Irish Bank Resolution Corporation Limited

Interim Report

Six months ended 30 June 2012

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Forward looking statements

This report contains certain forward looking statements with respect to the financial condition, results of operations and businesses of Irish Bank Resolution Corporation Limited. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The statements are based on current expected market and economic conditions, the existing regulatory environment and interpretations of IFRS applicable to past, current and future periods. Nothing in this report should be construed as a profit forecast.

Contacts

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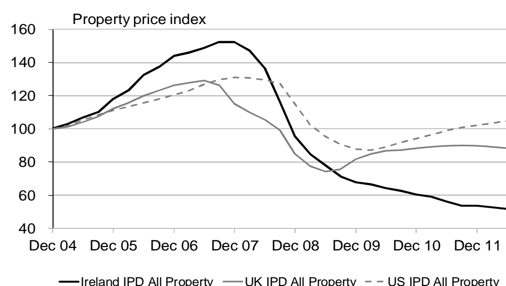
This document constitutes the interim management report required by Regulation 6 of the Transparency (Directive 2004/109/EC) Regulations 2007. It can also be found on the Group's website: www.ibrc.ie.

Economic backdrop

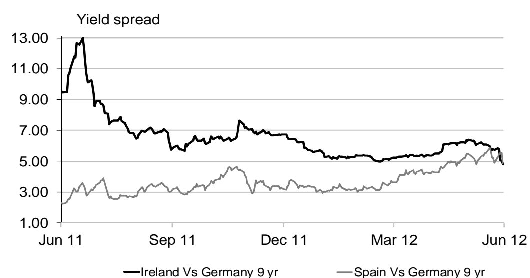
Commercial property markets

Commercial property prices in Ireland continue to fall. The outlook for the UK is also uncertain as the market is broadly flat, while the US commercial property recovery continues. (Indices rebased to 100)



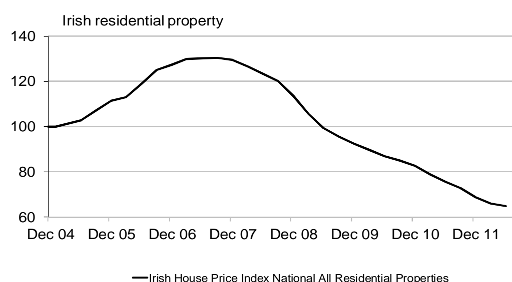
Sovereign yields

Against a backdrop of widening spreads for some eurozone members, the spread of Irish Government bonds over their German equivalents remained well below 2011 highs due to improved international sentiment as Ireland continues to deliver on its EU/IMF Programme commitments.



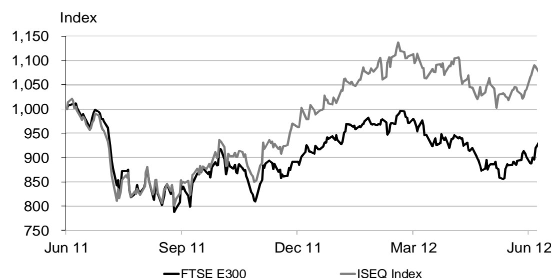
Irish residential property market

Though showing tentative signs of stability, the downward trend in Irish residential property prices continued in the first half of 2012. Prices have fallen more than 50% from peak values.



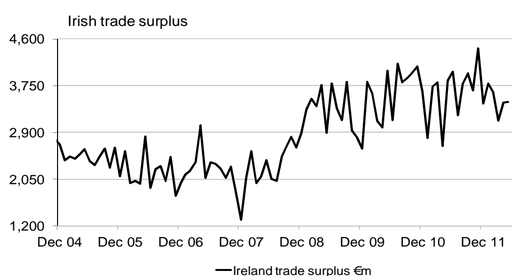
Stock markets

The ISEQ and FTSE Eurofirst both rallied towards the end of 2011 and early in 2012 before flattening in the second quarter of 2012. The ISEQ outperformed the FTSE Eurofirst over the period. (Indices rebased to 1000)



Trade surplus

Net exports continue to be the primary driver of Ireland's GDP growth.



Currency markets

The euro has weakened against the US dollar and sterling over the last 12 months, falling by 13% and 11% respectively.

Chairman's statement

Overview

Following the merger of Anglo Irish Bank Corporation Limited and Irish Nationwide Building Society ('INBS') in July 2011, the members of the Board of Directors, together with the senior management and staff have been charged with winding down the combined operations in accordance with the mandate of the Bank's shareholder, the Minister for Finance. I am pleased to report that the significant work undertaken to integrate these two organisations into a single entity, IBRC, is now complete.

IBRC has been established as a fully functioning asset recovery vehicle and the Board and senior management are committed to running the Bank in the public interest at all times and in a manner that minimises the cost to the State and, by extension, the taxpayer.

Despite recording an operating profit of €359m, the Bank reports a loss for the six month period to 30 June 2012 of €724m. This loss arises primarily due to net impairment charges and other provisions of €1,091m.

Total assets at 30 June 2012 amounted to €53.2bn, with the Irish Government promissory notes representing 52% of this total.

Net customer lending at 30 June 2012 totalled €15.9bn, a reduction of €2.1bn in the period, demonstrating IBRC's commitment to deleveraging the balance sheet while minimising losses for the taxpayer.

During the period, following discussions between the Irish and EU authorities and a request made by the Minister for Finance, the Bank agreed to utilise the €3.06bn instalment due on the promissory notes to acquire a long term Irish Government bond of equivalent value. The Bank has pledged the bond as collateral under a one year securities repurchase transaction with Bank of Ireland.

Further details in respect of the Bank's financial and non-financial performance for the period are provided in the Group Chief Executive's review and in the Business review.

IBRC winding down

The period to 30 June 2012 has seen further planned and controlled downsizing of the organisation. This process has involved the following:

- Reduction in the Bank's balance sheet as detailed elsewhere in this report;
- Reduction in staffing levels by means of a voluntary redundancy programme;
- Office closures;
- Sale of premises; and
- Streamlining of the Bank's general operations post integration.

During this period, the Bank has initiated a number of projects to examine the range of suitable service providers and options available in the areas of insourcing and outsourcing during the future phases of the Bank's wind-down. This further reflects the Bank's ongoing commitment to ensuring that its infrastructure and business processes are efficient and appropriate for the changing size of the organisation. A significant exercise in cost management has also been completed, particularly in the area of legal expenses attributable to ongoing litigation matters.

Changes to the Board of Directors

Two new Non-executive Directors were appointed to the Board of the Bank in 2012.

Maurice Horan and Alan Ridgway were appointed on 9 August 2012. They bring with them a wealth of international financial experience in the area of restructuring and are valuable additions to our Board.

Legacy matters, disclosures and exceptional expenses

The Bank continues to co-operate fully with ongoing investigations by the various authorities. In this regard it has continued to disclose its activities and financial position in a fully transparent manner.

The Bank incurred total exceptional costs of €25m during the period. These relate in the main to Bank restructuring work, legacy matters and professional fees associated with significant non-recurring transactions, including a significant debt recovery case and costs associated with NAMA.

Future outlook

I recognise that the situation for mortgage holders is very difficult in the current economic environment and that this is unlikely to change in the short term. IBRC acquired a very challenging mortgage book as part of the merger with the former INBS in July 2011 and a significant amount of work is currently being undertaken in this area as part of our Mortgage Arrears Resolution Strategy ('MARS'). This is designed to deliver a range of forbearance solutions to support those borrowers in financial distress or those likely to fall into arrears in the near future.

The Bank's strategies for commercial loan recovery vary depending on the particular circumstances of the borrower, with the Bank preferring to work constructively with each borrower on a case-by-case basis.

The Bank continues to generate options to work out its remaining Irish and UK loan books and will continue to examine accelerated disposals where this makes economic sense.

Conclusion

The Bank made further welcome progress throughout the period to June 2012 and we continue to plan for the next phases of the Bank’s wind-down. The prevailing uncertainty in Europe, a lack of bank funding and weak commercial and residential property markets in Ireland and the UK all mean that the market environment in which the Bank operates will be very challenging as it delivers on its objectives in the second half of the year and for the foreseeable future. The management and staff of the Bank will have the full support and confidence of the Board in meeting these challenges.

On behalf of the Board, I sincerely thank the management and staff of the Bank for their continued professionalism and hard work which contributed to the progress achieved in the first half of 2012. The Bank is keenly aware of its obligations to its shareholder and of the requirements properly imposed by its regulatory authority, the Central Bank of Ireland. I thank the Minister for Finance and the staff of the Department of Finance and the Central Bank of Ireland for working closely with the Bank throughout the period.

Alan Dukes
Chairman
23 August 2012

Group Chief Executive's review

The six months to 30 June 2012 saw a period of relative operational stability for IBRC. The Bank continued to focus on its strategic objective of ongoing balance sheet reduction and implemented a number of tactical initiatives to downsize the organisation infrastructure and increase efficiency.

IBRC as a wind-down organisation

As a Bank in wind down, IBRC is charged with working out its loan book in an orderly manner by 2020 and maximising returns for the Irish taxpayer. The Bank is not active in new lending or deposit markets.

Commercial asset recovery

Since the completion of the merger of the former Anglo Irish Bank Corporation Limited and Irish Nationwide Building Society ('INBS') on 1 July 2011, IBRC has now been reshaped into a fully integrated, fit for purpose, asset recovery organisation.

IBRC's specialist Asset Recovery teams continue to work with borrowers to maximise the recovery of the commercial loan book. The underlying approach of the Bank is at all times to work consensually and constructively with each individual borrower on a case-by-case basis to identify the most appropriate loan repayment plan. This preferred collaborative approach consistently delivers a more beneficial outcome for the borrower and the Bank. Restructuring distressed loans is only examined where the business model is deemed viable.

All credit and deleveraging decisions made by the Bank are overseen by a multi-faceted governance structure approved by the Board of the Bank. This comprehensive governance structure has been designed in accordance with banking industry and regulatory best practice, based on a fundamental tenet that no single business unit or person can individually determine the treatment of any borrower or group of borrowers and that prudent independent risk oversight is maintained.

Mortgages

Upon merging with INBS in July 2011, IBRC acquired a residential mortgage book which has presented significant challenges for the organisation as the arrears profile of our new customer base is unusually high.

As part of the Bank's Mortgage Arrears Resolution Strategy ('MARS'), significant focus has been placed on delivering a broader range of targeted loan modifications and forbearance solutions, both temporary and permanent, to assist residential borrowers facing genuine repayment difficulties. These solutions will be made available during the final quarter of 2012 to borrowers who are either currently in, or are likely to face, financial distress.

As an organisation we remain firmly committed to working with these borrowers so that they can remain in their homes, continue to meet their financial obligations and repay their outstanding debt where it is economically viable to do so. A dedicated MARS outreach communications and training programme, designed to work collaboratively with our borrowers, is also being actively rolled out.

Operational efficiency

Outsourcing
During the period, the Bank initiated an ongoing process to regularly examine the supply of insourced and outsourced services in Ireland and the United Kingdom. The process is designed to ensure that the Bank's infrastructure and business processes are efficient and appropriate as needs change during the subsequent phases of its wind down.

Legal expenses
Following an extensive period of work, the Bank established a panel of external legal advisors for the Republic of Ireland. The primary objectives of this legal panel are to ensure ongoing satisfaction with the quality, experience and balance of resources of each firm appointed to the panel and to ensure greater visibility, value and certainty as to fee levels. This will add greater efficiency in terms of resources and, importantly, costs to the Bank in ongoing legal matters.

Premises rationalisation

IBRC continues to make good progress in selling the portfolio of properties that made up the former INBS branch network. In addition, the Bank has agreed plans for maximising the efficiency of its operating premises post-merger.

Financial performance

This set of interim results reflects the continued challenging economic environment in all of the Bank's markets.

Ireland remains the worst affected of the Bank's markets, accounting for the majority of the overall specific impairment charge. An absence of bank funding and a large amount of vacant properties continue to drive prices downwards in both commercial and residential property markets. The first half of 2012 has also seen continued weakness in the UK with commercial property prices remaining depressed as eurozone concerns and spending cuts impact on economic growth.

Operating performance

Although IBRC recorded an operating profit of €359m in the six months, the Bank reports a loss for the period of €724m, primarily due to net impairment charges and other provisions of €1,091m.

Net interest income for the period totalled €538m, with €769m of interest income on the promissory notes being a key contributor. The period saw a reduction in customer interest income to €324m, down 26% compared to the period ended 30 June 2011. The interest expense of €660m principally consists of interest payable on central bank and monetary authority funding.

Balance sheet performance

As at 30 June 2012, total assets amounted to €53.2bn. The Irish Government promissory notes represented 52% of this total.

During the period the Bank received new NAMA senior bonds with a nominal value of €950m and a maturity date of 1 March 2013 in settlement of the existing bonds which matured on 1 March 2012.

Following discussions between the Irish and EU authorities and a request made by the Minister for Finance, IBRC agreed to utilise the €3.06bn instalment due on the promissory notes to acquire a long term Irish Government bond of equivalent value. The Bank has pledged the bond as collateral under a one year securities repurchase transaction with Bank of Ireland.

IBRC is primarily reliant on deposits from central banks and monetary authorities for funding. As at 30 June 2012 deposits from central banks and monetary authorities totalled €42.3bn. In addition, deposits from banks includes €2.8bn of funding from the one year securities repurchase transaction entered into with Bank of Ireland. The Bank expects its funding requirements to decrease as the overall deleveraging of the balance sheet progresses.

As at period end, net customer lending totalled €15.9bn, a decrease of €2.1bn in the six month period, demonstrating IBRC's progress in deleveraging the balance sheet. Overall net loan balances have reduced by €56.3bn since September 2008.

IBRC recognised a specific lending impairment charge of €878m during the period reflecting the continuing weak economic conditions in the Bank's two principal markets. Impaired loans amount to €18.0bn, with cumulative impairment provisions of €10.9bn representing 40% of total loan balances.

Costs

Operating expenses, which for the six months totalled €129m, have decreased by €28m or 18% versus the comparative period to 30 June 2011.

Overall Group headcount has decreased by 15% since 31 December 2011. The total at 30 June 2012 includes 256 people who either work directly in (64%), or provide support to (36%), the Bank's NAMA unit. Excluding these NAMA related staff, IBRC's overall headcount is 775.

Other administrative costs of €45m have fallen by 25% (€15m) from the comparative period primarily as a result of a reduction in professional fees.

Exceptional costs of €25m incurred during the period relate in the main to professional fees associated with legacy matters, Bank restructuring work and non-recurring transactions, such as a significant debt recovery case and costs associated with NAMA.

Capital

Total capital support provided by the Minister for Finance, the Bank's sole shareholder, remains at €29.3bn. The Total Capital ratio at 30 June 2012 is 14.8%, with a Core Tier 1 ratio of 13.6%.

Future strategy

IBRC will continue to work to achieve the agreed objectives in the joint restructuring plan which are to dispose of the assets of the Bank in an orderly fashion and to minimise capital losses to the Shareholder.

While significant progress has been made over the last eighteen months, the remaining net asset position of the Bank over the period of wind down will be driven by a number of variable factors. This will include actual recovery rates achieved for assets, the performance of the domestic and global economies, and the prevailing interest rates in Europe over the duration of the plan. Given the current uncertainties in European markets, the continued deterioration in asset values and the complexities, timescales and risks involved in deleveraging, the final net asset position unfortunately remains subject to material uncertainty.

I would like to join the Chairman in expressing my thanks to management, staff and other stakeholders for all their support and tireless focus and work over the period.

A.M.R. (Mike) Aynsley
Group Chief Executive
23 August 2012

Business review

This business review covers the six months to 30 June 2012 and includes commentary on key areas of financial and operating performance of the Group during that period.

IBRC is a Government owned banking entity which, in accordance with the commitments made by the Bank and the State to the European Commission ('EC'), is not active in new lending or deposit markets. The strategic objective of the Bank is to work out its assets in an orderly process over a period of up to ten years, from 2010, securing the best outcome for the taxpayer. An independent Monitoring Trustee, approved by the EC, monitors adherence to the commitments made and reports to the EC on the implementation of the restructuring and work out plan.

IBRC continues to operate as a regulated entity, bound by the Capital Requirements Directive and therefore subject to an 8% minimum capital requirement.

On 1 July 2011 all of the assets and liabilities (with the exception of certain limited excluded liabilities) of Irish Nationwide Building Society ('INBS') transferred to the Bank by way of a transfer order made by the Irish High Court under Section 34 of the Credit Institutions (Stabilisation) Act 2010. The comparatives for the six months ended 30 June 2011 do not include any amounts relating to INBS.

Financial performance

Despite recognising an operating profit of €359m, the Bank reports a loss before taxation for the period of €743m. This loss arises primarily due to net impairment charges and other provisions of €1,091m.

Net interest income for the six months totalled €538m (period to 30 June 2011: €472m), of which interest income on the promissory notes of €769m (June 2011: €644m) is a key contributor. Customer interest income for the period has reduced to €324m, a decline of 26% compared to the period ended 30 June 2011. The interest expense of €660m (period to 30 June 2011: €717m) principally consists of interest payable on central bank and monetary authority funding. The interest rates on special funding facilities provided by the Central Bank of Ireland are set by the Central Bank of Ireland and are currently linked to the European Central Bank marginal lending facility rate.

The Bank remains reliant on central bank and monetary authority support mechanisms for funding. This represented 89% of total funding (€42.3bn) at 30 June 2012 (31 December 2011: 87%, €42.2bn), with €41.7bn borrowed under special funding facilities (31 December 2011: €40.1bn).

Total assets at 30 June 2012 amounted to €53.2bn, with the Irish Government promissory notes representing €27.8bn of this total.

On 1 March 2012 the Bank received new NAMA senior bonds with a nominal value of €950m and a maturity date of 1 March 2013 in settlement of the existing bonds which matured on that date.

On 29 March 2012, following discussions between the Irish and EU authorities and a request made by the Minister for Finance, the Bank agreed to utilise the €3.06bn due on the promissory notes on 31 March 2012 to acquire a long term Irish Government bond of equivalent value. This bond is included within available-for-sale financial assets and is pledged as collateral under a one year securities repurchase transaction entered into with Bank of Ireland.

Gross customer lending at 30 June 2012 totals €27.5bn[1] (31 December 2011: €29.1bn), a reduction of €2.1bn on a constant currency basis in the six month period. This reduction demonstrates the Bank's commitment to its strategic objective of deleveraging the balance sheet.

