating the FOG cost.

(b) Guaranteed annuity rates on a small number of products.

(c) Return of premium death guarantees on certain unit-linked single premium products.

The cost of these FOGs are calculated using stochastic models. There are two elements to the cost:

- The time value, which is required where a financial option exists which is exercisable at the discretion of the policyholder. The time value of an option reflects the additional value inherent in the option due to the potential for the option to increase in value prior to its expiry date, usually due to movements in the market value of assets; and
- The intrinsic value, which is the value based on market conditions at the date of the valuation.

Where a FOG relates to a contract classed as an investment contract, the investment contract liability includes both the time value and the intrinsic value.

Where a FOG relates to a contract classed as an insurance contract, allowance is made for the intrinsic value of the FOG in the insurance contract liabilities and an explicit deduction is made to the shareholder value of in-force asset for the time value. The time value of FOGs is calculated using stochastic models.

The main asset classes relating to products with options and guarantees are European and International equities, property, and government bonds of various durations.

Further details on the FOGs is contained in Note 16, Shareholder value of in-force business.

28. Other liabilities

	2011 €m	2010 €m
Amounts falling due within one year		
PAYE and social insurance	**25**	24
Other taxation	**3**	7
Investment trading balances	**18**	4
Other payables	**336**	265
Premiums on deposit	**23**	32
Reclassification to liabilities classified as held for sale (note 5(a))*	**(268)**	-
Reclassification to liabilities classified as held for sale (note 5(b))**	**-**	(11)
	137	321

* Liabilities amounting to €19m in respect of the Life Group have been reclassified from 'PAYE and social insurance', €3m from 'Other taxation', €18m from 'Investment trading balances', €205m from 'Other payables' and €23m from 'Premiums on deposits' to liabilities classified as held for sale as disclosed in Note 5(a), Assets and liabilities classified as held for sale.

** At 31 December 2010 liabilities amounting to €11m in respect of ILI were reclassified from 'Other payables' to liabilities classified as held for sale disclosed in Note 5(b), Assets and liabilities classified as held for sale.

29. Provisions

	2011 Staff restructuring costs €m	Onerous contracts €m	Other €m	Total €m
As at 1 January	**2**	**-**	**15**	**17**
Provisions made during the year				
- Continuing operations	**44**	**-**	**-**	**44**
- Discontinued operations	**10**	**-**	**-**	**10**
Provisions used during the year				
- Continuing operations	**(30)**	**-**	**(10)**	**(40)**
- Discontinued operations	**(10)**	**-**	**(3)**	**(13)**
Reclassification to liabilities classified as held for sale (note 5(a))	**(2)**	**-**	**(2)**	**(4)**
As at 31 December	**14**	**-**	**-**	**14**

	2010 Staff restructuring costs €m	Onerous contracts €m	Other €m	Total €m
As at 1 January	7	33	23	63
Provisions made during the year				
- Continuing operations	19	-	-	19
- Discontinued operations	-	-	5	5
Provisions used during the year				
- Continuing operations	(19)	-	(13)	(32)
- Discontinued operations	(5)	(33)	-	(38)
As at 31 December	2	-	15	17

Staff restructuring costs

Staff restructuring costs include provisions for employees on career breaks, voluntary severance schemes and voluntary early retirement.The provision of €54m made during the period (€44m continuing operations, €10m discontinued operations) was recognised in administration expenses and partially utilised in the period. The bank restructuring programme includes severance schemes for both the Irish Nationwide Building Society ("INBS") staff and **permanent tsb** staff which account for over 500 employees. The provision is expected to be fully utilised during the year ending 31 December 2012. The Life Group restructuring schemes include programmes in the Retail Life business which covers the exit of 65 employees from the business. 61 employees had exited by year end 2011, with the remaining 4 employees exiting by the end of March 2012.

Onerous contracts

Irish Life Assurance plc had an onerous contract in respect of an investment property where the market value reduced. During 2010 the onerous contract was subject to arbitration. A settlement was agreed resulting in a loss of €39m. The provision of €33m was fully utilised in 2010 with the additional loss of €6m recognised in investment return.

Other

The other provision is in relation to outstanding settlements on certain closed derivative contracts and policyholder claims. The outstanding settlements on the closed derivative contracts were finalised during the current period. Policyholder claims are expected to be settled during 2012 and have been reclassified to liabilities classified as held for sale. (Note 5(a), Assets and liabilities classified as held for sale).

30. Deferred front-end fees

Deferred front-end fees relate to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 5(a), Assets and liabilities classified as held for sale.

	2011	2010
	€m	€m
As at 1 January	**48**	102
Arising in the year	**11**	17
Credit to income arising in the year	**(17)**	(25)
Reclassification to liabilities classified as held for sale (note 5(a))	**(42)**	-
Reclassification to liabilities classified as held for sale (note 5(b))	**-**	(46)
As at 31 December	**-**	48

31. Deferred taxation

	2011	2010
	€m	€m
Deferred tax liabilities	**(168)**	(172)
Deferred tax assets*	**184**	112
Reclassification to liabilities classified as held for sale (note 5(a))	**168**	-
Net Deferred tax obligations as at 31 December	**184**	(60)

* Banking Ireland incurred further trading losses during 2011, which gives rise to a closing deferred tax asset of €184m, which includes €40m in respect of AFS assets and €15m in respect of the retirement benefits deficit. This asset has been recognised on the basis that management expects to be able to utilise this asset from future own taxable profits.

The most significant tax losses arise in the Republic of Ireland tax jurisdiction and their utilisation is dependent on future taxable profits. The Directors have considered the assumptions underpinning the viability restructuring plan submitted to the Central Bank of Ireland and the Department of Finance in January 2012 and have assessed that future taxable profits will be available to recover the above deferred tax asset. At 31 December 2011, the group had unrecognised deferred tax assets of €121m in relation to trading losses of the group.

Net Deferred tax obligations are attributable to the following:

			2011			
	As at 1 Jan €m	**Recognised in income statement €m**	**Recognised in equity €m**	**Other €m**	**Reclassification to liabilities as held for sale €m**	**As at 31 Dec €m**
Property and equipment	**(7)**	**(1)**	**3**	**-**	**5**	**-**
Deferred acquisition costs	**10**	**1**	**-**	**-**	**(11)**	**-**
Shareholder value of in-force business	**(114)**	**8**	**-**	**-**	**106**	**-**
Investment contract liabilities	**1**	**-**	**-**	**-**	**(1)**	**-**
Undistributed life business surpluses	**(53)**	**(3)**	**-**	**-**	**56**	**-**
Unrealised gains on assets / (losses)	**33**	**-**	**4**	**-**	**3**	**40**
Retirement benefits	**7**	**(2)**	**-**	**-**	**10**	**15**
IFRS / FRS transition spreading	**-**	**1**	**-**	**-**	**(1)**	**-**
Initial recognition of deferred tax	**-**	**3**	**-**	**(16)**	**-**	**(13)**
Losses carried forward	**68**	**76**	**-**	**-**	**-**	**144**
Other temporary differences	**(5)**	**2**	**-**	**-**	**1**	**(2)**
	(60)	**85**	**7**	**(16)**	**168**	**184**
Of which:						
Continuing operations		**82**	**5**	**(16)**		
Discontinued operations		**3**	**2**	**-**		
		85	**7**	**(16)**		

			2010		
	As at 1 Jan €m	Recognised in income statement €m	Recognised in equity €m	Other €m	As at 31 Dec €m
Property and equipment	(12)	-	5	-	(7)
Deferred acquisition costs	10	-	-	-	10
Deferred front-end fees	1	(1)	-	-	-
Shareholder value of in-force business	(120)	6	-	-	(114)
Investment contract liabilities	2	(1)	-	-	1
Undistributed life business surpluses	(48)	(5)	-	-	(53)
Unrealised gains on assets / (losses)	(3)	(2)	38	-	33
Retirement benefits	9	(2)	-	-	7
IFRS / FRS transition spreading	1	(1)	-	-	-
Losses carried forward	38	31	-	(1)	68
Other temporary differences	(7)	3	-	(1)	(5)
	(129)	28	43	(2)	(60)

32. Subordinated liabilities

Continuing operations

The banking operations constitute the continuing operations of the group as disclosed in Note 3, Segmental information.

The movement in subordinated liabilities is analysed as follows:

	2011	2010
	€m	€m
As at 1 January	**1,470**	1,432
Issuance during the year	**276**	-
Buyback during the year		
Dated securities	**(845)**	-
Undated securities	**(345)**	-
Maturities	**(259)**	-
Amortisation	**20**	38
As at 31 December	**317**	1,470

	2011	2010
	€m	€m
Dated		
Issued by Irish Life & Permanent plc		
€18m floating-rate notes 2011	-	16
€250m 6.25% fixed-rate notes 2011	-	261
€10m floating-rate step-up callable notes 2015	-	10
€50m floating-rate step-up callable notes 2015	-	51
€200m floating-rate step-up callable notes 2015	-	201
€50m floating-rate step-up callable notes 2016	-	50
€75m floating-rate step-up callable notes 2017	-	75
€300m 4.625% fixed step-up callable notes 2017	-	308
€45m floating-rate step-up callable notes 2018	-	45
€25m step-up callable notes 2018	-	25
€20m floating-rate step-up callable notes 2018	-	20
€5m constant maturity swap notes 2018	-	4
€5m constant maturity swap notes 2018	-	5
€24m 0% non-callable lower tier 2 capital notes 2018	**16**	31
€10m floating-rate notes 2023	-	10
€10m 4.31% fixed-rate callable notes 2035	-	10
€400m 10% fixed-rate convertible contingent capital notes 2016	**301**	-
	317	1,122
Undated		
Issued by Irish Life & Permanent plc		
JPY 7bln 3.98% undated step-up notes	-	70
JPY 10bln 3.75% undated step-up notes	-	93
JPY 20bln 4.655% undated step-up notes	-	185
	-	348
	317	1,470

Of the above total for subordinated liabilities, €276m (2010: €1,166m) is classified as Tier 2 capital.

The consent of the Central Bank is required before:
- Any repayment, for whatever reason, of a dated subordinated liability prior to its stated maturity; and
- Any exercise of any redemption option in any undated liability. During 2011, such consent was obtained and a liability management exercise was undertaken.

In the event of the winding up of the entity which issued the subordinated liability, the claims of the holders of the subordinated liabilities shall be subordinated to the claims of depositors, policyholders and creditors of the relevant entity other than creditors that are expressed to rank pari-passu with or junior to the claims of the holders of the subordinated liabilities.

32. Subordinated liabilities (continued)

On 17 May 2011, Irish Life & Permanent plc ("IL&P") prepaid three Upper Tier 2 perpetual subordinated notes issued by IL&P, representing original aggregate nominal amounts of €320m, which generated €290m of core equity Tier 1 capital. These buybacks have realised net gains of €318m against the carrying values of the notes based on a discounted price of 8.5% being paid on the JPY 37bln yen principal balances.

The group launched a liability management exercise ("LME") in respect of up to c. €845m of its subordinated liabilities in June 2011 which continued through to August 2011. This exercise was in the form of a cash tender offer. Cash prices under the exercise were 20 per cent of nominal for the relevant subordinated liabilities, with the exception of one series of zero coupon subordinated liabilities where the cash price was 8.635 per cent of the nominal amount.

On the Lower Tier 2 dated subordinated liabilities buyback process, the 2011 half year income statement reflected net gains of €451m on buybacks completed at 30 June 2011 representing notes with aggregate nominal amounts totalling €556m. The related cash payments of €105m reflected prices paid of 20 per cent of nominal for the relevant subordinated liabilities, save in the case of one series of zero coupon subordinated liabilities where the cash price was 8.635 per cent of the nominal amount.

In the second half of 2011, further buybacks were completed that represented aggregate nominal amounts totalling €288m. Related cash payments of €54m reflected prices paid of 20 per cent of nominal for the relevant subordinated liabilities, save in the case of one series (€18m floating-rate notes 2011) where 42% of the notes was completed during the buyback process and the remainder matured after the buyback process.

Dated	**Percentage buyback**	**Carrying value at date of buyback €m**	**Cash payments €m**	**Gain €m**
Issued by Irish Life & Permanent plc				
€10m floating-rate notes 2023	**100%**	**10**	**(2)**	**8**
€10m floating-rate step-up callable notes 2015	**100%**	**11**	**(2)**	**9**
€50m floating-rate step-up callable notes 2015	**100%**	**50**	**(10)**	**40**
€50m floating-rate step-up callable notes 2016	**100%**	**50**	**(10)**	**40**
€75m floating-rate step-up callable notes 2017	**100%**	**75**	**(12)**	**63**
€300m 4.625% fixed step-up callable notes 2017	**100%**	**309**	**(60)**	**249**
€5m constant maturity swap notes 2018	**100%**	**6**	**(1)**	**5**
€25m step-up callable notes 2018	**100%**	**26**	**(5)**	**21**
€55m 0% non-callable Lower Tier 2 capital notes due 2018	**56%**	**19**	**(3)**	**16**
€18m floating-rate notes 2011	**42%**	**8**	**(2)**	**6**
€20m floating-rate step-up callable notes 2018	**100%**	**20**	**(4)**	**16**
€200m floating-rate step-up callable notes 2015	**100%**	**200**	**(36)**	**164**
€45m floating-rate step-up callable notes 2018	**100%**	**46**	**(9)**	**37**
€5m constant maturity swap notes 2018	**100%**	**5**	**(1)**	**4**
€10m 4.31% fixed-rate callable notes 2035	**100%**	**10**	**(2)**	**8**
		845	**(159)**	**686**
Undated				
Issued by Irish Life & Permanent plc				
JPY 20bln 4.655% undated step-up notes	**100%**	**192**	**(15)**	**177**
JPY 10bln 3.75% undated step-up notes	**100%**	**90**	**(7)**	**83**
JPY 7bln 3.98% undated step-up notes	**100%**	**63**	**(5)**	**58**
		345	**(27)**	**318**
Transaction costs				**(4)**
Total gain on liability management exercise				**1,000**

32. Subordinated liabilities (continued)

On the 26 July 2011, Irish Life & Permanent plc ("IL&P"), the principal subsidiary of Irish life & Permanent Group Holdings plc ("IL&PGH"), was directed by the High Court of Ireland (under a Direction Order made on the application of the Minister for Finance under the Credit Institutions (Stabilisation) Act 2010) to issue €400m of contingent Tier 2 capital notes to the Minister for Finance. On 27 July, IL&P issued such notes with a nominal value of €400m (€394m received net of costs) to the Minister for Finance with the following terms and conditions:

- The coupon interest rate is fixed at 10% payable annually in arrears which can be increased to 18% if the Minister for Finance wishes to remarket the notes;
- Term of five years with a maturity date of 28 July 2016;
- The notes are convertible into the ordinary shares of Irish Life & Permanent Group Holdings plc ("IL&PGH"), the parent of IL&P, in the occurrence of a Conversion Event;
- Conversion Event is defined as the occurrence of 1) a Capital Deficiency Event where IL&P's core Tier 1 capital falls below 8.25% or the Central Bank of Ireland notifies IL&P, that it has determined that its financial and solvency condition is deteriorating in such a way that a Capital Deficiency Event is likely to occur in the short term and / or 2) a Non-Viability Event where IL&P becomes insolvent or unable to pay its debts as they fall due, as defined in the related Agency Deed;
- Following any Conversion Event, the contingent capital notes will immediately be converted into a fixed number of ordinary shares in IL&PGH determined by dividing the principal amount of each contingent capital note by the conversion price;
- The conversion price of €0.031 per unit is subject only to adjustments in accordance with the conditions of the Agency Deed that maintain their proportionate rights;
- The notes are only redeemable on their maturity date, unless previously converted to ordinary shares due to a Conversion Event; and
- Rank pari-passu with other subordinated liabilities.

Group management evaluated the terms and conditions of the contingent capital notes and since the notes contain both a liability and an equity component, group management have concluded that the contingent capital notes should be treated as a compound financial instrument in accordance with IAS 32, Financial Instruments: Presentation.

The contingent capital notes have a coupon rate of 10% which under certain circumstances may be increased by the holder to 18%. In order to record the host debt element at fair value and because the instrument was issued to a related party, it was necessary to assess the terms and coupon rate against market based data. As the notes do not trade in any active markets, the fair value is based on an estimated interest rate of 21.5%. This rate was arrived at based on historical analysis of the senior unsecured spread of the issuing company at the time of issue in addition to estimated premiums for equity conversion risk and for subordination of the notes.

The contingent mandatory conversion feature was fair valued based on a comparison of the discounted cash flow valuation model of the compound financial instrument, including a premium for equity conversion, versus the fair value of the debt component only. This was recognised as the equity component of the contingent capital note in the statement of changes in shareholders' equity, as it met the fixed-for-fixed exemptions in IAS 32, Financial Instruments: Presentation.

The difference between the fair value of the host debt element of the notes and net proceeds received from the Minister for Finance is treated as a capital contribution from the company's shareholder and reflected in the statement of changes in shareholders' equity, as the Minister for Finance is the majority shareholder of the group.

The contingent capital notes recognised on initial recognition were calculated as follows:

	€m
Proceeds from the contingent capital notes (net of costs)	**394**
Adjusted for the equity component and capital contribution:	
- Adjustment to proceeds to reflect off market interest coupon and mandatory conversion feature	**(132)**
- The mandatory conversion feature of the instrument transferred to equity	**14**
Fair value of the liability component	**276**

The terms and conditions of the remaining subordinated liabilities of the group as at 31 December 2011 are detailed as follows:

Irish Life & Permanent plc

- €24m zero coupon, non-callable lower tier 2 capital notes repayable on 15 September 2018, issued at 43.1825% of aggregate nominal amount of €55m. €31m of the €55m original nominal amount of these notes were repurchased under the Lower Tier 2 LME exercise earlier in the year. The remaining notes accrete up at an effective interest rate of 8.76%.

32. Subordinated liabilities (continued)

Discontinued operations

Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 5 (a), Assets and liabilities classified as held for sale, have reclassified its subordinated liabilities to liabilities classified as held for sale. Irish Life Assurance plc is a subsidiary of Irish Life Limited.

	2011	2010
	€m	€m
Undated		
Issued by Irish Life Assurance plc		
€200m 5.25% step-up perpetual capital notes	**213**	216

The terms and conditions of this subordinated liability are as follows:

- €200m step-up perpetual capital notes. The interest rate is fixed at 5.25% for 10 years until 8 February 2017 ("the first reset date). On the first reset date the interest rate becomes Euribor +2.03%. The note is callable in whole at the first reset date and each coupon payment thereafter. The notes may also be redeemed if they no longer qualify as eligible regulatory capital.

33. Shareholders' equity

Share capital
Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of the company.

Share premium
The share premium reserve represents the excess of amounts received for share issues over the par value of those shares for the company.

Capital contribution reserve
This reserve comprises of the capital contribution component and fair value adjustment of the mandatory conversion feature of contingent capital notes issued by Irish Life & Permanent plc.

Revaluation reserve
The revaluation reserve comprises the unrealised gain or loss, net of tax, on the revaluation of owner occupied properties. This is a non-distributable reserve.

Available-for-sale ("AFS") reserve
The AFS reserve comprises unrealised gains or losses, net of tax, on AFS financial assets which have been recognised at fair value on the statement of financial position. It also includes a residual amount of €10m (2010: €17m) relating to AFS securities reclassified to loans and receivables.

Cash flow hedge reserves
The cash flow hedge reserve comprises the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

Currency translation adjustment reserve
The currency translation adjustment reserve represents the cumulative gains and losses, net of hedging on the retranslation of the group's net investment in foreign operations, at the rate of exchange at the reporting date.

Share-based payments reserve
This reserve comprises the cost of share options and the long-term incentive plan, which have been charged to the income statement over the vesting period of the options. The long-term incentive plan lapsed during 2011.

Other capital reserves
Other capital reserves include the share premium of €21m of Irish Life plc at the date of the merger, €7m capital redemption reserve arising from the repurchase and cancellation of shares. It also includes the merger reserve which is the difference between the shares issued by Irish Permanent plc and the nominal value of the issued share capital of Irish Life plc on the merger of the companies and amounts to a deficit of €2,719m. The share premium arising on the shares (€2,698m) issued in connection with the merger has been classified with the merger reserve rather than with the other share premium in existence in Irish Life & Permanent plc. Under the scheme of arrangement the share capital and share premium in IL&P €2,922m (including the €2,698m already presented in capital reserves) was cancelled and share capital and share premium was issued in IL&PGH at fair value €1,087m. These changes in share capital are reflected in the other capital reserve.

Own share reserve
Own shares held (excluding shares held for the long-term incentive plan) are held within the group's life operations for the benefit of life assurance policyholders. In accordance with IFRS the cost of these shares, €36m (2010: €51m), is deducted from distributable reserves. The liability to policyholders is based on the fair value of the shares and the change in liability due to the marked-to-market movement on the shares is transferred from retained earnings to non-distributable reserves.

Retained earnings
The group retained earnings include distributable and non-distributable earnings. These reserves represent the retained earnings of the company, subsidiaries and associate after consolidation adjustments.

In respect of the company statement of financial position, retained earnings represent the cumulative revenue reserves of that company.

34. Authorised and issued share capital

Authorised share capital

Description	Number of shares	2011 Share capital €m	2010 Share capital €m
Ordinary shares of €0.32 each	**400,000,000**	**-**	128
Ordinary shares of €0.031 each	**70,400,000,000**	**2,182**	-
Deferred shares of €0.289 each	**70,400,000,000**	**20,346**	-
Preference Shares of €1 each	**300,000,000**	**300**	300
Preference Shares of US$1 each	**200,000,000**	**155**	150
Preference Shares of Stg£1 each	**100,000,000**	**120**	116

On the 27 July 2011, the group increased the number of authorised €0.32 ordinary shares from 400,000,000 to 70,400,000,000 by the creation of 70,000,000,000 additional authorised shares. On this same date, each €0.32 ordinary share (both issued and un-issued) was subsequently sub-divided into 320 ordinary shares of €0.001 each. Following this sub-division, 289 ordinary shares out of every 320 ordinary shares was consolidated and re-designated into one deferred share of €0.289 and the remaining 31 ordinary shares were consolidated into one ordinary share of €0.031 (the €0.031 ordinary share carrying the same rights and obligations as the former €0.32 ordinary share). Deferred shares carry no voting or dividend rights and, on a return of capital on a winding up of the group, will have the right to receive the amount paid up thereon only after all ordinary and preference shareholders have received, in aggregate, any amounts paid up thereon plus €10 million per ordinary share. The purpose of this is to ensure that the deferred shares have no economic value.

The number of paid up ordinary and deferred shares is as follows:

	2011			
	0.32 cent Ordinary shares	**0.001 cent Ordinary shares**	**0.289 cent Deferred shares**	**0.031 cent Ordinary shares**
As at 1 January	**276,782,351**	**-**	**-**	**-**
Subdivision	**(276,782,351)**	**88,570,352,320**	**-**	**-**
Consolidation	**-**	**(88,570,352,320)**	**276,782,351**	**276,782,351**
Issued to Minister for Finance	**-**	**-**	**-**	**36,249,014,972**
As at 31 December	**-**	**-**	**276,782,351**	**36,525,797,323**
Own shares held for the benefit of life assurance policyholders	-	-	**4,397,762**	**4,245,716**
Shares held under employee benefit trust	-	-	**457,914**	**457,914**

	2010 0.32 cent Ordinary shares
As at 1 January	119,038
Issued under Scheme of Arrangement	276,782,344
Cancellation of shares during the year	(119,031)
As at 31 December	276,782,351
Own shares held for the benefit of life assurance policyholders	5,378,827
Shares held under employee benefit trust	457,914

On 9 October 2009, Irish Life & Permanent Group Holdings plc ("IL&PGH") issued 119,031 ordinary shares of €0.32 each, at par.

Pursuant to the Scheme of Arrangement disclosed in the Annual Report and Financial Statements 2010 and as described in Note 1, Basis of preparation, significant accounting polices and estimates and judgements on 15 January 2010, 276,782,344 shares were cancelled in Irish Life and Permanent plc ("IL&P") and on the same date IL&P issued 276,782,344 shares in favour of IL&PGH (making IL&PGH the parent of IL&P). On 15 January 2010, 276,782,344 shares were issued in IL&PGH to the former shareholders of IL&P whose shares had been cancelled.

34. Authorised and issued share capital (continued)

On 15 January 2010, the 119,031 ordinary shares that were issued on 9 October 2009 to facilitate the commencement of trading were bought back by IL&PGH and were subsequently cancelled.