Impaired loans amount to €18.0bn (31 December 2011: €17.8bn), with cumulative impairment provisions of €10.9bn (31 December 2011: €10.4bn) representing 40% (31 December 2011: 36%) of total loan balances. During the period the Bank recognised a specific lending impairment charge of €878m reflecting the continuing weak economic conditions in both the Irish and UK markets.

Total capital support provided by the Minister for Finance, the Bank's sole shareholder, remains at €29.3bn. The Total capital ratio at 30 June 2012 is 14.8% (31 December 2011: 16.3%), with a Core Tier 1 ratio of 13.6% (31 December 2011: 15.1%).

Asset recovery

The Bank's principal focus is the continued deleveraging of the loan book while minimising losses to the Shareholder and the Irish taxpayer.

Total lending

Analysis of customer lending[1]

	30 June 2012 €m	31 December 2011 €m
Ireland	**18,228**	19,259
UK	**8,399**	8,977
US	**900**	895
Total	**27,527**	29,131
Provisions for impairment	**(10,895)**	(10,442)
Customer lending net of impairment	**16,632**	18,689
Provisions as a % of loan balances	**40%**	36%

Gross customer lending balances at 30 June 2012 total €27.5bn[1], of which 98% relate to loans and advances to customers with the remaining 2% classified as held for sale. Held for sale loans comprise certain US loan balances which are scheduled to be sold over the coming months. During the current period total gross customer loan balances declined by €2.1bn or 7% on a constant currency basis. This significant reduction in loan balances in the period was driven primarily by activity in the UK market where good quality assets located in London and in parts of the South East continue to attract liquidity and refinancing options. The €1.0bn reduction in Irish lending balances in the period has been driven by a number of factors, including the disposal by Irish clients of UK and European assets, loan repayments across the business banking portfolio, residual NAMA loan transfers and balance write-offs following the completion of loan restructurings or loan sales. Overall market conditions in Ireland remain extremely difficult with limited liquidity to support sales and refinancing.

Business review continued

At 30 June 2012 the Bank's Irish division represents 66% of total gross lending with the UK and the US divisions accounting for 31% and 3% respectively.

Lending asset quality

***Grading analysis*[1]**

	30 June 2012		31 December 2011	
	Total €m	**%**	Total €m	%
Good quality	**3,621**	**13%**	4,404	15%
Satisfactory quality	**-**	**0%**	305	1%
Lower quality but not past due or impaired	**3,067**	**11%**	3,610	12%
Total neither past due or impaired	**6,688**	**24%**	8,319	28%
Past due but not impaired	**2,823**	**10%**	3,054	11%
Impaired loans	**18,016**	**66%**	17,758	61%
	27,527	**100%**	29,131	100%
Provisions for impairment	**(10,895)**		(10,442)	
Total	**16,632**		18,689	

Asset quality across the portfolio continues to deteriorate. At 30 June 2012 87% (31 December 2011: 84%) of loans are classified as 'at risk'. At risk loans represent those loans deemed most 'at risk' by management and consist of impaired, past due but not impaired and lower quality but not past due loans. The use of the 'satisfactory' category has been discontinued in the current period reflecting a reduction in the number of loan grades now applied by Group Risk to monitor asset quality.

Impaired loans at 30 June 2012 total €18.0bn (31 December 2011: €17.8bn), and represent 66% of the total loan book versus 61% at 31 December 2011. Ireland continues to be the worst performing region with 68% of the portfolio impaired and specific provisions totalling 43% of gross loans. In the UK and US 62% and 51% respectively of the portfolios are impaired. Within the Bank's €1.8bn residential mortgage portfolio 45% of loans are impaired.

Loans classified as past due but not impaired have fallen to €2.8bn at 30 June 2012 from €3.1bn at 31 December 2011. However, the decrease is primarily attributable to loans moving to impaired status. Ireland represents €2.1bn (74%) of the total past due but not impaired amount and the UK represents €0.7bn (26%).

The level of loans past due and outstanding for more than 90 days, which represents the highest risk element of past due, has decreased from €2.2bn at 31 December 2011 to €1.9bn, representing 69% (31 December 2011: 71%) of the overall past due figure. A full aged analysis is included in note 35 to the interim financial statements.

Lower quality but not past due or impaired loans at 30 June 2012 totalled €3.1bn or 11% of gross lending assets. Although currently not past due or impaired, these represent loans which management deem to have a higher risk of further deterioration.

Lending assets deemed to be good quality by management total €3.6bn at 30 June 2012, representing 13% of total gross lending assets.

The asset quality of the loan book is a reflection of the challenging economic and market conditions. The Bank's specialist Asset Recovery teams actively work with borrowers with a view to maximising recovery of the commercial lending book in the interest of the Bank, the Shareholder and the Irish taxpayer. These teams actively monitor the loans for alerts that a customer may not be in a position to service their debt such as deteriorating trading performance, likely breach of covenant, challenging macroeconomic conditions or missed payments. When issues are identified forbearance measures such as covenant reliefs or amendments thereof, variations in margin rates or loan rescheduling may be used to improve a customer's financial position. Restructuring of distressed loans, such as exchange of debt for equity or equity-like benefits, is only considered where the business model is deemed viable. The Bank may enforce its rights on security interest or will consider insolvency of the borrower in order to ensure that the assets of the business are appropriately distributed. In order to ensure maximum recovery from a distressed loan the net present value of alternative recovery strategies is always considered.

The Bank complies with the Central Bank of Ireland's Code of Conduct on Mortgage Arrears ('CCMA') in its dealings with residential borrowers who are in arrears with their loan repayments. Under its Mortgage Arrears Resolution Strategy ('MARS') the Bank is developing a more comprehensive range of loan modification and resolution options targeted towards supporting those customers in longer term arrears. These options will supplement the standard forbearance arrangements currently used by the Bank's Arrears Support Unit to assist residential customers who are facing genuine repayment difficulties. Each case is reviewed on an individual basis with a view, where possible, to putting in place a sustainable repayment plan. The Bank seeks to ensure that customers with a genuine need are treated fairly and supported throughout the arrears management and resolution process.

Divisional lending balances by sector[1]

	30 June 2012					
	Commercial €m	**Residential €m**	**Business Banking €m**	**Residential Mortgages €m**	**Other €m**	**Total €m**
Ireland	**10,255**	**846**	**2,853**	**1,832**	**2,442**	**18,228**
UK	**7,883**	**488**	**4**	**-**	**24**	**8,399**
US	**595**	**302**	**-**	**-**	**3**	**900**
Total	**18,733**	**1,636**	**2,857**	**1,832**	**2,469**	**27,527**

Commercial lending represents 68% of the Bank's total loan portfolio and consists of investment and development property lending across all sectors. €15.2bn (81%) of commercial lending relates to the retail, office and leisure sectors. Business banking accounts for €2.9bn, or 10%, of the loan portfolio. The Bank is looking primarily to business earnings to service these debt obligations. Residential lending of €1.6bn comprises residential development lending of €0.5bn and residential investment lending of €1.1bn and incorporates large value development and investment transactions. The residential mortgage portfolio represents 7% of the gross loan book and incorporates owner occupier mortgages of €1.4bn and buy to let mortgages of €0.4bn. Other lending of €2.5bn consists primarily of personal lending.

The top 20 customer groups[1], excluding loans classified as held for sale as at 30 June 2012, represent €9.4bn or 35% (31 December 2011: €9.6bn or 33%) of the Bank's total loans and advances to customers before provisions for impairment.

Total specific impairment provisions on these customer groups amount to €3.6bn (31 December 2011: €3.2bn). A regulatory customer group typically consists of a number of connected entities and the balances represent multiple individual loans secured by diverse portfolios of assets and multiple contracted cash flows.

At 30 June 2012 undrawn committed facilities totalled €0.2bn (2011: €0.2bn) with 98% of these relating to Irish loans. Advances during the period were restricted to previously committed facilities or were approved to protect asset quality and aimed at reducing the overall risk to, or maximising recovery for, the Bank. In line with commitments given by the Bank in connection with the approved Restructuring Plan, the Bank is prohibited from lending to new customers.

Lending impairment – charge for the period

Income statement - lending impairment	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Specific charge - loans and advances to customers	**842**	903	2,107
Specific charge - held for sale	**36**	36	34
Total specific lending impairment	**878**	939	2,141
Collective provision release	**(18)**	(209)	(597)
Total lending impairment	**860**	730	1,544

Of the total specific lending impairment charge of €878m for the six months to 30 June 2012, €842m relates to loans and advances to customers and €36m relates to loans classified as held for sale.

Impairment is calculated in accordance with IFRS and reflects losses incurred in the period based on conditions existing at 30 June 2012. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. In line with the Bank's credit risk management process, the specific charge was determined following a detailed assessment by Group Risk. The process also includes consideration of the impairment provisioning guidelines issued by the Central Bank of Ireland in December 2011.

The collective impairment provision reflects an allowance for loan losses existing in the performing portfolio where there is currently no specific evidence of impairment on individual loans. There has been a release of €18m in the collective impairment provision in the period. The balance sheet collective impairment provision at 30 June 2012 totals €765m, or 8% of the total performing loan book. The release in the period is principally attributable to the continued reduction in the value of the performing loan book, on which the Incurred But Not Reported provision is assessed. At 30 June 2012 the performing portfolio totalled €9.5bn compared to €11.4bn at 31 December 2011.

Income statement - specific lending impairment	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year Ended 31 December 2011 €m
Ireland	**478**	773	1,557
UK	**312**	143	574
US	**88**	23	10
Total	**878**	939	2,141

On a sectoral basis, €644m (73%) of the specific charge of €878m relates to commercial assets. The remaining charge is attributable to business banking (€93m), other lending (€54m), residential loan assets (€56m) and residential mortgages (€31m).

Of the residential mortgage charge €26m is attributable to the owner occupier portfolio with the balance of €5m relating to the buy to let portfolio. Budgetary austerity measures and high unemployment continue to impact credit quality across this portfolio. At 30 June 2012 balance sheet specific and collective provisions in respect of the owner occupier portfolio totalled €357m (25% on €1.4bn of gross loan balances) and on the buy to let portfolio totalled €165m (40% on €0.4bn of gross loan balances).

On a regional basis the specific impairment charge is split: Ireland 54%, UK 36% and US 10%. Ireland continues to be the worst affected market. Conditions within both the commercial and residential property markets remain weak with a lack of bank funding and an overhang of vacant properties continuing to provide downward pressure on prices in both sectors.

In the UK the weakness in economic activity that persisted in the second half of 2011 has continued into 2012. UK commercial property values remained weak in the first half of 2012 as government spending cuts and eurozone concerns impacted growth. Market sectors with a high dependency on consumer spending, including the retail and the hotel and leisure sectors, continue to be negatively impacted. While there has been some stabilisation for prime properties in the capital, in other regional markets, particularly secondary markets, rents have decreased and vacancy rates increased which has resulted in a further decline in asset values. These items have been the significant contributing factors to the specific impairment charge in the period.

NAMA

During the period, €76m of loans, which had previously been fully provided for, were transferred by the Bank to NAMA. There are no remaining assets expected to transfer.

The loss of €18m recognised during the period relates to the settlement of value-to-transfer adjustments (representing the movement in loan balances from the NAMA cut-off date to the actual loan transfer date) in respect of certain loans which previously transferred to NAMA.

At 30 June 2012 confirmation from NAMA of a final due diligence valuation adjustment in respect of €7.8bn of loans remained outstanding. The final overall loss on disposal will only be determined when NAMA has issued to the Bank a completion notice under section 97 of the NAMA Act 2009.

NAMA bonds

At 30 June 2012 the Bank's nominal holding of NAMA senior bonds totalled €884m. In February 2012 NAMA informed the Bank of its intention to physically settle senior bonds with a nominal amount of €950m due to mature on 1 March 2012 by issuing new senior bonds with a nominal value of €950m and a maturity of 1 March 2013. The Bank's commercial preference was to receive cash. However, bearing in mind the preferences expressed by both NAMA and the Department of Finance, the Bank agreed to accept physical settlement.

The difference between the fair value of the senior bonds that matured on 1 March 2012 and that of the new senior bonds received is recognised in other operating expense. Any adjustments relating to the new senior bonds are expected to unwind by 1 March 2013.

On 27 June 2012 senior bonds with a nominal value of €66m were redeemed by NAMA at par.

At 30 June 2012 senior bonds with a nominal value of €884m (31 December 2011: €750m) had been pledged under a Special Master Repurchase Agreement with the Central Bank of Ireland.

The Bank's nominal holding of NAMA subordinated bonds at 30 June 2012 totals €843m, with a carrying value of €124m.

Financial markets

Funding overview

The Bank's funding profile is primarily reliant on borrowings from central banks and monetary authorities. As at 30 June 2012 borrowings from central banks and monetary authorities totalled €42.3bn representing 89% of total funding (31 December 2011: €42.2bn, 87% respectively). On 20 June 2012, the Bank secured €2.8bn of funding by way of a one year securities repurchase transaction entered into with Bank of Ireland. The Bank expects its funding requirements to decrease as the overall deleveraging process continues in accordance with the terms of the approved Restructuring Plan.

Due to the short term and concentrated nature of its funding base the Bank is not in full compliance with a number of regulatory requirements.

The Group became a participant institution in the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the 'ELG Scheme') on 28 January 2010 and certain qualifying deposits and securities issued by the Group from this date onwards are covered by the ELG Scheme. A cost of €15m (30 June 2011: €50m) is included within interest expense for the period relating to the Bank's participation. The reduced charge is explained by the transfer of customer deposits to AIB in February 2011 and the maturity of guaranteed debt securities.

The EC has approved the extension of the ELG Scheme for certain eligible liabilities to 31 December 2012.

IBRC Mortgage Bank

During the period the activities of IBRC Mortgage Bank ('IBRCMB') were unwound. The beneficial interests in IBRCMB's portfolio of commercial mortgages were transferred back to the Bank. The remaining securities in issue, all of which were held by the Bank, were redeemed in full and the derivative hedging contracts entered into by IBRCMB with the Bank were terminated. This process was carried out following consultation with the Central Bank of Ireland and in accordance with the requirements of the independent Cover-Assets Monitor. On 25 July 2012, IBRCMB's banking licence was officially revoked by the Central Bank of Ireland.

Central bank funding

Borrowings from the Central Bank of Ireland under special funding facilities at 30 June 2012 amounted to €41.7bn (31 December 2011: €40.1bn). The facilities utilised were a Special Master Repurchase Agreement ('SMRA'), a Master Loan Repurchase Agreement ('MLRA') and a Facility Deed from the Central Bank of Ireland. The majority of the funds were advanced under the SMRA, involving the sale and repurchase of the promissory notes and the NAMA senior bonds. Collateral assigned under the MLRA is derived from the Bank's customer lending assets. The interest rate on these facilities is set by the Central Bank of Ireland and advised at each rollover and is currently linked to the ECB marginal lending facility rate.

The total amount of loan assets assigned as collateral under the MLRA facility with the Central Bank of Ireland at 30 June 2012 was €5.9bn (31 December 2011: €2.6bn). The increase is due to the inclusion of loan assets previously assigned to IBRCMB.

Borrowings under open market operations decreased to €0.6bn (31 December 2011: €2.1bn). This decrease is mainly due to the redemption of eligible collateral issued by IBRCMB.

Securities repurchase transaction with Bank of Ireland

Sale and repurchase agreements with other banks comprise €2.8bn of secured funding provided by Bank of Ireland. On 29 March 2012 the Bank reached a conditional agreement with Bank of Ireland and the State to conduct a securities repurchase transaction, whereby Bank of Ireland would purchase a long term Irish Government bond acquired by the Bank in settlement of the second instalment due on the promissory notes. The transaction was approved by the Bank of Ireland shareholders on 18 June 2012 and settled on 20 June 2012.

The Bank has an obligation to repurchase the bond from Bank of Ireland not later than 19 June 2013. The transaction is governed by a Global Master Repurchase Agreement and incorporates standard market terms including daily margining requirements with respect to changes in the value of the bond. The terms of the transaction also include a number of early termination conditions which permit Bank of Ireland the right to request early repayment of all amounts owing. The Bank's payment obligations with respect to the transaction are covered by a guarantee from the Minister for Finance.

Initially as a short term interim measure, pending the outcome of the Bank of Ireland shareholders' decision, the Bank availed of a short term collateralised facility provided by NAMA. This facility was provided on equivalent commercial terms to those of the financing with Bank of Ireland. Borrowings under this facility were repaid in full on 20 June 2012.

Debt securities in issue

Debt securities in issue decreased by €4bn to €1.4bn due to the maturity of medium term notes, of which €2.5bn were unguaranteed but represented contractual commitments for the Bank.

Medium term notes scheduled to mature for the remainder of 2012 total €318m, of which €33m is unguaranteed. The Bank continues to honour contractual repayment commitments on debt securities.

Customer accounts

Customer funding decreased by €0.1bn to €0.5bn in the period. Remaining customer accounts relate mainly to lending or NAMA facilities. Interest expense of €21m associated with customer accounts for the current period includes €15m in relation to the short term collateralised facility provided by NAMA.

Currency funding

Borrowings from central banks and a large proportion of the Group's other funding balances are denominated in euro while a significant proportion of the Group's lending assets are denominated in sterling and US dollars. As a consequence the Group has made extensive use of foreign currency derivatives with market counterparties and the National Treasury Management Agency ('NTMA') to manage the currency profile of its balance sheet. The Bank has a contingency euro-sterling swap agreement in place with the Central Bank of Ireland, at a market based fee, which is available to assist the Bank in managing currency mismatches that may arise.

Derivatives

As a result of both maturities and ongoing deleveraging initiatives during the period, the notional amount of interest rate contracts recorded within derivative financial instruments has reduced by €23bn to €18.1bn.

Loans and advances to banks

Placements with banks decreased by €0.2bn during the period. The total balance of €2.1bn at 30 June 2012 includes €1.9bn (31 December 2011: €2.0bn) of cash collateral placed primarily with interbank counterparties to offset changes in mark to market valuations arising from derivative contracts.

Available-for-sale ('AFS') financial assets

The Bank holds a portfolio of securities that are classified as AFS. This portfolio comprises government bonds, debt issued by financial institutions and NAMA subordinated bonds.

AFS assets total €4.2bn at 30 June 2012, an increase of €2.9bn from 31 December 2011. The increase is mainly due to the long term Irish Government bond acquired in settlement of the second instalment due on the promissory notes. At 30 June 2012, this bond is pledged as collateral under a securities repurchase transaction entered into with Bank of Ireland. The bond increases the Bank's overall fixed interest rate risk exposure.

During the period €0.2bn of AFS securities matured and the Bank disposed of a further €0.3bn, recognising a gain on disposal of €13m. In line with its overall strategic objective, the Bank has continued to deleverage holdings of AFS assets. There has been no impairment of AFS securities during the period.