On the 26 July 2011, the group was directed by the Irish High Court (under a Direction Order made on the application of the Minister for Finance under the Credit Institutions (Stabilisation) Act 2010) to issue €2.3bln of new equity capital to the Minister for Finance. On the 27 July 2011, the group issued 36,249,014,972 ordinary €0.031 shares (at a subscription price of €0.06345 per share) to the Minister for Finance. Total gross proceeds from the issue before costs of €46m amounted to €2.3bln, with €1,123m recorded in share capital and €1,131m recorded in share premium after costs. Following this issuance, the Minister for Finance now owns in excess 99.2% of the share capital of the group.

No shares were issued as a result of the exercise of options under the group's share option schemes during the year (2010: €nil). There were no shares issued to the group profit sharing scheme in the current year (2010: €nil).

Own shares held for the benefit of life assurance policyholders are held by Irish Life Assurance plc and represent 0.01% (2010: 1.9%) of the issued share capital of the company.

35. Analysis of equity and capital

The Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group reported an additional capital requirement of the group of €4bln. To meet this additional capital requirement the group is progressing several initiatives including the sale of Irish Life Limited and its subsidiaries (together the "Life Group"). As a consequence the group has disclosed the Life Group as discontinued operations as disclosed in Note 4, Discontinued operations.

(A) Shareholders' equity

The group's equity is analysed as follows:

	2011	2010
	€m	€m
Banking - Ireland		
Net assets	**2,268**	127
	2,268	127
Banking - UK		
Net assets	**(57)**	11
	(57)	11
Life assurance		
Net assets	**1,132**	1,284
Deduction in respect of liability relating to own shares held for the benefit of life assurance policyholders	**-**	(6)
	1,132	1,278
Fund management		
Net assets	**16**	11
	16	11
Brokerage and third party administration and other		
Net assets	**100**	(5)
Goodwill	**-**	70
	100	65
Associated undertaking	**129**	124
Consolidation adjustments (note 3)	**(71)**	-
Total equity	**3,517**	1,616

(B) Capital management

Irish Life & Permanent plc ("IL&P"), a subsidiary of IL&PGH, carries out the banking business activities of the group. IL&P was regulated by the Financial Services Authority of Ireland ("Financial Regulator" or "FR") which set and monitored the regulatory capital requirements in respect of the group's ("IL&P's") operations. In October 2010, under the Central Bank Reform Act 2010, the Financial Regulator was replaced by the Central Bank of Ireland ("Central Bank") which is now responsible for central banking and financial regulation. While there are a number of regulated entities within the group which have individual regulatory capital requirements, two of the principal regulated entities are IL&P, the group's former holding company which is also the group's banking operation (trading as **permanent tsb**), and Irish Life Assurance plc ("ILA"), the group's principal life assurance operation.

ILA separately provides an annual return to the Central Bank under the European Communities (Life Assurance) Framework Regulations, 1994. A similar abbreviated return is submitted quarterly. Irish Life Investment Managers Limited ("ILIM") is authorised to act as an investment business firm and is regulated by the Central Bank under the European Communities (Markets in Financial Instruments) Regulations 2007 (MiFID).

The group is required by the Central Bank to maintain adequate capital and the group is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements.

On 31 March 2011, the Central Bank published the results of the Prudential Capital Assessment Review (PCAR 2011) and the Prudential Liquidity Assessment Review (PLAR 2011) as part of the Financial Measures Programme (FMP). The FMP was one of the conditions of the EU / IMF / EC Programme of Support. The aim of the FMP was to place the Irish banking system in a position where it could fund itself and generate capital without undue further reliance on Irish or European public sources.

The FMP identified a total gross capital requirement of €4bln for the group's banking business in order to: (i) achieve a core tier 1 capital ratio of 6 per cent (plus an additional buffer) in a stressed scenario by 31 December 2013; and (ii) cover losses associated with the requirement to deleverage the bank's statement of financial position in order to achieve a loan to deposit ratio of circa 122.5% by 31 December 2013.

35. Analysis of equity and capital (continued)

On 27 July 2011, the group received €2.3bln of equity capital and €0.4bln in contingent capital from the Irish Government. Further during 2011, the bank received dividends totalling to €165m from Irish Life Assurance plc (€143m) and from other divisions of the Life Group (€22m). The remaining capital requirement is being funded through the disposal of the Life Group. Where the deleveraging initiatives outlined above together with the initiative to sell the Life Group do not generate sufficient funds to meet the additional capital requirement, the state has indicated that they will provide the necessary support.
The management of capital within the group is monitored by the Board Risk and Compliance Committee, the Banking Assets and Liabilities Committee and the Life Assurance Financial Risk Committee in accordance with board approved policy. In general, outside of IL&P, all regulated entities within the group operate to an internal target level of capital which provides a margin of comfort above the regulatory minimum with any excess capital above this target level being remitted to IL&P.

Banking operations

As disclosed in Note 3, Segmental information, the banking operations constitute the continuing operations of the group.
The banking segments' minimum capital requirement is managed by the group's banking operations, which is overseen by the bank Chief Executive and is calculated in accordance with the provisions of Basel II as implemented under the European Capital Adequacy Directive and monitored by the Central Bank.

The following table summarises the composition of regulatory capital and the ratios of the bank for the periods ended 31 December 2011 and 31 December 2010. They are calculated in accordance with Basel II regulatory capital requirements.

	2011	2010
	€m	€m
Tier 1 capital		
Share capital and share premium	**2,922**	2,922
Reserves	**596**	760
Prudential filters	**223**	62
Total qualifying Tier 1 capital	**3,741**	3,744
Tier 2 capital		
Subordinated liabilities	**276**	1,166
Revaluation reserve	**-**	4
Other	**119**	62
Total qualifying Tier 2 capital	**395**	1,232
Total qualifying Tier 1 and Tier 2 capital	**4,136**	4,976
Deductions		
Investment in life operations	**(1,307)**	(3,295)
Other	**(73)**	-
Total deductions	**(1,380)**	(3,295)
Total own funds (Tier 1 capital)	**2,756**	1,681
Required capital*	**1,233**	1,265
*European Capital Requirement Directive		
Excess of total own funds over total required capital	**1,523**	416

The following information has not been subject to review or audit by the independent auditor:

	2011	2010
Risk weighted assets	**€m**	€m
Total risk-weighted assets	**15,408**	15,809
Risk asset ratio (all Core Tier 1)	**17.9%**	10.6%

The above ratio is calculated and reported to the Central Bank on a quarterly basis.

The percentage of capital is in excess of the Central Bank regulatory minimum of 10.5 % effective as at 31 December 2011.

35. Analysis of equity and capital (continued)

The movement in the bank's regulatory capital is summarised below:

	2011 €m	2010 €m
As at 1 January	**1,681**	1,858
Bank operating losses after tax and corporate costs	**(1,429)**	(325)
Dividends received	**165**	28
Capital injection / convertible bonds	**2,634**	-
Liability management programme	**(123)**	-
Core deposit intangible deduction	**(103)**	-
Other*	**(69)**	120
As at 31 December	**2,756**	1,681

*Other movement of (€69m) in own funds in 2011 includes a deduction for securitisation exposures not included in risk-weighted assets of (€73m), the movement in the IRB provision excess of €39m and a (€35m) reduction in other additional own funds. The liability management programme ("LME") generated an increase in Tier 1 reserves of €1,000m but this was offset by a reduction in Tier 2 capital of €1,123m during the year. Resulting from the INBS deposit acquisition a core deposit intangible of €124m was created, the net book value of which (€103m) is disallowable when calculating regulatory capital.

Life assurance and fund management operations

As disclosed in Note 3, Segmental information, the life assurance and fund management operations constitute the discontinued operations of the group. The regulatory capital requirements of the life assurance business are determined according to the European Communities (Life Assurance) Framework Regulations 1994 modified by the EU directive 2002/83/EC. The regulations set down the approach to be used to value the assets and liabilities and the calculation of the required solvency margin.

	2011 €m	2010 €m
Shareholders' funds attributable to life and fund management business	**1,148**	1,289
Less: Shareholder value of in-force ("VIF") business		
Gross	**(647)**	(699)
Related deferred tax	**106**	114
Shareholders' funds excluding VIF	**607**	704
Adjustments to valuation of assets and liabilities to regulatory basis	**(35)**	(43)
Subordinated liabilities	**201**	201
VIF loan	**-**	100
Other assets available to cover solvency margin	**11**	16
Regulatory capital	**784**	978
Held within the long-term business fund	**447**	491
Held outside the long-term business fund	**337**	487
	784	978

35. Analysis of equity and capital (continued)

The solvency cover for Irish Life Assurance plc, before accounting for any available dividends, is 1.9 times (2010: 2.4 times) the minimum requirement of €402m (2010: €401m). The directors consider this to be a conservative level of capital to manage the business having regard for the basis of calculating liabilities and the insurance and operational risks inherent in the underlying products. At 31 December 2011 each of the group's life assurance and fund management entities had sufficient capital on a stand-alone basis and therefore no capital injections were expected to be needed in the future. Transfers of capital out of the life assurance and fund management companies are subject to the companies continuing to meet the regulatory capital requirements.

Shareholder capital is invested in cash, short-term debt securities and property.

The group has provided for the cost of financial options and guarantees on a market-consistent basis, which is discussed further in Note 16, Shareholder value of in-force business. Capital is affected by a range of factors including interest rates, mortality and morbidity. The group's capital management and risk management policies are discussed in Note 36, Financial risk management.

In November 2008 a stop-loss reinsurance treaty in relation to new business was signed with Swiss Re and the effect on regulatory assets is analysed below:

	2011	2010
	€m	€m
Effect on regulatory assets	**10**	44
Analysis of effect on regulatory assets:		
New business strain	**34**	39
Expected return	**(51)**	(47)
Experience variance	**27**	52
	10	44

The accounting treatment in the financial statements of this stop-loss reinsurance treaty is not to show either the contingent asset or contingent liability on the statement of financial position as they offset each other but the reassurance fee of €3.9m (2010: €3.2m) for this treaty is accounted for in the income statement.

In 2010 Irish Life Assurance plc raised loan capital of €100m secured on the in-force book of business. The table below shows this addition to capital in 2010 and the early repayment of the loan, including interest and penalty charges, in 2011.
The table below analyses the change in regulatory capital of the life and fund management operations (net of tax).

	2011	2010
	€m	€m
Regulatory capital as at 1 January	**978**	685
Capital generated from existing business		
- Expected return	**158**	155
- Experience variances	**34**	89
- Operating assumption changes	**16**	70
New business strain	**(59)**	(75)
Expected investment return	**10**	13
Short-term investment fluctuations		
- Direct shareholder property short-term investment fluctuations	**(17)**	1
- Property commitment cost	**-**	(13)
- Other short-term investment fluctuations	**(25)**	33
Effect of economic assumption changes	**(28)**	(48)
VIF loan capital movements and costs	**(115)**	100
Change in regulatory capital due to disposal of subsidiary undertaking	**5**	-
Transfer of regulatory capital out of life and fund management operations, due to sale of subsidiary undertaking	**(25)**	-
Other	**(5)**	(4)
Change in inadmissible assets	**8**	(8)
Dividends paid	**(151)**	(13)
Change in subordinated liabilities	**-**	(7)
Regulatory capital as at 31 December	**784**	978

35. Analysis of equity and capital (continued)

Best estimate assumptions are used to analyse the various components of the capital movements which are explained as follows:

Capital generated on existing business which has three components:

- Expected return: the capital which would arise if the existing business behaved in line with the EV assumptions;

- Experience variances: the capital arising because actual experience in the year differs from the EV assumptions on mortality, morbidity, persistency, expenses and non-linked matching; and

- Operating assumption changes: the effect on capital of changes to regulatory liability demographic and expense assumptions. These assumptions are reviewed regularly and are changed where appropriate in light of either current or expected experience.

New business strain: when a life assurance contract is written, significant acquisition costs are normally incurred up-front, these costs are then recovered through future charges. This up-front payment gives rise to a reduction in capital.

Expected investment return: capital generated by the expected investment earnings on the net assets attributable to shareholders using the equity and property investment return EV assumptions applicable at the start of the financial year. The expected investment earnings allow for interest payable on subordinated debt and the fee payable in relation to the stop-loss reassurance treaty.

Short-term investment fluctuations: this is the effect on capital of the difference between the actual investment return achieved and the long-term investment return assumed for both policyholder and shareholder assets.

Effect of economic assumption changes: this is the impact on capital of changes in economic assumptions excluding changes in non-linked regulatory liability interest assumptions.

36. Financial risk management

Risk management framework

The Board of Directors approves overall policy in relation to the types and levels of risk that the group is permitted to assume in the implementation of its strategic and business plans. The group Board established a new board committee, the Board Risk and Compliance Committee, to provide oversight and advice to the group Board on risk governance, and to support the group Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the group's strategy is consistent with the group's risk appetite.

The Board Risk and Compliance Committee has responsibility for oversight and advice to the board on risk governance, the current risk exposures of the group and future risk strategy, including strategy for capital and liquidity management, and the embedding and maintenance throughout the group of a supportive culture in relation to the management of risk. The Board Risk and Compliance Committee supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the group's strategy is consistent with the group's risk appetite.

The Board Risk and Compliance Committee is responsible for monitoring adherence to the group risk appetite statement. Where exposures exceed levels established in the appetite statement, the Board Risk and Compliance Committee is responsible for developing appropriate responses. This is facilitated by the periodic review of a key risk indicators report calibrated to the risk appetite statement.

The Board Risk and Compliance Committee, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it. These committees are the Group Credit Committee, the Banking Assets and Liabilities Committee, the Life Assurance Assets and Liabilities Committee, the Group Operational Risk Committee, the Group Counterparty Credit and Market Risk Committee and the Group Compliance Committee. The terms of reference for each committee, whose members include members of group senior management, are reviewed regularly by the Board Risk and Compliance Committee.

The group risk identification and assessment process identifies the following risks as being material to the operations of Irish Life & Permanent Group Holdings plc.

Credit risk
Liquidity risk
Market risk
Insurance risk
Operational risk

The group's approach to management of these risks is set out in the following pages.

The key financial risks arise in the underlying subsidiary companies of Irish Life & Permanent Group Holdings plc ("IL&PGH"). For 2011, all of the directors of IL&PGH are also directors on the board of Irish Life & Permanent plc (trading as **permanent tsb**). In addition, they have representation on the boards of Irish Life Assurance, Permanent TSB Finance and Capital Home Loans, its key subsidiary companies. This allows the directors to monitor the key risks and controls in the underlying subsidiaries of IL&PGH plc.

Banking operations of the group comprises the company (IL&P) and certain subsidiaries. The company represents the most significant element of the banking operation which is referred to throughout the note.

Credit risk
Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the group or its failure to perform as agreed.

The group maintains detailed credit policies for each business unit which outlines relevant conditions under which a loan can be made. Credit policies establish coherent limit systems for credit risk. The various limit structures in place create a credit risk 'ceiling'. Limit structures are in place to manage credit default risk, concentration risk, settlement risk and counterparty risk, as described below. For IL&PGH plc this risk can be further sub-categorised into:

(a) Credit default risk
(b) Concentration risk
(c) Securitisation risk
(d) Settlement risk
(e) Reinsurance counterparty risk

(a) Credit default risk **- The potential for loss occasioned by the counterparty's insolvency or lack of willingness to pay.**

A robust management process is in place to ensure that credit risk taken on is in line with group risk appetite and that effective credit risk measurement takes place across the group.

36. Financial risk management (continued)

Measurement and internal ratings
The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the group is exposed, from the level of individual facilities up to the total portfolio for all financial assets excluding derivatives. Integral to this is the use of an internal ratings system as part of the group's internal risk based approach ("IRBA"). This system is comprised of three elements – probability of default, exposure at default and loss given default – which are listed and explained below. These parameters are fundamental in assessing credit quality of loan exposures, with variants of these used for the calculation of regulatory and economic capital. The key building blocks of this process are:

- Probability of default ("PD") – the likelihood of a borrower being unable to repay or make repayments on his / her outstanding obligations;
- Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his obligations, at the point of default; and
- Loss given default ("LGD") – the loss associated with a defaulted loan or borrower.

Credit default risk represents the most significant element of credit risk for the group. The group capitalises for credit default risk using the key risk parameters of probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). These parameters are utilised to calculate expected loss (“EL”) and a stand-alone unexpected loss figure at a credit risk sub-portfolio level. The stand-alone unexpected loss can then be converted to a sub-portfolio unexpected loss contribution which generates required economic capital. Expected losses should be covered by the normal business operating margins but unexpected losses are by definition rare and of significant impact, necessitating the setting aside of a capital cushion.

The parameters outlined above are not directly utilised within the group's banking operations provisioning process but are utilised in selecting its approach and applying the loss rates, particularly in collective provisioning. The group is cognisant of the outputs from its risk metrics / internal rating systems and management use the outputs to inform its provisioning process.

There are a number of reasons why the risk parameters which are calibrated to regulatory capital requirements are not used directly in loss provisioning. Firstly, the calibration of the probability of default ("PD") is to a one year default time horizon which is not compatible with the groups impairment provisioning process. Similarly, loss given default ("LGD") is calibrated to a “downturn” requirement which is unlikely to be reflective of loss projections in changing economic cycles. Secondly, the approach to PD and LGD is one of an expected losses approach, whereas IFRS currently requires an incurred loss approach.

Use of PD, LGD and EAD within credit risk management processes
Irish Life & Permanent plc ("IL&P") uses an internal ratings based ("IRB") approach to calculate the risk weighted assets ("RWA") for all of its retail asset class portfolios which are mainly structured repayment facilities (mortgages, term loans, hire purchase and leasing agreements). This approach measures credit risk using a complex mathematical function which is driven by the group’s own estimates of probability of defaults ("PD"), loss given default ("LGD") and credit conversion factors ("CCF") for all of its retail asset class exposures as outlined in the capital requirement directive ("CRD"). In respect of corporate asset class exposures (including the group's larger exposures to commercial and larger residential investment properties) the group’s own estimates of PD are used and the LGD and CCF are taken directly from the CRD. Credit conversion factor refers to "undrawn" amount in the consumer finance portfolio.

Probability of default ("PD")
Internal ratings are assigned as part of the credit approval process. The consistency and transparency of the internal ratings are ensured by the use of rating models. A rating model is a set of specified and distinct rating criteria, which assigns a grade on the basis of a set of characteristics or attributes associated with an exposure. Credit scoring plays a central role in the ratings process.

Credit scoring combined with appropriate portfolio risk segmentation is the method used to assign grades, and in turn PDs, to individual exposures. With regard to portfolio segmentation - the group’s credit exposures have been segmented to appropriately reflect the characteristics, and risk profile, associated with different types of exposures.

Scorecards have been designed for each segment based on the drivers or characteristics of default associated with each segment. Typical scoring characteristics include financial details, bureau information, product behavioural and current account data. For segments where there is not enough data to develop statistical models, expert judgement based models are used.

Scorecard output is used as part of a calibration process to determine a PD percentage for each exposure. In doing so, exposures have been calibrated to one-year default rates that are applicable for each segment based on the CRD definition of default i.e. >90 days etc. The one-year default rates used in this calibration process have been adjusted to ensure they cater for the 'long-run'.

With regard to the group’s treasury exposures External Credit Assessment Institutions ("ECAI") grades are used in tandem with other relevant factors in the ratings assignment process.

All of the group’s exposures are mapped to a risk rating scale (masterscale) which reflects the risk of default. The assignment of an exposure to a grade is based on the probability of an exposure defaulting in the next year – as per the CRD’s definition of default.

36. Financial risk management (continued)

The credit risk ratings employed by the group are designed to highlight exposures requiring management attention. The credit quality of loans is assessed by reference to the group's rating system. The group uses the Basel II 25 point scale for the internal ratings approach ("IRB") for credit risk. The scale ranges from 1 to 25 where 1 represents the best risk grade or lowest Probability of Default ("PD") and 25 represents the defaulted exposures or PD = 100% for credit risk. All of the group's exposures are mapped to the rating scale based on probability of default.

The internal gradings below incorporate the IRB rating.

- Investment grade (IRB ratings 1 to 7) – includes loans and receivables to banks.
- Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.
- Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature.
- Fair risk profile (IRB ratings 22 to 24) – includes exposures whose general profiles are considered to require some additional monitoring.
- Defaulted (IRB rating 25) – includes exposures that are impaired and unimpaired greater than 90 days past due.

Loss given default ("LGD")
As a means of meeting the CRD requirements with regard to LGD – the group makes use of the "workout" approach to LGD estimation for all retail IRB portfolios. It is used for each of the group's key retail portfolios including residential mortgages.

The process splits into two key areas: estimation of 'realised' LGD at pool level and the calibration of pools to meet the downturn requirements set out in the CRD. Therefore, as part of the estimation process, realised LGD is worked out based on the discounted realised recoveries and associated discounted costs for all observed defaults in the dataset. Having identified relevant drivers of loss, exposures are placed into 'pools' and realised LGD is estimated for each pool. The second step sees the calibration of each pool to appropriate downturn conditions.

In relation to non-retail portfolios mainly sovereign, institutional and corporate exposures, the given LGD values set out in the CRD in relation to Foundation Internal Risked Based Approach ("FIRB") firms are applied.

Validation of estimates
Irish Life & Permanent plc has established an internal validation process in accordance with CRD and regulatory requirements to ensure that the rating systems in place for PD and LGD remain robust and appropriate for the relevant IRB portfolios.

The validation unit has a direct reporting line to the group risk function independent of the group's operational reporting structure and the head of the validation unit also has the ability to directly raise any matters of concern at the executive oversight group for the group's internal rating systems (risk parameter committee).

The validation unit carries out two principal activities, namely annual reviews (periodic validation) and reviews of new enhancements (initial validation).

On an annual basis each of the group's internal rating systems is subjected to a periodic validation which involves a comprehensive review of the rating system including model performance, back testing, business use of the models and data quality. All enhancements or new developments are subjected to initial validation which ensures the suitability of the methodologies used to develop the rating systems, improvements in model performance where enhancements have been made and compliance with CRD requirements. No enhancement to the group's internal rating system is permitted to go live unless it receives a recommendation for approval from the group's validation unit and is approved in accordance with the group's Internal Risk Based Approach "IRBA" governance process outlined earlier.

The results of both the annual rating system periodic validations and any initial validation reviews carried out as necessary in relation to enhancements are reported on a regular basis to the Risk Parameter Committee which is a sub committee of the Group Credit Committee. The validations performed during 2011 show that the ratings systems within the group are meeting their overall requirements with any enhancements scheduled to be implemented.

The activities of the Validation Unit are subject to review on a yearly basis by Group Internal Audit.

Derivative assets
Credit default risk also arises on non-traded / over-the-counter derivative exposures since the group is exposed to the risk of the counterparty defaulting prior to the maturity of "in-the-money" products, thereby necessitating replacement of the contract at applicable market rates. To manage this risk, counterparty limits are maintained in the group's investment accounting system, and specialist Risk Management and Compliance teams undertake regular independent monitoring of counterparty exposure against limits. All breaches of counterparty limits are notified to the Banking Assets and Liabilities Committee (Banking ALCO).

In the case of some counterparties, to avoid a build-up of exposure on derivatives, the group uses a credit support annex ("CSA"), which is an addendum to the bi-lateral ISDA Agreement with a counterparty, and which requires daily settlement of mark to market values of outstanding derivative deals.

36. Financial risk management (continued)

***(b) Concentration risk* - The risk that any single (direct and / or indirect) exposure or group of exposures has the potential to produce losses large enough to threaten the institution's health or its ability to maintain its core business.**

The group risk appetite statement explicitly outlines limits for lending and non-lending concentration that will be tolerated by the group. The group position against these limits is monitored on a regular basis by the Group Credit Committee, the Board Risk and Compliance Committee and the Board of Directors.

The bank's lending strategy in Ireland is not targeted at any particular geographic locations and should, in the ordinary course, be spread throughout the country proportional to local economic activity.

***(c) Securitisation risk* - The risk of loss associated with buying or selling asset-backed securities.**

Securitisation risk occurs when issuing mortgage-backed securities as a risk transfer or funding device. Securitisation risk is minimised through the use of "standard" (as opposed to exotic) securitisation structures, the use of only high-quality counterparties to perform the structuring, and oversight and governance provided by appropriately qualified and experienced external and internal parties.

Monitoring of securitisation risk within the group principally occurs through three processes:

(a) A review of the mortgage pool to be used in the securitisation including checking the pool is appropriately homogeneous by reference to time in arrears and loan-to-value ("LTV") amongst other parameters;
(b) A review of the internal securitisation process following the execution of a transaction allowing the process to be improved in terms of efficiency and risk reduction; and
(c) Monthly monitoring of the underlying mortgage pool performance following the transaction.

High quality counterparties to securitisation structuring are chosen from a panel of suitable counterparties after consideration of selection parameters such as:

- Recent securitisation activity and performance;
- Presence of an ongoing successful relationship with IL&P plc; and
- Position in relevant industry league tables.

***(d) Settlement risk* - The risk that the group delivers a sold asset or cash to a counterparty and then does not receive the cash or purchased asset as expected.**

The group is involved in a limited volume of derivatives contracts trading, and thus this risk is limited in the group context. Robust management controls are in place including established counterparty limits. The potential risk is also limited by a restriction on entering into trades with counterparties with an A- credit rating or higher from the middle rating of Standard & Poor's, Moody's and Fitch ratings, as first notched down on the ratings table where one or more defined risk factors are observed; and the addition of a further risk factor to the marked to market exposure, depending on the complexity of the contract traded and the tenure.

***(e) Reinsurance counterparty risk* - The risk associated with losses arising from a reinsurance counterparty being unable to honour reinsurance claims.**

Reinsurance counterparty risk is managed through the group's reinsurance strategy. The reinsurance strategy is established by the Life Assurance Assets and Liabilities Committee and approved by the Irish Life Assurance plc board.

The group regularly reviews the financial security of its reinsurance companies. Where the reinsurance arrangement involves asset accumulation on the part of the reinsurance company, these companies have a Moody's rating of at least A. Other limits are set with reference to premium income, assets and shareholder capital of the reinsurance company.

Credit risk mitigation
The credit policy includes guidelines on the acceptability of specific classes of collateral or risk mitigation. The principal collateral types for loans and receivables are mortgages over residential properties, charges over business assets and guarantees. Independent valuations of collateral are assessed at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired.

The group has a concentration of credit risk in retail mortgages which reflects the group's strategic decision to focus on this market.

The group makes use of collateral agreements to mitigate exposures to wholesale credit risk. Collateral is obtained on credit risk exposures in line with the group's lending policies and procedures (and the reinsurance strategy in the case of reinsurance counterparty risk). The accepted collateral is also governed by the group's lending policies.

36. Financial risk management (continued)

Impairment provisions
Loans are assessed for specific provisions where they are individually significant loans, are greater than 90 days in arrears and / or there is objective evidence that the loan is impaired. An impairment loss occurs where the group does not expect to recover the full value of the loan facility. The criteria used by the group to determine whether there is such objective evidence includes, but is not limited to:

- Breach of contract such as delinquency in interest or principal repayments;
- Significant financial difficulty of the borrower;
- For reasons relating to the borrower's financial difficulty a concession is granted that would not otherwise be considered;
- It is probable that the borrower will enter bankruptcy or other financial re-organisation; and
- Significant exceptional events.

Loans that do not meet the criteria for specific provisions and loans that are assessed but where no provision is required will attract a collective provision.

ROI Residential Mortgages – individual assessment

In respect of residential mortgage exposures the account-specific impairment provision is determined for all accounts greater than three months in arrears or for individually significant loans where evidence is obtained that the borrower may be experiencing difficulties. Evidence of a borrower being in difficulty would typically include late payments and / or arrears on the loan account. In such cases a discounted cash flow approach is used, incorporating the following factors:

- The loan exposure;
- The recent repayment history;
- The estimated value of the collateral; and certain assumptions with regard to the peak to trough decline in residential house prices;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

UK Residential Mortgages – individual assessment
UK residential mortgages that meet the following criteria are individually assessed:
- Residential Investment Property loans in arrears by more than three months and in litigation;
- Home loans in arrears by more than six months and in litigation; and
- Other facilities not meeting the above criteria where evidence is obtained that the borrower may be experiencing difficulties.

Commercial Mortgages – Individual assessment
Commercial loans meeting the following criteria are reviewed individually for impairment:
- Loans greater than three months in arrears and greater than €1m in value;
- Large exposures; and
- Watchlist cases – performing commercial loans but where evidence is obtained that the borrower may be experiencing difficulties.

To determine the appropriate account-specific impairment provision for commercial mortgages, a discounted cash flow is calculated, incorporating the following factors:

- The group's aggregate exposure to the customer;
- The viability of the customer's business model in generating sufficient cash flow to service its debt obligations;
- The estimated realisable value of any security (or other credit risk mitigant) and the likelihood of a successful repossession;
- The expected distribution available on any liquidation or bankruptcy;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

In addition to the above the bank operates a comprehensive annual review process for performing commercial loans and loans not subject to individual impairment assessment.

Collective provisions
Accounts which do not attract a specific provision are included in the collective provisioning approach. The group uses statistical models to calculate the collective provision by determining the probability of arrears levels deteriorating and the loss rates associated with such a deterioration.

Impairment provisions are also established on a collective basis to cover losses which have been incurred but not yet identified on loans subject to individual assessment and on loans that have not been individually assessed. These provisions also include impairment provisions calculated for large numbers of loans managed on a portfolio basis (for example, credit cards or motor vehicle financing).

A collective provision may also be established if no account-specific indicators of impairment loss have been identified and attributed to specific customers, where experience and other observable data indicate that such impairment losses are present in the portfolio as at the date of assessment.

The collective impairment provision factors in the historical loss experience in portfolios with similar credit risk characteristics, current economic conditions and account behavioural trends.

36. Financial risk management (continued)

Credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements:

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of the assets of the banking operations which are the continuing operations of the group as disclosed in Note 3, Segmental information.

Continuing operations		**2011**	
	Total	**Unit-linked funds***	**Group exposure**
	€m	**€m**	**€m**
Assets			
Cash and balances with central banks (note 6)	**88**	**-**	**88**
Items in course of collection (note 6)	**109**	**-**	**109**
Debt securities (note 7)	**6,657**	**-**	**6,657**
Derivative assets (note 9)	**247**	**-**	**247**
Loans and receivables to customers (note 10)	**33,677**	**-**	**33,677**
Loans and receivables to banks (note 12)	**1,623**	**-**	**1,623**
	42,401	**-**	**42,401**
Contingent liabilities and commitments (note 54)	**451**	**-**	**451**
	42,852	**-**	**42,852**

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of the assets of Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 5(a), Assets and liabilities classified as held for sale.

Discontinued operations		**2011**	
	Total	**Unit-linked funds***	**Group exposure**
	€m	**€m**	**€m**
Assets			
Cash and balances with central banks (note 6)	**94**	**(35)**	**59**
Debt securities (note 7)	**7,510**	**(5,517)**	**1,993**
Derivative assets (note 9)	**791**	**(766)**	**25**
Loans and receivables to banks (note 12)	**3,446**	**(2,313)**	**1,133**
Reinsurance assets	**2,118**	**(39)**	**2,079**
	13,959	**(8,670)**	**5,289**

The following tables outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of the assets of the group as a whole as at 31 December 2010.

		2010	
	Total	Unit-linked funds*	Group exposure
	€m	€m	€m
Assets			
Cash and balances with central banks (note 6)	312	(31)	281
Items in course of collection (note 6)	124	-	124
Debt securities (note 7)	12,098	(5,587)	6,511
Derivative assets (note 9)	1,255	(878)	377
Loans and receivables to customers (note 10)	36,581	-	36,581
Loans and receivables to banks (note 12)	3,565	(1,743)	1,822
Reinsurance assets	2,011	(57)	1,954
Assets held for sale (note 5(b))**	557	(543)	14
	56,503	(8,839)	47,664
Contingent liabilities and commitments (note 54)	506	-	506
	57,009	(8,839)	48,170

* Excludes unit-linked tracker funds where an investment guarantee is given by the shareholder, which are shown as group exposure in the tables above.

** Assets held for sale (note 5(b)) are all unit-linked funds except cash.

36. Financial risk management (continued)

The following tables will outline the group's exposure to credit risk by asset class.

Debt securities

The group is exposed to credit risk on third parties where the group holds debt securities (including sovereign debt). An internal ratings basis is applied in managing credit risk and with the exception of Ireland, sovereign debt is restricted to countries with an internally set rating that is equivalent to a Moody's rating of A3 or higher. In addition restrictions around the holdings of securities in certain Eurozone countries have also been put in place. The group has set counterparty limits for all debts and loans on a group-wide basis.

The following table gives an indication of the level of creditworthiness of the group's debt securities and is based on the ratings prescribed by the rating agency Moody's Investor Services Limited.

	2011		
	Continuing operations	Discontinued operations	2010
	€m	€m	€m
Neither past due nor impaired	6,650	1,993	6,494
Impaired	7	-	17
Total	6,657	1,993	6,511

Debt securities neither past due nor impaired

	2011		
	Continuing operations	Discontinued operations	2010
Rating	€m	€m	€m
Aaa	100	1,554	2,664
Aa	125	-	502
A	445	104	700
Baa	411	-	2,605
Below Ba *	5,569	335	23
Total	6,650	1,993	6,494

*The increase in exposure to Below Ba is a result of the downgrading of sovereign debt and the acquisition of a NAMA bond acquired as part of the INBS acquisition.

The following table discloses, by country, the group's exposure to sovereign and corporate debt as at 31 December 2011. During the year the group acquired €2.8bln of bonds issued by NAMA as part of the INBS acquisition and the group also invested a further €1.6bln in Irish sovereign debt.

	2011			
	Continuing operations		Discontinued operations	
	Sovereign debt	Corporate debt	Sovereign debt	Corporate debt
	€m	€m	€m	€m
Country				
Australia	-	5	-	-
Austria	-	-	54	-
Finland	-	-	18	-
France	-	-	845	-
Germany		40	535	-
Ireland	4,999	988	311	23
Italy	-	106	55	-
Jersey	-	2	-	-
Netherlands	-	34	85	-
Poland	82	-	-	-
Spain	-	16	49	-
United Kingdom	-	140	18	-
United States	4	242	-	-
	5,085	1,573	1,970	23
Provision	-	(1)	-	-
Total		6,657		1,993

36. Financial risk management (continued)

The following table discloses, by country, the group's exposure to sovereign and corporate debt as at 31 December 2010:

	2010	
	Sovereign debt	Corporate debt
	€m	€m
Country		
Australia	-	54
Austria	35	266
Cayman Islands	-	10
Finland	6	-
France	741	163
Germany	433	429
Ireland	708	2,327
Italy	144	71
Jersey	-	2
Luxembourg	-	1
Netherlands	96	196
Poland	9	80
Portugal	-	30
Spain	49	131
Sweden	-	2
United Kingdom	18	237
United States	-	278
Other Worldwide countries*	-	1
	2,239	4,278
Provision	-	(6)
Total		6,511

* Other worldwide countries includes bonds from Canada, Cyprus, Japan, Mexico and South Africa.

Included in the debt securities portfolio are holdings of external residential mortgage backed securities ("RMBS") with a carrying value of €484m at 31 December 2011. The group has recourse indirectly, as bondholders, to the cash flows from those third party mortgages securitised into the various special purpose vehicles set up by the issuing institutions. The RMBS pools had an average loan to value of 80% and reserve funds set aside of approximately 5% of the outstanding issued loan notes. All of the group's bonds are considered senior in their relevant funding structure of the RMBS vehicle.

The group also holds €50m of mortgage covered securities. These securities were issued by institutions in accordance with various Asset Covered Securities Acts, legislation which provides protection to the bondholders in preference to other creditors of those issuing institutions.

In addition continuing operations of the group holds debt securities of €3.2bln which carry a guarantee from the Irish Government either directly or under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG scheme") and debt securities of €31m which carry a parent entity guarantee.

Derivative assets

	2011		
	Continuing operations	**Discontinued operations**	2010
Rating	**€m**	**€m**	€m
Aa	**114**	**25**	93
A	**11**	**-**	123
Baa	**26**	**-**	43
Covered by netting agreements	**96**	**-**	118
Total	**247**	**25**	377

The group has executed Collateral Support Agreements ("CSA") with its counterparties in respect of derivative instruments to mitigate its credit risk. As part of these agreements the group exchanges collateral in line with movements in the market values of derivative positions daily. The fair value of collateral that the group held against derivative positions with a cumulative positive market value of €223m at 31 December 2011 amounted to €195m.

Loans and receivables to customers

Loans and receivables are summarised as follows:

	2011	2010
	€m	€m
ROI residential mortgages	**25,419**	26,340
UK residential mortgages	**7,493**	7,527
Commercial	**1,863**	1,904
Consumer finance		
Finance leases	**585**	907
Term loans / other	**412**	468
	35,772	37,146
Provision for loan impairment (Note 11)	**(2,298)**	(883)
Deferred fees, discounts and fair value adjustments	**259**	318
Reclassification to assets classified as held for sale (note 5(c))	**(56)**	-
	33,677	36,581

36. Financial risk management (continued)

Loans and receivables by asset quality:
Loans and receivables in respect of ROI residential mortgages and consumer finance (excluding finance leases) are classified as 'core' and amount to €24bln or 72% of total loans and receivables at 31 December 2011. Loans and receivables in respect of UK residential mortgages, commercial mortgages and finance leases (included under consumer finance) are classified as non-core loans.

2011	**ROI Residential mortgages €m**	**UK Residential mortgages €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**	**Analysed to: Core €m**	**Non-core €m**
Neither past due nor impaired	**18,963**	**7,150**	**980**	**736**	**27,829**	**19,223**	**8,606**
Past due but not impaired	**3,347**	**244**	**246**	**76**	**3,913**	**3,380**	**533**
Impaired – provisions held	**3,109**	**99**	**637**	**185**	**4,030**	**3,228**	**802**
	25,419	**7,493**	**1,863**	**997**	**35,772**	**25,831**	**9,941**
Provision for impairment losses	**(1,629)**	**(78)**	**(406)**	**(185)**	**(2,298)**	**(1,752)**	**(546)**
	23,790	**7,415**	**1,457**	**812**	**33,474**	**24,079**	**9,395**
Deferred fees, discounts and fair value adjustment	**262**	**(3)**	**-**	**-**	**259**	**262**	**(3)**
	24,052	**7,412**	**1,457**	**812**	**33,733**	**24,341**	**9,392**

* Included in the above table are loans classified as held for sale of €56m.

2010	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m	Analysed to: Core €m	Non-core €m
Neither past due nor impaired	22,342	7,195	1,261	1,111	31,909	22,677	9,232
Past due but not impaired	3,006	221	363	109	3,699	3,053	646
Impaired – provisions held	992	111	280	155	1,538	1,078	460
	26,340	7,527	1,904	1,375	37,146	26,808	10,338
Provision for impairment losses	(446)	(63)	(223)	(151)	(883)	(539)	(344)
	25,894	7,464	1,681	1,224	36,263	26,269	9,994
Deferred fees, discounts and fair value adjustment	318	-	-	-	318	318	-
	26,212	7,464	1,681	1,224	36,581	26,587	9,994

Total interest income recorded during the year ended 31 December 2011 on impaired loans in the income statement amounted to €148m (2010: €92m). The fair value of collateral held for ROI and UK residential mortgages is outlined in the loan to value tables in following pages. The fair value of collateral on the commercial portfolio is estimated to be €1,351m (2010: €1,497m) and for consumer finance it is estimated to be €366m (2010:€677m).

The tables above reflect a significant increase in the past due but not impaired and impaired categories year on year. At 31 December 2011 22% (€7.9bln) of the loan portfolios are in these categories compared to 14% (€5.2bln) at the end of 2010. A total of €2.5bln of this increase relates to the ROI residential mortgage portfolio. The increase is attributable to a combination of a general economic downturn leading to reductions in disposable income and increasing unemployment together with very low levels of new lending.

Loans and receivables which are neither past due nor impaired:
Loans and receivables to customers which are neither past due nor impaired amounted to €27.8bln or 78% of the loan book (before provision for impairment losses) at 31 December 2011 compared to €31.9bln or 86% of the loan book (before provision for impairment losses) at 31 December 2010. A total of €19.2bln of the €27.8bln are classified as 'core' at 31 December 2011. A description of the gradings outlined in the table below is provided earlier in this note.

2011	**ROI Residential mortgages €m**	**UK Residential mortgages €m**	**Commercial €m**	**Consumer finance €m**	**Total €m**	**Analysed to: Core €m**	**Non-core €m**
Excellent	**14,641**	**4,393**	**180**	**313**	**19,527**	**14,780**	**4,747**
Satisfactory	**2,822**	**2,343**	**514**	**299**	**5,978**	**2,895**	**3,083**
Fair risk	**1,500**	**414**	**286**	**124**	**2,324**	**1,548**	**776**
Total	**18,963**	**7,150**	**980**	**736**	**27,829**	**19,223**	**8,606**

2010	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m	Analysed to: Core €m	Non-core €m
Excellent	18,089	4,001	265	484	22,839	17,797	5,042
Satisfactory	2,806	2,781	808	474	6,869	3,280	3,589
Fair risk	1,447	413	188	153	2,201	1,600	601
Total	22,342	7,195	1,261	1,111	31,909	22,677	9,232

36. Financial risk management (continued)

Loans and receivables which are past due but not impaired:
A financial asset is 'past due but not impaired' where repayment of interest and / or principal is overdue at least one day and the loan is not specifically provided for. The table below provides an aged analysis of loans and receivables which are past due but not impaired. ROI residential mortgages which are past due but not impaired increased by €0.3bln to €3.3bln at 31 December 2011.

			2011		
	ROI Residential mortgages	**UK Residential mortgages**	**Commercial**	**Consumer finance**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
0-30 days	**1,008**	**21**	**82**	**37**	**1,148**
31-60 days	**577**	**20**	**45**	**14**	**656**
61-90 days	**493**	**38**	**34**	**8**	**573**
91-180 days	**296**	**107**	**11**	**17**	**431**
181-360 days	**473**	**27**	**38**	**-**	**538**
> 360 days	**500**	**31**	**36**	**-**	**567**
Total past due not impaired	**3,347**	**244**	**246**	**76**	**3,913**
Fair value of collateral held	**2,839**	**233**	**176**	**19**	**3,267**

			2010		
	ROI Residential mortgages	UK Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
0-30 days	824	3	84	50	961
31-60 days	448	36	48	20	552
61-90 days	309	35	40	10	394
91-180 days	733	75	101	23	932
181-360 days	341	22	43	3	409
> 360 days	351	50	47	3	451
Total past due not impaired	3,006	221	363	109	3,699
Fair value of collateral held	2,720	211	296	37	3,264

Collateral held against retail mortgage lending is principally comprised of residential properties; their fair value has been estimated based upon the last actual valuation, adjusted to take into account subsequent movement in house prices as reported in the CSO house price index. The resulting valuation has been limited to the principal amount of the outstanding advance in order to provide a clearer representation of the group's credit exposure.

The table below outlines the arrears profile for ROI and UK residential mortgages which are past due but not impaired analysed by owner occupier and buy to let:

			2011		
	ROI residential mortgages		**UK residential mortgages**		**Total**
	Owner occupier	**Buy-to-let**	**Owner occupier**	**Buy-to-let**	
	€m	**€m**	**€m**	**€m**	**€m**
0-30 days	**750**	**258**	**2**	**19**	**1,029**
31-60 days	**412**	**165**	**2**	**18**	**597**
61-90 days	**322**	**171**	**5**	**33**	**531**
91-180 days	**218**	**78**	**26**	**81**	**403**
181-360 days	**348**	**125**	**8**	**19**	**500**
Over 360 days	**416**	**84**	**6**	**25**	**531**
Total	**2,466**	**881**	**49**	**195**	**3,591**

			2010		
	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	€m	€m	€m	€m	€m
0-30 days	617	207	1	2	827
31-60 days	347	101	4	32	484
61-90 days	246	63	5	30	344
91-180 days	531	202	18	57	808
181-360 days	241	100	4	18	363
Over 360 days	248	103	9	41	401
Total	2,230	776	41	180	3,227

36. Financial risk management (continued)

The following information has not been subject to review or audit by the independent auditor:

Restructuring arrangements - ROI residential mortgages

The group operates a number of mechanisms which are designed to assist borrowers experiencing credit and loan repayment difficulties, which have been developed in accordance with existing codes of practice. These are set out in the table below.

The PD's associated with non defaulted accounts which have been granted a restructure is 11.4% (10.1% for home loans and 23.2% for BTLs). The PD's for non defaulted accounts excluding cases in restructuring is 3.42% (2.84% for Home loans & 5.14% for BTLs).
The PD's for defaulted accounts is 100% irrespective of the account status (restructured or non restructured).

Residential mortgages

In accordance with the 2010 Code of Conduct of Mortgage Arrears ("CCMA"), the group has defined a Mortgage Arrears Resolution Process ("MARP") for mortgages which are secured on the primary residence of borrowers (owner occupier mortgages). MARP also applies to investment properties where it is the borrower's only property in the State. This process is applied to the group's assessment of both borrowers in arrears and borrowers who, though not in arrears, have informed the group about impending credit difficulties and potential future arrears ('pre-arrears borrowers').

The table below sets out the volume of loans for which the group has entered formal restructuring arrangements with customers as at the statement of financial position date. The impaired balance noted represents the loan balances to which impairment charges have been raised due to either being 90 days or more in arrears, or showing evidence of impairment prior to reaching arrears of 90 days.

(a) ROI residential owner occupier mortgages:

The incidence of the main type of restructuring arrangements for owner occupied residential mortgages only is analysed below:

	2011			
	All Loans		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €m**
Interest only	**2,033**	**326**	**374**	**66**
Reduced payment (less than interest only)	**2,543**	**486**	**548**	**110**
Reduced payment (greater than interest only)	**5,740**	**871**	**1,267**	**217**
Payment moratorium	**528**	**87**	**65**	**9**
Arrears capitalisation	**999**	**148**	**447**	**76**
Term extension	**1,022**	**98**	**144**	**16**
Other*	**558**	**82**	**205**	**30**
Total	**13,423**	**2,098**	**3,050**	**524**

	2010			
	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	2,278	362	173	28
Reduced payment (less than interest only)	3,046	574	304	59
Reduced payment (greater than interest only)	3,301	433	250	32
Payment moratorium	539	80	61	9
Arrears capitalisation	788	110	165	25
Term extension	992	97	74	8
Other*	385	56	65	9
Total	11,329	1,712	1,092	170

* Other is a combination of two or more restructuring arrangements.

The above tables reflects an increase in 2011 of 2,094 in the number of ROI residential owner occupier loans in restructuring arrangements, an increase of €386m. The average value of restructured loans is relatively unchanged year on year (2011: €0.156m versus 2010: €0.151m). At 31 December 2011, 22% of the number of loans in restructuring are >90 days and / or impaired compared to 10% at the end of 2010.

36. Financial risk management (continued)

The following information has not been subject to review or audit by the independent auditor:

Restructuring arrangements - ROI residential mortgages (continued)

(b) ROI residential buy-to-let mortgages

The incidence of the main type of restructuring arrangements for residential buy-to-let mortgages only is analysed below:

	2011			
	All Loans		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €m**
Interest only	**28**	**6**	**6**	**2**
Reduced payment (less than interest only)	**10**	**2**	**3**	**-**
Reduced payment (greater than interest only)	**170**	**59**	**35**	**14**
Payment moratorium	**13**	**3**	**2**	**-**
Arrears capitalisation	**139**	**50**	**86**	**36**
Term extension	**115**	**21**	**17**	**3**
Other*	**178**	**92**	**28**	**11**
Total	**653**	**233**	**177**	**66**

* Other is a combination of two or more restructuring arrangements.

	2010			
	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	246	49	19	5
Reduced payment (less than interest only)	40	8	14	2
Reduced payment (greater than interest only)	216	40	13	2
Payment moratorium	28	9	9	4
Arrears capitalisation	116	44	32	11
Term extension	106	17	8	1
Other*	16	4	5	1
Total	768	171	100	26

Impairment charge on loans and receivables to customers by product line

The balances in the preceding tables denoted impaired loan balances which are in restructuring arrangements. The table below lists the impairment charges in respect of these balances, by lending type.