Euro denominated sovereign bonds account for 85% of holdings, with the balance consisting of senior bank bonds (12%) and other bonds including NAMA subordinated bonds (3%). Of the total bank bonds included within the portfolio, €0.4bn are issued by Irish banks which are covered under the ELG Scheme. Sovereign holdings include Irish Government bonds with a carrying value of €3.5bn. The Bank's exposure to Spain and Italy consists of €19m of bonds issued by banks domiciled in those countries. The Bank does not hold any exposure to Greece or Portugal.

Promissory notes

The Minister for Finance has provided the Bank, including the former INBS, with promissory notes to the value of €30.6bn consisting of a number of tranches. Each tranche pays a market based fixed rate of interest which is set on the date of issue and is appropriate to the maturity date of the tranche. The promissory notes pay 10% of the initial principal amount of each tranche annually.

On 29 March 2012, following discussions between the Irish and EU authorities and a request made by the Minister for Finance, the Bank agreed to utilise the €3.06bn due on the promissory notes on 31 March 2012 to acquire a long term Irish Government bond of equivalent value. The settlement approach adopted did not result in any adjustment to, or variation in the terms of, the remaining promissory notes. The combined principal amount of the promissory notes at 30 June 2012 is €27.1bn (31 December 2011: €28.5bn; 30 June 2011: €23.6bn). The €3.46bn Irish Government bond that was subsequently received is classified as an available-for-sale financial asset and was recognised at an initial fair value of €3.06bn.

The contractual fixed cash flows arising from the promissory notes create a significant interest rate risk position for the Group.

This risk has increased following receipt of the long term government bond in March. The Bank has hedged a total of €4.1bn of the nominal amount of the promissory notes using interest rate swaps. A further €3.5bn of economic hedges exist in the form of the Group's capital and fixed rate debt issuance. However significant fixed interest rate exposure remains with limited capacity to hedge further amounts with market counterparties.

The promissory notes are currently pledged as collateral for funding under the SMRA with the Central Bank of Ireland.

Capital

The regulatory capital resources of the Group include €29.3bn of capital contributed by the Irish Government. These contributions restored the levels of Core Tier 1 regulatory capital following significant losses incurred. As at 30 June 2012 the Group's Tier 1 capital ratio is 13.6% with a Total capital ratio of 14.8%. The level of surplus regulatory capital above the minimum required 8% Total capital ratio at 30 June 2012 is €1.5bn.

Regulatory capital ratios have decreased since 31 December 2011 due to the losses incurred in the period. The impact of these losses has been partially offset by a decrease of €2.3bn in risk weighted assets. This reduction is primarily related to lending assets and driven by disposals and repayments, particularly in the UK market. Specific impairment charges incurred in the period also reduced the level of risk weighted assets.

Due primarily to the promissory notes issued by the Minister for Finance and the Irish Government bond acquired by the Bank in March 2012 in settlement of the second instalment due on the promissory notes, the Bank has €36bn of exposure to the Irish Government at 30 June 2012. Irish sovereign exposure is risk weighted at 0% in line with the requirements of the Capital Requirements Directive and guidance from the Central Bank of Ireland. The Group adopts the Basel II Standardised Approach in calculating its minimum capital requirements.

Costs

Operating expenses	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Staff costs	**54**	56	107
Other administrative expenses	**45**	60	108
Depreciation and amortisation	**5**	12	23
Recurring operating expenses	**104**	128	238
Exceptional costs	**25**	29	82
Total operating expenses	**129**	157	320

Total operating expenses for the six months to 30 June 2012 are €129m and include exceptional costs of €25m.

Staff costs, which total €54m, are broadly in line with the comparative period to 30 June 2011. The headcount and staff cost increases arising from the integration of INBS on 1 July 2011 have been offset by decreases resulting from the sale of the majority of the US loan book, commencement of the voluntary redundancy programme and short term projects coming to an end. Overall Group headcount, including people working directly in, or providing support to, the Bank's NAMA unit, has decreased by 15% since 31 December 2011 and at 30 June 2012 stood at 1,031.

Other administrative costs of €45m have fallen by 25% (€15m) from the comparative period mainly due to a reduction in professional fees.

Exceptional costs of €25m incurred during the period primarily relate to professional fees associated with significant non-recurring transactions, certain legacy matters and Bank restructuring work. The principal non-recurring transactions include a significant debt recovery case and NAMA.

Taxation

The current tax credit of €18m arises primarily due to a refund of corporation tax paid by the Bank in relation to the former INBS. No Irish corporation tax will be payable on the Group's Irish business activities due to the availability of losses in the Bank which are offset against any taxable profits arising within the Group. However a current period foreign tax charge of €2m arises. A deferred tax credit of €1m has been recognised to the extent that it is probable that any potential additional chargeable profits can be offset by current period losses.

The Group is currently in discussions with the US Internal Revenue Service with respect to potential US tax exposures relating to the Group’s US filing obligations.

Wealth Management

Following a comprehensive process to evaluate a number of alternative options, the Bank has now commenced a process of winding down its Wealth Management business over a five year timeframe using existing internal resources. The first phase of transitioning the business has already begun with the cessation of securities trading and asset management services due to complete before the end of the year.

Risks and uncertainties

The Group is subject to a variety of risks and uncertainties in the course of its business activities. The principal risks and uncertainties facing the Bank at present are those related to general economic conditions, eurozone risk, property markets, credit risk, Government policy and restructuring risk, market risk, liquidity and funding risk, bank and sovereign ratings, regulatory and compliance risk, valuation risk, operational risk, litigation and legal compliance risk, events of default risk, taxation risk, the NAMA process and the fitness and probity regime. In addition continued concerns within the banking industry regarding counterparty and country risk and possible changes in the interpretations of historic regulatory requirements could adversely impact on the Bank. More detail is contained in the Principal risks and uncertainties statement on pages 16 to 20.

Subsequent events and future developments

The key events that have occurred since the end of the period are reviewed in note 39 to the interim financial statements. The Group Chief Executive's review and the Chairman's statement review the outlook and future of the Group.

[1] Gross of impairment provisions and including lending associated with the Group's assurance company

Principal risks and uncertainties

The Group is subject to a variety of risks and uncertainties in the normal course of its business activities. The Transparency (Directive 2004/109/EC) Regulations 2007 require a description of the principal risks and uncertainties facing the Group for the remaining six months of the financial year.

The Board of Directors and senior management have ultimate responsibility for the governance of all risk taking activity and have established a framework to manage risk throughout the Group. Details of the risk management policies and processes that the Group adopts are contained in note 50 to the 2011 Annual Report and Accounts.

The business risks and uncertainties below are those risks which the Directors currently believe to be the material and principal risks to the Group for the remaining six months of the financial year. The precise nature of all the risks and uncertainties that the Group faces cannot be predicted and many of these risks are outside of the Group's control. The principal risks and uncertainties outlined below should be read in conjunction with the Chairman's statement and the Group Chief Executive's review.

Economic environment

The Group is subject to risks arising from economic conditions in its main markets, particularly Ireland and the UK.

The Irish economy has stabilised following a sharp contraction in activity since 2008 and there are tentative signs of recovery in certain sectors. Economic growth is being driven primarily by net exports which have been aided by a material improvement in competitiveness and moderate growth in Ireland's main export markets. Domestic demand remains fragile and further weakness could undermine the viability of businesses supporting the Group's domestic commercial loan book.

Higher unemployment rates, weak earnings growth and government austerity measures have led to diminished net disposable incomes in the domestic economy and have reduced the Group's residential mortgage borrowers' ability to service their loans.

The Irish Government continues to meet its targets under the Economic Adjustment Programme, though any deterioration in the fiscal position could lead to increased austerity to ensure future targets are met. Sovereign credit ratings have remained stable over the period but further downgrades would adversely affect market sentiment toward Ireland and impair the ability of Irish banks and businesses to fund themselves.

Economic conditions in the UK remain subdued having entered into a double-dip recession in 2012. Government austerity measures, weak credit growth and a strengthening currency have hindered the recovery, particularly outside of London. Further economic weakness will impact upon the recovery value of the Group's assets and the ability of borrowers to service these assets prior to repayment or disposal.

Eurozone risk

The future of the eurozone has become more uncertain. Greece, Ireland and Portugal are in official adjustment programmes and Spain has requested a bail-out for its banking system. Spreads on Spanish and Italian bonds have reached near unsustainable levels. There is an increased risk of a country or group of countries leaving the eurozone or even of a complete break-up of the zone.

The direct risks to the Group are difficult to quantify but any fracturing of the eurozone would have a negative effect on business and consumer confidence which would in turn impact on the serviceability and recoverability of the Group's loan book.

A continuation of the current uncertain situation could lead to further retrenchment by consumers and businesses and provoke a deep recession with local and global consequences. This will impact on Ireland's ability to foster its export growth and engender domestic demand.

Property markets

The Group's ability to achieve maximum recovery for its loan portfolio as its wind-down progresses is dependent on the recovery value of the underlying property assets. Any continued weakness in property markets or further deterioration in activity levels will have an adverse impact on the Group's financial performance.

Commercial and residential property prices in Ireland have continued to fall, though there is some evidence of a moderation in the pace of decline. These falls diminish the value of the collateral held by the Group against its loan assets. Property valuations are now closer to longer term measures of fair value. Initiatives introduced by the Irish Government in the 2011 budget should help to support the commercial market and lead to increased activity levels. However, the risk of further falls in activity levels due to the lack of credit availability and lack of overseas participation due to eurozone fears, remains high. The residential property market in Dublin has shown signs of stabilisation, though there are risks of further falls due to constraints on the supply of new credit and property supply overhang.

In the UK, commercial property indices have been broadly flat for some time and the continued strong performance by the London market has been offset by weakness in the regions. Activity levels have fallen and transactions are now increasingly centred on prime London assets.

Property markets continue to be inhibited by the lack of credit finance to this sector and the focussing of European banks on their home markets.

Credit risk

Credit risk is the risk that the Group will suffer a financial loss from a counterparty's failure to pay interest, repay capital or meet a commitment, and the collateral pledged as security is insufficient to cover the payments due. It arises primarily from the Group's lending to customers, both in the residential and commercial property markets, but also from investment in available-for-sale debt securities and outstanding derivative transactions.

Adverse changes in the credit quality of the Group's borrowers, counterparties and their guarantors and adverse changes arising from the general deterioration in economic conditions in the Group's main markets have reduced the recoverability of the Group's loan assets. These changes have also led to an increase in the Group's impairment provisions.

The fall in property values in the Group's main markets has directly reduced the value of collateral underpinning much of the Group's lending and any further deterioration in property prices or any delay in realising collateral secured on these loan assets will further adversely affect the Group's financial position and performance.

Following the approval of the Restructuring Plan by the EC, the Group is exposed to additional recovery risk given that counterparties are aware that the plan provides for an orderly work-out of its loan book over a period of years, as well as being dependent on efficient execution of debt restructurings where required. As a result, amounts recoverable may be reduced.

Government policy and restructuring risk

As the Bank's only shareholder, and under legislative powers relevant to the Bank, the Minister for Finance is in a position to exert significant influence over the Group. The Bank is also wholly reliant on the support of the Irish Government. Government policy in respect of both the Bank and the wider financial services sector has a major impact on the Group. Changes to government policies or the amendment of existing policies could adversely impact upon the financial condition and prospects of the Group. For instance, if new governmental policies were to require the Bank to resolve its position over a shorter than expected time frame, projected asset recovery values could be negatively impacted.

Due to the substantial package of assistance for Ireland agreed between the Government, the International Monetary Fund ('IMF') and the European Union ('EU') in November 2010, which included agreements to reorganise and restructure the Irish banking sector, the IMF and the EU also retain significant influence on the future of the Bank. The Bank also remains subject to risks which could result from any further measures agreed between the Government, the IMF and the EU.

The Credit Institutions (Stabilisation) Act 2010 ('CISA'), enacted on 21 December 2010 following agreement of the assistance package, gives broad powers to the Minister for Finance to facilitate the reorganisation and restructuring of the banking system in Ireland. In this context, the Irish Government submitted the Restructuring Plan, prepared in conjunction with the Department of Finance and the NTMA, to the European Commission ('EC') on 31 January 2011.

The original provisions of CISA state that the Act will cease to have effect on 31 December 2012 or a later date substituted by resolution of both Houses of the Oireachtas.

The submission of the Restructuring Plan was followed by the Direction Order, under which the Bank was directed to prepare for implementation of the Restructuring Plan, and the AIB Transfer Order, made by the Irish High Court under Section 9 of CISA on 8 February 2011 and under Section 34 of CISA on 24 February 2011 respectively.

On 7 April 2011 the Minister for Finance issued Ministerial Requirements to the Bank under Section 50 of CISA pursuant to which the Bank was also required to prepare the High Level Steps Plan. The Bank is proceeding to implement the High Level Steps Plan, following approval by the NTMA on 20 June 2011.

The Restructuring Plan, which was approved by the EC on 29 June 2011, sets out in detail how the loan book of the Group will be resolved over a period of up to ten years. To ensure that the assets are managed in a way consistent with the resolution of the combined entity, certain commitments are now binding upon the Bank, including a commitment that it cannot enter into new activities. A Monitoring Trustee was approved by the EC on 8 December 2011 to report on a quarterly basis for a period of three years on the Group's adherence to these Restructuring Plan commitments.

The Bank has prepared an operating plan which is intended to form the basis for the implementation of the Restructuring Plan and the High Level Steps Plan. The operating plan includes initiatives which are subject to operational challenges and market dependencies in respect of timing and optimal pricing, which will increase the execution risk of the operating plan.

In addition, the Irish Government published the Personal Insolvency Bill 2012 on 29 June 2012, which reforms existing insolvency laws and provides new and more flexible options to address the circumstances of insolvent debtors. The inclusion of a number of new non-judicial debt resolution processes could impact on the behaviour of the Bank's customers.

Market risk

Market risk is the risk of a potential adverse change in the Group's income or financial position arising from movements in interest rates, exchange rates or other market prices. Changes in interest rates and spreads may affect the interest rate margin realised between income on lending assets and borrowing costs.

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 to accurately predict changes in economic or market conditions and to anticipate the effects that such changes could have on the Group.

Borrowings from central banks and a large proportion of the Group's other funding balances are denominated in euro while some of the Group's lending assets are denominated in sterling and US dollars. As a consequence, the Group has made extensive use of foreign currency derivatives to manage the currency profile of its balance sheet during the period. Continued access to market participants is required to enable the Group to continue with this risk management strategy.

The promissory notes, which are fixed rate instruments, have resulted in the Group having significant interest rate risk exposure. This exposure increased due to receipt by the Bank of a long term Irish Government bond with an initial fair value of €3.06bn as settlement of the second instalment due under the promissory notes arrangement. The Bank has hedged a total of €4.1bn of the nominal amount using interest rate swaps. A further €3.5bn of economic hedges exist in the form of the Group's capital and fixed rate debt issuance. However, substantial fixed rate exposure remains, with limited capacity to hedge further amounts with market counterparties, as the promissory notes and the long term Irish Government bond account for more than half of total assets. Any increase in market interest rates will have a significant negative impact on the Group's net interest income.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group does not have sufficient financial resources available at all times to meet its contractual and contingent cash flow obligations or can only secure these resources at excessive cost. This risk is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events. The Group's liquidity may be adversely affected by a number of factors, including significant unforeseen changes in interest rates, higher than anticipated losses on loans and disruptions in the financial markets generally.

In response to major market instability and illiquidity, governments and central banks around the world have intervened in order to inject liquidity and capital into financial markets and, in some cases, to prevent the failure of systemically important financial institutions. These various initiatives to stabilise financial markets are subject to revocation or change, which could have an adverse effect on the availability of funding to the Group.

In common with many other banks, the Group's access to traditional sources of liquidity remains constrained, relying mainly on Government and monetary authority support mechanisms during the period. The Bank's continued reliance on support from central banks includes access to special funding facilities, a key factor in ensuring successful implementation of the operating plan as well as adapting to potential regulatory developments. The funding support from central banks and monetary authorities amounted to €42.3bn at 30 June 2012, representing 89% of total funding (31 December 2011: €42.2bn; 87%), and included €41.7bn borrowed under special liquidity facilities.

Should monetary authorities materially change their eligibility criteria or limit the Bank's access to such special funding facilities without providing an alternative funding source, this would adversely affect the Group's financial condition and prospects. Additionally, credit rating downgrades may impact on the eligibility of assets currently pledged as collateral for central bank open market sale and repurchase agreements.

The Group is also subject to the risk of early termination of the securities repurchase transaction whereby Bank of Ireland purchased a long term Irish Government bond from the Bank, which the Bank is obliged to repurchase not later than 19 June 2013 (note 38). Bank of Ireland has the right, on the occurrence of an early termination event, to request repayment of all amounts owing. Possible early termination events include changes to regulatory capital requirements, the bond no longer qualifying for the purpose of open market operations, or a withdrawal or expiry of the guarantee provided by the Minister for Finance.

In current market circumstances it is envisaged that the Bank will have to continue to rely on support mechanisms provided by monetary and governmental authorities.

Bank and sovereign ratings

During August 2012 the Bank's long-term counterparty credit rating with Standard & Poor's ('S&P') was raised from CCC+ to B- citing the reduction in the remaining senior unguaranteed debt obligations and increased stability of the Bank after the number of compulsory changes it underwent after nationalisation. Moody's and Fitch have retained their ratings of Caa2 and BB- respectively during the period.

The credit rating of Irish sovereign senior debt has remained unchanged, with S&P, Moody's and Fitch confirming their respective ratings of BBB+, Ba1, and BBB+ (Negative) during the period. The agencies noted that these ratings should be maintained if government policy and a relatively favourable external environment enable Ireland to reduce its deficit, but that these factors could be undermined by weaker than expected growth in Ireland's main trading partners, which could result in lower economic growth.

Regulatory compliance risk

Regulatory compliance risk primarily arises from a failure or inability to comply fully with the laws, regulations, standards or codes applicable specifically to regulated entities in the financial services industry. The Bank continues to operate as a regulated entity and, as such, is therefore subject to certain minimum prudential and other regulatory requirements. At 30 June 2012, the Bank is not in full compliance with all Irish regulatory requirements. While the Bank ensures that the relevant Authorities are kept fully informed in this regard, non-compliance may result in the Group being subject to regulatory sanctions, material financial loss and/or loss of reputation.