		2011			2010	
	Total €m	**Restructured loans performing €m**	**Restructured Loans non-performing €m**	Total €m	Restructured loans performing €m	Restructured Loans non-performing €m
Residential						
- Owner occupier	**154**	**36**	**118**	24	2	22
- Buy-to-let	**37**	**11**	**26**	6	-	6
Total impairment charge	**191**	**47**	**144**	30	2	28

Repossessed collateral

Properties are repossessed where the obliger either (i) voluntarily surrenders the property or (ii) the group takes legal repossession due to non repayment of the loan facility. The group will seek to maximise the proceeds from the sales of repossessed properties with a view to extinguishing the outstanding loan facility. The following tables outline the main movements in this catgeory during the year.

Stock of repossessions

	2011		2010	
	Number of repossessions	**Balance outstanding € m**	Number of repossessions	Balance outstanding € m
Residential repossessions				
ROI:				
Owner occupier	**191**	**50**	99	24
Buy-to-let	**83**	**21**	19	5
Commercial	**19**	**15**	10	10
UK:				
Owner occupier	**7**	**1**	9	1
Buy-to-let	**141**	**24**	111	17
Total at 31 December	**441**	**111**	248	57

36. Financial risk management (continued)

Repossessed assets are sold as soon as practicable, with proceeds offset against any outstanding indebtedness. These assets which total €52m at 31 December 2011 (2010: €38m) are included within other assets in the statement of financial position.

In the course of the year, 62% of properties previously repossessed for residential mortgages and 10% for commercial mortgages were disposed of by 31 December 2011. The table below sets out details of the sales on disposal of repossessed properties.

2011	Number of disposals	Balance outstanding at repossession €m	Gross sales proceeds €m	Costs to sell €m	Pre provisioning loss on sale* €m
Residential repossessions					
ROI:					
Owner occupier	**39**	**11**	**5**	**-**	**6**
Buy-to-let	**3**	**2**	**-**	**-**	**2**
Commercial	**1**	**1**	**-**	**-**	**1**
UK:					
Owner occupier	**19**	**4**	**3**	**-**	**1**
Buy-to-let	**244**	**36**	**23**	**1**	**14**
Total	**306**	**54**	**31**	**1**	**24**

2010	Number of disposals	Balance outstanding at repossession €m	Gross sales proceeds €m	Costs to sell €m	Pre provisioning loss on sale* €m
Residential repossessions					
ROI:					
Owner occupier	33	8	4	-	4
Buy-to-let	2	1	1	-	-
Commercial	1	5	1	-	4
UK:					
Owner occupier	14	3	3	-	-
Buy-to-let	117	14	8	1	7
Total	167	31	17	1	15

*Calculated as gross sales proceeds less balance outstanding at repossession less costs to sell. These losses would have been provided for as part of the provisioning process.

Loan-to-value ratio ("LTV') of mortgage lending (index linked)

The loan to value ratio is calculated at a property level and is the average of indexed property values in proportion to the outstanding loan balance. LTV is a key input to the impairment provisioning process. The following table will outline the composition of the this ratio for the residential loan portfolio.

Valuation Methodologies

The valuation methodologies for the bank's key portfolios of collateral held are as follows:

- **permanent tsb** residential property valuations are based on the CSO residential property price index or based on recent valuations where property is repossessed;
- Commercial property valuations are based on opinions from professional valuers, the Investment Property Database Index, local knowledge of the properties, benchmarking similar properties and other industry-wide available information, including estimated yields and estimated discount rates; and
- In the UK property values are determined using drive by valuations, local knowledge of the properties and valuations using a recognised desktop provider.

The valuation methodologies outlined above are determined as close to the reporting date as is feasible and are therefore considered by the directors to reflect their best estimate of current values of collateral held.

36. Financial risk management (continued)

Actual and average LTVs across principal mortgage portfolios:

The tables below outline the weighted average LTVs for the total ROI and UK residential mortgage portfolios analysed across owner occupier and buy-to-let facilities. The weighted average LTV on the ROI and UK residential mortgage portfolios is 110% at 31 December 2011 compared to 93% in 2010.

In the ROI residential mortgage portfolio there are increases in the LTVs above 100% year on year. Owner occupier has increased from 46% in 2010 to 56% in 2011, while in the ROI buy to let portfolio the increase is from 60% in 2010 to 78% in 2011. The increases reflect the further decline in house prices during 2011, **permanent tsb** use the CSO index which has fallen by 10% year on year. The UK portfolios also reflect an increase in the categories of LTV above 100% but the increase is less pronounced reflecting a stabilisation of house prices in the UK market.

	2011				
	ROI residential mortgages		**UK residential mortgages**		**Total**
	Owner occupier	**Buy-to-let**	**Owner occupier**	**Buy-to-let**	
	%	**%**	**%**	**%**	**%**
Less than 50%	**13%**	**4%**	**12%**	**4%**	**9%**
50%-70%	**11%**	**5%**	**10%**	**10%**	**9%**
71% to 90%	**13%**	**8%**	**32%**	**35%**	**18%**
91% to 100%	**7%**	**5%**	**15%**	**25%**	**11%**
101% to 110%	**7%**	**7%**	**17%**	**20%**	**10%**
111% to 120%	**7%**	**9%**	**12%**	**5%**	**7%**
121% to 130%	**7%**	**10%**	**2%**	**1%**	**6%**
131% to 140%	**7%**	**11%**	**0%**	**0%**	**6%**
141% to 150%	**7%**	**8%**	**0%**	**0%**	**6%**
151% to 160%	**6%**	**8%**	**0%**	**0%**	**5%**
161% to 170%	**5%**	**7%**	**0%**	**0%**	**4%**
171% to 180%	**2%**	**5%**	**0%**	**0%**	**2%**
Greater than 180%	**8%**	**13%**	**0%**	**0%**	**7%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Weighted average LTV:					
Stock of residential mortgages at year end	**110%**	**134%**	**86%**	**88%**	**110%**

	2010				
	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	%	%	%	%	%
Less than 50%	17%	6%	13%	4%	12%
50%-70%	13%	8%	10%	10%	11%
71% to 90%	15%	14%	31%	39%	22%
91% to 100%	9%	12%	16%	24%	13%
101% to 110%	9%	16%	15%	18%	12%
111% to 120%	9%	19%	11%	5%	10%
121% to 130%	8%	12%	3%	0%	7%
131% to 140%	9%	7%	1%	0%	6%
141% to 150%	7%	5%	0%	0%	5%
151% to 160%	4%	1%	0%	0%	2%
161% to 170%	0%	0%	0%	0%	0%
171% to 180%	0%	0%	0%	0%	0%
Greater than 180%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Weighted average LTV:					
Stock of residential mortgages at year end	92%	103%	84%	87%	93%

Analysis by loan to value ratio of the group's residential mortgage lending which is neither past due nor impaired:

The table below illustrates that 51% of residential mortgages that are neither past due nor impaired are in positive equity at the end of 2011, a decrease from 58% at the end of 2010. The decline in residential mortgages with positive equity is principally due to the 10% fall in house prices (CSO index) in 2011

	2011	2010
	€m	€m
Less than 50%	**2,721**	3,680
50%-70%	**2,628**	3,463
71% to 90%	**4,975**	6,224
91% to 100%	**3,050**	3,868
101% to 110%	**2,769**	3,684
111% to 120%	**1,746**	2,832
121% to 130%	**1,430**	1,987
131% to 140%	**1,430**	1,764
141% to 150%	**1,274**	1,384
151% to 160%	**1,062**	591
161% to 170%	**912**	16
171% to 180%	**482**	5
Greater than 180%	**1,634**	39
Total	**26,113**	29,537

36. Financial risk management (continued)

Analysis by loan-to-value ratio of the group's residential mortgage lending which are 90 days past due:

In total 25% of the ROI and UK residential mortgage portfolios which are 90 days past due have an LTV of up to 100% and 33% of loans have an LTV exceeding 150%.

	2011				
	ROI residential mortgages		**UK residential mortgages**		**Total Residential mortgage portfolio***
	Owner occupier	**Buy-to-let**	**Owner occupier**	**Buy-to-let**	
	%	**%**	**%**	**%**	**%**
Less than 50%	**8%**	**2%**	**2%**	**0%**	**5%**
50%-70%	**7%**	**2%**	**5%**	**2%**	**5%**
71% to 90%	**11%**	**5%**	**26%**	**13%**	**9%**
91% to 100%	**6%**	**4%**	**21%**	**18%**	**6%**
101% to 110%	**7%**	**6%**	**16%**	**31%**	**8%**
111% to 120%	**7%**	**8%**	**14%**	**24%**	**8%**
121% to 130%	**8%**	**9%**	**10%**	**8%**	**8%**
131% to 140%	**8%**	**13%**	**3%**	**3%**	**10%**
141% to 150%	**8%**	**10%**	**1%**	**1%**	**8%**
151% to 160%	**8%**	**11%**	**1%**	**0%**	**9%**
161% to 170%	**7%**	**9%**	**0%**	**0%**	**7%**
171% to 180%	**5%**	**5%**	**0%**	**0%**	**5%**
Greater than 180%	**10%**	**16%**	**1%**	**0%**	**12%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
	€m	**€m**	**€m**	**€m**	**€m**
Residential mortgages greater than 90 days in arrears	**2,710**	**1,668**	**47**	**217**	**4,642**

	2010				
	ROI residential mortgages		UK residential mortgages		Total Residential mortgage portfolio*
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	%	%	%	%	%
Less than 50%	11%	3%	2%	1%	7%
50%-70%	11%	5%	7%	2%	8%
71% to 90%	13%	9%	20%	12%	12%
91% to 100%	8%	10%	24%	17%	10%
101% to 110%	9%	14%	14%	32%	13%
111% to 120%	10%	22%	19%	23%	15%
121% to 130%	9%	19%	10%	9%	12%
131% to 140%	10%	9%	3%	3%	9%
141% to 150%	8%	6%	0%	1%	7%
151% to 160%	8%	2%	0%	0%	5%
161% to 170%	3%	1%	1%	0%	2%
171% to 180%	0%	0%	0%	0%	0%
Greater than 180%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
	€m	€m	€m	€m	€m
Residential mortgages greater than 90 days in arrears	1,607	811	42	217	2,677

Loan origination profile of the residential mortgage loan portfolio as at 31 December 2011 before provision for impairment:

The table below illustrates that €7.8bln or 31% of the ROI residential mortgage portfolio and €2.1bln or 28% of the UK residential mortgage portfolio originated before 2006. Between 2006 and 2008 origination was €16.6bln or 65% of the ROI residential mortgage portfolio and €5.3bln or 71% of the UK residential mortgage portfolio. The residual of 4% of the ROI residential mortgage and 1% of the UK residential mortgage were originated between 2009 and 2011.

	2011							
	ROI residential mortgages portfolio		**UK residential mortgages portfolio**		**Impaired ROI residential mortgages portfolio**		**Impaired UK residential mortgages portfolio**	
	Number	**Balance €m**	**Number**	**Balance €m**	**Number**	**Balance €m**	**Number**	**Balance €m**
1996 and before	**7,668**	**125**	**187**	**8**	**19**	**1**	**-**	**-**
1997	**2,716**	**64**	**70**	**3**	**6**	**-**	**-**	**-**
1998	**3,356**	**103**	**331**	**28**	**9**	**1**	**-**	**-**
1999	**5,036**	**197**	**660**	**69**	**31**	**3**	**-**	**-**
2000	**6,180**	**303**	**610**	**58**	**37**	**4**	**-**	**-**
2001	**6,101**	**366**	**792**	**84**	**54**	**8**	**-**	**-**
2002	**7,904**	**601**	**976**	**103**	**82**	**14**	**-**	**-**
2003	**11,574**	**1,050**	**1,900**	**276**	**209**	**36**	**7**	**1**
2004	**15,910**	**1,883**	**3,857**	**574**	**526**	**101**	**33**	**7**
2005	**20,846**	**3,085**	**5,828**	**905**	**1,080**	**248**	**69**	**15**
2006	**31,182**	**6,317**	**9,190**	**1,434**	**2,630**	**857**	**68**	**14**
2007	**27,364**	**6,193**	**12,564**	**2,338**	**2,978**	**1,037**	**308**	**44**
2008	**19,663**	**4,116**	**7,884**	**1,577**	**2,212**	**736**	**101**	**18**
2009	**5,196**	**683**	**148**	**25**	**254**	**61**	**-**	**-**
2010	**1,817**	**186**	**50**	**10**	**9**	**2**	**-**	**-**
2011	**1,293**	**147**	**8**	**1**	**1**	**-**	**-**	**-**
Total	**173,806**	**25,419**	**45,055**	**7,493**	**10,137**	**3,109**	**586**	**99**

36. Financial risk management (continued)

Loans and receivables to banks

Loans and receivables to banks are with investment grade counterparties. The following table gives an indication of the level of creditworthiness of the group's loans and receivables to banks and is based on the ratings prescribed by the rating agency Moody's Investor Services Limited.

	2011		2010
	Continuing operations	**Discontinued operations**	
	€m	**€m**	€m
Rating			
Aaa	**294**	**111**	787
Aa	**832**	**775**	512
A	**466**	**247**	116
Baa and below	**31**	**-**	407
Total	**1,623**	**1,133**	1,822

The decrease in exposure to Aaa is due to a decrease in the amount held with the Central Bank at 31 December 2011.

Reinsurance assets

The group's life operations cede insurance and investment risk to a number of reinsurance companies. There are three main categories of reinsurance assets as set out below:

	2011	2010
	€m	€m
Assets held in a charged account	**1,417**	1,372
Assets where credit risk is borne by the policyholder	**39**	57
Other assets where credit risk is borne by the shareholder	**662**	582
Total	**2,118**	2,011

The assets held in a charged account are in respect of reinsurance treaties for annuity business, where all withdrawals from the charged account have to be authorised by Irish Life Assurance plc. Assets are managed in accordance with a mandate which matches the assets and liabilities.

Assets where credit risk is borne by the policyholders relate to unit-linked investment contracts where the policy documents specify that the return to the policyholder is based on the return from the reinsurance companies.

The reinsurance assets where the credit risk is borne by the shareholder are broken down by credit rating of the counterparty as follows:

	2011	2010
	€m	€m
Rating		
Aa	**247**	223
A	**415**	359
Total	**662**	582

36. Financial risk management (continued)

Liquidity Risk - the liquidity risk of the banking and life operations are discussed separately in this note.

Liquidity risk - Banking operations
Liquidity risk is the risk that the group may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates.

The Credit Institutions (Financial Support) Scheme 2008 (the "Scheme") and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") have been critical in providing Irish financial institutions with access to funding. The Scheme expired on 29 September 2010. On 16 November 2011, the European Commission approved an extension of the ELG scheme for a further period of twelve months from the 01 January 2012 to the 31 December 2012. The ELG Scheme, which IL&P and its subsidiary Irish Permanent (IOM) Limited joined on 4 January 2010, facilitates debt issuance for terms up to five years. These schemes enable the group to secure longer term funding, as evidenced by the issuance under the ELG Scheme of a 3 year US $1.75bln bond in January 2010 and a 5 year €2bln bond in March 2010 and a three-year €1.25bln bond in April 2010, all of which are guaranteed by the ELG Scheme. The charge to the income statement in respect of the ELG scheme for the period ended 31 December 2011 was €173m (2010: €97m) as disclosed in Note 41, Net interest income.

Without the government guarantee, the cost and availability of funding is influenced by the credit rating allocated to the group by industry rating agencies. A downgrade of the group's credit rating may increase financing costs and restrict market access whilst an upgrade may achieve the reverse. The senior debt credit ratings of Irish Life & Permanent plc at 31 December 2011 were; Moody's Investor Services Limited Ba1, Standard and Poor's BBB+. During 2011, the credit rating of Irish Life & Permanent plc was downgraded by Moody's Investor Services Limited to Ba3 and by Standard and Poor's to BB-.

The downgrading of the group and sovereign credit ratings, the withdrawal of the Irish Government from the funding markets, the EU / IMF Programme of Financial Support for Ireland and the consequent withdrawal of funds from Irish banks have affected the group's funding plans in 2010 and 2011. There is a significant ongoing liquidity challenge for the group and for the Irish banking system generally. These challenges have given rise to breaches of regulatory liquidity requirements in the later part of 2010 and ongoing breaches in 2011. The downgrade in credit ratings and the risk of further sovereign or group downgrade has limited the group's access to capital markets; as a result the group has increased its recourse to Eurosystem financing facilities. At 31 December 2011, the group had € 11.7bln (2010: €13.8bln) of collateralised funding placed from the European Central Bank as disclosed in Note 22, Deposits by banks including central banks . In 2011 the group used collateral to access special liquidity facilities from the Central Bank of Ireland. The group expects to have sufficient collateral to enable it to access these facilities to meet its immediate and estimated funding requirements for the coming year.

Liquidity management for banking operations within the group is carried out by the group's treasury function. In carrying out this responsibility, treasury's principal objective is to ensure that the banking operations have sufficient funding available, at an optimal cost, to meet the operational needs of the bank and to adhere to regulatory and prudential requirements. The liquidity management process includes:

- Day-to-day funding; managed by monitoring future cash flows to ensure that requirements can be met. This includes replacing funds that mature or are borrowed by customers;
- Balance sheet funding; managed by monitoring the funding profile against established target funding levels, with monitoring performed by the Banking Assets and Liabilities Committee;
- Maintaining a portfolio of marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt securities in issue.

IL&P liquidity policies and protocols establish quantitative rules and targets in relation to measurement and monitoring of liquidity risk. The Banking Assets and Liabilities Committee plays a fundamental role in the monitoring of liquidity risk measures through the monthly review of liquidity reports.

The Banking Assets and Liabilities Committee monitors sources of funding and reviews short-term and long-term borrowings and their respective maturity profiles.

The banking operations funding profile at year end was:

	2011	2010
	%	%
Customer accounts	**37**	35
Long-term debt	**21**	26
Short-term debt	**42**	39
	100	100

36. Financial risk management (continued)

An analysis of the maturity profile of debt securities in issue is given in Note 24, Debt securities in issue. ECB drawings as detailed in Note 22, Deposits by banks (including central banks) are included in short-term debt.

As a result of the dislocation of financial markets, the group's access to wholesale funding has been reduced, durations shortened and credit spreads widened. However, the group has the ability to use the loan book as collateral for borrowings as detailed in Note 10, Loans and receivables to customers.

The Banking Assets and Liabilities Committee also monitors the dependencies inherent in funding by reviewing the group's usage of lines of credit with financial institutions.

Liquidity reports to the Banking Assets and Liabilities Committee each month include the loan to deposit ratio. The loan to deposit ratio at the end of 2011 was 227% compared to 249% at the end of 2010.

The regulatory protocol, under which the group operates, requires levels of liquidity based on various cash flow stress tests. The key limits applied are that an institution must have sufficient available liquidity to cover 100% of outflows over the next eight days and 90% of outflows over the subsequent 9 – 30 days. The group monitors the liquidity ratio daily and reports weekly to the Central Bank. As a consequence of the industry wide wholesale funding difficulties experienced from the last quarter of 2010, the group has not met these limits on a regular basis since 15 December 2010.

In accordance with IFRS 7, Financial Instruments: Disclosures the following tables present the maturity analysis of financial liabilities on an undiscounted basis, by remaining contractual maturity at the statement of financial position date. In this table derivative liabilities represent the carrying value of derivative instruments that are held as hedging instruments in respect of other financial liabilities.

				2011			
				Group banking operations			
	Up to 1 month €m	**1-3 months €m**	**3-6 months €m**	**6-12 months €m**	**1-2 years €m**	**Over 2 years €m**	**Total €m**
Liabilities							
Deposits by banks (including central banks)	**6,423**	**7,536**	**-**	**-**	**-**	**3,125**	**17,084**
Customer accounts	**7,959**	**2,288**	**1,383**	**2,129**	**1,044**	**882**	**15,685**
Debt securities in issue	**14**	**111**	**123**	**69**	**2,888**	**6,970**	**10,175**
Subordinated liabilities	**-**	**-**	**-**	**41**	**40**	**545**	**626**
Derivatives liabilities	**(17)**	**(56)**	**(6)**	**43**	**(103)**	**(16)**	**(155)**
Total liabilities	**14,379**	**9,879**	**1,500**	**2,282**	**3,869**	**11,506**	**43,415**

				2010			
				Group banking operations			
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Liabilities							
Deposits by banks (including central banks)	6,554	8,900	1,174	201	-	-	16,829
Customer accounts	7,313	3,974	1,296	1,762	243	408	14,996
Debt securities in issue	44	1,227	128	283	287	8,580	10,549
Subordinated liabilities	-	269	17	32	35	1,553	1,906
Derivatives liabilities	(1)	(46)	6	84	14	86	143
Total liabilities	13,910	14,324	2,621	2,362	579	10,627	44,423

36. Financial risk management (continued)

The table below presents the forecast cash flows used by management in managing liquidity risk. These cashflows payable and receivable by the group are set out by remaining contractual maturities at the statement of financial position date for assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Debt securities and loans and receivables in the tables below are based on contractual maturity except where they are pledged as collateral for ECB and other repurchase funding agreements, in which case they are included based on the maturity of the agreement. Therefore the tables included a haircut on assets pledged as collateral, the return of which is not reflected in the table resulting in the disclosed gap. In addition customer accounts reflect certain management assumptions, within regulatory guidelines, as to the stability of various non government deposits.

The group manages the inherent liquidity risk based on expected cash inflows and cash outflows. This maturity mismatch approach takes into account the inherent stability of particular funding sources. The focus on an ongoing basis is to ensure that the bank can meet all its obligations as they fall due while continuing to provide for all other funding requirements of the bank. Regulatory limits based on this approach are imposed.

The bank's forward looking approach to liquidity management also incorporates running stressed scenarios for the purposes of contingency funding. The inclusion of information on financial assets is necessary in order to understand the group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	2011 Group banking operations						
	Up to 1 month €m	**1-3 months €m**	**3-6 months €m**	**6-12 months €m**	**1-2 years €m**	**Over 2 years €m**	**Total €m**
Assets							
Debt securities	**3,841**	**3,881**	**3**	**12**	**27**	**1,304**	**9,068**
Loans and receivables to banks	**829**	**-**	**-**	**-**	**-**	**-**	**829**
Loans and receivables to customers	**688**	**1,342**	**478**	**838**	**947**	**28,422**	**32,715**
Derivatives assets	**22**	**59**	**10**	**(42)**	**108**	**37**	**194**
Total assets	**5,380**	**5,282**	**491**	**808**	**1,082**	**29,763**	**42,806**
Liabilities							
Deposits by banks (including central banks)	**7,411**	**7,544**	**-**	**-**	**-**	**3,095**	**18,050**
Customer accounts	**1,886**	**769**	**337**	**468**	**192**	**12,571**	**16,223**
Debt securities in issue	**37**	**3,556**	**130**	**70**	**2,856**	**2,615**	**9,264**
Subordinated liabilities	**-**	**-**	**-**	**41**	**41**	**545**	**627**
Derivatives liabilities	**37**	**40**	**25**	**26**	**48**	**146**	**322**
Total liabilities	**9,371**	**11,909**	**492**	**605**	**3,137**	**18,972**	**44,486**
Gap	**(3,991)**	**(6,627)**	**(1)**	**203**	**(2,055)**	**10,791**	**(1,680)**

	2010 Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Assets							
Debt securities	639	21	39	52	78	2,794	3,623
Loans and receivables to banks	560	-	-	200	-	-	760
Loans and receivables to customers	6,648	9,260	1,718	1,000	1,145	17,657	37,428
Derivatives assets	4	(3)	(2)	11	3	240	253
Total assets	7,851	9,278	1,755	1,263	1,226	20,691	42,064
Liabilities							
Deposits by banks (including central banks)	6,535	8,941	1,189	220	2	1	16,888
Customer accounts	1,647	513	210	357	171	12,882	15,780
Debt securities in issue	154	1,597	567	1,072	318	6,570	10,278
Subordinated liabilities	-	544	-	80	489	808	1,921
Derivatives liabilities	(1)	(46)	6	84	14	86	143
Total liabilities	8,335	11,549	1,972	1,813	994	20,347	45,010
Gap	(484)	(2,271)	(217)	(550)	232	344	(2,946)

36. Financial risk management (continued)

The following table details the group's liquidity analysis for derivative instruments that are not used as hedging instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates by the yield curves at the end of the reporting period.

	2011						
	Group banking operations						
	Up to 1 month €m	**1-3 months €m**	**3-6 months €m**	**6-12 months €m**	**1-2 years €m**	**Over 2 years €m**	**Total €m**
Net settled:							
Interest rate swaps	**(1)**	**(1)**	**-**	**(3)**	**(2)**	**2**	**(5)**
Gross settled:							
FX forwards							
- inflow	**1,309**	**1,601**	**5**	**-**	**-**	**-**	**2,915**
- outflow	**(1,335)**	**(1,629)**	**(5)**	**-**	**-**	**-**	**(2,969)**
	(27)	**(29)**	**-**	**(3)**	**(2)**	**2**	**(59)**

	2010						
	Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Net settled:							
Interest rate swaps	-	(3)	3	-	-	-	-
Gross settled:							
FX forwards							
- inflow	3,667	2,350	36	44	6	-	6,103
- outflow	(3,641)	(2,310)	(36)	(44)	(6)	-	(6,037)
	26	37	3	-	-	-	66

36. Financial risk management (continued)

Interest rate risk - Banking operations

Interest rate risk is managed principally through monitoring interest rate gaps. Repricing Gap is a duration based interest rate gap analysis which displays the bank's positions in quarterly buckets, highlighting possible interest rate exposures on the statement of financial position. The gap is produced and quantified by Treasury Risk Management and reported to senior management daily.

The gap analysis reflects the estimated discounted cash flows on a mix of interest bearing assets and liabilities and assumptions on the expected repricing dates.

On a daily basis management are provided with the following analysis:

- Deals are grouped into assets and liabilities in each currency;
- Deals are grouped in quarterly ‘buckets’ according to their duration;
- Weighted average rates for the various ‘buckets’ of assets and liabilities are calculated and displayed;
- A break-even rate is calculated and displayed; and
- Five year equivalent risk figure is calculated and displayed.

Interest Rate Repricing

	2011					
Group banking operations	**Not more than 3 months €m**	**Over 3 months but not more than 6 months €m**	**Over 6 months but not more than 1 year €m**	**Over 1 year but not more than 5 years €m**	**Over 5 years €m**	**Total €m**
Assets						
Euro	32,938	369	524	3,557	742	38,130
Sterling	7,029	78	33	153	-	7,293
US dollar	32	-	4	89	-	125
Other	1	-	-	-	-	1
Total assets (A)	40,000	447	561	3,799	742	45,549
Liabilities						
Euro	(25,182)	(1,269)	(1,823)	(7,202)	(2,166)	(37,642)
Sterling	(3,102)	(16)	(18)	(25)	-	(3,161)
US dollar	(169)	(5)	(6)	(1,376)	-	(1,556)
Other	(12)	(8)	-	(10)	-	(30)
Total liabilities (B)	(28,465)	(1,298)	(1,847)	(8,613)	(2,166)	(42,389)
Derivatives						
Euro	284	63	(181)	2,895	(297)	2,764
Sterling	(4,021)	(54)	(22)	(131)	-	(4,228)
US dollar	124	-	-	1,299	-	1,423
Other	-	8	-	10	-	18
Derivatives affecting interest rate sensitivities (C)	(3,613)	17	(203)	4,073	(297)	(23)
Interest rate repricing gap						
Euro	8,040	(837)	(1,480)	(750)	(1,721)	3,252
Sterling	(94)	8	(7)	(3)	-	(96)
US dollar	(13)	(5)	(2)	12	-	(8)
Other	(11)	-	-	-	-	(11)
Interest rate repricing gap (A) + (B) + (C)	7,922	(834)	(1,489)	(741)	(1,721)	3,137
Cumulative interest rate repricing gap	7,922	7,088	5,599	4,858	3,137	

36. Financial risk management (continued)

Interest Rate Repricing

	2010					
Group banking operations	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Assets						
Euro	30,640	475	859	3,174	1,485	36,633
Sterling	7,025	8	19	234	41	7,327
US dollar	1,408	-	-	90	-	1,498
Total assets (A)	39,073	483	878	3,498	1,526	45,458
Liabilities						
Euro	(30,894)	(1,302)	(1,901)	(4,156)	(1,248)	(39,501)
Sterling	(1,626)	(1,228)	(44)	(46)	-	(2,944)
US dollar	(236)	(5)	(9)	(1,328)	(4)	(1,582)
Total liabilities (B)	(32,756)	(2,535)	(1,954)	(5,530)	(1,252)	(44,027)
Derivatives						
Euro	1,957	55	(252)	2,622	(376)	4,006
Sterling	(4,227)	62	22	(182)	(41)	(4,366)
US dollar	(1,192)	3	5	1,250	4	70
Derivatives affecting interest rate sensitivities (C)	(3,462)	120	(225)	3,690	(413)	(290)
Interest rate repricing gap						
Euro	1,703	(772)	(1,294)	1,640	(139)	1,138
Sterling	1,172	(1,158)	(2)	6	-	18
US dollar	(20)	(2)	(4)	11	-	(15)
Interest rate repricing gap (A) + (B) + (C)	2,855	(1,932)	(1,300)	1,657	(139)	1,141
Cumulative interest rate repricing gap	2,855	923	(377)	1,280	1,141	

36. Financial risk management (continued)

Liquidity risk - Life operations

The following outlines the exposure to liquidity risk of Irish Life Limited and its subsidiaries (the 'Life Group') which are the discontinued operations of the group as disclosed in Note 5(a), Assets and liabilities held for sale.

Liquidity risk for the Life Group's unit-linked funds is managed by Irish Life Investment Managers, by means of asset selection process. For certain property linked funds there is the ability to defer encashments for up to six months to allow time to sell properties. If properties cannot be sold within this period then the shareholder may have to provide liquidity for these funds. Currently a deferral period is applied to most property linked funds, but the shareholder is not providing liquidity to the funds. The liquidity position of the property linked funds is monitored on a regular basis by the Life Assurance Financial Risk Committee. The liquidity risk for non-linked funds is managed through the matching of asset and liability cash flows as shown in the liquidity risk table for life operations.

The following tables set out the expected cash flows for the assets and liabilities relating to insurance contract liabilities including discretionary participating contracts where the shareholder is exposed to a financial risk. They exclude all unit-linked funds.

	2011						
	Not more than 1 year €m	Over 1 year but less than 5 years €m	Over 5 years but less than 10 years €m	Over 10 years but less than 20 years €m	Over 20 years €m	No fixed term €m	Total €m
Assets							
Debt securities	**290**	**505**	**619**	**582**	**1,216**	**-**	**3,212**
Equities	**-**	**-**	**-**	**-**	**-**	**5**	**5**
Investment properties	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Reinsurance assets	**86**	**336**	**434**	**848**	**1,171**	**-**	**2,875**
Total assets	**376**	**841**	**1,053**	**1,430**	**2,387**	**7**	**6,094**
Liabilities							
Insurance contracts	**277**	**782**	**954**	**1,803**	**1,992**	**-**	**5,808**
Gap	**99**	**59**	**99**	**(373)**	**395**	**7**	**286**

36. Financial risk management (continued)

	2010						
	Not more than 1 year €m	Over 1 year but less than 5 years €m	Over 5 years but less than 10 years €m	Over 10 years but less than 20 years €m	Over 20 years €m	No fixed term €m	Total €m
Assets							
Debt securities	185	520	640	598	1,084	-	3,027
Equities	-	-	-	-	-	8	8
Investment properties	-	-	-	-	-	1	1
Reinsurance assets	86	343	440	863	1,235	-	2,967
Total assets	271	863	1,080	1,461	2,319	9	6,003
Liabilities							
Insurance contracts	272	734	913	1,792	2,079	-	5,790
Gap	(1)	129	167	(331)	240	9	213

The group is also exposed to financial risk on certain investment contracts, principally tracker products where the shareholder has given the guarantee and on other fixed interest return single premium bonds. Both assets and liabilities are held at fair value in the statement of financial position. It is group policy to purchase assets to match liabilities. The undiscounted cash flows for the assets and liabilities by maturity date are set out below:

	2011			
	Not more than 1 year €m	**Over 1 year but less than 5 years €m**	**No fixed term €m**	**Total €m**
Assets				
Debt securities	**40**	**208**	**-**	**248**
Derivative assets	**3**	**13**	**-**	**16**
Total assets	**43**	**221**	**-**	**264**
Liabilities				
Investment contracts*	**41**	**213**	**52**	**306**
Gap	**2**	**8**	**(52)**	**(42)**

*Liabilities relating to financial options and guarantees are derived using stochastic modelling techniques, and are shown in the "no fixed term" column above.

	2010			
	Not more than 1 year €m	Over 1 year but less than 5 years €m	No fixed term €m	Total €m
Assets				
Debt securities	96	227	-	323
Derivative assets	1	23	-	24
Total assets	97	250	-	347
Liabilities				
Investment contracts*	79	248	31	358
Gap	18	2	(31)	(11)

*Liabilities relating to financial options and guarantees are derived using stochastic modelling techniques, and are shown in the "no fixed term" column above.

36. Financial risk management (continued)

Shareholders' assets in excess of those required to back the insurance and investment contract liabilities of the life operations are predominately invested in cash, fixed interest and property assets. An analysis of the shareholders' regulatory capital held in respect of the life and fund management business, is set out below:

	2011	2010
	€m	€m
Property	**190**	234
Equities	**19**	30
Debt securities	**27**	27
Deposits	**443**	697
Other assets and liabilities, including regulatory adjustments	**105**	(10)
	784	978

Currency exposure

The group's life assurance liabilities are primarily denominated in euro and it is group policy to match the currency exposure of the liabilities and the underlying assets.

36. Financial risk management (continued)

Market risk – Banking operations
Market risk is the risk of change in fair value of a financial instrument due to changes in equity prices, property prices, interest rates or foreign currency exchange rates. All market risks within the group are subject to strict internal controls and reporting procedures and are monitored by the group's Assets and Liabilities Committees. All market risks are subject to limits on the magnitude and nature of exposures which may be undertaken. These limits are outlined in policy documents which are regularly reviewed by the board.

Market risk in the group's banking operations arises from open positions in interest rate or currency products. The market risk exposure is managed by Group Treasury. Group Treasury use a number of tools to identify market risk; including Value at Risk, Interest rate gap, Stress-testing, Mark to market / stop loss reports. Market risk is reported on an overall basis and is also separated into trading and non-trading portfolios.

In managing market exposures, the group uses a Value at Risk (VaR) model. VaR is a statistically based estimate of potential loss on a portfolio from adverse market movements, which summarises the predicted maximum loss over a target time horizon and a given confidence level. Group Treasury adopts JP Morgan's Risk Metrics methodology, which is a variance co-variance approach. The VaR model assumes a holding period of 10 days, and a 99% confidence level is applied. Volatilities and correlations are exponentially weighted (the most recent event carries a greater weighting), and are calculated based on price movements over the past 150 days. The volatilities and correlations are imported daily from Risk Metrics.

VaR limits are approved by the board and are established for the overall banking book and trading portfolio. Individual trader VaR limits are established internally within Group Treasury. VaR reports are produced and quantified by Treasury Risk Management and reported to senior management daily and to the Banking Assets and Liabilities Committee on a monthly basis.

The prices of similar financial instruments do not move in exact step with each other and, as a result, the total risk contained in a portfolio of different financial instruments cannot be calculated by taking the sum total of the individual risks. The VaR methodology employed by the group calculates the risk in each instrument held in the portfolio and measures the impact of diversification of the risk of the portfolio using an industry standard methodology called the variance co-variance approach.

As with any market risk measurement system, the VaR methodology utilised by the group has recognised limitations. VaR does not measure "event" (e.g. crash) risk or incorporate assumptions about the range of likely changes in future market conditions, including behavioural assumptions about the various types of assets and liabilities (particularly those arising from retail transactions). Accordingly, the group supplements its VaR methodology with other risk measurement techniques including interest rate gap, stress testing and mark to market / stop loss reports.

Stress testing techniques are also used as a means to assess potential exposure to predefined moves in individual risk factors. Stress tests (one basis point move in interest rates) are applied to the trading, available-for-sale and held-to-maturity portfolios and the results are reported to the Banking Assets and Liabilities Committee on a monthly basis. A projected income sensitivity analysis is also performed on the statement of financial position through the assets liabilities model.

Group Treasury applies parallel basis point shocks to the individual yield curves of 50, 100, 200 and 300bps. The model incorporates projected new business growth, using current rates to produce its base case scenario.

The impact on the mark to market of a 100 basis point straight line increase / decrease in interest rates, applied to the investment portfolios at 31 December 2011, a 1% increase is (€60.9m) negative and a 1% decrease is €43.8m positive.

	2011	2010
	€m	€m
Euro		
1% increase	**(60.9)**	(54.2)
1% decrease	**43.8**	0.0
Sterling	**£m**	£m
1% increase	**0.0**	0.0
1% decrease	**0.0**	0.0
US Dollar	**$m**	$m
1% increase	**0.0**	0.0
1% decrease	**0.0**	0.0

Mark to market / stop loss limits are applied to the trading portfolio and to individual traders. Treasury Risk management reports stop losses to senior management on a daily basis.

36. Financial risk management (continued)

Value at risk - Total

	2011	2010
	€m	€m
At 31 December	**3.7**	5.5
Average	**9.9**	5.4
Minimum	**3.7**	3.0
Maximum	**29.2**	8.9

The non-trading book comprises the bank's retail and corporate deposit books and its loan book combined with the inter-bank book, wholesale funding instruments and the liquid asset investment portfolio, which is managed by Treasury.

Value at risk – non-trading

	2011	2010
	€m	€m
At 31 December	**3.7**	5.2
Average	**9.7**	5.1
Minimum	**3.7**	2.6
Maximum	**28.9**	9.9

In addition to the responsibility for managing the liquidity and interest rate exposures arising in the banking operations, Treasury manages a trading portfolio in liquid interest rate and foreign currency exchange rate instruments, and derivatives thereof, in order to profit from short-term changes in market values. Trading portfolios are no longer active and they are in "run off" mode. Although these portfolios are no longer active a Trading Book exists until all positions have been run off. In cases where derivatives are used to hedge back book positions but cannot be accounted for under IAS 39, movements in the value of these hedges will be reported in the income statement as trading profits or losses. Trading book exposures are subject to strict limits which have been approved by the board. Interest rate exposures within the trading book are measured using VaR. The methodology employed is the same as that utilised in respect of the non-trading book set out above. Foreign currency exposures are measured by reference to open positions (the sum of all long and short positions). All financial instruments held for trading purposes are clearly designated and are held separately from other holdings and all trading positions are marked to market.

Value at risk – trading	**2011**	2010
	€m	€m
At 31 December	**0.0**	0.0
Average	**0.0**	0.2
Minimum	**0.0**	0.0
Maximum	**0.2**	0.3

36. Financial risk management (continued)

Market Risk - Life operations
The following outlines the exposure to market risk of Irish Life Limited and its subsidiaries (the "Life group") which are the discontinued operations of the group as disclosed in Note 5(a), Assets and liabilities classified as held for sale.

The life operations' investment policies set out the principles in respect of the management of market risk. They are determined by the Irish Life Assurance plc board and are designed to ensure that investment activity is carried out in a prudent and controlled manner. They are subject to annual review by the Irish Life Assurance plc board. The policies take into account the differing requirements and risk profiles of different classes of policyholder funds, whether the investments are in respect of guaranteed or non-guaranteed business and the solvency and financial strength requirements of the life companies. Adherence to the policy is monitored by the Life Assurance Financial Risk Committee.

	Liability as at 31 December 2011* €m
Unit-linked funds where the financial risks are primarily borne by the policyholders	**22,339**
Other policyholder liabilities	**3,966**
Unit-linked tracker bonds** and non-linked fixed-interest return single premium bonds	**253**
Discretionary participation insurance contracts	**27**
Investment financial options and guarantees	**52**
	26,637

	Liability as at 31 December 2010* €m
Unit-linked funds where the financial risks are primarily borne by the policyholders	24,320
Other policyholder liabilities	3,631
Unit-linked tracker bonds** and non-linked fixed-interest return single premium bonds	287
Discretionary participation insurance contracts	36
Investment financial options and guarantees	31
	28,305

* Liabilities before reinsurance.
** Only includes unit-linked tracker bonds where the investment guarantee is given by the shareholder (it is group policy to purchase assets to match these liabilities). Tracker bonds where the investment guarantee is given by a third party and the shareholder is not at risk are included in unit-linked funds liabilities.

The group holds assets at fair value to back the liabilities set out above together with the assets relating to the life operations solvency capital and free shareholder funds.

Details of the financial options and guarantees are set out in Note 27, Financial options and guarantees.

Unit-linked funds
For unit-linked funds, which comprise 92% (2010: 94%) of the group's long-term insurance and investment contracts net of reinsurance liabilities, policyholders primarily bear the investment risk, with changes in the underlying investments being matched by changes in the underlying contract liabilities. On a day-to-day basis, cash outflows which are necessitated by policyholders withdrawing their funds are generally met by cash inflows from new investors. In circumstances where funds are contracting, or to meet unusually high levels of withdrawals, the group sells assets in the fund in order to meet the cash demands with any dealing costs charged to the underlying unit-linked fund and consequently the policyholders. The underlying assets in the unit-linked funds are subject to credit and market risks in the form of interest rate, equity prices, foreign exchange and other market risks depending on the fund, including movement in property values. These changes are matched by changes in the unit-linked liabilities. Accordingly, the group is not directly exposed to significant liquidity, credit or market risks, although the policyholders' benefits will vary as a consequence. As the group is not exposed to any significant financial risk on assets or liabilities held within unit-linked funds, these are excluded from the risk analysis.

36. Financial risk management (continued)

Decreases in the capital value of unit-linked funds (as a result of falls in market values of equities, property or fixed-interest assets) will however reduce the future annual investment management charges that will be earned from unit-linked business. An additional risk the group faces in respect of unit-linked business is the risk that increases to surrender rates for both insurance and investment contracts reduces the value of future investment management charges. Actions to control and monitor this risk include charges applicable on some products where the investor surrenders early, regular experience monitoring, consideration of the sensitivity of product profitability to levels of lapse rates at the product development stage and initiatives within the relevant businesses to encourage customer retention.

Equity / property price risk
Equity / property price risk is defined as the risk of a potential loss in market values due to an adverse change in prices including changes in the value of investment properties. Investment in equities and property is generally limited to investments to match commitments to policyholders or to match a portion of the liabilities under discretionary participation contracts. The group's shareholders are exposed to direct equity / property holdings in its shareholder assets, including assets acquired through providing liquidity support to certain property-linked funds, and from the indirect impact of changes in the value of equities and properties held in policyholder funds from which management charges are taken. The group manages the life operations measuring earnings in accordance with the European Embedded Value ("EEV") Principles issued in May 2004 by the European Chief Financial Officers' Forum.

Derivative risk
Derivatives are permitted to be held only as part of efficient portfolio management. All investments made are within the parameters set down by senior management as well as by statutory requirements. There is regular reporting of asset and liability mismatches to investment committees within business units and to the Life Assurance Financial Risk Committee. Derivative transactions are fully covered by either cash or corresponding assets and liabilities.

Interest rate risk
Life operations of the group carry interest rate risk exposures on its debt securities and its loans to banks portfolio and on its fixed-rate insurance and investment liabilities. It is the group's policy where possible to match its asset and liability profile and this is monitored on a regular basis by the investment committees within each business unit and by the Life Assurance Financial Risk Committee.

Insurance risk
Insurance risk is the risk associated with the variability in liability cash flows caused by fluctuations in policyholder claims under insured events. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risks are that the frequency of claims or the severity of claims is greater than expected. Insurance events are random by their nature and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The group manages its insurance risk through underwriting limits, approval procedures for new products and reinsurance where appropriate.

Reinsurance is managed in accordance with approved policy and is regularly reviewed by the Life Assurance Financial Risk Committee.

The assumptions used to place a value on the liabilities of insurance contracts and the sensitivity of these assumptions to a range of factors is set out in Note 26, Life insurance contracts.

Insurance risk falls into three main categories:
- Life assurance contracts;
- Annuity contracts; and
- Insurance contracts with a discretionary participation feature.

36. Financial risk management (continued)

Life assurance contracts

These are contracts where the benefit is payable on death or serious illness. The benefit may be a lump sum or in the case of serious illness an annual income stream which may be fixed or escalate at a fixed rate or in line with a relevant index.

Insurance risks associated with life insurance contracts include the risk of epidemics, accidents and changes in lifestyle such as smoking habits and stress-related diseases.

Life assurance contracts may be unit-linked or non-linked. For unit-linked contracts the group charges for the insured risk on a monthly basis and has the right to alter these charges based on its risk experience. In this way the group can limit its exposure. Non-linked business may be group business or individual contracts. Group business is normally written for a maximum of a three-year term and the insurance risk may be repriced at the end of each term. For individual business written for a fixed term there are no mitigating terms and conditions which reduce the insurance risk. Individual business risk is managed through the inclusion of medical selection in the underwriting criteria and through reinsurance of the risk.

The sum-at-risk amounts net of reinsurance are as follows:

	2011	2010
	€m	€m
Unit-linked contracts	**8,604**	9,135
Non-linked contracts		
- Individual	**15,980**	16,634
- Group	**35,170**	35,357

The calculation of the insurance contract liabilities allows for the discounted expected cost of the sum at risk amounts shown above using mortality and morbidity assumptions and interest rate assumptions as shown in Note 26(b), Life insurance contracts.

Annuity contracts

These are contracts where the policyholder, in return for a single premium paid at the start of the contract, purchases an annual income stream for the remainder of his or her life. Annuities may be level, escalate at a fixed rate or in line with a relevant index.

Payments are often guaranteed for a minimum term regardless of survival. Annuities may also continue after death, in full or in part, to a surviving partner.

The main insurance risk associated with this product is longevity risk and in particular that improvements in medical science and social conditions would increase longevity. In recognition of this risk, in 2002 the group decided to reinsure 57% of the in force portfolio of annuity contracts. All new annuity business written between 2002 and 2009 was 100% reinsured. Under the reinsurance treaties, longevity risk is borne by the reinsurance companies. Assets are held by the reinsurance companies in charged accounts, all withdrawals from which have to be authorised by Irish Life. Assets are managed in accordance with a mandate which matches the asset and liabilities.

Since 2009 the longevity risk on new annuity business is 85% reinsured, with 15% retained by Irish Life. The backing assets are held by Irish Life and are not transferred to the reinsurance company.

The reserves held for annuity contracts are as follows:

	2011	2010
	€m	€m
Gross	**2,584**	2,266
Reinsurer's share	**(1,440)**	(1,353)
	1,144	913

36. Financial risk management (continued)

Insurance contracts with a discretionary participation feature
The group has a closed book of with-profit business where the policyholder benefits from a discretionary annual bonus and a discretionary final bonus. There has been no new business written since it was set up as a closed fund in 1990. The shareholder does not participate in the with-profit fund.

The assets of the fund are invested in a fund which invests in a mixture of equities and fixed-interest securities.

The group has discretion on the level of bonuses declared.

The total guaranteed sums assured in the future and bonuses payable on death as at 31 December 2011 are €34m (2010: €43m). Technical provisions as at 31 December 2011 are €27m (2010: €36m) which on a discounted cash flow basis are sufficient to meet fund liabilities.

Operational risk
Operational risk at Irish Life & Permanent Group Holdings plc is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk management within the group also addresses regulatory risk which is defined as the risk of uncertainty in profits due to unforeseen changes in regulation. Regulatory risk is not the failure to meet regulations (that is compliance risk), rather it is the risk that the group is not sufficiently aware of the changing regulatory environment, increasing the cost of compliance and reducing the effectiveness of risk management processes.

The group operates an industry best practice operational risk framework which includes the measurement and monitoring of both operational and regulatory risk. The aim of this framework is to help focus management attention on the subset of operational risks which are material at each level of the organisation (either in terms of financial impact, or more broadly because of reputational or regulatory impacts).

Central group management, and each of the business units within the group, identify the material operational risks to which they are exposed. The identification process is based on a detailed review of business activities, supplemented by reference to external industry information. Each business unit has a designated operational risk manager who is responsible for coordinating operational risk management within that business unit. The local management team of each business unit is responsible for reviewing and authorising the register of main operational risks for each business unit on an annual basis.
The group operational risk framework utilises the business unit operational risk registers to identify the group's material operational risks. Materiality is determined by a quantitative and qualitative assessment of each risk by reference to its likelihood of incidence and potential impact. These material operational risks are regularly reported to the Group Operational Risk Committee and the Board Risk and Compliance Committee. The Group Operational Risk Committee is responsible for steering progress on the measurement and mitigation of these risks. Key risk indicators are used to carry out this monitoring process.