Capital risk is the risk that the Group has insufficient capital resources to meet its minimum regulatory capital requirements. Losses incurred by the Bank in recent years have placed significant stress on the Bank's regulatory capital resources and resulted in the Minister for Finance, as the Bank's sole shareholder, providing €29.3bn of capital. The Group's Total capital ratio at 30 June 2012 is 15.7%. Further losses, as well as any increased capital requirements, could again lead to regulatory capital concerns in the future. The Group has also yet to update its Internal Capital Adequacy Assessment Process ('ICAAP'). Accordingly the Group has yet to determine the appropriate level of capital requirements under Pillar 2.
In addition, a wholly owned subsidiary of the Bank, IBRC Assurance Company, is licensed to sell certain classes of life assurance business in Ireland. It is regulated by the Insurance Supervision Division of the Central Bank of Ireland and is subject to the requirements of the European Communities (Life Assurance) Framework Regulations 1994 (Life Assurance Framework Regulations).

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry may adversely affect the Group's capital requirements and/or reported results and financing requirements. These changes include possible amendments to and changes in interpretation of existing government and regulatory policies and practices in any country in which the Group operates, agreements with such regulators, and solvency and capital requirements.

Valuation risk

To establish the fair value of financial instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, observable market data for individual financial instruments or classes of financial instruments may not be available. The absence of quoted prices in active markets increases reliance on valuation techniques and requires the Group to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex and the assumptions, judgements and estimates the Group is required to make often relate to matters that are inherently uncertain. These judgements and estimates are updated to reflect changing facts, trends and market conditions and any resulting change in the fair values of the financial instruments could have an adverse effect on the Group's earnings and financial position.

Principal risks and uncertainties continued

Operational risk

Operational risk is the risk of loss arising from inadequate controls and procedures, unauthorised activities, outsourcing, human error, systems failure and business continuity. Operational risk is inherent in every business organisation and covers a wide spectrum of issues. The Group's management of its exposure to operational risk is governed by a policy prepared by Group Compliance and Operational Risk and approved by the Risk and Compliance Committee.

The Group's exposure to operational risk is elevated due to the transitional support arrangements in place following the making of the AIB Transfer Order as well as the integration process resulting from the INBS Transfer Order. There is also the added risk of a weakened control environment while the Group implements the operational plan to give effect to the approved Restructuring Plan and High Level Steps Plan. The lack of career prospects and incentives in the medium term may lead to loss of experienced staff and indifference among remaining staff, with an increased associated risk of material error. Separately, the current economic climate increases the risk of the occurrence of fraud.

Litigation and legal compliance risk

The Group's business is subject to the risk of litigation by counterparties, customers, employees, pre-nationalisation shareholders or other third parties through private actions, class actions, regulatory actions, criminal proceedings or other litigation or actions. The outcome of any such litigation, proceedings or actions is difficult to assess or quantify. The cost of defending such litigation, proceedings or actions may be significant. As a result, such litigation, proceedings or actions may adversely affect the Group's business, financial condition, results, operations or reputation.

In the period since December 2008, various regulatory bodies in Ireland have initiated investigations (including in some cases, criminal investigations) into certain aspects of the Bank's business, including certain loan and other transactions involving former Directors and certain third parties. These investigations are ongoing and it is not possible at this stage to give any indication as to whether these investigations will result in civil, administrative or criminal proceedings against the Bank.

Due to the complexity of the restructuring of the Bank, including integration of the former INBS into the Group, there is a potential for unforeseen legal risks to arise.

Events of default risk

The Group's debt securities programmes, subordinated capital instruments and certain other borrowing arrangements contain contractual covenants and terms for events of default which, if breached or triggered, could result in an actual or potential default that might result in the debt concerned and potentially other obligations becoming payable immediately, or other adverse consequences including a cross default occurring.

CISA includes important provisions that modify rights in respect of a potential event of default, or an event of default becoming exercisable because of the making of orders or issuing of certain requirements under CISA or anything done on foot of such an order or requirements, including implementation of the High Level Steps Plan. CISA provides that orders or requirements made under CISA may take effect as a reorganisation measure under the Credit Institutions Reorganisation and Winding Up Directive ('CIWUD') and any law giving effect to it. The relevant protective provisions of CISA apply in relation to the Direction Order, the AIB Transfer Order, the Ministerial Requirements (including implementation of the High Level Steps Plan) and the INBS Transfer Order. Each such order and requirement was declared to be a reorganisation measure for the purposes of CIWUD. Accordingly, CISA and laws giving effect to CIWUD confer important protections to the Bank with respect to the laws of EU member states against certain default risks in respect of the matters and timelines contained in the relevant orders and requirements.

With regard to litigation in the US in connection with alleged breaches of covenant in the documentation governing certain subordinated loan notes governed by New York Law, see the disclosure concerning legal claims referred to in note 33 to the interim financial statements.

Separately, on 27 July 2012 the English High Court delivered a judgment granting declaratory relief against the Bank in favour of Assénagon Asset Management S.A. ('Assénagon'), including declarations that the compulsory redemption of Assénagon's notes (subordinated floating rate notes due 2017), under the liability management exercise carried out by the Bank in November 2010, was of no effect and that Assénagon's notes continue in existence. The Bank's legal advisors have expressed a view that a consequence of this Court judgment is that interest payable on Assénagon's notes continued to be payable notwithstanding the liability management exercise carried out by the Bank. However, as the Bank was not aware of the liability at the time (because it believed that the notes concerned had been cancelled) it did not pay such interest. The Bank has been granted permission to appeal the Assénagon judgment by the English High Court and intends to pursue the appeal.

The consequence of the judgment include that an event of default has occurred and that the Bank may also be liable for the interest on other notes that were compulsorily redeemed under the liability management exercise. As regards event of default risk, current legal analysis indicates that the consequences of such default are considered to be limited. This is because the amount of interest concerned is below relevant threshold amounts contained in certain of the relevant documents which could potentially trigger a cross default, except in the case of facilities from the Central Bank of Ireland, where the Bank is seeking a waiver. Furthermore, the conditions attaching to the relevant subordinated floating rate debt do not confer on the holders, on the event of a default, any right to require accelerated payment of the principal amount but instead confer only a conditional right to seek the winding up of the Bank in Ireland, a process that under Irish law would require the prior consent of the Minister for Finance and the Central Bank of Ireland.

Taxation risk

Taxation risk is the compliance risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risk effectively could lead to additional tax charges. It could also lead to financial penalties for failure to comply with required tax procedures or other aspects of tax law. The Group is subject to the application and interpretation of tax laws in all countries in which it operates. In relation to any tax risk, if the costs associated with the resolution of the matter are greater than anticipated, it could negatively impact upon the financial position of the Group.

In accordance with applicable accounting rules, the Group has also recognised deferred tax assets on losses available to relieve profits to the extent that it is probable that such losses will be utilised. The assets are quantified on the basis of current tax legislation and are subject to change in respect of the tax rate or the rules for computing taxable profits and allowable losses. In the event that there are no taxable profits to be relieved or changes to tax legislation arise, there may be a reduction in the recoverable amount of the deferred tax assets currently recognised in the financial statements.

NAMA

The Bank continues to be designated as a participating institution in NAMA. The NAMA Act provides for the acquisition by NAMA from participating institutions of eligible bank assets, which may include performing and non-performing loans made for the purpose, in whole or in part, of purchasing, exploiting or developing development land and loans associated with these loans.

As NAMA reserves the right to adjust the consideration paid for assets previously transferred when the due diligence is completed, the final adjustment to transfer values will only be determined when full due diligence in respect of the assets has been completed. These adjustments have the potential to be either positive or negative, depending on the assessment of the underlying loans.

The Group may also be required to indemnify NAMA in respect of various matters, including NAMA's potential liability arising from any error, omission, or misstatement on the part of the Group in information provided to NAMA. In addition, the EC may assess the compatibility and price of the transferred assets and could invoke a claw-back mechanism in the case of excess payments.

The NAMA Act provides that up to 5% of the debt securities that will be issued to a participating institution may be subordinated. If NAMA ultimately makes a loss, the Group may not recover the full value of those subordinated bonds.

Fitness and probity regime

The Central Bank of Ireland's Regulations and Standards of Fitness and Probity, issued under Part 3 of the Central Bank Reform Act 2010 ('the 2010 Act'), came into effect on 1 December 2011.

The 2010 Act provides for a fitness and probity regime for the review of individuals performing 'controlled functions' and 'pre-approval controlled functions', including directors and chief executive officers, in regulated financial service providers other than credit unions. Where the review causes the Head of Financial Regulation of the Central Bank of Ireland to form the opinion that there is reason to suspect the person's fitness and probity to perform the relevant function, an investigation may be conducted which may result in a prohibition notice being issued preventing the person from carrying out the function. The Group could suffer reputational damage or adverse financial performance if any issues were to arise under the fitness and probity regime.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Interim Report in accordance with International Accounting Standard 34 ('IAS 34'), the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

The Directors confirm that the condensed set of financial statements has been prepared in accordance with IAS 34 and that it gives a true and fair view of the assets, liabilities, financial position and loss of the Group and that, as required by the Transparency (Directive 2004/109/EC) Regulations 2007, the Interim Report includes a fair review of:

- important events that have occurred during the six months ended 30 June 2012;

- the impact of those events on the condensed financial statements;

- a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2012.

Directors:
Alan Dukes (Chairman),
A.M.R. (Mike) Aynsley (Group Chief Executive),
Gary Kennedy (Non-executive Director).

Secretary:
Philip Brady.

Consolidated income statement (unaudited)

For the 6 months ended 30 June 2012

	Note	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Interest and similar income		**1,198**	1,189	2,469
Interest expense and similar charges		**(660)**	(717)	(1,525)
Net interest income	3	**538**	472	944
Fee and commission income	4	**25**	33	64
Fee and commission expense	4	**(1)**	(2)	(5)
Net expense from financial instruments at fair value through profit or loss	5	**(43)**	(17)	(72)
Other operating (expense)/income	6	**(31)**	3	9
Other (expense)/income		**(50)**	17	(4)
Total operating income		**488**	489	940
Administrative expenses	7	**(124)**	(145)	(297)
Depreciation		**(2)**	(7)	(13)
Amortisation of intangible assets - software		**(3)**	(5)	(10)
Total operating expenses		**(129)**	(157)	(320)
Operating profit before disposals and provisions		**359**	332	620
Loss on transfer of assets and liabilities	9	**-**	(214)	(214)
(Loss)/gain on disposal of assets to NAMA	10	**(18)**	601	776
Gain/(loss) on deleveraging of other financial assets	11	**7**	(40)	(426)
Provisions for impairment and other provisions	12	**(1,091)**	(778)	(1,644)
Operating loss		**(743)**	(99)	(888)
Share of results of associates and joint ventures		**-**	(2)	15
Loss before taxation		**(743)**	(101)	(873)
Taxation credit/(charge)	13	**19**	(4)	(12)
Loss for the period		**(724)**	(105)	(885)
Attributable to:				
Owner of the parent		**(724)**	(104)	(884)
Non-controlling interests		**-**	(1)	(1)
		(724)	(105)	(885)

The notes on pages 30 to 78 form an integral part of the condensed interim financial statements.

Consolidated statement of comprehensive income (unaudited)

For the 6 months ended 30 June 2012

	Note	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Loss for the period		**(724)**	(105)	(885)
Other comprehensive income				
Net actuarial losses in retirement benefit schemes, after tax	8	**(8)**	(5)	(6)
Net change in cash flow hedging reserve, after tax	31	**(7)**	(15)	(26)
Net change in available-for-sale reserve, after tax	31	**222**	24	(39)
Foreign exchange translation	31	**13**	(30)	21
Other comprehensive income for the period, after tax	32	**220**	(26)	(50)
Total comprehensive income for the period		**(504)**	(131)	(935)
Attributable to:				
Owner of the parent		**(504)**	(130)	(934)
Non-controlling interests		**-**	(1)	(1)
		(504)	(131)	(935)

The notes on pages 30 to 78 form an integral part of the condensed interim financial statements.

Consolidated statement of financial position (unaudited)

As at 30 June 2012

	Note	**30 June 2012 €m**	31 December 2011 €m	30 June 2011 €m
Assets				
Cash and balances with central banks	14	**8**	100	255
Financial assets at fair value through profit or loss				
- held on own account	15	**11**	12	13
- held in respect of liabilities to customers under investment contracts	26	**182**	194	215
Derivative financial instruments	16	**475**	1,096	1,888
Loans and advances to banks	17	**2,093**	2,306	2,030
Assets classified as held for sale	18	**335**	392	6,822
Available-for-sale financial assets	19	**4,195**	1,332	1,510
Promissory notes	20	**27,785**	29,934	23,804
Government debt securities at amortised cost	21	**866**	947	259
Loans and advances to customers	22	**15,565**	17,689	15,471
Interests in joint ventures		**58**	57	38
Interests in associates		**99**	99	-
Intangible assets - software		**7**	10	12
Investment property				
- held on own account		**204**	88	90
- held in respect of liabilities to customers under investment contracts	26	**1,153**	1,130	1,168
Property, plant and equipment		**17**	18	17
Current taxation		**21**	21	91
Retirement benefit assets	8	**-**	8	-
Deferred taxation		**45**	42	46
Other assets		**26**	31	314
Prepayments and accrued income		**20**	35	38
Total assets		**53,165**	55,541	54,081
Liabilities				
Deposits from banks	23	**45,470**	42,591	41,225
Customer accounts	24	**518**	597	689
Derivative financial instruments	16	**1,497**	2,249	1,828
Debt securities in issue	25	**1,360**	5,371	5,684
Liabilities to customers under investment contracts	26	**256**	283	322
Current taxation		**46**	66	50
Other liabilities	27	**680**	543	312
Accruals and deferred income		**70**	85	89
Retirement benefit liabilities	8	**-**	-	3
Deferred taxation		**1**	1	-
Subordinated liabilities and other capital instruments	28	**533**	517	475
Total liabilities		**50,431**	52,303	50,677
Share capital	29	**4,123**	4,123	4,123
Share premium		**1,156**	1,156	1,156
Capital reserve	30	**26,011**	26,011	25,300
Other reserves	31	**(18)**	(246)	(150)
Retained earnings		**(28,538)**	(27,806)	(27,025)
Shareholders' funds		**2,734**	3,238	3,404
Non-controlling interests		**-**	-	-
Total equity		**2,734**	3,238	3,404
Total equity and liabilities		**53,165**	55,541	54,081

The notes on pages 30 to 78 form an integral part of the condensed interim financial statements.

Consolidated statement of changes in equity (unaudited)

For the 6 months ended 30 June 2012

	Attributable to owner of the parent										
				Other reserves							
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
6 months ended 30 June 2012											
Balance at 31 December 2011	4,123	1,156	26,011	1	24	31	(302)	(27,806)	3,238	-	3,238
Total comprehensive income											
Loss for the period	-	-	-	-	-	-	-	(724)	(724)	-	(724)
Other comprehensive income (net of tax):											
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	(8)	(8)	-	(8)
Net change in cash flow hedging reserve	-	-	-	-	-	(7)	-	-	(7)	-	(7)
Net change in available-for-sale reserve	-	-	-	-	-	-	222	-	222	-	222
Foreign exchange translation	-	-	-	-	13	-	-	-	13	-	13
	-	-	-	-	13	(7)	222	(732)	(504)	-	(504)
Balance at 30 June 2012	4,123	1,156	26,011	1	37	24	(80)	(28,538)	2,734	-	2,734

The notes on pages 30 to 78 form an integral part of the condensed interim financial statements.

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

For the 6 months ended 30 June 2012

	Attributable to owner of the parent										
				Other reserves							
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
6 months ended 30 June 2011											
Balance at 31 December 2010	4,123	1,156	25,300	1	3	57	(190)	(26,916)	3,534	1	3,535
Total comprehensive income											
Loss for the period	-	-	-	-	-	-	-	(104)	(104)	(1)	(105)
Other comprehensive income (net of tax):											
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Net change in cash flow hedging reserve	-	-	-	-	-	(15)	-	-	(15)	-	(15)
Net change in available-for-sale reserve	-	-	-	-	-	-	24	-	24	-	24
Foreign exchange translation	-	-	-	-	(30)	-	-	-	(30)	-	(30)
	-	-	-	-	(30)	(15)	24	(109)	(130)	(1)	(131)
Balance at 30 June 2011	4,123	1,156	25,300	1	(27)	42	(166)	(27,025)	3,404	-	3,404

	Attributable to owner of the parent										
				Other reserves							
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
Year ended 31 December 2011											
Balance at 31 December 2010	4,123	1,156	25,300	1	3	57	(190)	(26,916)	3,534	1	3,535
Total comprehensive income											
Loss for the year	-	-	-	-	-	-	-	(884)	(884)	(1)	(885)
Other comprehensive income (net of tax):											
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	(6)	(6)	-	(6)
Net change in cash flow hedging reserve	-	-	-	-	-	(26)	-	-	(26)	-	(26)
Net change in available-for-sale reserve	-	-	-	-	-	-	(39)	-	(39)	-	(39)
Foreign exchange translation	-	-	-	-	21	-	-	-	21	-	21
	-	-	-	-	21	(26)	(39)	(890)	(934)	(1)	(935)
Transactions with owners											
Arising under the INBS Transfer Order	-	-	711	-	-	-	(73)	-	638	-	638
	-	-	711	-	-	-	(73)	-	638	-	638
Balance at 31 December 2011	4,123	1,156	26,011	1	24	31	(302)	(27,806)	3,238	-	3,238

Consolidated statement of cash flows (unaudited)

For the 6 months ended 30 June 2012

	Note	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Cash flows from operating activities				
Loss before taxation		**(743)**	(101)	(873)
Provisions for impairment and other provisions		**1,091**	778	1,644
Settlement of government debt securities at amortised cost		**48**	-	-
Loss on transfer of assets and liabilities		**-**	214	214
Loss/(gain) on disposal of assets to NAMA		**18**	(601)	(776)
(Gain)/loss on deleveraging of other financial assets		**(7)**	40	426
Interest earned on promissory notes		**(769)**	(644)	(1,447)
Interest earned on government debt securities at amortised cost		**(30)**	(75)	(92)
Interest earned on available-for-sale financial assets		**(70)**	(19)	(45)
Other non-cash items	34	**(7)**	(43)	(44)
		(469)	(451)	(993)
Changes in operating assets and liabilities				
Net increase/(decrease) in deposits from banks		**2,879**	(6,332)	(11,007)
Net decrease in customer accounts		**(79)**	(2,055)	(2,154)
Net decrease in debt securities in issue		**(4,011)**	(1,228)	(2,142)
Receipt of promissory note instalment payment		**-**	2,530	2,530
Net decrease in loans and advances to customers and assets classified as held for sale		**1,101**	2,464	2,729
Net decrease/(increase) in loans and advances to banks		**98**	(164)	(442)
Net (increase)/decrease in assets held in respect of liabilities to customers under investment contracts		**(11)**	47	106
Net decrease in investment contract liabilities		**(27)**	(29)	(68)
Net decrease in financial assets at fair value through profit or loss held on own account		**1**	-	3
Net movement in derivative financial instruments		**(283)**	(576)	339
Net decrease in other assets		**5**	34	68
Net decrease in other liabilities		**(129)**	(214)	(101)
Exchange movements		**20**	(9)	16
Net cash flows from operating activities before taxation		**(905)**	(5,983)	(11,116)
Tax (paid)/refunded		**(4)**	-	58
Net cash flows from operating activities		**(909)**	(5,983)	(11,058)
Cash flows from investing activities (note a)		**699**	5,020	9,773
Cash flows from financing activities (note b)		**(2)**	(1)	(3)
Net decrease in cash and cash equivalents		**(212)**	(964)	(1,288)
Opening cash and cash equivalents		**423**	1,569	1,569
Cash and cash equivalents received under the INBS Transfer Order		**-**	-	128
Effect of exchange rate changes on cash and cash equivalents		**5**	(25)	14
Closing cash and cash equivalents	34	**216**	580	423

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
(a) Cash flows from investing activities			
Purchases of available-for-sale financial assets	**(7)**	(7)	(12)
Sales and maturities of available-for-sale financial assets	**484**	716	1,103
Interest received on available-for-sale financial assets net of associated hedges	**30**	27	46
Redemption of Government debt securities at amortised cost by NAMA	**66**	-	-
Interest received on Government debt securities at amortised cost	**7**	55	56
Proceeds on transfer of assets and liabilities	**-**	3,719	3,719
Proceeds on disposals of other financial assets	**119**	512	4,965
Purchases of property, plant and equipment	**-**	(1)	(2)
Additions to intangible assets - software	**-**	(2)	(4)
Investments in joint venture interests	**-**	(1)	(2)
Investments in associates	**-**	-	(99)
Distributions received from joint venture interests	**-**	2	3
Net cash flows from investing activities	**699**	5,020	9,773
(b) Cash flows from financing activities			
Coupons paid on subordinated liabilities and other capital instruments	**(2)**	(1)	(3)
Net cash flows from financing activities	**(2)**	(1)	(3)

The notes on pages 30 to 78 form an integral part of the condensed interim financial statements.