Each of the operational risks considered material for the group is the subject of a documented, in depth analysis of the cause and impact of the risk. An appropriate control environment is established to protect against the risk.

A sub-register of significant operational risks at business unit level is also maintained by the group. Each of the business units (or group function as appropriate) manages and monitors these operational risks to group requirements.

Irish Life & Permanent Group Holdings plc has a formal, documented Operational Risk Policy which has been approved by the board.

Operational risk recording
The group operates an industry best practice risk and event recording database. The database is managed by the Group Operational Risk function and records all operational risk (including regulatory risk and reputational risk) events and near misses across the group. Risk events and their associated impact are analysed in accordance with the group's operational risk categories which also comply with Basel II requirements. All loss events are recorded in the register.

The operational risk database generates risk reports for review at the Operational Risk Committee meetings. Each report details the number of operational risk loss events and near misses by business unit for the period.

36. Financial risk management (continued)

Operational risk economic capital
IL&PGH plc employs the Basel II standardised approach as the basis for calculating economic operational risk in the banking business. This approach utilises an established multiplier ("beta" factor) against a three-year average "risk-weighted relevant indicator" measure of net income to derive a capital requirement. The beta multipliers are drawn from Basel II benchmark values and are differentiated by business line.

Operational risk mitigation
Operational risk cannot be entirely eliminated from an entity's business operations without the cessation of business. Acknowledging this fact, the group has implemented risk mitigation techniques (such as business continuity planning for example) to reduce the level of this risk where possible.

The group maintains a comprehensive suite of insurance cover in order to mitigate against operational risk to the extent possible. Aligned closely to the operational risk event types established by Basel II, insurance cover includes:

- Theft and fraud (internal and external);
- Civil liability;
- Employer's liability;
- Business interruption;
- Directors' and officers' liability; and
- Natural catastrophe cover (business continuity planning).

37. Fair value of financial instruments

The group's accounting policy on valuation of financial instruments is described in Note 1, Basis of preparation and significant accounting policies. The fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, in an arms length transaction between knowledgeable willing parties. Where possible, the group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation methodologies as outlined below. These techniques are subjective in nature and involve assumptions which are based upon management's view of market conditions at year end which may not necessarily be indicative of any subsequent fair value. Furthermore, minor changes in the assumptions used could have a significant impact on the resulting estimated fair values and as a result, readers of these financial statements are advised to use caution when using this data to evaluate the group's financial position.

The table below analyses the fair value of financial assets and liabilities for continuing and discontinued operations, as disclosed in Note 3, Segmental information as at 31 December 2011 and for the group as a whole as at 31 December 2010:

	2011				2010	
	Continuing operations		**Discontinued operations**			
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
	€m	**€m**	**€m**	**€m**	€m	€m
Financial assets:						
Cash and balances with central banks (note 6)	**88**	**88**	**94**	**94**	312	312
Items in course of collection (note 6)	**109**	**109**	**-**	**-**	124	124
Debt securities (note 7)	**6,658**	**6,426**	**7,510**	**7,510**	12,104	11,957
Equity shares and units in unit trusts (note 8)	**-**	**-**	**11,792**	**11,792**	13,777	13,777
Derivative assets (note 9)	**247**	**247**	**791**	**791**	1,255	1,255
Loans and receivables to customers (note 10)	**33,677**	**24,952**	**-**	**-**	36,581	31,975
Loans and receivables to banks (note 12)	**1,623**	**1,623**	**3,446**	**3,446**	3,565	3,562
Assets classified as held for sale (note 5)	**56**	**56**	**-**	**-**	2,027	2,027
Financial liabilities:						
Deposits by banks (including central banks) (note 22)	**16,966**	**17,002**	**212**	**212**	17,146	17,131
Customer accounts (note 23)	**14,373**	**14,373**	**-**	**-**	13,382	13,382
Debt securities in issue (note 24)	**8,356**	**6,067**	**-**	**-**	10,034	8,413
Derivative liabilities (note 9)	**300**	**300**	**109**	**109**	503	503
Investment contract liabilities (note 25)	**-**	**-**	**22,153**	**22,153**	24,067	24,067
Subordinated liabilities (note 32)	**317**	**306**	**213**	**213**	1,686	944
Liabilities classified as held for sale (note 5)	**-**	**-**	**-**	**-**	1,980	1,980

The volatility in financial markets and the illiquidity that is evident in these markets creates a difficulty in determining the fair value of certain assets and liabilities.

In accordance with IFRS 7 Financial Instruments: Disclosures, the group has adopted the fair value hierarchy classification of financial instruments. This requires the group to classify its financial instruments held at fair value according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments. The three levels of the fair value hierarchy as defined by the accounting standard are outlined below:

Level 1: fair value measurements derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements derived from valuation techniques that include inputs for the asset and liability that are based on unobservable market data.

The valuation methodologies for calculating the fair value of financial instruments are set out below.

Deposits by banks / customer accounts
The estimated fair value of current accounts and deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed-interest bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturities.

Cash and balances with central bank / Items in course of collection
The fair value of these financial instruments is equal to their carrying value due to these instruments being repayable on demand and short-term in nature.

Loans and receivables
The group has used a discounted cash flow valuation methodology to arrive at a fair value for the loans and receivables to customers. The absence of market data leads to difficulties in calibrating the model used. The model used at 31 December 2011 has discounted the estimated future cash flows at current market rates incorporating the impact of credit spreads and margins. The fair value reflects both loan impairments at the statement of financial position date and estimates of expectations of lifetime credit losses. The impact of a 1% change in the average discount rate would impact the fair value of the residential mortgage portfolio by €1.5bln.

Debt securities - available for sale (AFS)
At 31 December 2011, €2,202m (2010: €2,555m) of these debt securities have been classified as level 1, €nil (2010: €823m) have been classified as level 2 and €10m (2010: €22m) has been classified as level 3 in the fair value hierarchy below. The fair value of such instruments is based on an external asset pricing tool from a recognised market source. This tool incorporates both market observable and unobservable data. Significant inputs include current and historical market prices of these instruments, the current and historical prices of similar instruments and price estimates from indirect pricing models. Debt securities of €nil (2010: €823m) were classified as level 2 in the fair value hierarchy below due to less liquidity in the market for these instruments and a greater reliance on inputs derived from indirect market observable data while debt securities of €10m (2010: €22m) have been classified as Level 3 because of the reliance on non-market observable data in the valuations.

37. Fair value of financial instruments (continued)

Debt securities at fair value through profit or loss (FVTPL)
The fair values of debt securities in an active market are based on quoted market prices. Debt securities in inactive markets are determined using broker valuations and / or valuation techniques such as discounted cash flow models which are subject to internal management review. Such models incorporate inputs such as current interest rate, credit spreads and forward foreign exchange rates.

The bulk of debt securities are sourced from quoted market prices. Management review the source of the market prices, the liquidity of the security, the credit risk and recent market history to assess the reasonableness of the valuations.

The significant categories of debt securities where fair value valuations are not obtained using quoted market prices are as follows:

(a) Zero coupon bonds amounted to €81m (2010: €218m).
As at 31 December 2011, such bonds are classified as level 2 in the fair value hierarchy below. Valuations are determined by a discounted cash flow model produced by a third party system. Model inputs include bond cash flows, interest rates and term to maturity, all of which are market observable data.

(b) French government strip bonds amounted to €642m (2010: €603m).
As at 31 December 2011, such bonds are classified as level 2 in the fair value hierarchy below. Valuations are obtained from a third party broker who extracts the valuation from their proprietary model. Model inputs include bond cash flow, interest rates and credit spreads which are market observable data.

(c) Housing finance agency inflation-linked bond amounted to €44m (2010: €62m).
As at 31 December 2011, such bonds are classified as level 2 in the fair value hierarchy below. Valuations are obtained from a third party broker market maker. The broker considers interest rates, credit spreads and inflation expectations in arriving at their quote.

(d) European investment bank inflation-linked notes amounted to €453m (2010: €452m).
As at 31 December 2011, these notes are classified as level 3 in the fair value hierarchy below. Valuations are obtained from an external broker using a valuation technique incorporating significant inputs, some of which are market unobservable data. Such inputs include a discount to reflect the lack of liquidity in the market for these instruments.

During the year ended 31 December 2008 the group availed of the amendment to IAS 39 and IFRS 7 which permitted financial assets classified as available for sale ("AFS") to be reclassified out of the AFS category to the loans and receivables category. Such securities are carried at amortised cost in accordance with loans and receivables accounting policy. The fair value of such securities is determined by using valuation models incorporating a mix of broker quotes for securities with similar terms and features and unobservable data.

Equity shares and units in unit trusts
The fair value of quoted equities are based on quoted market price sourced from external pricing services where securities are traded on a recognised exchange. Equity investments valued using quoted market prices totalled €11,431m (2010: €13,519m) out of a total balance of €11,792m (2010: €13,777m) as at 31 December 2011.

The net asset value ("NAV") based on the underlying fair value of the investments of the unit trusts and funds, as reported by the investment managers has been used as the basis for determining the fair value of the group's interest in units trusts and funds.

Therefore units in unlisted unit trusts and unlisted investment funds are valued using the latest price or valuation issued by unit trust and fund managers. Each unit trust price is reviewed by management to assess the reasonableness of the price. Management considers the illiquidity and pricing basis of any underlying assets, any restrictions on redemptions put in place by the unit trust and fund managers and evidence of trading taking place at the issued price. If appropriate the latest price or valuation issued by the unit trust and fund managers is adjusted to reflect the illiquidity or latest valuations of underlying assets.

The significant categories of equity shares and units in unit trusts where fair value valuations are not obtained using quoted market prices are as follows:

(a) Units in unit trusts that are not priced or traded on a daily basis amounted to €113m (2010: €24m).
As at 31 December 2011, these units are classified as level 2 in the fair value hierarchy below due to a lack of liquidity in the market.

(b) Units held in a property unit trust amounted to €189m (2010: €185m).
As at 31 December 2011, these units are classified as level 2 in the fair value hierarchy below since the units are priced and traded by the investment manager on a monthly basis.

(c) Unlisted shares held in private companies amounted to €21m (2010: €93m).
At 31 December 2011, these shares are classified as level 3 in the fair value hierarchy below. These valuations are prepared internally using the most recently available financial information for these companies, which are market unobservable data. The unlisted shares includes the group's shareholding in National Asset Management Agency Investment Limited ("NAMAIL"). The valuation of these shares are based on external valuations discounted for the illiquid nature of these shares. Further details of this shareholding are included in Note 56, Related parties.

Derivative assets and liabilities
The fair values for derivatives traded in active markets are obtained from prevailing quoted prices. Active markets would include all exchange traded equity, currency and commodity futures, quoted on recognised futures and derivative exchanges.

Derivatives in inactive markets are determined using broker valuations and / or valuation techniques such as discounted cash flow models which are subject to internal management review. Such models incorporate inputs such as current interest rate, time to maturity and forward foreign exchange rates. Observable prices model inputs are usually available in the market for exchange-traded derivatives (primarily options) and simple over the counter derivatives such as interest rate swaps.

37. Fair value of financial instruments (continued)

The significant categories of derivatives where fair value valuations are not obtained using quoted market prices are as follows:

(a) Derivative instruments relating to CPPI products (as described in Note 9, Derivative Instruments) amounted to €688m (2010: €778m).
As at 31 December 2011, these instruments are classified as level 2 in the fair value hierarchy below. Valuations are obtained from a third party broker who extracts the valuation from their proprietary model. This uses a standard option pricing model comprising Monte-Carlo simulation and discounted cash flows. Significant inputs include volatility of returns, risk-free discount rate and expected returns.

(b) Options used in tracker products amounted to €38m (2010: €56m).
As at 31 December 2011, these options are classified as level 3 in the fair value hierarchy below. These options are valued by a third party broker based on a valuation model incorporating proprietary inputs, some of which are market unobservable data.

(c) Derivative assets of €247m (2010: €360m) and derivative liabilities of €300m (2010: €273m) related to derivatives in respect of the bank operations.
As at 31 December 2011, these derivative instruments have been classified as level 2 in the fair value hierarchy below. Valuations are obtained from third party brokers who extract valuation from a mix of discounted cash flow models and pricing models. Model inputs include yield curves and volatility measurements which are market observable data.

Debt securities in issue / subordinated liabilities

The group has used market prices of the debt securities in issue and the subordinated liabilities to calculate a fair value of these liabilities. Where market prices are not available for these instruments, market prices of instruments that are substantially the same have been used. In the absence of market prices of similar instruments, valuations are obtained from a discounted cash flow model incorporating market unobservable inputs.

Fair value measurements recognised in the statement of financial position

This fair value hierarchy has been applied to all of the financial instruments that are measured at fair value in the statement of financial position. Categorisation of these financial instruments according to the fair value hierarchy in respect of continuing operations, as disclosed in Note 3, Segmental information, is included below as at year end:

Continuing operations

	31 December 2011			
Financial instruments measured at fair value	**Quoted market prices Level 1 €m**	**Valuation techniques using observable market data Level 2 €m**	**Valuation techniques using unobservable market data Level 3 €m**	**Total €m**
Financial assets				
Debt securities				
Available for sale (note 7)	2,203	-	10	2,213
Derivative assets (note 9)	-	247	-	247
Financial liabilities				
Derivative liabilities (note 9)	-	300	-	300

This fair value hierarchy has been applied to all of the financial instruments that are measured at fair value in the statement of financial position. Categorisation of these financial instruments according to the fair value hierarchy in respect of Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 5(a), Assets and liabilities classified as held for sale, is included below as at year end:

Discontinued operations

	31 December 2011			
Financial instruments measured at fair value	**Quoted market prices Level 1 €m**	**Valuation techniques using observable market data Level 2 €m**	**Valuation techniques using unobservable market data Level 3 €m**	**Total €m**
Financial assets				
Debt securities				
At fair value through profit and loss (FVTPL)	6,258	799	453	7,510
Equity shares and units in unit trusts	11,431	340	21	11,792
Derivative assets	35	718	38	791
Financial liabilities				
Derivative liabilities	5	104	-	109
Investment contract liabilities *	-	22,153	-	22,153

* Investment contract liabilities are backed by assets attributable to the life operations including assets which are carried at FVTPL which are measured at quoted market prices and valuation techniques using observable market data.

37. Fair value of financial instruments (continued)

Categorisation of financial instruments according to the fair value hierarchy in respect of the group as a whole 31 December 2010 are as follows:

	31 December 2010			
Financial instruments measured at fair value	Quoted market prices Level 1 €m	Valuation techniques using observable market data Level 2 €m	Valuation techniques using unobservable market data Level 3 €m	Total €m
Financial assets				
Debt securities				
Available for sale (note 7)	2,555	823	22	3,400
At fair value through profit and loss (FVTPL) (note 7)	6,032	941	452	7,425
Equity shares and units in unit trusts (note 8)	13,519	222	36	13,777
Derivative assets (note 9)	23	1,176	56	1,255
Assets classified as held for sale (note 5(b))				
Debt securities	12	385	-	397
Equity shares and units in unit trusts	612	794	64	1,470
Financial liabilities				
Derivative liabilities (note 9)	8	495	-	503
Investment contract liabilities * (note 25)	-	24,067	-	24,067
Liabilities classified as held for sale (note 5(b))				
Derivative liabilities	-	2	-	2
Investment contract liabilities*	-	1,978	-	1,978

* Investment contract liabilities are backed by assets attributable to the life operations including assets which are carried at FVTPL which are measured at quoted market prices and valuation techniques using observable market data.

Reconciliation of level 3 fair value measurements of financial assets in respect of continuing operations

	31 December 2011 Debt securities AFS €m
Opening balance	**22**
Total gains or losses - in profit or loss	
- Net interest income	**-**
- Other comprehensive income	**-**
Transfers into level 3	**-**
Transfers out of level 3	**-**
Sales	**(12)**
Purchases	**-**
	10
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year.	
- Net interest income	**-**

Reconciliation of level 3 fair value measurements of financial assets in respect of discontinued operations

			31 December 2011		
			Assets held for sale		
	Debt securities at FVTPL €m	**Equity shares and units in unit trusts €m**	**Equity shares and units in unit trusts €m**	**Derivative assets €m**	**Total €m**
Opening balance	**452**	**36**	**64**	**56**	**608**
Total gains or losses - in profit or loss					
- Investment return	**88**	**(11)**	**-**	**(32)**	**45**
Transfers into level 3	**-**	**-**	**-**	**-**	**-**
Transfers out of level 3	**-**	**-**	**-**	**-**	**-**
Sales	**(87)**	**(5)**	**-**	**(2)**	**(94)**
Purchases	**-**	**1**	**-**	**16**	**17**
Disposals	**-**	**-**	**(64)**	**-**	**(64)**
	453	**21**	**-**	**38**	**512**
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year.					
- Investment return	**71**	**(11)**	**-**	**(22)**	**38**

37. Fair value of financial instruments (continued)

Reconciliation of level 3 fair value measurements of financial assets in respect of the group as a whole for 31 December 2010 are as follows:

	Debt securities AFS €m	Debt securities at FVTPL €m	Equity shares and units in unit trusts €m	31 December 2010 Assets held for sale - Equity shares and units in unit trusts €m	Derivative assets €m	Total €m
Opening balance	-	528	270	-	38	836
Total gains or losses - in profit or loss						
- Investment return	-	(9)	69	-	(9)	51
- in other comprehensive income	(1)	-	-	-	-	(1)
Transfers into level 3	23	-	-	64	-	87
Transfers out of level 3	-	-	(356)	-	-	(356)
Sales	-	(138)	(7)	-	(8)	(153)
Purchases	-	71	60	-	35	166
	22	452	36	64	56	630

Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year.

- Net interest income	1	-	-	-	-	1
- Investment return	-	(14)	(3)	-	(12)	(29)

Sensitivity analysis of level 3 fair value measurements (non unit-linked funds)
Financial instruments classified as level 3 amounting to €51m (2010: €65m) of a total balance of €522m (2010: €630m) include debt securities and equity shares which are not held within unit-linked funds in respect of the group's life operations.

Continuing operations
Debt securities - available for sale (AFS)
Zero-coupon corporate bonds of €10m (2010: €22m) classified as level 3 are held to match certain zero coupon deposits, the fair value of these debt securities are sensitive to changes in the underlying assumptions (nominal yields and credit spreads). The following table shows the sensitivity of the fair value of these debt securities to a +1% / -1% movement in the assumptions respectively as at year end:

	2011 Reflected in other comprehensive income	
	Favourable change €m	**Unfavourable change €m**
Debt securities AFS		
- Nominal yields	**0.1**	**(0.1)**
- Credit spreads	**0.1**	**(0.1)**

	2010 Reflected in other comprehensive income	
	Favourable change €m	Unfavourable change €m
Debt securities AFS		
- Nominal yields	0.2	(0.3)
- Credit spreads	0.2	(0.3)

37. Fair value of financial instruments (continued)

Discontinued operations

Debt securities at fair value through profit or loss (FVTPL)

For European investment bank inflation-linked notes not held within unit-linked funds of €31m (2010: €26m), the fair value of such notes are sensitive to changes in the underlying assumptions (inflation expectations, nominal yields and credit spreads). The following table shows the sensitivity of the fair value of these notes to a +1% / -1% movement in the assumptions respectively as at year end:

	2011	
	Reflected in income statement	
	Favourable change €m	**Unfavourable change €m**
Debt securities at FVTPL		
- Inflation expectations	**8**	**(6)**
- Nominal yields	**6**	**(5)**
- Credit spreads	**6**	**(5)**

	2010	
	Reflected in income statement	
	Favourable change €m	Unfavourable change €m
Debt securities at FVTPL		
- Inflation expectations	7	(5)
- Nominal yields	5	(4)
- Credit spreads	5	(4)

Equity shares and units in unit trusts

The equity shares classified as level 3 include €10m (2010 €17m) that relate to the group's shareholding in NAMAIL. Valuations of these shares were based on external valuations discounted for the illiquid nature of these shares and possible alternative assumptions would not have a material impact on the valuations.

Sensitivity analysis of level 3 fair value measurements (unit-linked funds)

Discontinued operations

Financial instruments classified as level 3 include €471m (2010: €582m) of a total balance including continuing operations of €522m (2010: €630m) include debt securities, equity shares and units in unit trust and derivative assets, which are held within unit-linked funds in respect of the group's life operations. For unit-linked funds, any fair value changes in unit-linked assets are matched by changes in unit-linked liabilities.

Debt securities at fair value through profit or loss (FVTPL)

For European Investment Bank inflation linked notes held within the unit linked funds of €422m (2010: €426m) the valuations were obtained from the external broker who is the principal market maker for these instruments. All inputs to the valuation are market observable. Hence the fair value of such notes is sensitive to changes in the underlying assumptions (inflation expectations, nominal yields and credit spreads). The details of the sensitivity are set out below. As these are unit linked assets there is no impact on the income statement of the overall group for a change in the underlying assumptions.

- A 1% favourable / unfavourable move in the inflation expectations would have a valuation effect of €82m / (€107m) (2010: €156m / (€113m)) on unit-linked assets and liabilities and no impact on shareholder values.
- A 1% favourable / unfavourable move in credit spreads would have a valuation effect of €119m / (€90m) (2010: €133m / (€97m)) on unit-linked assets and liabilities and no impact on shareholder values.
- A 1% favourable / unfavourable move in nominal yields would have a valuation effect of €119m / (€90m) (2010: €133m / (€97m)) on unit-linked assets and liabilities and no impact on shareholder values.

Equity shares and units in unit trusts and equity shares classified as held for sale

The equity shares classified as level 3 include €11m (2010: €19m) and equity shares classified as held for sale include €nil (2010:€57m) that consist of a number of unquoted companies held in unit-linked wrapper funds. Valuations were based on the most recently available financial information for these companies and possible alternative assumptions would not have had a material impact on the valuations.

Derivative assets

Derivatives classified in level 3 of €38m (2010: €56m) were in respect of options used in tracker products. The valuations were obtained from a third party broker who values the options using a model with proprietary inputs. The brokers provide regular valuations throughout the year. Historically trades have been executed at values very close to the most recent valuation quote. Therefore the directors do not believe that alternative assumptions give a reasonable alternative valuation, although future equity growth would impact the value of the derivatives.

38. Measurement basis of financial assets and liabilities

The table below analyses the carrying amounts of the financial assets and liabilities in respect of continuing operations, as disclosed in Note 3, Segmental information, by accounting treatment and by statement of financial position classification.

Continuing operations

	2011										
	At fair value through profit or loss			At fair value through equity							
	Derivatives designated as fair value hedges €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Derivatives designated as cash flow hedges €m	Held to Maturity €m	Embedded derivatives €m	Loans and receivables and liabilities /amortised cost €m	Fair value adjustment on hedged assets and liabilities** €m	Investment contract liabilities *** €m	Total €m
Financial assets:											
Cash and balances with central banks (note 6)	-	-	-	-	-	-	-	88	-	-	88
Items in course of collection (note 6)	-	-	-	-	-	-	-	109	-	-	109
Debt securities (note 7)	-	-	-	2,212	-	845	-	3,600	-	-	6,657
Derivative assets* (note 9)	214	24	-	-	-	-	9	-	-	-	247
Loans and receivables to customers (note 10)	-	-	-	-	-	-	-	33,605	72	-	33,677
Loans and receivables to banks (note 12)	-	-	-	-	-	-	-	1,623	-	-	1,623
Assets classified as held for sale (note 5(c))	-	-	-	-	-	-	-	56	-	-	56
Total financial assets	214	24	-	2,212	-	845	9	39,081	72	-	42,457
Financial liabilities:											
Deposits by banks (including central banks) (note 22)	-	-	-	-	-	-	-	16,966	-	-	16,966
Customer accounts (note 23)	-	-	-	-	-	-	-	14,373	-	-	14,373
Debt securities in issue (note 24)	-	-	-	-	-	-	-	8,198	158	-	8,356
Derivative liabilities (note 9)	159	75	-	-	2	-	64	-	-	-	300
Subordinated liabilities (note 32)	-	-	-	-	-	-	-	315	2	-	317
Total financial liabilities	159	75	-	-	2	-	64	39,852	160	-	40,312

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

The table below analyses the carrying amounts of the financial assets and liabilities in respect of the discontinued operations as disclosed in Note 5(a), Assets and liabilities classified as held for sale, by accounting treatment and by statement of financial position classification.