Notes to the interim financial statements

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1. Basis of preparation

1.1 Basis of preparation

The Interim Report for the six months ended 30 June 2012 has been prepared in accordance with the requirements of the European Union ('EU') Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and International Accounting Standard ('IAS') 34 'Interim Financial Reporting', as adopted by the EU and implemented into Irish law. It should be read in conjunction with the Group's financial statements for the year ended 31 December 2011 which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable as at that date. The accounting policies applied in preparing the condensed interim financial statements are consistent with those set out in the 2011 Annual Report and Accounts. The financial statements are presented in euro, rounded to the nearest million.

Both the figures for the six months ended 30 June 2012 and for the six months ended 30 June 2011 presented in the condensed interim financial statements are unaudited. The summary financial statements for the year ended 31 December 2011, as presented, represent an abbreviated version of the Group's full statutory accounts for that year, which have been filed with the Companies Registration Office in Ireland. These condensed interim financial statements do not comprise statutory accounts within the meaning of Section 19 of the Companies (Amendment) Act, 1986. Comparative figures have been adjusted where necessary to conform with changes in presentation or where additional analysis has been provided in the current period.

In preparing the financial statements for the six months ended 30 June 2012 the Directors have considered the appropriateness of the use of the going concern basis. In making the assessment, the Directors considered a range of factors and in particular the Group's ability to continue to avail of special and secured funding facilities from the Central Bank of Ireland and, to a limited extent, from the ECB, the Shareholder's ongoing support for the Restructuring Plan, the impact of the EU/IMF Programme, political factors and the impact of general economic conditions and fiscal realignment measures on lending asset quality.

Taking into account the factors set out above the Directors' assessment is primarily dependent on the following key expectations:

a) that the Group will continue to have access to sufficient liquidity and funding facilities from the Central Bank of Ireland and, to a limited extent, from the ECB, and if required, an alternative appropriate source; and

b) that the Bank will continue to function as a licensed bank and that the Shareholder will continue to provide capital support if required in order for the Group to continue to meet its regulatory capital requirements.

On the basis of the above, the Directors have determined, following an assessment that it is reasonable to conclude that the Group will continue in operational existence for the foreseeable future and therefore that it is appropriate to prepare the financial statements on a going concern basis.

1.2 Adoption of new accounting standards

During the period ended 30 June 2012 the Group has adopted the amendment to IFRS 7 - Financial Instruments: Disclosures which requires additional quantitative and qualitative disclosures relating to transfers of financial assets. The amendment has not had an impact on the disclosures in these interim financial statements.

1.3 Prospective accounting changes

A number of accounting developments which will apply in future years are described in note 1.37 of the 2011 Annual Report and Accounts. The Group is currently evaluating the potential impact of the adoption of these standards, revised standards and amendments to standards. With the exception of IFRS 9 - Financial Instruments, these are not expected to have a material impact on the Bank's results or financial statements.

The Group has not yet fully assessed the potential impact of IFRS 9. It is the first phase of a project to replace IAS 39 - Financial Instruments: Recognition and Measurement. Its aim is to reduce the complexity of accounting for financial assets and liabilities and to aid investors' and other users' understanding of financial information.

In addition, the International Accounting Standards Board has issued amendments to IAS 1 - Presentation of Financial Statements which include a requirement for entities to group together items within other comprehensive income that may be reclassified subsequently to profit or loss. The amendments were endorsed by the EU on 5 June 2012 and are applicable for annual periods beginning on or after 1 July 2012.

1. **Basis of preparation** continued

1.4 Significant accounting estimates and judgements

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and estimates involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of the Group's financial condition are summarised in note 1 to the 2011 Annual Report and Accounts. The use of estimates, assumptions or models that differ from those adopted by the Group could affect its reported results.

The most significant estimates and judgements applicable to the current period are as follows:

Loan impairment

The estimation of potential loan losses is inherently uncertain and dependent upon many factors. On an ongoing basis potential issues are identified as a result of individual loans being regularly monitored. The Group also performs a combination of reviews incorporating a semi-annual review of its UK and US loan portfolios together with a series of rolling monthly and quarterly reviews of the Irish loan portfolio. As part of this process all larger value loan balances (greater than €5m) are reviewed at least semi-annually. Within the residential mortgage portfolio overall credit quality is managed by the Credit and Collections Forum. The Arrears Support Unit manages individual cases of customers who are experiencing difficulties with their scheduled mortgage repayments. This loan monitoring and review process determines whether there is any objective evidence of incurred impairment. Impairment under IFRS is only recognised in respect of incurred losses. Future potential losses cannot be provided for. If there is objective evidence that a loan is currently impaired, a provision is recognised equating to the amount by which the carrying value of the loan exceeds the present value of its expected future cash flows. Provisions are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral.

The determination of these provisions requires the exercise of considerable subjective judgement by management involving matters such as future economic conditions, trading performance of client businesses and the valuation of the underlying collateral held. Provision calculations are highly sensitive to the underlying assumptions made in relation to the amount and timing of future cash flows, including the sale of assets held as collateral. This is particularly the case for residential mortgages where a model is used to calculate specific impairment provisions. The key variables used in this model for determining the necessary provision are the forecasted repayment capacity of the borrowers and estimated realisable collateral values.

The majority of the Group’s collateral consists of property assets. The values of these assets have declined significantly as a result of the economic downturn. In the current market, where there is limited transactional activity, there may be a wide range of valuation estimates. Changes in estimated realisable collateral values and the timing of their realisation could have a material effect on the amount of impairment provisions reflected in the income statement and the closing provisions in the statement of financial position.

The Group has evaluated the impact on its specific impairment charge, for both loans and advances to customers and loans classified as held for sale, of applying a lower estimate of the realisable value of collateral and of a change in the timing of the realisation of these assets. The Bank estimates that a decrease of 10% in realisable collateral values on currently impaired loans would have increased the impairment charge for the period by approximately €0.7bn. Similarly, an extension of one year in the timing of the realisation of these assets, excluding cash flows generated from the asset, would have increased the impairment charge by less than €0.2bn. These estimates are based on impaired loans at 30 June 2012. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

An additional incurred but not reported ('IBNR') collective provision is required to cover losses inherent in the loan book where there is objective evidence to suggest that it contains impaired loans, but the individual impaired loans cannot yet be identified. This provision takes account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans with similar credit risk characteristics, although the decrease cannot yet be identified within the individual loans in the group.

This provision is calculated by applying incurred loss factors to groups of loans sharing common risk characteristics. Loss factors are determined by historical loan loss experience as adjusted for current observable market data. Adjustments reflect the impact of current conditions that did not affect the years on which the historical loss experience is based and remove the effects of conditions in the historical period that do not exist currently. The provision amount is also adjusted to reflect the appropriate loss emergence period. The loss emergence period represents the time it takes following a specific loss event on an individual loan for that loan to be identified as impaired. The loss emergence period applied in the period was six months (31 December 2011: six months).

The future credit quality of loan portfolios against which an IBNR collective provision is applied is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include factors such as local and international economic conditions, borrower specific factors, industry trends, interest rates, unemployment levels and other external factors. For loan impairment details, see notes 18 and 22.

Assets classified as held for sale

Assets that the Bank expects to be sold to third parties are classified as held for sale. Loan and derivative assets continue to be measured on the same basis as prior to their reclassification as held for sale. Other non-financial assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

Assets will continue to be carried in the statement of financial position until they legally transfer to a third party. The amount of consideration received will be measured at fair value and any difference between the carrying value of the asset on the date of disposal and the consideration received will be recognised in the income statement.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where these are available and are reliable. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent third party pricing service providers, comparisons with similar financial instruments for which observable market prices exist, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants.

Where non-observable market data is used in valuations, any resulting difference between the transaction price and the valuation is deferred on initial recognition. The deferred day one profit or loss is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs or realised through settlement, depending on the nature of the instrument and availability of market observable inputs. The accuracy of fair value calculations could be affected by unexpected market movements when compared to actual outcomes. Due to the increasing significance of credit related factors, determining the fair value of corporate interest rate derivative financial assets requires considerable judgement. In the absence of unadjusted quoted market prices, valuation techniques take into consideration the credit quality of the underlying loans when determining fair value. The most significant area of judgement is in relation to certain financial assets and liabilities classified as level 3 under the fair value hierarchy (note 36).

1.5 Segmental reporting

The single continuing business activity is the orderly resolution of the Group over a period of up to ten years. Statutory financial information is therefore presented as one operating segment and actions taken to achieve the Group's strategic objective, including the sale or transfer of assets and liabilities, are regarded as arising from a continuing activity.

2. Business combination

On 1 July 2011, under the INBS Transfer Order, the assets and liabilities of INBS, with the exception of certain limited excluded liabilities, were transferred to the Bank at carrying value, after harmonisation adjustments to give effect to the business combination. The basis for the accounting treatment applied is described in note 1.4 to the 2011 Annual Report and Accounts.

The Bank has incorporated the results of the acquired business only from the date on which the business combination occurred and has not restated prior period comparatives. Accordingly, the results of the Group for the current period are not directly comparable to those for the six months ended 30 June 2011.

3. Net interest income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Interest and similar income			
Interest on loans and advances to banks	**5**	12	22
Interest on loans and advances to customers (including loans classified as held for sale)	**324**	439	861
Interest on available-for-sale financial assets	**70**	19	45
Interest on promissory notes	**769**	644	1,447
Interest on government debt securities at amortised cost	**30**	75	92
Finance leasing and hire purchase income	**-**	-	2
	1,198	1,189	2,469
Interest expense and similar charges			
Interest on deposits from banks	**(578)**	(563)	(1,264)
Interest on customer accounts	**(21)**	(64)	(71)
Interest on debt securities in issue	**(60)**	(95)	(195)
Net interest on subordinated liabilities and other capital instruments	**(1)**	5	5
	(660)	(717)	(1,525)
Net interest income	**538**	472	944

Group net interest income has increased by €66m or 14% versus the 6 months ending 30 June 2011. The principal components of net interest income for the period are interest earned on the promissory notes and customer lending balances and interest expense incurred on Central Bank of Ireland special funding facilities.

Interest income on customer lending includes margin interest and arrangement fees amortised over the expected lives of the related loans. Interest on loans and advances to customers includes interest income on held for sale loans which, at 30 June 2012, represent 2% (30 June 2011: 24%; 31 December 2011: 1%) of total customer loan balances.

Included within net interest income is €106m (30 June 2011: €102m; 31 December 2011: €203m) in respect of impaired customer loan balances. Specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan. The impact of the unwinding of this discount, as the time to the realisation of the estimated future cash flows shortens, is recognised as interest income in accordance with IFRS.

Interest and similar income includes net foreign exchange gains of €4m (30 June 2011: losses of €2m; 31 December 2011: losses of €9m).

Interest on deposits from banks includes €571m (30 June 2011: €519m; 31 December 2011: €1,201m) in respect of amounts borrowed under a Special Master Repurchase Agreement, a Master Loan Repurchase Agreement and a Facility Deed agreement from the Central Bank of Ireland (note 23). The interest rates on these facilities are set by the Central Bank of Ireland and advised at each rollover, and are currently linked to the European Central Bank marginal lending facility rate. Also included within interest on deposits from banks is interest expense of €2m in relation to a securities repurchase transaction entered into with Bank of Ireland on 20 June 2012 (note 23).

Interest on customer accounts includes €15m in relation to a short term collateralised facility entered into in early April 2012 with NAMA. The facility was repaid in full on 20 June 2012 (note 20).

Included within interest expense for the period is €15m (30 June 2011: €50m; 31 December 2011: €77m) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the 'ELG Scheme'), in which the Bank became a participating institution on 28 January 2010. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issuance of specific financial liabilities. The EC has approved the extension of the ELG Scheme for certain eligible liabilities to 31 December 2012.

4. Fee and commission income and expense

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Fee and commission income			
Administration fees	**17**	12	31
Corporate treasury	**1**	11	14
Asset management and related fees	**4**	4	9
Financial guarantee fees	**3**	3	6
Other fees	**-**	3	4
	25	33	64
Fee and commission expense	**(1)**	(2)	(5)

Fees which are an integral part of the effective interest rate of a financial instrument are included in net interest income.

Administration fees include €15m (30 June 2011: €11m; 31 December 2011: €28m) due from NAMA in relation to the servicing of loans acquired from the Bank. Also included are fees of €2m (30 June 2011: €1m; 31 December 2011: €3m) in respect of the provision of deposit administration and infrastructure support services.

There has been minimal corporate treasury activity during the period. €1m (30 June 2011: €9m; 31 December 2011: €11m) relates to the realisation of income, primarily through settlement or maturity.

5. Net expense from financial instruments at fair value through profit or loss

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Interest rate contracts	**12**	24	(166)
Foreign exchange contracts	**(56)**	(40)	92
Hedge ineffectiveness	**2**	(1)	-
Net change in value of financial assets designated at fair value through profit or loss held on own account	**(1)**	-	2
	(43)	(17)	(72)

Interest rate contracts include a positive €21m (30 June 2011: €24m; 31 December 2011: negative €147m) relating to the overall credit valuation adjustment ('CVA') on corporate swaps, reflecting a decrease in the value of customer credit exposures (note 16).

Foreign exchange contracts include negative fair value movements of €42m (30 June 2011: positive movements of €7m; 31 December 2011: positive movements of €117m) on forward foreign exchange contracts and cross currency swaps entered into to manage the Bank's sterling and US dollar funding requirements.

6. Other operating (expense)/income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Increase/(decrease) in value of assets designated at fair value held in respect of liabilities to customers under investment contracts	**1**	(7)	(3)
(Increase)/decrease in value of liabilities designated at fair value held in respect of liabilities to customers under investment contracts	**(1)**	7	3
Settlement of government debt securities at amortised cost	**(48)**	-	-
Net gains/(losses) on disposal of available-for-sale financial assets	**13**	(1)	(2)
Rental income	**2**	4	7
Other	**2**	-	4
	(31)	3	9

The increase in the value of assets designated at fair value held in respect of liabilities to customers under investment contracts during the period is primarily due to positive foreign exchange movements on UK property investments.

On 1 March 2012 NAMA physically settled the Bank's holding of €950m nominal of senior bonds with replacement bonds with an equivalent nominal value (note 21). The difference between the fair value of the senior bonds that matured on 1 March 2012 and that of the new senior bonds received is recognised in other operating expense. Furthermore, the Bank has recognised an onerous contract charge in respect of the new bonds received as the cost of financing these bonds is expected to be greater than the semi-annual coupon receivable. Any adjustments relating to the new senior bonds are expected to unwind by 1 March 2013.

The Group recognised a net gain of €13m during the period on the disposal of available-for-sale financial assets.

7. Administrative expenses

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Staff costs:			
Wages and salaries	**41**	43	90
Retirement benefits cost - defined contribution plans	**5**	6	12
Retirement benefits cost - defined benefit plans	**1**	-	(12)
Social welfare costs	**4**	4	9
Other staff costs	**3**	3	8
	54	56	107
Other administrative costs	**45**	60	108
Exceptional costs	**25**	29	82
	124	145	297

Staff costs, which total €54m, are broadly in line with the comparative period to 30 June 2011. The headcount and staff cost increases arising from the integration of INBS on 1 July 2011 have been offset by decreases resulting from the sale of the majority of the US loan book, commencement of the voluntary redundancy programme and short term projects coming to an end. Overall Group headcount, including people working directly in, or providing support to, the Bank's NAMA unit, has decreased by 15% since 31 December 2011 and at 30 June 2012 stood at 1,031.

The decrease in other administrative costs of €15m since the corresponding prior period is driven by reduced professional fee expenditure in relation to asset recovery matters.

Exceptional costs of €25m (30 June 2011: €29m; 31 December 2011: €82m) incurred during the period primarily relate to professional fees associated with Bank restructuring work, significant non-recurring transactions and costs related to certain legacy matters. The principal non-recurring transactions include NAMA and a significant debt recovery case.

8. Retirement benefits

The Bank operates two defined benefit contributory pension schemes in Ireland. The assets of these schemes are held in separate trustee-administered funds. These schemes have been closed to new members since January 1994. From January 1994 to 30 June 2011 new employees located in Ireland joined a funded scheme on a defined contribution basis. There are also funded defined contribution pension plans covering eligible Group employees in other locations.