Discontinued operations

	2011									
	At fair value through profit or loss			At fair value through equity						
	Derivatives designated as fair value hedges €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Held to Maturity €m	Embedded derivatives €m	Loans and receivables and liabilities /amortised cost €m	Fair value adjustment on hedged assets and liabilities** €m	Investment contract liabilities *** €m	Total €m
Financial assets:										
Cash and balances with central banks (note 6)	-	-	-	-	-	-	94	-	-	94
Debt securities (note 7)	-	-	7,510	-	-	-	-	-	-	7,510
Equity shares and units in unit trusts (note 8)	-	-	11,792	-	-	-	-	-	-	11,792
Derivative assets* (note 9)	-	791	-	-	-	-	-	-	-	791
Loans and receivables to banks (note 12)	-	-	3,446	-	-	-	-	-	-	3,446
Total financial assets	-	791	22,748	-	-	-	94	-	-	23,633
Financial liabilities:										
Deposits by banks (including central banks) (note 22)	-	-	-	-	-	-	212	-	-	212
Derivative liabilities (note 9)	-	109	-	-	-	-	-	-	-	109
Investment contract liabilities*** (note 25)	-	-	-	-	-	-	-	-	22,153	22,153
Subordinated liabilities (note 32)	-	-	-	-	-	-	213		-	213
Total financial liabilities	-	109	-	-	-	-	425	-	22,153	22,687

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

The table below analyses the carrying amount of the financial assets and liabilities of the group as a whole by accounting treatment and by statement of financial position classification.

	2010									
	At fair value through profit or loss			At fair value through equity						
	Derivatives designated as fair value hedges €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Held to Maturity €m	Embedded derivatives €m	Loans and receivables and liabilities /amortised cost €m	Fair value adjustment on hedged assets and liabilities** €m	Investment contract liabilities *** €m	Total €m
Financial assets:										
Cash and balances with central banks (note 6)	-	-	-	-	-	-	312	-	-	312
Items in course of collection (note 6)	-	-	-	-	-	-	124	-	-	124
Debt securities (note 7)	-	-	7,425	3,346	-	-	1,279	48	-	12,098
Equity shares and units in unit trusts (note 8)	-	-	13,777	-	-	-	-	-	-	13,777
Derivative assets* (note 9)	273	970	-	-	-	12	-	-	-	1,255
Loans and receivables to customers (note 10)	-	-	-	-	-	-	36,472	109	-	36,581
Loans and receivables to banks (note 12)	-	-	2,594	-	-	-	971	-	-	3,565
Assets held for sale (note 5(b))	-	-	2,013	-	-	-	14	-	-	2,027
Total financial assets	273	970	25,809	3,346	-	12	39,172	157	-	69,739
Financial liabilities:										
Deposits by banks (including central banks) (note 22)	-	-	-	-	-	-	17,146	-	-	17,146
Customer accounts (note 23)	-	-	-	-	-	-	13,382	-	-	13,382
Debt securities in issue (note 24)	-	-	-	-	-	-	9,926	108	-	10,034
Derivative liabilities (note 9)	196	256	-	-	-	51	-	-	-	503
Investment contract liabilities*** (note 25)	-	-	-	-	-	-	-	-	24,067	24,067
Subordinated liabilities (note 32)	-	-	-	-	-	-	1,666	20	-	1,686
Liabilities held for sale (note 5(b))	-	2	-	-	-	-	-	-	1,978	1,980
Total financial liabilities	196	258	-	-	-	51	42,120	128	26,045	68,798

*Included in held-for-trading assets category of €791m (2010: €970m) is €766m (2010: €878m) held for the benefit of policyholders and to match tracker bond liabilities.
**Financial assets and liabilities that are part of a hedging relationship are carried at amortised cost adjusted for changes in the fair value of the hedged risk.
***Investment contract liabilities are backed by assets attributable to the life operations including assets which are carried at FVTPL.

39. Current / non-current assets and liabilities

The following tables provide an analysis of certain asset and liability line items that include amounts expected to be recovered or settled no more than twelve months after the financial position date (current) and more than twelve months after the financial position date (non-current).

	2011			2010		
	Current €m	**Non-current €m**	**Total €m**	Current €m	Non-current €m	Total €m
Assets						
Cash and balances at central banks (note 6)	**88**	**-**	**88**	312	-	312
Items in the course of collection (note 6)	**109**	**-**	**109**	124	-	124
Debt securities (note 7)	**3,087**	**3,570**	**6,657**	2,038	10,060	12,098
Equity shares and units in unit trusts (note 8)	**-**	**-**	**-**	13,777	-	13,777
Derivative assets (note 9)	**10**	**237**	**247**	165	1,090	1,255
Loans and receivables to customers (note 10)	**3,445**	**30,232**	**33,677**	3,348	33,233	36,581
Loans and receivables to banks (note 12)	**1,623**	**-**	**1,623**	3,557	8	3,565
Assets classified as held for sale (note 5 (a))	**28,841**	**-**	**28,841**	-	-	-
Assets classified as held for sale (note 5 (b))	**-**	**-**	**-**	2,085	-	2,085
Assets classified as held for sale (note 5 (c))	**56**	**-**	**56**	-	-	-
Assets classified as held for sale (note 5 (d))	**3**	**-**	**3**	4	-	4
Liabilities						
Deposits by banks including central banks (note 22)	**13,942**	**3,024**	**16,966**	16,885	261	17,146
Customer accounts (note 23)	**13,307**	**1,066**	**14,373**	13,094	288	13,382
Debt securities in issue (note 24)	**99**	**8,257**	**8,356**	1,501	8,533	10,034
Derivative liabilities (note 9)	**68**	**232**	**300**	270	233	503
Subordinated liabilities (note 32)	**-**	**317**	**317**	278	1,408	1,686
Liabilities classified as held for sale (note 5 (a))	**27,828**	**-**	**27,828**	-	-	-
Liabilities classified as held for sale (note 5 (b))	**-**	**-**	**-**	2,041	-	2,041

40. Assets held in unit-linked funds

Assets held in unit-linked funds are assets held by Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 5(a), Assets and liabilities classified as held for sale.

	2011	2010
	€m	€m
Designated as FVTPL		
- Debt securities	**5,959**	5,831
- Equities and units in unit trusts	**11,722**	13,758
- Loans and receivables to and from banks	**2,467**	2,396
- Derivative assets and liabilities	**728**	845
- Cash / other assets / other liabilities	**146**	143
- Assets and liabilities held for sale (note 5 (b))	**-**	1,989
Total designated at FVTPL	**21,022**	24,962
- Investment properties	**1,511**	1,679
As at 31 December	**22,533**	26,641

The balances are the total assets held in unit-linked policyholder funds and include tracker products and funds managed by external fund managers. The balances are gross of consolidation adjustments which eliminate inter-group balances and holdings of Irish Life & Permanent Group Holdings plc shares.

41. Net interest income

	2011 €m	2010 €m
Interest receivable		
Loans and receivables to customers	**1,063**	930
Loans and receivables to banks	**12**	12
Debt securities and other fixed-income securities		
- Held to maturity	**44**	-
- Available for sale ("AFS")	**95**	124
- Loans and receivables	**96**	32
- Amortisation of AFS securities reclassified to loans and receivables (Note 7, Debt securities)	**(7)**	(15)
Lease and instalment finance	**53**	70
Gains / (losses) on interest rate hedges on assets	**7**	(3)
	1,363	1,150
Interest payable		
Deposits from banks (including central banks)	**(303)**	(136)
Due to customers	**(397)**	(357)
Interest on debt securities in issue	**(198)**	(218)
Interest on subordinated liabilities	**(39)**	(46)
Fees payable on ELG Scheme	**(173)**	(97)
Gains on interest rate hedges on liabilities	**-**	9
	(1,110)	(845)
Net interest income	**253**	305

Interest income accrued on non performing loans was €148m (2010: €92m).

Net gains / (net losses) on interest rate fair value hedges include (losses) / gains on hedging instruments of negative €237m (2010: negative €491m) and gains / (losses) on hedged items attributable to hedged risk of positive €244m (2010: positive €497m).

Net interest income includes the movement in deferred acquisition costs of €29m debit (2010: €24m debit).

Interest payable includes a charge of €11m (2010: €4m) in relation to the effect of an interest rate step up arising as a result of callable securitised bond notes and subordinated liabilities not being called.

42. Net fees and commission income / expenses

	2011	2010
	€m	€m
Fees and commission income		
Fees and commission earned on banking services	**60**	54
	60	54
Fees and commission expenses		
Fees and commission payable on banking services	**(12)**	(12)
Fees in respect of government guarantee scheme	**-**	(13)
	(12)	(25)
Net fees and commission income	**48**	29

43. Trading income

	2011	2010
	€m	€m
Designated held-for-trading		
Interest rate instruments	(4)	(1)
Foreign exchange instruments	5	(2)
	1	(3)

44. Premiums on insurance contracts

Premiums on insurance contracts relates to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 4, Discontinued operations.

	2011	2010
	€m	€m
Individual premiums		
Recurring	322	325
Single	74	95
	396	420
Premiums under group contracts		
Recurring	158	158
Single	147	141
	305	299
	701	719

45. Investment return

Investment return relates to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 4, Discontinued operations.

	2011	2010
Financial assets designated at FVTPL	**€m**	€m
Equity shares		
Dividends	**339**	344
Fair value (losses) / gains	**(1,138)**	1,594
	(799)	1,938
Debt securities		
Interest	**261**	258
Fair value gains / (losses)	**212**	(262)
	473	(4)
Exchange (losses) / gains on debt securities / equity shares	**(4)**	7
Total investment return on financial assets designated at FVTPL	**(330)**	1,941
Derivatives designated as held-for-trading ("HFT")		
Income	**(1)**	(1)
Exchange (losses) / gains	**(5)**	58
Fair value gains	**33**	11
	27	68
Property market / money market		
Income from investment properties	**146**	153
Interest	**61**	78
Exchange losses	**(12)**	(27)
Fair value losses on investment property	**(113)**	(90)
Other unrealised gains	**16**	13
Provision on onerous contract**	**-**	33
	98	160
Consolidation adjustments (note 3) *	**14**	21
Total investment return	**(191)**	2,190
Total investment return		
Income from investment properties	**146**	153
Dividends	**339**	344
Interest	**322**	336
Income from derivatives	**(1)**	(1)
Exchange (losses) / gains	**(21)**	38
Unrealised (losses) / gains	**(990)**	1,266
Provision on onerous contract	**-**	33
Consolidation adjustments (note 3) *	**14**	21
Total investment return	**(191)**	2,190

*€9m credit (2010: €26m credit) arises due to different accounting treatment between the bank and the life company. The bank carries the liabilities at amortised cost; however, the corresponding assets in the life company are carried at FVTPL. €5m credit (2010: €5m charge) arises on the consolidation of the movement in the value of properties financed by non-recourse inter-group loans.

**Irish Life Assurance plc had an onerous contract in respect of a commitment to purchase an investment property, where the market value had reduced. During 2010 the onerous contract was subject to arbitration. The provision was utilised against a loss of €39m recognised in fair value losses on investment property which was incurred after the purchase of the property in 2010 (see Note 29, Provisions).

46. Claims on insurance contracts

Claims on insurance contracts relates to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 4, Discontinued operations.

	2011	2010
	€m	€m
Death and disability benefit	**245**	220
Maturities and encashments	**91**	96
Annuities	**168**	157
	504	473

47. Investment expenses

Investment expenses relates to Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 4, Discontinued operations.

	2011	2010
	€m	€m
Expenses relating to investment properties	**20**	30
Other investment expenses	**9**	19
	29	49

Investment property expenses include €6m (2010: €6m) in respect of vacant properties.

48. Administrative and other expenses

Continuing operations	**2011**	2010
	€m	€m
Administrative expenses	**304**	257
Depreciation	**13**	14
Amortisation of intangible assets	**25**	6
	342	277

Administrative expenses are after charging the following:

Operating lease rentals - land and buildings	**8.4**	8.6

The following are fees paid to the group auditors for services to group as a whole:

	2011	2010
	€m	€m
Auditor's remuneration (including VAT)		
- Audit of individual and group financial statements	**1.6**	1.6
- Other assurance services	**2.6**	0.6
- Tax advisory services	**0.3**	0.9
- Other non-audit services	**3.3**	0.3

Of the €7.8m paid to the group auditors in 2011,approximately 84% represents amounts paid by the continuing operations of the group.

49. Employment costs

Staff costs (including executive directors) for the year were:

	2011 €m	2010 €m
Wages and salaries* ^	**287**	257
Social insurance	**27**	26
Pension costs		
- Payments to defined contribution pension schemes	**5**	3
- Charge in respect of defined benefit pension schemes (note 21)	**29**	24
Equity-settled transactions	**-**	1
Charged to income statement	**348**	311
Unrecognised actuarial losses on defined benefit pension schemes arising in the year	**62**	31
	410	342

* Including commission paid to sales staff.

^ Wages and salaries include restructuring costs of €54m (2010: €19m) incurred during the year.

Of the €348m, approximately 57% represents amounts charged to the continuing operations of the group. Further detail on unrecognised actuarial (gains) / losses on defined benefit pension schemes arising in the year can be found in Note 21, Retirement benefit obligations.

Average number of staff (including executive directors) employed during the year:

	2011	2010
Ireland	**4,147**	4,174
Other*	**176**	164
	4,323	4,338

* 2011 includes 1 (2010: nil) staff member employed in Germany with the balance being those employed in the UK.

	2011	2010
Life assurance	**1,558**	1,615
Banking	**2,164**	2,141
Investment management	**136**	133
Other	**465**	449
	4,323	4,338

Information concerning individual directors' emoluments is disclosed in the audited section of the Directors' Report on Remuneration.

50. Share-based payments

Share option schemes

The group has three share option schemes in which management and staff of the group participate. Full details of the share option schemes are set out in the directors' report on remuneration, some of which has been audited and forms part of the financial statements.

In accordance with the IFRS transitional arrangements included in IFRS 1 and IFRS 2, IFRS 2 measurement requirements have not been applied to options granted before 7 November 2002.

The total number of options outstanding at 31 December is as follows:

		2011		
		Number of options		
Grant date	**Exercise price**	**Other employees**	**Key management**	**Total**
2000	**€9.20**	**-**	**-**	**-**
2001	**€13.85**	**-**	**-**	**-**
2002	**€11.99 and €14.85**	**1,093,461**	**84,320**	**1,177,781**
2003	**€9.68**	**1,394,558**	**146,332**	**1,540,890**
2004	**€13.21**	**1,456,844**	**86,038**	**1,542,882**
2008	**€10.38**	**302,662**	**221,512**	**524,174**
		4,247,525	**538,202**	**4,785,727**

		2010		
		Number of options		
Grant date	Exercise price	Other employees	Key management	Total
2000	€9.20	-	-	-
2001	€13.85	896,993	76,501	973,494
2002	€11.99 and €14.85	1,222,161	84,320	1,306,481
2003	€9.68	1,467,915	146,332	1,614,247
2004	€13.21	1,545,358	86,038	1,631,396
2008	€10.38	333,102	221,512	554,614
		5,465,529	614,703	6,080,232

Options are normally exercisable between three and ten years from grant and expire ten years after the date of grant. The total number of options outstanding at 31 December 2011 is equivalent to 0.01% of the issued share capital (2010: 2.2%). Should the outstanding options be exercised at 31 December, the total amount receivable on those options would be €57m (2010: €75m).

All options granted prior to 2008 have met their vesting conditions and are available to be exercised.

	Number of options		**Weighted average exercise price**	
	2011	2010	**2011**	2010
Outstanding at 1 January	**6,080,232**	6,933,005	**€12.27**	€12.13
Lapsed during the year	**(952,696)**	(324,577)	**€13.85**	€9.20
Forfeited during the year	**(341,809)**	(528,196)	**€12.14**	€12.36
Outstanding as at 31 December	**4,785,727**	6,080,232	**€11.96**	€12.27
Exercisable as at 31 December	**4,785,727**	6,080,232		

The 1994 scheme is closed and no further options can be issued under it.

The average share price during the year was €0.25 (2010: €2.08). The share price during the year ranged from €0.02 to €1.01 (2010: €0.51 to €3.94).

The weighted average contractual life of options outstanding at 31 December 2011 is 2.1 years (2010: 2.7 years).

The range of exercise prices for outstanding options at 31 December 2011 is €9.68 to €14.85 (2010: €9.68 to €14.85).

The intrinsic value of options exercisable at 31 December 2011 is €nil (2010: €nil) where the intrinsic value is the difference between actual share price at 31 December 2011 €0.02 (2010: €1.08) and the option price.

50. Share-based payments (continued)

The charge in the income statement in respect of equity-settled transactions is set out in Note 49, Employment costs.

The fair value of service received for share options granted is measured by reference to the fair value of share options granted. The value is estimated based on the Black-Scholes model adjusted for dividends.

There were no options issued in 2011 (2010: nil).

In calculating the number of options which are expected to vest, the group takes into account the service condition attaching to the options. Share options are granted under a non-market performance condition which is not taken into account in calculating the fair value at date of grant.

As a result of the corporate restructure to create Irish Life & Permanent Group Holdings plc, the vesting conditions in respect of share options issued in 2008 were dissolved and as such the cost accruing in 2010 was accelerated. The total cost for 2010 amounted to €0.3m.

Long-term incentive plan

The group had a long-term incentive plan ("the plan") which provided for the delivery of conditional fully paid ordinary shares in Irish Life & Permanent Group Holdings plc ("the company") to selected senior executives of the company or its subsidiaries at no cost. The plan was approved by shareholders at the AGM held in May 2006 and has been modified a number of times since then.

The performance conditions attached to the plan were a mix of market and non-market conditions.

The movement in the plan is analysed as follows:

	2011 Number of conditional shares		
	Key management	**Other employees**	**Total**
Outstanding at 1 January	**205,334**	**349,280**	**554,614**
Lapsed during the year	**(205,334)**	**(349,280)**	**(554,614)**
Balance as at 31 December	**-**	**-**	**-**

	2010 Number of conditional shares		
	Key management	Other employees	Total
Outstanding at 1 January	332,439	639,528	971,967
Forfeited during the year	(18,480)	(4,576)	(23,056)
Lapsed during the year	(108,625)	(285,672)	(394,297)
Balance as at 31 December	205,334	349,280	554,614

The fair value of service received for share grants is measured by reference to the fair value of conditional shares granted. The value is estimated using a standard Monte-Carlo approach, a Cox-Ingersoll-Ross model to calculate stochastic behaviour and log normal distributions for volatility.

Conditional shares granted in 2006 lapsed in 2009, conditional shares granted in 2007 lapsed in 2010 and conditional shares granted in 2008 lapsed in March 2011. Hence all awards made under the plan have now lapsed. The Remuneration and Compensation committee currently has no plans to operate this share-based long-term incentive plan in the future.

50. Share-based payments (continued)

Impact of group reorganisation

Irish Life & Permanent plc had a number of share option and share award schemes in which employees of the company participated prior to the acquisition of that company by Irish Life & Permanent Group Holdings plc. These included:

- Vested share options	6,355,335
- Unvested share options	577,670
- Vested share awards	-
- Unvested share awards	971,967

On 18 January 2010 Irish Life & Permanent Group Holdings plc replaced all existing vested share options and all share awards with the same number of share options and share awards on equivalent terms. 577,670 unvested share options were also replaced on equivalent terms with the exception that performance conditions attached to these options fell away pursuant to a “change in control” clause in their terms. This has been accounted for in line with IFRS 2 Share-based Payments as an acceleration of the vesting period. The vesting conditions in respect of share options issued in 2008 were dissolved and as such the costs accruing in 2010 has been accelerated. The total cost for 2010 amounted to €0.3m.

As a result of the corporate restructure to create Irish Life & Permanent Group Holdings plc, there was no subsequent impact on the number of the plan shares outstanding or on the terms and conditions of these plan shares.

51. Taxation

(A) Analysis of taxation (credit) / charge

Taxation (credited) / charged to income statement

Continuing operations	**2011 €m**	2010 €m
Current taxation		
Charge for current year	**(1)**	(9)
Adjustments for prior periods	**2**	(1)
	1	(10)
Deferred taxation		
Origination and reversal of differences	**(80)**	(39)
Adjustment for prior periods	**(2)**	1
Taxation credited to income statement	**(81)**	(48)

Discontinued operations	**2011 €m**	2010 €m
Current taxation		
Charge for current year	**8**	12
Adjustments for prior periods	**(5)**	(3)
	3	9
Deferred taxation		
Origination and reversal of differences	**(1)**	8
Adjustment for prior periods	**(2)**	2
Taxation (credited) / charged to income statement	**-**	19
Net credit to income instatement	**(81)**	(29)

(B) Reconciliation of standard to effective tax rate

	2011 €m	2010 €m
Operating loss	**(509)**	(157)
Less share of profits / (loss) of associate undertaking	**(19)**	(9)
Loss on the group activities before tax	**(528)**	(166)
Tax calculated at standard ROI corporation tax rate of 12.5% (2010: 12.5%)	**(66)**	(21)
Adjustment to tax charge in respect of previous years	**(7)**	-
Different basis of tax for ROI life assurance	**1**	(1)
Non-taxable own share adjustment	**(1)**	(2)
Local basis of taxation on overseas profits	**(5)**	-
Non-deductible expenses	**5**	3
Remeasurement to fair value of goodwill	**9**	-
Gains arising on repurchase of subordinated liabilities	**(121)**	-
Capital allowance release	**-**	(2)
Unrecognised deferred tax assets	**112**	-
Other	**(8)**	(6)
	(81)	(29)

51. Taxation (continued)

(C) Tax effects of each component of other comprehensive income

Continuing operations	**2011**		
	Gross	**Tax**	**Net**
	€m	**€m**	**€m**
Revaluation of property	**(5)**	**1**	**(4)**
Available for sale reserve:			
Change in AFS securities	**(76)**	**10**	**(66)**
Transfer to income statement on asset disposal	**37**	**(5)**	**32**
Amortisation of AFS securities reclassified to loans and receivables	**7**	**(1)**	**6**
Cash flow hedge reserve:			
Change in fair value	**(2)**	**-**	**(2)**
	(39)	**5**	**(34)**

Discontinued operations	**2011**		
	Gross	**Tax**	**Net**
	€m	**€m**	**€m**
Revaluation of property	**(12)**	**2**	**(10)**
	(12)	**2**	**(10)**

Continuing operations	2010		
	Gross	Tax	Net
	€m	€m	€m
Revaluation of property	(7)	4	(3)
Change in AFS securities	(320)	41	(279)
Impairment of AFS securities recycled to income statement	9	(1)	8
Amortisation of AFS securities reclassified to loans and receivables	15	(2)	13
	(303)	42	(261)

Discontinued operations	2010		
	Gross	Tax	Net
	€m	€m	€m
Revaluation of property	(7)	1	(6)
	(7)	1	(6)

52. Earnings per share

(A) Basic earnings per share ("EPS")

	2011	2010
Weighted average number of ordinary shares in issue and ranking for dividend excluding own shares held for the benefit of life assurance policyholders and treasury shares*	**15,863,795,557**	270,309,521
Loss for the year attributable to equityholders from continuing operations	**(€424m)**	(€321m)
Profit / (Loss) for the year attributable to equityholders from discontinued operations	**(€4m)**	€193m
EPS (cent) from continuing operations	**(2.7)**	(118.8)
EPS (cent) from discontinued operations	**-**	71.4

(B) Fully diluted EPS

	2011	2010
Weighted average number of potential dilutive ordinary shares arising from the group's share option schemes and convertible contingent notes.	**-**	-
Weighted average number of ordinary shares excluding own shares and treasury shares held for the benefit of policyholders used in the calculation of fully diluted EPS	**15,863,795,557**	270,309,521
Fully diluted EPS (cent) from continuing operations	**(2.7)**	(118.8)
Fully diluted EPS (cent) from discontinued operations	**(0.0)**	71.4

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The adjustment calculation to the weighted average number of ordinary shares for the effects of dilutive potential shares was nil (2010: nil) as the share option exercise prices were all higher than the average share price for the year and the convertible contingent notes issued in 2011 were assessed and deemed to have an anti-dilutive effect.