On 1 July 2011, the Bank became the principal employer of the defined contribution and defined benefit pension schemes operated by INBS. New eligible employees located in Ireland after 1 July 2011 may join the funded former INBS defined contribution scheme.

On 12 October 2010 INBS delivered a notice to the trustee of the Irish Nationwide Building Society No 1 Retirement Benefit Scheme (the former INBS defined benefit scheme) for the purpose of notifying the trustee of a termination of employer contributions. This notice became effective one month later on 12 November 2010. The trustee of the scheme is disputing this termination. The Bank is taking advice on its obligations and will be seeking the views of the Shareholder in deciding its response to any claim from the trustee. As INBS had no obligation to pay further contributions to the scheme from 30 June 2011, no contribution liability transferred to the Bank under the INBS Transfer Order or under the Deed of Substitution of Principal Employer executed to give effect to the transfer order. However, the scheme will remain in existence until the trustees formally resolve to wind it up.

Defined benefit pension schemes

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Fair value of scheme assets	**85**	83	83
Funded defined benefit obligation	**(85)**	(75)	(86)
Surplus/(deficit) within funded schemes	**-**	8	(3)

The surplus in the Group's funded defined benefit pension schemes, measured in accordance with IAS 19, is €nil (31 December 2011: €8m; 30 June 2011: deficit of €3m).

Financial assumptions

The principal assumptions used, which are based on the advice of an independent actuary, are as follows:

	6 months ended 30 June 2012 % p.a.	6 months ended 30 June 2011 % p.a.	Year ended 31 December 2011 % p.a.
Discount rate for liabilities of the schemes	**4.25**	5.75	5.00
Rate of increase in pensions	**1.00 to 3.00**	2.50 to 3.00	1.00 to 3.00
Inflation rate	**2.00**	2.50	2.00

Amount recognised in other comprehensive income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Change in assumptions underlying the present value of schemes' liabilities	**(10)**	(1)	(3)
Actual return less expected return on assets of the pension schemes	**2**	(4)	(3)
Actuarial losses recognised under IAS 19	**(8)**	(5)	(6)
Deferred tax on actuarial losses	**-**	-	-
Actuarial losses after tax	**(8)**	(5)	(6)

9. Loss on transfer of assets and liabilities

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Net consideration received	-	3,719	3,719
Net carrying value of assets and liabilities transferred	-	(3,933)	(3,933)
Total loss on transfer	-	(214)	(214)

A Transfer Support Agreement ('TSA') was concluded between the Bank, AIB and AIB UK at the time of the AIB Transfer Order in 2011. Under the terms of the TSA, the Bank provided AIB and AIB UK with an indemnity, subject to certain exclusions from liability, in respect of certain direct liabilities which could arise in connection with the deposits, assets or entity which transferred. The AIB Group has notified the Bank of a number of matters in respect of which it expects to seek indemnity under the terms of the TSA (note 33).

10. (Loss)/gain on disposal of assets to NAMA

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Fair value of consideration received	-	264	914
Carrying value of assets transferred from/(to) NAMA	-	55	(106)
	-	319	808
Other transfer adjustments and provision for servicing liability	**(18)**	282	(32)
(Loss)/gain on disposal of assets to NAMA	**(18)**	601	776

During the period, €76m of loans, which had previously been fully provided for, were transferred by the Bank to NAMA. There are no remaining assets expected to transfer. The loss of €18m recognised during the period relates to the settlement of value-to-transfer adjustments (representing the movement in loan balances from the NAMA cut-off date to the actual loan transfer date) in respect of certain loans which previously transferred to NAMA.

At 30 June 2012 confirmation from NAMA of a final due diligence valuation adjustment in respect of €7.8bn of loans remained outstanding. The Bank has recognised an accrual of €62m in respect of expected net valuation adjustments to be applied by NAMA (note 27) based on draft loan valuations received, of which €60m was accrued as at 31 December 2011. The Bank has limited powers of appeal under the NAMA Act in relation to a loan valuation once NAMA has opined on it.

The final overall loss on disposal will only be determined when NAMA has issued to the Bank a completion notice under section 97 of the NAMA Act 2009.

11. Gain/(loss) on deleveraging of other financial assets

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Consideration received	**119**	512	4,965
Carrying value of assets sold	**(112)**	(552)	(5,391)
Total gain/(loss) on disposal	**7**	(40)	(426)

During the period the Bank sold certain Irish, UK and US loans with a gross value of €215m, before provisions for impairment of €103m (notes 18 and 22). The gain on disposal includes costs directly associated with the sales transactions.

12. Provisions for impairment and other provisions

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Lending impairment			
Loans and advances to customers - specific (note 22)	**842**	903	2,107
Loans and advances to customers - collective (note 22)	**(18)**	(209)	(597)
Loans classified as held for sale - specific (note 18)	**36**	36	34
	860	730	1,544
Other			
Investment property classified as held for sale	**(7)**	-	17
Investment property - held on own account	**-**	-	3
Property, plant and equipment	**-**	-	4
Financial guarantee contracts, litigation and other provisions	**238**	48	76
	231	48	100
Total provisions	**1,091**	778	1,644

The total specific lending impairment charge for the period of €878m (30 June 2011: €939m; 31 December 2011: €2,141m) reflects the continuing difficult operating environment across all of the Bank's core markets during the period. Ireland, where property market conditions continue to be stressed, represents €478m (30 June 2011: €773m; 31 December 2011: €1,557m) of the total charge. The remainder comprises €312m (30 June 2011: €143m; 31 December 2011: €574m) in respect of the UK and €88m (30 June 2011: €23m; 31 December 2011: €10m) in respect of the US.

Of the specific charge, €31m (31 December 2011: €62m) relates to residential mortgages.

The collective provision is applied to portfolios of customer loans for which there is no evidence of specific impairment. It has been calculated with reference to historical loss experience supplemented by observable market evidence and management's judgement regarding current market conditions. The provision amount is also adjusted to reflect the appropriate loss emergence period. The loss emergence period represents the time it takes following a specific loss event on an individual loan for that loan to be identified as impaired. This is determined by taking account of current credit risk management practices together with historical loss experience. The loss emergence period applied for the current period is six months (30 June 2011: six months; 31 December 2011: six months). The marginal release of collective provisions of €18m in the current period is primarily due to a decrease of 16% in the performing loan portfolio, including loans classified as held for sale.

Additional information in relation to the lending impairment charge for the period is provided in the Business review.

The impairment release in respect of investment property classified as held for sale of €7m reflects an increase in the fair value of certain previously impaired property prior to its reclassification back to investment property held on own account (note 18).

Financial guarantee contracts, litigation and other provisions include amounts representing obligations under guarantees provided by the Group in respect of certain lending to customers, indemnities entered into with third parties and provisions related to legal claims. A breakdown of movements in provisions related to legal claims is not presented as to do so could seriously prejudice the position of the Group in relation to ongoing and potential future legal proceedings. An update on significant legal claims is provided in note 33.

13. Taxation

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Current taxation (credit)/charge	**(18)**	6	6
Deferred taxation (credit)/charge	**(1)**	(2)	6
	(19)	4	12

The current tax credit arises primarily due to a refund of corporation tax paid by the Bank in relation to the former INBS. No Irish corporation tax will be payable on the Group's Irish business activities due to the availability of losses in the Bank which are offset against any taxable profits arising within the Group. However a current period foreign tax charge of €2m arises.

A deferred tax credit of €1m has been recognised to the extent that it is probable that any potential additional chargeable profits can be offset by current period losses.

14. Cash and balances with central banks

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Cash and balances with central banks	**8**	100	255

These amounts include only those balances with central banks which may be withdrawn without notice.

Cash and balances with central banks primarily relate to the Bank's minimum reserve requirement held with the Central Bank of Ireland. Irish credit institutions must maintain a minimum reserve requirement over a specified maintenance period. Balances can be withdrawn as long as the requirement is met on average over this maintenance period. As a result, period end balances do not necessarily indicate the level of this minimum requirement.

15. Financial assets at fair value through profit or loss - held on own account

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Equity shares	**11**	12	13

All of the above financial assets are designated at fair value through profit or loss.

The Bank's interests in the Arnotts Group, and in what was previously the manufacturing business of the Quinn Group, are classified, upon initial recognition, at fair value through profit or loss. At 30 June 2012 the value of the Bank's economic interest in these enterprises is not material.

16. Derivative financial instruments

With the exception of designated hedging derivatives, as defined by IAS 39, derivatives are treated as held for trading. The held for trading classification comprises corporate sales derivatives, economic hedges which do not meet the strict qualifying criteria for hedge accounting, and derivatives managed in conjunction with financial instruments designated at fair value. The Bank only enters into new derivative transactions for the purposes of balance sheet risk management. Derivatives are carried at fair value and shown in the statement of financial position as separate totals of assets and liabilities.

Details of the objectives, policies and strategies arising from the Group's use of financial instruments, including derivative financial instruments, are presented in note 50 to the Group's Annual Report and Accounts 2011.

The following tables present the notional and fair value amounts of derivative financial instruments, analysed by product and category.

	30 June 2012			31 December 2011		
	Contract notional amount	**Fair values**		Contract notional amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€m	**€m**	**€m**	€m	€m	€m
Derivatives held for trading						
Interest rate contracts	**18,077**	**432**	**(718)**	41,125	991	(1,568)
Foreign exchange contracts	**11,658**	**19**	**(402)**	11,019	46	(310)
Equity index options - held and written	**48**	**4**	**(4)**	161	12	(11)
Total trading derivatives	**29,783**	**455**	**(1,124)**	52,305	1,049	(1,889)
Derivatives held for hedging						
Fair value hedges	**4,864**	**20**	**(321)**	5,251	47	(300)
Total hedging derivatives	**4,864**	**20**	**(321)**	5,251	47	(300)
Derivatives held in respect of liabilities to customers under investment contracts (note 26)	**642**	**-**	**(52)**	711	-	(60)
Total derivative financial instruments	**35,289**	**475**	**(1,497)**	58,267	1,096	(2,249)

Negative movements in the fair value of foreign exchange contracts are largely due to the depreciation during the period of the euro against both sterling and US dollar. In the normal course of business the Group utilises forward foreign exchange contracts and cross currency swaps to manage currency mismatches that may arise.

The fair value of interest rate contracts includes a credit valuation adjustment ('CVA') to reflect the impact of customer credit quality (note 5). The CVA has decreased in the current period due to a reduction in the overall value of customer exposures. The significant decrease in the notional amount of interest rate contracts is due to maturities and ongoing deleveraging initiatives.

The majority of the Bank’s derivative transactions with interbank counterparties are covered under credit support annexes ('CSAs'), with cash collateral exchanged on a daily basis (note 17).

In the period to 30 June 2012 the Group transferred income of €7m (30 June 2011: €15m; 31 December 2011: €26m) from the cash flow hedging reserve to net interest income. There are no forecast transactions for which hedge accounting had previously been used, but that are now no longer expected to occur.

17. Loans and advances to banks

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Placements with banks	**2,093**	2,306	2,030

A credit ratings profile of loans and advances to banks is as follows:

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
AAA / AA	**526**	434	422
A	**1,095**	1,472	1,476
BBB+ / BBB / BBB-	**388**	171	123
Sub investment grade	**53**	224	-
Unrated	**21**	-	-
Total held on own account	**2,083**	2,301	2,021
Policyholders' assets (note 26)	**10**	5	9
	2,093	2,306	2,030

The ratings above are counterparty ratings and do not reflect the existence of government guarantees, where applicable.

Loans and advances to banks include short term placements of €0.1bn (31 December 2011: €0.2bn; 30 June 2011: €0.1bn) with entities covered under the ELG Scheme. These placements are rated as sub investment grade at 30 June 2012 and 31 December 2011.

Placements with banks include €1.9bn (31 December 2011: €2.0bn; 30 June 2011: €1.6bn) of cash collateral placed primarily with derivative counterparties in relation to net derivative liability positions. Collateral placements include €0.4bn (31 December 2011: €0.1bn; 30 June 2011: €0.1bn) placed with the NTMA in respect of two cross currency swap transactions. In addition, collateral placements incorporate independent amounts. These are additional collateral amounts placed with counterparties to offset potential changes in the value of derivative contracts between collateral calculation periods.

18. Assets classified as held for sale

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
NAMA assets			
Loans classified as held for sale to NAMA	-	88	1,229
Less: provisions for impairment	-	(78)	(209)
	-	10	1,020
Derivative financial instruments	-	-	6
	-	10	1,026
Other loans			
Other loans classified as held for sale	**424**	277	6,657
Less: provisions for impairment	**(107)**	(25)	(1,017)
	317	252	5,640
Other assets			
Investment property	**2**	109	156
Property, plant and equipment	**16**	21	-
	18	130	156
Total assets classified as held for sale	**335**	392	6,822

Assets classified as held for sale comprise certain US loans identified for sale to third parties. There are no further loans anticipated to be transferred to NAMA. In total, at 30 June 2012 €317m (31 December 2011: €262m; 30 June 2011: €6,660m) of customer loans, which are net of associated provisions of €107m (31 December 2011: €103m; 30 June 2011: €1,226m), are classified as held for sale.

Investment property assets classified as held for sale consist primarily of properties that were originally acquired by the Group's Private Banking and Lending businesses but were not allocated to policyholders under investment contracts or sold to private clients, and which are now anticipated to be sold to third parties. The decrease during the period is due to the reclassification of certain property which no longer meets the held for sale criteria.

Property, plant and equipment classified as held for sale represents the branch network of the former INBS which was acquired by the Bank on 1 July 2011 under the INBS Transfer Order. It is currently being actively marketed for sale.

Specific provisions for impairment on loans classified as held for sale	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
At beginning of period	**103**	565	565
Acquired under the INBS Transfer Order	-	336	-
Charge against profits - specific (note 12)	**36**	34	36
Write-offs	-	(56)	-
Unwind of discount	**(4)**	(16)	(4)
Exchange movements	**5**	21	(28)
Net transfers from loans and advances to customers (note 22)	**105**	938	1,021
Net release on disposal of assets to NAMA (note 10)	**(76)**	(387)	3
Release on loan asset sales (note 11)	**(62)**	(1,332)	(367)
At end of period	**107**	103	1,226
Impaired loans classified as held for sale	**424**	276	3,367

An analysis of lending assets by internal credit quality category, geographical location and industry sector concentration is provided in note 35.

19. Available-for-sale financial assets

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Government bonds	**3,556**	354	321
Financial institution bonds	**510**	849	985
Asset backed securities	**5**	5	6
NAMA subordinated bonds	**124**	124	198
	4,195	1,332	1,510

The movement on available-for-sale ('AFS') financial assets is summarised below:

	6 months ended 30 June 2012 €m	Year ended 31 December 2011 €m	6 months ended 30 June 2011 €m
At beginning of period	**1,332**	2,219	2,219
Additions	**3,067**	261	12
Disposals (sales and maturities)	**(484)**	(1,105)	(718)
Fair value movements	**239**	(43)	16
Increase/(decrease) in interest accruals	**31**	(4)	(10)
Exchange and other movements	**10**	4	(9)
At end of period	**4,195**	1,332	1,510

The AFS portfolio principally comprises government bonds, debt issued by financial institutions and NAMA subordinated bonds. With the exception of NAMA subordinated bonds, AFS financial assets are marked to market using independent prices obtained from external pricing sources.

Additions in the current period include a €3.46bn Irish Government bond which matures in 2025, and which had a fair value on date of receipt of €3.06bn. The bond was acquired by the Bank in settlement of the second instalment due under the promissory notes (note 20). At 30 June 2012 this bond is pledged as collateral under a securities repurchase transaction entered into with Bank of Ireland (note 23).

Disposals and maturities during the period include €0.4bn of financial institution bonds and €0.1bn of government bonds.

At 30 June 2012 the Bank held NAMA subordinated bonds with a total nominal value of €843m (31 December 2011: €843m; 30 June 2011: €655m). The NAMA subordinated bonds will be redeemed in full at par without undeclared interest subject to the financial performance of NAMA in totality. NAMA may call the bonds on any interest payment date. On each interest payment date commencing on 1 March 2011, and annually thereafter, NAMA may declare the interest payable if it deems it appropriate to do so. Interest not declared in any year will not accumulate. No interest was declared by NAMA on 1 March 2011 or 1 March 2012.

The Group's exposure to bonds issued by eurozone countries and banks domiciled in those countries is detailed in note 35.

The amount removed from equity and recognised as a gain in profit or loss in respect of the disposal of AFS financial assets amounted to €13m (31 December 2011: loss of €2m; 30 June 2011: loss of €1m).

At 30 June 2012 AFS financial assets of €668m (31 December 2011: €1,046m; 30 June 2011: €1,232m) were used in sale and repurchase agreements with central banks.

The external ratings profile of the Group's AFS financial assets is as follows:

	30 June 2012				
	Government €m	**Financial Institutions €m**	**Asset Backed Securities €m**	**NAMA Subordinated Bonds €m**	**Total €m**
AAA / AA	**51**	**-**	**-**	**-**	**51**
A	**-**	**49**	**-**	**-**	**49**
BBB+ / BBB / BBB-	**3,505**	**404**	**-**	**-**	**3,909**
Sub investment grade	**-**	**57**	**-**	**-**	**57**
Unrated	**-**	**-**	**5**	**124**	**129**
	3,556	**510**	**5**	**124**	**4,195**

	31 December 2011				
	Government €m	Financial Institutions €m	Asset Backed Securities €m	NAMA Subordinated Bonds €m	Total €m
AAA / AA	51	43	-	-	94
A	-	214	-	-	214
BBB+ / BBB / BBB-	303	496	-	-	799
Sub investment grade	-	96	-	-	96
Unrated	-	-	5	124	129
	354	849	5	124	1,332

Sub investment grade holdings consist primarily of debt issued by Irish financial institutions, of which €18m (31 December 2011: €15m) is covered by the ELG Scheme.

20. Promissory notes

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Promissory notes	**27,785**	29,934	23,804

The Minister for Finance has provided promissory notes to the value of €30.6bn to the Bank consisting of a number of tranches, of which €5.3bn was provided to the former INBS. Each tranche pays a market based fixed rate of interest which is set on the date of issue and is appropriate to the maturity date of the tranche. The promissory notes pay 10% of the initial principal amount of each tranche annually.

On 29 March 2012, following discussions between the Irish and EU authorities and a request made by the Minister for Finance, the Bank agreed to utilise the €3.06bn instalment due on the promissory notes on 31 March 2012 to acquire a long term Irish Government bond of equivalent value. The settlement approach adopted did not result in any adjustment to, or variation in the terms of, the remaining promissory notes. The combined principal amount of the promissory notes at 30 June 2012 is €27.1bn (31 December 2011: €28.5bn; 30 June 2011: €23.6bn). The €3.46bn bond that was subsequently received is classified as an available-for-sale financial asset (note 19) and was recognised at an initial fair value of €3.06bn.

In conjunction with the acceptance of the Minister's settlement proposal on 29 March 2012 the Bank also reached a conditional agreement with Bank of Ireland and the State to conduct a securities repurchase transaction whereby Bank of Ireland would purchase the €3.46bn bond from the Bank. The transaction was approved by the Bank of Ireland shareholders on 18 June 2012 and settled on 20 June 2012 (note 23). Initially, as a short term interim measure pending the outcome of the Bank of Ireland shareholders' decision, the Bank availed of a short term collateralised facility provided by NAMA. This facility was provided on equivalent commercial terms to those of the financing with Bank of Ireland (note 38).

The contractual fixed cash flows arising from the promissory notes create a significant interest rate risk position for the Group. As at 30 June 2012 the Bank had hedged a total of €4.1bn of the nominal amount using interest rate swaps. A further €3.5bn of economic hedges exist in the form of the Group’s capital and fixed rate debt issuance.

The promissory notes are currently pledged as collateral for funding under a Special Master Repurchase Agreement with the Central Bank of Ireland.

The notes are classified as loans and receivables.

21. Government debt securities at amortised cost

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
NAMA Government Guaranteed Floating Rate Notes	**866**	947	259

95% of the overall consideration received for assets that transferred to NAMA in 2010 and 2011 was in the form of Government Guaranteed Floating Rate Notes ('senior bonds'), with the remaining 5% in the form of subordinated bonds. The senior bonds are classified as loans and receivables, and are initially recognised at fair value.

On 22 June 2011 the legal terms of the bonds were amended to remove the issuer extension option and permit the holder the right to reject physical settlement of the bonds on maturity.

In February 2012 NAMA informed the Bank of its intention to physically settle senior bonds with a nominal value of €950m due to mature on 1 March 2012 by issuing new senior bonds with a maturity of 1 March 2013. The Bank's commercial preference was to receive cash in exchange for its holdings of senior bonds. However, bearing in mind the preferences expressed by both NAMA and the Department of Finance and overall public interest considerations, the Bank agreed to accept physical settlement.

The Bank has valued the new senior bonds, on receipt, as a short term instrument with a maturity of 1 March 2013. The difference between the fair value of the senior bonds that matured on 1 March 2012 and the new senior bonds accepted in physical settlement has been recognised in other operating expense (note 6). Furthermore, the Bank has recognised an onerous contract charge in other operating expense in respect of the new bonds received as the cost of financing these bonds is expected to be greater than the semi-annual coupons receivable.

On 27 June 2012 senior bonds with a nominal value of €66m were redeemed by NAMA at par. At 30 June 2012 the Bank's nominal holding of senior bonds totalled €884m (31 December 2011: €950m; 30 June 2011: €269m).

At 30 June 2012, €884m nominal of senior bonds (31 December 2011: €750m) have been pledged as collateral under a Special Master Repurchase Agreement with the Central Bank of Ireland.

22. Loans and advances to customers

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Amounts receivable under finance leases and hire purchase contracts	**36**	41	44
Other loans and advances to customers	**26,317**	27,987	24,133
	26,353	28,028	24,177
Provisions for impairment	**(10,788)**	(10,339)	(8,706)
	15,565	17,689	15,471

Loans and advances to customers at 30 June 2012 of €15,565m (31 December 2011: €17,689m; 30 June 2011: €15,471m) exclude loans classified as held for sale of €317m (31 December 2011: €262m; 30 June 2011: €6,660m) (note 18).

Provisions for impairment on loans and advances to customers	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
At beginning of period	**10,339**	9,577	9,577
Acquired under the INBS Transfer Order	**-**	667	-
Charge against profits - specific (note 12)	**842**	2,107	903
- collective (note 12)	**(18)**	(597)	(209)
Write-offs	**(257)**	(351)	(173)
Recoveries	**-**	6	1
Unwind of discount	**(102)**	(187)	(98)
Exchange movements	**130**	55	(274)
Net transfers to assets classified as held for sale (note 18)	**(105)**	(938)	(1,021)
Release on loan asset sales (note 11)	**(41)**	-	-
At end of period	**10,788**	10,339	8,706
Specific	**10,023**	9,566	7,711
Collective	**765**	773	995
Total	**10,788**	10,339	8,706
Impaired loans (excludes loans classified as held for sale)	**17,592**	17,482	13,567

The collective provision of €765m (31 December 2011: €773m; 30 June 2011: €995m) has been calculated based on total performing customer loan balances, including those classified as held for sale. The reduction in the period consists of an €18m release, primarily due to a decrease of 16% in the performing loan portfolio, partially offset by movements in foreign exchange rates.

Owing to a marked deterioration in the financial position of some borrowers, in order for the Bank to maximise the recovery of impaired loan balances it may in certain specific circumstances agree to a restructuring of loan arrangements so as to improve overall asset quality. The level of provision write-offs in the current and prior periods is primarily as a result of the active management of impaired loans, which may also include the sale of collateral to third parties.

Loans assigned as collateral

During the current period the Bank unwound its remaining covered securities programmes. As a result, at 30 June 2012 there are no longer any loans assigned as collateral under such programmes (31 December 2011: €6,115m; 30 June 2011: €3,154m). Loans with a carrying value of €5,937m (31 December 2011: €2,550m; 30 June 2011: €2,727m) have been assigned as collateral under a Master Loan Repurchase Agreement with the Central Bank of Ireland (note 23). All of the loans remain in the Group's statement of financial position as substantially all of the risks and rewards relating to them are retained.

An analysis of lending assets by internal credit quality category, geographical location and industry sector concentration is provided in note 35.

23. Deposits from banks

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Deposits repayable on demand	**56**	56	133
Sale and repurchase agreements - central banks	**42,253**	42,228	40,757
Sale and repurchase agreements - other banks	**2,845**	-	-
Other deposits by banks with agreed maturity dates	**316**	307	335
	45,470	42,591	41,225

Sale and repurchase agreements with central banks include a combined €41.7bn (31 December 2011: €40.1bn; 30 June 2011: €38.4bn) borrowed under a Special Master Repurchase Agreement ('SMRA'), a Master Loan Repurchase Agreement ('MLRA'), and a Facility Deed agreement ('FD') from the Central Bank of Ireland.

Sale and repurchase agreements with central banks also include €0.6bn (31 December 2011: €2.1bn; 30 June 2011: €2.4bn) borrowed under open market operations from central banks. The decrease in borrowings under this facility is primarily due to the redemption during the period of securities issued by IBRC Mortgage Bank which qualified as eligible collateral under open market operations.

Sale and repurchase agreements with other banks include €2.8bn of secured funding provided by Bank of Ireland. On 29 March 2012 the Bank reached a conditional agreement with Bank of Ireland and the State to conduct a securities repurchase transaction whereby Bank of Ireland would purchase a long term Irish Government bond acquired by the Bank in settlement of the second instalment due on the promissory notes (note 20). The interest rate payable by the Bank on the transaction is based on the average rate at which the ECB has provided funding to Bank of Ireland in connection with the purchased securities under open market operations plus a spread of 1.35%. The transaction was approved by the Bank of Ireland shareholders on 18 June 2012 and settled on 20 June 2012.

The Bank has an obligation to repurchase the bond from Bank of Ireland not later than 19 June 2013. Bank of Ireland has the right, on the occurrence of an early termination event, to request repayment of all amounts owing (note 38). The transaction is governed by a Global Master Repurchase Agreement and incorporates standard market terms including daily margining requirements with respect to changes in the value of the bond. The Bank’s payment obligations with respect to the transaction are covered by a guarantee from the Minister for Finance.

Other deposits by banks with agreed maturity dates in the Group include €316m (31 December 2011: €305m; 30 June 2011: €286m) of funding provided to policyholders by external banks in respect of liabilities to customers under investment contracts (note 26).

24. Customer accounts

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Repayable on demand	**11**	13	2
Other deposits by customers with agreed maturity dates	**507**	584	687
	518	597	689

Customer accounts consist of those deposits that did not transfer to AIB or AIB UK under the AIB Transfer Order on 24 February 2011. The accounts retained are primarily linked to customer loans, including certain loans which have transferred to NAMA, but also include structured deposit-linked products and accounts denominated in minor currencies.

Customer accounts include balances of €9m (31 December 2011: €18m; 30 June 2011: €31m) in respect of deposits which were designated at fair value upon initial recognition.

25. Debt securities in issue

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Medium term notes:			
Guaranteed	**1,191**	2,726	2,965
Unguaranteed	**169**	2,645	2,719
	1,360	5,371	5,684

Redemptions of medium term notes during the period totalled €4.0bn, of which €2.5bn were unguaranteed.

Medium term notes guaranteed under the terms of the ELG Scheme total €1.2bn, of which €0.3bn are due to mature by 31 December 2012 with the remaining €0.9bn scheduled to mature in 2015. Unguaranteed medium term notes due to mature by 31 December 2012 total €33m.

The EC has approved the extension of the ELG Scheme for certain eligible liabilities to 31 December 2012. Fees payable under this scheme are set out in note 3.

26. Liabilities to customers under investment contracts

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Assets held in respect of liabilities to customers under investment contracts:			
Investment property	**1,153**	1,130	1,168
Financial assets at fair value through profit or loss	**182**	194	215
Loans and advances to banks	**10**	5	9
Total	**1,345**	1,329	1,392
Less:			
Funding provided by parent Bank	**(750)**	(738)	(770)
Funding provided by external banks	**(316)**	(305)	(286)
Derivative financial instruments	**(52)**	(60)	(62)
Net asset value attributable to external unitholders	**(38)**	(37)	(35)
Add:			
Funds on deposit with parent Bank	**67**	94	83
Liabilities to customers under investment contracts at fair value	**256**	283	322

Under the terms of the investment contracts issued by the Group's assurance business, legal title to the underlying investments is held by the Group, but the inherent risks and rewards in the investments are borne by customers through unit-linked life assurance policies. In the normal course of business the Group's financial interest in such investments is restricted to fees earned for contract set up and investment management.

In accordance with IFRS, obligations under investment contracts are carried at fair value in the statement of financial position and are classified as liabilities to customers under investment contracts. The above table sets out where the relevant assets and liabilities in respect of the life assurance business investment contracts are included in the Group statement of financial position. On consolidation, Group loans and advances to customers and Group loans classified as held for sale are shown net of funding of €750m (31 December 2011: €724m; 30 June 2011: €755m) and €nil (31 December 2011: €14m; 30 June 2011: €15m) respectively provided by the parent Bank to fund assets held by the life assurance business in respect of liabilities to customers under investment contracts.

Total funding provided by the parent Bank amounts to €964m (31 December 2011: €935m; 30 June 2011: €921m). €750m (31 December 2011: €738m; 30 June 2011: €770m) represents the current market value of assets, net of related derivative liabilities, to which the parent Bank holds recourse. In prior periods the market value of assets to which the Bank held recourse exceeded the amount of funding that it had provided in relation to those assets. The Group has assessed these lending facilities for impairment, with any resulting charge included within provisions for impairment on loans and advances to customers.

Derivative financial instruments are entered into by the Group's assurance company in order to hedge the interest rate exposure on funding provided to geared policyholder funds. The decrease in liabilities to customers under investment contracts in the current period results primarily from net withdrawals by policyholders from unit-linked investment funds during the period.

27. Other liabilities

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Obligations under financial guarantees	**93**	71	70
Payable to NAMA	**62**	132	71
Amounts attributable to external unitholders linked to investment contracts (note 26)	**38**	37	35
Preference shares	**99**	99	-
Sundry liabilities	**26**	27	-
Provisions for liabilities and charges	**362**	177	136
Total	**680**	543	312

The amount payable to NAMA at 30 June 2012 of €62m relates to expected net valuation adjustments in relation to assets previously transferred to NAMA. All remaining value-to-transfer adjustments (representing the movement in loan balances from the NAMA cut-off date to the actual loan transfer date) have been settled during the period.

The Group's interest in the joint venture with Liberty Mutual Group to acquire the Republic of Ireland general insurance business of Quinn Insurance Limited (Under Administration) was funded through the issuance of €99m in preference shares. Repayment of these preference shares is directly linked to the performance of the joint venture.

The increase in provisions for liabilities and charges in the period is largely connected to movements related to legal claims. At 30 June 2012 the Group is involved in litigation, settlement negotiations, arbitration and regulatory proceedings in a number of jurisdictions. Provisions are recognised where it is probable that an obligation arises as a result of a past event and where the amount can be reliably estimated. A detailed breakdown of provisions or movements in provisions is not presented as to do so could seriously prejudice the position of the Group in relation to certain proceedings and ongoing negotiations.

The provision recognised in respect of the Bank's review of interest rates applied to loan accounts between 1 January 1990 and 31 January 2005, which is included in provisions for liabilities and charges, has decreased to €27m (31 December 2011: €54m; 30 June 2011: €67m) as a result of payments made to customers during the period.

Provisions for liabilities and charges also includes provisions related to onerous contracts, restructuring and legacy matters.

28. Subordinated liabilities and other capital instruments

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Dated Loan Capital			
US$165m Subordinated Notes Series A 2015 (a)	**131**	128	115
US$35m Subordinated Notes Series B 2017 (b)	**28**	28	25
Undated Loan Capital			
Stg£300m Non-Cumulative Preference Shares (c)	**374**	361	335
Other subordinated liabilities (d)	**-**	-	-
	533	517	475

All subordinated liabilities and other capital instruments issued by the Group are unsecured and subordinated in the right of repayment to the ordinary creditors, including depositors of the Bank. The prior approval of the Central Bank of Ireland is required to redeem these issues prior to their final maturity date.

The carrying value of subordinated liabilities and other capital instruments includes the impact of fair value hedge adjustments.

(a) The US$165m Subordinated Notes Series A 2015 bear interest at 4.71% per annum to 28 September 2010 and thereafter reset at three month LIBOR plus 0.92% per annum. See note 33 for details of legal claims.

(b) The US$35m Subordinated Notes Series B 2017 bear interest at 4.80% per annum to 28 September 2012 and thereafter reset at three month LIBOR plus 0.93% per annum. See note 33 for details of legal claims.

(c) On 21 January 2009 the ownership of the 300,000 Non-Cumulative Preference Shares in issue was transferred to the Minister for Finance. In May 2009 the Bank received correspondence from the Minister stating that dividend payments on these preference shares would be waived until such time as the Minister informs the Bank that dividend payments are to resume.

(d) Other subordinated liabilities includes €100,000 A Preference Shares issued by IBRC Asset Finance plc. The Group is precluded from declaring and paying any distribution on these shares.

29. Share capital

Ordinary share capital	**30 June 2012 €m**	31 December 2011 €m	30 June 2011 €m
Authorised			
26,200,000,000 ordinary shares of €0.16 each	**4,192**	4,192	4,192
Allotted, called up and fully paid			
25,769,150,409 ordinary shares of €0.16 each	**4,123**	4,123	4,123

On 21 January 2009, under the terms of the Anglo Irish Bank Corporation Act, 2009, all of the Bank's ordinary share capital was transferred to the Minister for Finance.

30. Capital reserve

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Capital reserve	**25,300**	25,300	25,300
Additional capital arising on business combination	**711**	711	-
	26,011	26,011	25,300

The capital reserve results from the issuance by the Minister for Finance to the Bank of a promissory note with a total principal value of €25.3bn. The additional capital of €0.7bn arose from the transfer of assets and liabilities from INBS on 1 July 2011 under the INBS Transfer Order.

The capital reserve qualifies as eligible regulatory Core Tier 1 capital.

31. Other reserves

Non-distributable capital reserve

This is a non-distributable capital reserve of €1m (31 December 2011: €1m; 30 June 2011: €1m).

Exchange translation reserve

The exchange translation reserve has two components. It includes the cumulative foreign exchange differences arising from translating the income statements of foreign operations at average exchange rates and the translation of the statements of financial position of foreign operations using exchange rates ruling at the period end. It also includes the cumulative foreign exchange differences arising from the translation of the Group's investment in foreign operations, net of exchange differences arising on funding designated as hedges of these investments.

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Movement in exchange translation reserve			
At beginning of period	**24**	3	3
Exchange differences on translation of foreign operations	**50**	48	(71)
Net (loss)/gain on hedges of net investments in foreign operations	**(37)**	(27)	41
At end of period	**37**	24	(27)

Cash flow hedging reserve

The cash flow hedging reserve represents the effective portion of the cumulative net change in the fair value of derivatives designated as cash flow hedges. The reserve is stated net of deferred taxation.

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Movement in cash flow hedging reserve			
At beginning of period	**31**	57	57
Net changes in fair value	**-**	-	-
Transfers to income statement	**(7)**	(26)	(15)
At end of period	**24**	31	42

Available-for-sale ('AFS') reserve

The AFS reserve represents the unrealised net gains and losses in the fair value of AFS financial assets as adjusted for any impairment losses recognised in the income statement. Changes in fair value include movements on associated fair value hedges. The reserve is stated net of deferred taxation.

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Movement in AFS reserve			
At beginning of period	**(302)**	(190)	(190)
Acquired under the INBS Transfer Order	**-**	(73)	-
Net changes in fair value	**236**	(42)	23
Transfers to income statement	**(13)**	2	1
Foreign exchange and other movements	**(1)**	1	-
At end of period	**(80)**	(302)	(166)

The AFS reserve contains unrealised losses on NAMA subordinated bonds of €162m (31 December 2011: €162m; 30 June 2011: €42m) and on bank bonds of €49m (31 December 2011: €105m; 30 June 2011: €111m), partially offset by unrealised gains on government bonds of €131m (31 December 2011: unrealised losses of €35m; 30 June 2011: unrealised losses of €14m) and on asset backed securities of €nil (31 December 2011: €nil; 30 June 2011: €1m). Unrealised gains on government bonds include €150m in respect of an Irish Government bond with a principal amount of €3.46bn acquired during the period in settlement of the second instalment due on the promissory notes.