***Weighted average number of shares**

	2011	2010
At 1 January		
Number of shares in issue	**276,782,351**	276,782,351
Own shares held for the benefit of life assurance policyholders	**(5,378,827)**	(7,108,182)
Treasury shares held	**(457,914)**	(457,914)
	(5,836,741)	(7,566,096)
Net movement during the year		
Weighted average shares issued	**15,592,042,057**	-
Weighted average shares sold	**829,105**	1,284,521
Weighted average shares purchased	**(21,215)**	(191,255)
Weighted average number of shares	**15,863,795,557**	270,309,521

53. Business combinations

Irish Nationwide Building Society

The group announced on 24 February 2011 (date of acquisition), pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court, that Irish Nationwide Building Society ("INBS") has transferred selected assets and liabilities into the group's banking business with immediate effect. This transfer was made in the context of the EU / IMF programme of financial support for Ireland. The management expects that this transfer will support Irish Life & Permanent plc to broaden its customer base and provide liquidity to the group.

As a result of this transfer the group's Banking Ireland operation has acquired the following:
- €3.1bln of INBS deposits;
- €3.4bln of bonds;
- Irish Nationwide (IOM) Limited (100%) and
- certain other assets and liabilities.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

Consideration transferred

	Notes	€m
Cash and bonds transferred		**105**
Settlement of pre existing relationship	24	**(74)**
Total consideration		**31**

In consideration for the acquisition, the group transferred cash of €29m and an Irish Government Gilt at a fair value of €76m. The fair value of the gilt was based on the market value on the date of acquisition.

As disclosed in Note 24, Debt securities in issue, the group acquired and redeemed €74m of Irish Life & Permanent plc bonds as part of the INBS acquisition. Included in other operating income in the income statement is €19m gain resulting from the settlement of pre existing relationship i.e. buying back own debt securities.

Acquisition related costs amounting to €1.5m have been excluded from the consideration transferred and have been recognised as an expense in the current year, within administrative expenses in the income statement.

Identifiable assets acquired and liabilities assumed at the date of acquisition

	Notes	**Irish Nationwide (IOM) Limited €m**	**Other €m**	**Total €m**
Assets				
Debt securities	7	**-**	**3,358**	**3,358**
Loans and receivables to banks	12	**135**	**-**	**135**
Other assets		**2**	**-**	**2**
Intangible assets	17	**-**	**124**	**124**
Liabilities				
Deposits (Customer accounts)	23	**(434)**	**(3,137)**	**(3,571)**
Deferred tax liability	31	**-**	**(16)**	**(16)**
Other liabilities		**(1)**	**-**	**(1)**
Fair value of total identifiable net assets		**(298)**	**329**	**31**
Consideration				**(31)**

Debt securities includes €2.8bln of senior bonds issued by NAMA, €0.4bln in government gilts and €0.2bln in corporate bonds.

NAMA bonds are not traded in an active market so accordingly they have been classified within the loans and receivables portfolio. The gross contractual amounts receivable on these bonds amounted to €3.7bln, at acquisition date.

The group acquired €3.6bln of deposits from INBS, €0.4bln in the IOM portfolio and €3.2bln in the ROI portfolio. These deposits comprise retail and corporate customers and the funds are held in term (78%), Demand (11%) and Notice (11%) deposit products.

Impact of acquisitions on the results of the group

The assets and liabilities of INBS acquired during 2011 have been fully integrated into the funding model of the group business and it is therefore impractical to separately assess the impact of the acquisitions on the results of the group, from the perspective of the results since the acquisition date and of the combined entity for the year as though the acquisition date was 1 January 2011.

54. Commitments and contingencies

(A) Continuing operations
The banking operations constitute the continuing operations of the group as disclosed in Note 3, Segmental information.

Capital commitments
In the normal course of its banking business the group has entered into commitments to lend money as follows:

	2011 €m	2010 €m
Guarantees and irrevocable letters of credit	**7**	10
Commitments to extend credit		
- less than 1 year	**361**	382
- 1 year and over	**83**	114
Total commitments to extend credit	**444**	496

Commitments to extend credit do not expose the group or company to significant interest rate risk.

Contingencies
The banking operations like all other bank companies is subject to litigation in the normal course of its business. Based on legal advice, the banking operations does not believe that any such litigation will have a material effect on its profit or loss and financial position.

Operating lease commitments
The banking operations leases various offices under non-cancellable operating leases. The future aggregate minimum lease payments under these leases are as follows:

	2011 €m	2010 €m
Less than 1 year	**8**	12
Greater than 1 year and less than 5 years	**30**	33
Greater than 5 years	**53**	52
	91	97

These leases typically run for a period of twenty five years, with remaining average term ranging from 10 - 15 years and with an option to renew the lease after that date. Lease payments may be increased every five years to reflect market rentals. None of these leases include contingent rentals.

(B) Discontinued operations
Irish Life Limited and its subsidiaries (the "Life Group") are the discontinued operations of the group as disclosed in Note 3, Segmental information.

Capital commitments
The Life Group has entered into commitments to purchase investment properties totalling €nil (2010: €0.4m).
The Life Group has entered into capital commitments in respect of venture capital funds of €6m (2010: €7m). The Life Group has also entered into commitments to purchase units in external property funds of €nil (2010: €11m) for the inclusion in unit-linked policy holder funds.

Contingencies
The Life Group like all other insurance companies is subject to litigation in the normal course of its business. Based on legal advice, the Life Group does not believe that any such litigation will have a material effect on its profit or loss and financial position.

As part of the agreement in 2001 to dispose of Interstate Life Assurance Company Limited, its wholly owned US subsidiary, the Group provided certain guarantees in regard to persistency experience on a block of business held by Interstate for the period up to 30 June 2011. The maximum amount payable on foot of these guarantees at the end of 2011 is €nil (2010: €8m, 2009: €7.8m, 2008: €8.4m)

As part of the agreement in August 2011 to dispose of Irish Life International Limited, the group provided certain indemnities and warranties to the purchaser under a number of identified scenarios. The group believes that the crystallisation of any claim against the group is unlikely.

Since 31 December 2008, the Life Group has been subject to investigations by a number of statutory bodies including the Financial Regulator (Insurance Section) into deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (formerly Anglo Irish Bank) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). As at 31 December 2011, these investigations are ongoing.

54. Commitments and contingencies (continued)

Operating lease commitments

The Life Group leases various offices under non-cancellable operating leases. The future aggregate minimum payments under these leases are as follows:

	2011	2010
	€m	€m
Less than 1 year	**2**	2
Greater than 1 year and less than 5 years	**9**	9
Greater than 5 years	**8**	10
	19	21

These leases typically run for a period of twenty five years, with remaining average term ranging from 15 - 20 years and with an option to renew the lease after that date. Lease payments may be increased every five years to reflect market rentals. None of these leases include contingent rentals.

55. Principal subsidiaries and associated undertakings

(A) Principal subsidiary undertakings

Name and registered office	**Incorporated in**	**% of ordinary shares held**
Held directly by the company:		
Banking:		
Irish Life & Permanent plc Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	100
Held by subsidiaries:		
permanent tsb Finance Limited 56-59 St. Stephens Green, Dublin 2	Ireland	100
Capital Home Loans Limited Admiral House, Harlington Way, Fleet, Hampshire, GU13 8YA	UK	100
Permanent Bank International Limited (formerly Irish Nationwide IOM Limited) 2nd Floor, Brittannia House, 64 Athol Street Douglas, IM1 1JD	IOM	100
Springboard Mortgages Limited 100 Lower Mount Street, Dublin 2 (parent of Springboard Mortgages Limited)	Ireland	100
Life assurance:		
Irish Life Assurance plc Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	100
Other:		
Irish Progressive Services International Limited 100 Lower Mount Street, Dublin 2	Ireland	100
Cornmarket Group Financial Services Limited Liberties House, Christchurch Square, Dublin 8	Ireland	100
Irish Life Financial Services Limited Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	100
Fund management:		
Irish Life Investment Managers Limited Beresford Court, Beresford Place, Dublin 1	Ireland	100

The principal country of operation of each company is the country in which it is incorporated.

The registered office of Irish Life & Permanent Group Holdings plc is: Irish Life Centre, Lower Abbey Street, Dublin 1.

(B) Principal associated undertaking

	Total issued equity / debt capital	**% holding**
Allianz - Irish Life Holdings plc Incorporated, registered and operating as a general insurance company in Ireland (Held by a subsidiary undertaking)	23,053,408 ordinary €1.25 shares	30.4

56. Related parties

The group has a related party relationship with its directors and senior management, its associate and the group's pension schemes. As a result of the group's participation in Government Guarantee Schemes as described below and the issuance of IL&PGH ordinary shares to the Minister for Finance as disclosed in Note 34, Authorised and issued share capital, the group also has a related party relationship with the Irish Government and Government related entities.

(A) Directors' shareholdings

The interests of the directors and the company secretary, including interests of their spouses and minor children, in the share capital of Irish Life & Permanent Group Holdings plc are as follows:

	Number of beneficial ordinary shares held					
	At 31 December 2011			At 31 December 2010		
	Ordinary shares	**Options**	**Share awards**	Ordinary shares	Options	Share awards
Alan Cook	**-**	**-**	**-**	-	-	-
Kevin Murphy	**137,966**	**117,596**	**-**	137,966	135,014	48,182
David McCarthy	**39,479**	**138,520**	**-**	39,479	157,084	30,644
Bernard Collins	**-**	**-**	**-**	-	-	-
Margaret Hayes	**-**	**-**	**-**	-	-	-
Emer Daly	**-**	**-**	**-**	-	-	-
Sandy Kinney	**-**	**-**	**-**	-	-	-
Ray MacSharry	**-**	**-**	**-**	-	-	-
Pat Ryan	**-**	**-**	**-**	-	-	-
Ciarán Long (Company Secretary)	**16,629**	**45,410**	**-**	16,629	53,981	12,648

David McCarthy, Kevin Murphy and Ciarán Long as trustees of the employee benefit trust set up under the terms of the long-term incentive plan have a non-beneficial interest in 457,914 shares held in the plan (2010: 457,914).

(B) Transactions with key management personnel

Key management personnel include non-executive directors, executive directors and group senior management. Group senior management and executive directors as at 31 December 2011 includes:

Kevin Murphy	Group Chief Executive
David McCarthy	Group Finance Director
David Guinane	Chief Executive – **permanent tsb**
Bill Hannan	Group Head of Risk and Compliance
David Harney	Chief Executive – Corporate Business
Gerry Hassett	Chief Executive – Irish Life Retail
Tony Hession	Group Head of Human Resources and Organisational Development
Gerry Keenan	Chief Executive – Irish Life Investment Managers
Brendan Healy	Group Chief Information Officer

Non-executive directors are compensated by way of fees only. The compensation of executive directors and other group senior management comprises salary and other benefits together with pension benefits. In addition they participate in the group's profit-sharing, share option schemes and long-term incentive plans.

56. Related parties (continued)

Total compensation to key management personnel is as follows:

	2011 €'000	2010 €'000
Fees	**670**	723
Salary and other benefits	**3,798**	3,586
Pension benefits - defined benefits	**132**	1,394
- defined contributions	**31**	30
Equity-settled benefits	**26**	291
	4,657	6,024

Number of key management personnel as at year end is as follows:

	2011	2010
Non-executive directors	**7**	9
Executive directors and senior management	**9**	9
	16	18

For key management who are members of a defined benefit scheme, the pension benefit included above is the increase in transfer value during the year. For defined contribution schemes it is the contributions made by the group to the scheme.

In the normal course of its business the group had loan balances and transactions with key management personnel and connected persons as follows:

	2011 €'000	2010 €'000
As at 31 December		
Loans	**256**	430
Unsecured credit card balances and overdrafts	**4**	4
Deposits	**1,263**	2,721
Life assurance	**7,262**	9,648
Pension policies	**4,485**	6,913

	2011 €'000	2010 €'000
Transactions during the year		
Loan advances	**33**	80
Loan repayments	**204**	241
Interest on loans	**10**	13
Interest on deposits	**(40)**	(80)
Life assurance and pension premiums	**199**	880
Life assurance claims	**313**	203

The loans are granted on normal commercial terms and conditions with the exception of certain house loans where executive directors and senior management may avail of subsidised loans on the same terms as other eligible management of the group. All of the loans are secured. All interest and principal due at the statement of financial position date on loans has been repaid on schedule and no provision for loan impairment is required. Life policies represent values for investment contracts (including pension policies) and sum assured for protection products. In addition some policies carry serious illness insurance cover. At 31 December 2011 total serious illness cover amounted to €1,673,935 (2010: €3,630,653).

56. Related parties (continued)

Loans to directors

Loans are analysed individually as follows:

	2011				
	Balance 1 Jan €'000	**Principal repaid €'000**	**Balance 31 Dec €'000**	**Interest paid €'000**	**Maximum balance €'000**
David McCarthy *	**136**	**136**	**-**	**(1)**	**136**
	136	**136**	**-**	**(1)**	**136**

	2010				
	Balance 1 Jan €'000	Principal repaid €'000	Balance 31 Dec €'000	Interest paid €'000	Maximum balance €'000
David McCarthy *	146	(10)	136	(3)	146
	146	(10)	136	(3)	146

* The loan to David McCarthy was secured on a residential investment property.

As at 31 December 2011, the total interest outstanding and the total provisions on loans to directors was €nil (2010: €nil).

(C) Associate
A group company, Irish Life & Permanent plc has a commission agreement with its associated company, Allianz – Irish Life Holdings Limited (“Allianz”). Under this agreement, Irish Life & Permanent Group Holdings is paid commission for general insurance business written with Allianz through Irish Life & Permanent plc. Commission earned during the year was €7m (2010: €7m). In addition, a subsidiary of the group, Irish Life Investment Managers Limited has an investment agreement with Allianz. Fees earned during the year under this agreement were €0.4m (2010: €0.5m). Included within the group financial statements is a net balance due to Allianz of €1.2m (2010: €1.2m). All transactions with Allianz are priced on an arms-length basis.

(D) Other
In the normal course of business the group provides investment management to the group’s pension schemes. Fees earned under these agreements were €3.3m (2010: €3.2m).

(E) Irish Government and Government related entities
The following subsidiaries, Irish Life & Permanent plc and Irish Permanent (IOM) Limited were participating covered institutions under the Government’s Credit Institutions (Financial Support) Scheme 2008 (the "Scheme") which guaranteed covered liabilities raised by covered institutions up to September 2010. Covered liabilities are those liabilities in respect of retail and corporate deposits (to the extent not covered by existing deposit protection scheme in Ireland or any other jurisdiction), inter-bank deposits, senior unsecured debt, covered bonds and dated subordinated debt (Lower Tier 2) excluding any intra-group borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations. Under the terms of the Scheme the Central Bank of Ireland in consultation with the Minister for Finance may regulate the commercial conduct of covered institutions strictly in order to achieve the objectives of this Scheme. This Scheme was closed on 29 September 2010 and replaced by Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. The charge to the income statement in respect of the Scheme for the year ended 31 December 2011 was €nil (2010: €13m).

Irish Life & Permanent plc and its subsidiaries Irish Permanent (IOM) Ltd and Irish Nationwide (IOM) Ltd are participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") which guarantees certain eligible liabilities (including deposits) of up to five years in maturity. On the 16 November 2011, the European Commission approved an extension of the ELG Scheme for a further issuance period of twelve months to 31 December 2012. The group issued a 3 year $1.75bln bond in January 2010, a 5 year €2bln bond in March 2010 and a 3 year €1.25bln bond in April 2010, all of which are guaranteed by the ELG Scheme. In January 2011 the group issued a €3.4bln bond which was bought by the group itself. This bond has been rolled over throughout the year and at 31 December 2011 was €3.3bln. This issuance is also covered under the ELG Scheme. The charge to the income statement in respect of the ELG Scheme for the period ended 31 December 2011 was €173m (2010: €97m). The amount covered as at 31 December 2011 amounted to €14,165m (2010 €13,333m).

56. Related parties (continued)

The Credit Institutions (Stabilisation) Act 2010 was passed in to Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU / IMF programme for Ireland. The Act applies to covered institutions who have received financial support from the State.

The Act provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring action and recapitalisation measures envisaged in the programme.
This allows the Minister to take the actions required to bring about a domestic retail bank system that is proportionate to and focused, on the Irish economy.

As a result of the group's participation in the schemes and the Act described above and the issuance of IL&PGH ordinary shares to the Minister for Finance as disclosed in Note 34, Authorised and issued share capital, the Government is recognised as a related party as the Government is deemed to have significant influence over the group as defined by the accounting standards. The group has applied the amended IAS 24 Related Party Disclosures, that exempts an entity from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually significant or collectively significant. In the normal course of business the group has entered into transactions with the Government and Government related entities involving deposits, senior debt, commercial paper and dated subordinated debt. The following are transactions between the group and the Government and Government related entities that are collectively significant.

The group holds securities issued by the Government and Government related entities of €5,909m (2010 €2,643m). The increase during 2011 reflects bonds issued by the National Asset Management Agency acquired by the group in its acquisition of the Irish Nationwide Building Society deposit portfolio.

Deposits by banks include deposits of €nil (2010: €200m) placed by the National Treasury Management Agency ("NTMA"). These deposits are collateralised on notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements. As reported in Note 22, Deposits by Banks (including central banks), at 31 December 2011 the group held €2.3bln of deposits made by the Irish Central Bank under the Central Bank's exceptional liquidity facility (2010: €nil). These deposits are secured on €6.3bln (2010: €nil) notes issued by special purpose vehicles controlled by the group and further €230m under a Ministerial Guarantee. During the year the group also held a deposit of €3bln (2010: €nil) made by the NTMA / National Pension Reserve Fund which matured in July 2011.

Included in the investment property portfolio are properties for which the Office of Public Works ("OPW"), on behalf of Government departments, is a tenant. These property investments are held in unit-linked funds. The total annual unit-linked rental income earned from these leases is €12m (2010: €12.4m) out of a total annual rental income of €146m (2010: €144m). Some other investment properties may include tenants who are agencies financed by the Government.

On 29 March 2010, the group through its wholly owned subsidiary Irish Life Assurance plc, acquired 17 million B shares in National Asset Management Agency Investment Limited ("NAMAIL"), corresponding to one-third of the 51 million B shares issued by NAMAIL. NAMAIL also issued 49 million A shares to National Asset Management Agency ("NAMA"). As a result, the group holds 17% of the total ordinary share capital of NAMAIL which cost the group €17m in acquiring these B shares. These B shares are included within equity shares per Note 8, Equity shares and units in unit trusts. NAMAIL was established by NAMA for the purpose of performing certain of NAMA's functions. The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six directors to the board of NAMAIL. The B shareholders may also jointly appoint up to six directors. NAMAIL requires the prior written consent of NAMA in relation to issues such as: the disposal or transfer of B shares; the reduction of its share capital; any capital redemption reserve fund or share premium account; the declaration of dividends; the appointment or removal of directors; and the selection of a chairman to the board. In addition NAMA can veto any actions by NAMAIL, which NAMA considers not to be in accordance with its objectives as specified under the NAMA Act.

The dividend on any share of NAMAIL in respect of any financial year is limited to an amount equal to the amount paid up multiplied by a relevant rate. The relevant rate is capped at the ten-year Irish Government Bond Yield. On a liquidity event, the return on the B shares is equal to 110% of the capital invested. In 2011 NAMAIL paid a dividend of €1.7m to the company.

Since 2009 the Government has a 100% shareholding in Irish Bank Resolution Corporation (formerly Anglo Irish Bank). During 2010 the Government took a controlling interest in Educational Building Society, Irish Nationwide Building Society, Allied Irish Bank plc and has a significant influence over Bank of Ireland. On the 27 July 2011, the Government took a controlling interest in IL&PGH. The group acquired certain assets and liabilities of Irish Nationwide Building Society during 2011 prior to Government control of the group as outlined in Note 53, Business combinations.

Due to the group's participation in the Government's scheme outlined above and the issuance of IL&PGH ordinary shares to the Minister for Finance, balances between these five financial institutions and the group are considered related party transactions in accordance with the accounting standards.

56. Related parties (continued)

The following table summarises the balances between the group and these financial institutions:

As at 31 December:		Debt securities assets €m	Derivative assets €m	Loans and receivables to bank €m	Deposits by bank (including central banks) €m	Derivative liabilities €m
Irish Bank Resolution Corporation (formerly Anglo Irish Bank)	**2011**	**131**	**-**	**-**	**-**	**-**
	2010	94	2	1	-	3
Educational Building Society	**2011**	**146**	**-**	**174**	**-**	**-**
	2010	125	-	247	-	-
Allied Irish Bank plc	**2011**	**239**	**1**	**29**	**-**	**17**
	2010	250	-	41	-	35
Bank of Ireland	**2011**	**255**	**-**	**103**	**78**	**-**
	2010	182	2	34	92	1

In February the group acquired part of the Irish Nationwide Building Society's deposit portfolio as disclosed in Note 53, Business Combinations.

57. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of euro.

The following table shows, for the periods and dates indicated, the average and closing rates used by the group:

	2011	2010
Closing exchange rate € / Stg£	**0.8353**	0.8607
Average exchange rate € / Stg£	**0.8713**	0.8558
Closing exchange rate € / US$	**1.2939**	1.3362
Average exchange rate € / US$	**1.4001**	1.3205

58. Events after the reporting period

The following non-adjusting events occurred between the reporting date and the date when the financial statements are authorised for issue:

On 3 January 2012, the group's banking operations (trading as **permanent tsb**) completed its acquisition and gained control of Northern Rock Ireland's deposit book of business of €474m for a consideration of €28m. The management expects that this transfer will support Irish Life & Permanent plc to broaden its customer base and provide liquidity to the group.

On 26 March 2012, the group's banking operations successfully completed the disposal of a significant portion of the agri-finance loan book which was classified as held for sale at year end as disclosed in Note 5(c), Assets and liabilities classified as held for sale.

On 28 March 2012 Irish Life & Permanent plc, the banking subsidiary of Irish Life & Permanent Group Holdings plc, was subject to an order of the Irish High Court ("the Court Order") directing it to enter into a share purchase agreement in which it has agreed to sell Irish Life Limited together with its subsidiaries and associated companies ("the Life Group") to the Minister for Finance for €1.3 billion. The Sale Agreement will be executed after the 13 April 2012 and the formal completion of the transaction is expected to take place before 30 June 2012. This will result in the legal separation of the Life Group from that of the Group's banking business, the completion of the required €4 billion recapitalisation of the Bank arising from the Prudential Capital Assessment Review ("PCAR") process undertaken by the Central Bank of Ireland in March 2011, and Life Group will be directly owned in its entirety by the Minister for Finance who has reiterated his intention to sell the business in due course. The Court Order will have no impact on the position of bank customers or life policyholders, on their accounts and policies and existing terms and conditions will continue to apply unchanged.

Additional Information

Funds under management

	2011	2010
	€m	€m
Funds managed on behalf of unit-linked policyholders*	**22,518**	26,637
Funds managed on behalf of non-linked policyholders	**2,693**	2,372
	25,211	29,009
Segregated funds	**6,672**	4,491
	31,883	33,500

* As at December 2010 amounts of €2,010m relate to Irish Life International Limited.

Shareholder Information

The Annual Report and Financial Statements 2011 for Irish Life & Permanent Group Holdings plc are available to view online at **www.irishlifepermanent.ie**. This website also provides further information to shareholders including contact details and links to our other group websites.

As detailed in note 34, Authorised and issued share capital, on the 26 July 2011, the group was directed by the Irish High Court (under a Direction Order made on the application of the Minister for Finance under the Credit Institutions (Stabilisation) Act 2010) to issue €2.3bln of new equity capital to the Minister for Finance. On the 27 July 2011, the group issued 36,249,014,972 ordinary €0.031 shares (at a subscription price of €0.06345 per share) to the Minister for Finance. Total gross proceeds from the issue before costs of €46m amounted to €2.3bln, with €1,123m recorded in share capital and €1,131m recorded in share premium after costs. Following this issuance, the Minister for Finance now owns in excess 99.2% of the share capital of the group.

Shareholder enquiries
A full range of online services is available to the shareholders of Irish Life & Permanent Group Holdings plc. These services are provided by Capita Registrars who administer the company's share register. To use these services please log onto our group website **www.irishlifepermanent.ie** and click on Investor relations / Shareholders / My shareholding.

Shareholder helpline
If you have any difficulty accessing your shareholding online, or have any queries regarding your shareholding in general, you should contact Capita at:

Telephone: +353 (0) 1 810 2400
Post: Po Box 7117, Dublin 2.
Email: enquiries@capitaregistrars.ie

Registered Office
Irish Life & Permanent Group Holdings plc, Irish Life Centre, Lower Abbey Street, Dublin 1.