32. Income tax effects relating to other comprehensive income

	6 months ended 30 June 2012		
	Before tax amount €m	**Tax benefit/ (expense) €m**	**Net of tax amount €m**
Net actuarial losses in retirement benefit schemes	**(8)**	**-**	**(8)**
Net change in cash flow hedging reserve	**(7)**	**-**	**(7)**
Net change in available-for-sale reserve	**222**	**-**	**222**
Foreign exchange translation	**13**	**-**	**13**
	220	**-**	**220**

	6 months ended 30 June 2011		
	Before tax amount €m	Tax benefit/ (expense) €m	Net of tax amount €m
Net actuarial losses in retirement benefit schemes	(5)	-	(5)
Net change in cash flow hedging reserve	(15)	-	(15)
Net change in available-for-sale reserve	24	-	24
Foreign exchange translation	(30)	-	(30)
	(26)	-	(26)

	Year ended 31 December 2011		
	Before tax amount €m	Tax benefit/ (expense) €m	Net of tax amount €m
Net actuarial losses in retirement benefit schemes	(6)	-	(6)
Net change in cash flow hedging reserve	(26)	-	(26)
Net change in available-for-sale reserve	(39)	-	(39)
Foreign exchange translation	21	-	21
	(50)	-	(50)

33. Contingent liabilities, commitments and other contingencies

	30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Contingent liabilities			
Guarantees and irrevocable letters of credit	**124**	162	106
Performance bonds and other transaction related contingencies	**16**	19	25
	140	181	131
Commitments			
Credit lines and other commitments to lend	**212**	237	457

Regulatory reviews and enquiries

In the period since December 2008, various authorities and regulatory bodies in Ireland (including the Central Bank of Ireland, the Office of the Director of Corporate Enforcement ('ODCE'), the Chartered Accountants Regulatory Board, the Irish Auditing & Accounting Supervisory Authority, the Garda Bureau of Fraud Investigation and the Irish Stock Exchange) have initiated investigations (including criminal investigations in some cases) into certain aspects of the Bank’s business including certain loan and other transactions involving former Directors and certain third parties. These investigations are ongoing.

On 23 and 24 July 2012, following investigations by the ODCE, two of the Bank's former Executive Directors together with a former Group Chief Executive and Chairman have each been charged with 16 offences pursuant to Section 60 of the Companies Act, 1963. The Bank has no further details on these proceedings at this time. While it is understood that certain investigations are substantially complete, the wider process is ongoing. Therefore it is not possible at this stage to give any further indication as to whether and to what extent the various investigations will result in administrative and/or criminal proceedings against the Bank, any subsidiary or any of its other former Directors or Officers or as to whether further civil proceedings against the Bank, any subsidiary or any current or former Directors or Officers will arise.

In addition, certain correspondence has been received by the Bank and by certain former Directors of the Bank alleging an entitlement to compensation in respect of alleged wrongdoing by the Bank and/or by such former Directors. Arguments have been advanced in certain civil litigation proceedings in respect of some of the core matters which are the subject of the investigations, but to date there has been no adverse judicial determination against the Bank on these matters.

Legal claims

In the normal course of the Bank’s business and operations, litigation arises from time to time. The Bank has a policy of active management and rigorous defence of legal claims and there are procedures in place to ensure the oversight of claims by the Risk & Compliance Committee. At 30 June 2012 the Bank is engaged in a number of ongoing legal proceedings.

Other than the regulatory reviews, enquiries and legal claims referred to above, the only significant additional proceedings, which are ongoing, are as follows:

(i) In proceedings brought in the Commercial Court in Dublin, a number of investors in the Anglo Irish New York Hotel Fund sought the return of their investment together with interest and costs. The Bank raised a full defence in response to these claims and on 27 July 2011 the High Court in Dublin ruled in favour of the Bank against the claims made by the investors. The High Court decision is being appealed by the investors to the Supreme Court. In February 2012 the Bank made an application to have the appeal expedited and it is anticipated that the Supreme Court may be in a position to grant a hearing date by early 2013.

(ii) On 14 February 2011 the Bank received notice that holders of certain subordinated loan notes, having an aggregate par value of $200,000,000, filed a claim for relief seeking a restraining order and injunction against the Bank in the United States. The proceedings relate to alleged breaches of certain covenants contained in the documentation governing the loan notes in question. The Bank raised a full defence in response to the claim. On 28 November 2011 the United States District Court (Southern District of New York) dismissed the claim made by Fir Tree. The litigation has now been appealed by Fir Tree to the United States Court of Appeals for the Second Circuit. No hearing date has been set at this stage. No additional information in respect of the dispute is being provided, as to do so could prejudice the position of the Group in relation to the proceedings.

(iii) On 15 April 2011 Assénagon Asset Management S.A. (‘Assénagon’) issued English High Court proceedings against the Bank in connection with the purchase of approximately €17m of subordinated floating rate notes in the Bank due 2017. On 27 July 2012 the English High Court delivered a judgment granting declaratory relief against the Bank in favour of Assénagon, including declarations that the compulsory redemption of Assénagon’s notes under the liability management exercise carried out by the Bank in November 2010 was of no effect and that Assénagon’s notes continue in existence. The Bank has been granted permission to appeal the Assénagon judgment by the English High Court and intends to proceed with the appeal. No additional information in respect of the dispute is being provided, as to do so could prejudice the position of the Group in relation to the proceedings.

(iv) On 16 May 2011, the wife and children of Sean Quinn issued Irish High Court proceedings against the Bank and a share receiver appointed by the Bank, in which declarations have been sought seeking, amongst other things, to set aside various loan agreements and security documents entered into by certain members of the Quinn family with the Bank. The proceedings, which were admitted to the Commercial List of the High Court on 30 May 2011, also include an unspecified claim for damages. The Bank is vigorously defending the proceedings. No additional information in respect of the dispute is being provided, as to do so could prejudice the position of the Group in relation to the proceedings.

Guarantees

In the normal course of business, the Group is a party to financial instruments with off balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of risks which are not reflected in the statement of financial position. Guarantee contracts expose the Bank to the possibility of sustaining a loss if the other party to the financial instrument fails to perform in accordance with the terms of the contract. Even though these obligations may not be recognised in the statement of financial position, they do contain risk and are therefore part of the overall risk of the Group (see note 35).

In addition to the above, the Bank has given guarantees in respect of certain subsidiaries.

Indemnity

The TSA entered into between the Bank, AIB and AIB UK at the time of the AIB Transfer Order in 2011 pursuant to which certain of the Bank's deposits and assets, and the shares held by the Bank in its Isle of Man deposit taking subsidiary, Anglo Irish Bank Corporation (International) PLC (later renamed as AIB International Savings Limited) were transferred to AIB and AIB UK, contained an indemnity from the Bank in favour of AIB and AIB UK. Under that indemnity, subject to certain exclusions and to certain time frames within which claims can be made, AIB and AIB UK may claim indemnity against the Bank for certain direct liabilities arising in connection with that part of the Bank's business that transferred to them.

Following the AIB Transfer Order, the AIB Group notified the Bank of a number of matters in respect of which it expects to seek indemnity under the terms of the TSA. The Bank is working with the AIB Group to establish whether those matters are within the scope of the indemnity, whether any of the limitations on, or exclusions from, liability set out in the TSA are relevant and, to the extent that they are not, what steps the AIB Group must take (such as reasonable steps to mitigate any such liability, and using reasonable endeavours to recover amounts due in respect of certain exposures) as a precursor to a successful indemnity claim. Discussions are ongoing with the AIB Group and, to date, the Bank has not made any admission of liability. In certain cases, it is not yet possible to ascertain the quantum of the direct loss that the AIB Group expects to incur in relation to particular matters or if the Bank is liable under the TSA indemnity. The AIB Group has put the Bank on notice of possible claims totalling approximately €80m, but it is not yet possible to confirm whether this is an accurate figure, or whether the Bank is, in fact, liable in respect of each of the amounts comprising that total.

NAMA

The Group may be required to indemnify NAMA in respect of various matters, including NAMA's potential liability arising from any error, omission or misstatement on the part of the Group in the information provided to NAMA. Any claim by NAMA in respect of those indemnities, depending on its nature, scale and factual context, could have a material adverse effect on the Group.

34. Statement of cash flows

Other non-cash items	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Net decrease/(increase) in prepayments and accrued income	**15**	(9)	(6)
Net decrease in accruals and deferred income	**(15)**	(45)	(49)
Net (gains)/losses on disposal of available-for-sale financial assets	**(13)**	1	2
Depreciation and amortisation	**5**	12	23
Net interest on subordinated liabilities and other capital instruments	**1**	(5)	(5)
Loan recoveries	**-**	1	6
Share of results of joint ventures	**-**	2	(15)
	(7)	(43)	(44)

Cash and cash equivalents	30 June 2012 €m	30 June 2011 €m	31 December 2011 €m
Cash and balances with central banks	**8**	255	100
Loans and advances to banks (with a maturity of less than three months)	**208**	325	323
At end of period	**216**	580	423

Loans and advances to banks (with a maturity of less than three months) excludes cash collateral placed with derivative counterparties in relation to net derivative liability positions (note 17).

35. Risk management

The management team's focus is to further stabilise and de-risk the Bank, while maximising the recovery of outstanding loans. The Restructuring Plan sets out the Bank's primary strategic objective as the working out of its assets in an orderly process over time, while minimising the loss to the Irish taxpayer. A Monitoring Trustee was approved by the EC on 8 December 2011 to report on a quarterly basis for a period of three years on the Group's adherence to the commitments included in the Restructuring Plan. In this regard, the balance sheet continues to be reduced. Total assets at 30 June 2012 amount to €53bn, which represents a decrease of €3bn or 5% on a constant currency basis from the position at 31 December 2011. The continuing reduction in total assets demonstrates the Bank's commitment to deleverage the balance sheet in line with the objective of an orderly resolution over a period of up to ten years. The Bank remains bound by the Capital Requirements Directive and thus is subject to a minimum 8% regulatory capital requirement.

In the normal course of its business activities the Group is subject to a variety of risks and uncertainties. This update on key risks should be read in conjunction with the description of the principal risks and uncertainties facing the Group set out on pages 16 to 20.

Pages 103 to 133 of the Group's 2011 Annual Report and Accounts provide details of the risk management and control framework in place in the Bank and set out the key risks which could impact the Bank's future results and financial position.

Credit risk, lending asset quality and impairment

Credit risk is defined as the risk that the Group will suffer a financial loss from a counterparty's failure to pay interest, repay capital or meet a commitment and the collateral pledged as security is insufficient to cover the payments due. The Group's credit risk arises from transactions with external counterparties, including sovereign states. The Bank's largest exposures relate to the promissory notes and its lending activities to customers, but also include available-for-sale debt securities including government bonds, interbank lending and derivative transactions. An external ratings profile of investment securities classified as available-for-sale is set out in note 19 and a credit ratings profile of loans and advances to banks is provided in note 17. Details of derivative contracts are provided in note 16, and details of the promissory notes are set out in note 20.

The Bank complies with the Central Bank of Ireland's CCMA in its dealings with residential borrowers who are in arrears with their loan repayments. As part of the Bank's MARS project, it is developing a more comprehensive range of loan modification and resolution options targeted towards supporting those customers in longer term arrears. Subject to regulatory approval and certain eligibility criteria, these options will be made available to customers in due course and will supplement the standard forbearance arrangements currently used by the Bank's Arrears Support Unit to assist residential customers who are facing genuine repayment difficulties. Each case is reviewed on an individual basis with a view, where possible, to putting in place a sustainable repayment plan. The Bank seeks to ensure that customers with a genuine need are treated fairly and supported throughout the arrears management and resolution process.

Maximum exposure to credit risk

The following table presents the Group's maximum exposure to credit risk before collateral or other credit enhancements. Included below are contingent liabilities and commitments to lend, which are not recognised in the consolidated statement of financial position.

	The Group	
	30 June 2012 €m	31 December 2011 €m
Exposures in the consolidated statement of financial position		
Cash and balances with central banks	**8**	100
Financial assets at fair value through profit or loss - held on own account *	**-**	-
Derivative financial instruments	**475**	1,096
Loans and advances to banks	**2,083**	2,301
Assets classified as held for sale	**317**	276
Available-for-sale financial assets *	**4,195**	1,332
Promissory note	**27,785**	29,934
Government debt securities at amortised cost	**866**	947
Loans and advances to customers	**16,315**	18,413
Exposures not recognised in the consolidated statement of financial position		
Contingent liabilities	**140**	181
Commitments to lend	**212**	237
Maximum exposure to credit risk	**52,396**	54,817

* Excludes equity shares

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise as a result of changes in fair value.

Loans and advances to customers and assets classified as held for sale include €750m (31 December 2011: €724m) and €nil (31 December 2011: €14m) respectively lent in relation to assets held in respect of liabilities to customers under investment contracts (note 26) as the Group is exposed to credit risk in respect of this lending.

Assets classified as held for sale exclude investment property of €2m (31 December 2011: €109m) and property, plant and equipment of €16m (31 December 2011: €21m).

Loans and advances to banks exclude €10m (31 December 2011: €5m) advanced on behalf of policyholders under investment contracts (note 26) as the Group is not exposed to credit risk in respect of these advances.

Contingent liabilities include €124m (31 December 2011: €162m) in respect of financial guarantees. In addition, the TSA concluded between the Bank, AIB and AIB UK contains an indemnity from the Bank in favour of AIB and AIB UK, subject to certain exclusions from liability, in respect of certain direct liabilities which could arise in connection with the deposits, assets or entity which transferred.

35. **Risk management** continued

Large exposures

The top 20 customer groups (as reported to the Central Bank of Ireland), excluding loans classified as held for sale, represent €9.4bn or 35% (31 December 2011: €9.6bn or 33%) of the Group's total loans and advances to customers before provisions for impairment. Total specific impairment provisions on these customer groups amount to €3.6bn (31 December 2011: €3.2bn). Of the top 20 customer groups, one group accounts for 10% (31 December 2011: 10%) of total loans and advances to customers.

At 30 June 2012 the Group held Irish Government notes and bonds with a total carrying value of €31.3bn (31 December 2011: €30.2bn). In addition, at 30 June 2012 the Group held NAMA senior bonds with a carrying value of €0.9bn (31 December 2011: €0.9bn) which are guaranteed by the Irish Government.

At 30 June 2012 Ireland's Standard & Poor's credit rating was BBB+.

Interbank placements with, and investments in debt securities issued by, Irish financial institutions covered under the ELG Scheme total €0.5bn (31 December 2011: €0.6bn).

Exposures to eurozone countries

Fiscal imbalances in some eurozone countries resulted in credit rating downgrades and raised market concerns about sovereign risk in these countries during 2011 and 2012. Credit spreads for the affected sovereign and bank credit markets have remained volatile during the current period. The table below summaries the Group’s exposure to available-for-sale financial assets issued by governments of selected eurozone countries and banks domiciled in those countries. The Irish exposure includes the Irish Government bond with an initial fair value of €3.06bn which was acquired by the Bank in settlement of the promissory notes instalment due on 31 March 2012, and which had a carrying value at 30 June 2012 of €3.26bn.

	30 June 2012			
	Government €m	**Financial Institutions €m**	**NAMA Subordinated Bonds €m**	**Total €m**
Finland	**12**	**-**	**-**	**12**
France	**16**	**41**	**-**	**57**
Germany	**13**	**-**	**-**	**13**
Ireland	**3,505**	**442**	**124**	**4,071**
Italy	**-**	**10**	**-**	**10**
Netherlands	**10**	**8**	**-**	**18**
Spain	**-**	**9**	**-**	**9**
Total	**3,556**	**510**	**124**	**4,190**

	31 December 2011			
	Government €m	Financial Institutions €m	NAMA Subordinated Bonds €m	Total €m
Belgium	-	25	-	25
Finland	5	-	-	5
France	16	101	-	117
Germany	20	35	-	55
Ireland	303	485	124	912
Italy	-	36	-	36
Netherlands	10	7	-	17
Portugal	-	16	-	16
Spain	-	48	-	48
Total	354	753	124	1,231

Group Risk monitors country risk exposures, taking into consideration independent credit information from well established international sources.

Lending asset quality

Credit risk arises primarily on loans and advances to customers and loans classified as held for sale. At 30 June 2012 loans and advances to customers were €26,353m (31 December 2011: €28,028m) before provisions for impairment of €10,788m (31 December 2011: €10,339m) and loans classified as held for sale were €424m (31 December 2011: €365m) before provisions for impairment of €107m (31 December 2011: €103m).

The Group monitors lending asset quality, including on loans classified as held for sale, on an ongoing basis using the rating categories outlined below. These ratings provide a common and consistent framework for aggregating and comparing exposures across all lending portfolios.

Good quality

Good quality ratings apply to exposures that are performing as expected and are of sound financial standing. These exposures are considered low to moderate risk.

Satisfactory quality

This rating applied to exposures that continued to perform satisfactorily, but were subject to closer monitoring. The use of this category has been discontinued during the current period reflecting a reduction in the number of loan grades now applied by Group Risk to monitor asset quality.

Lower quality but not past due or impaired

This rating applies to exposures that require increased management attention to prevent any deterioration in asset quality. No evidence of specific impairment exists.

Past due but not impaired

These are loans and receivables where contractual interest or principal payments are one day or more past due. As at the end of the reporting period there is no objective evidence of impairment due to the level of collateral and/or personal recourse available to the Group.

Impaired loans

Loans are classified as impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan. The loan is impaired if that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value and can be reliably measured.

35. **Risk management** continued

Loans and advances to customers

Asset quality - profile of loans and advances to customers

	30 June 2012					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
Good quality	2,362	5	272	638	344	3,621
Lower quality but not past due or impaired	2,089	359	343	121	155	3,067
Total neither past due or impaired	4,451	364	615	759	499	6,688
Past due but not impaired	1,963	178	210	245	227	2,823
Impaired loans	12,089	900	2,032	828	1,743	17,592
	18,503	1,442	2,857	1,832	2,469	27,103
Provisions for impairment	(6,392)	(696)	(1,781)	(522)	(1,397)	(10,788)
	12,111	746	1,076	1,310	1,072	16,315
Less:						
Lending to policyholders in respect of investment contracts (note 26)						(750)
Total						15,565

Provisions for impairment on loans and advances to customers	30 June 2012					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
At beginning of period	5,960	647	1,872	496	1,364	10,339
Charge against profits	619	42	105	33	25	824
Write-offs	(75)	(5)	(177)	-	-	(257)
Unwind of discount	(78)	(4)	(6)	(9)	(5)	(102)
Exchange movements	100	1	4	-	25	130
Net transfers to assets classified as held for sale and sectoral reclassification	(99)	15	(11)	2	(12)	(105)
Release on loan asset sales	(35)	-	(6)	-	-	(41)
At end of period	6,392	696	1,781	522	1,397	10,788
Specific	5,970	653	1,680	385	1,335	10,023
Collective	422	43	101	137	62	765
Total	6,392	696	1,781	522	1,397	10,788

The use of the 'satisfactory' category has been discontinued in the current period reflecting a reduction the number of loan grades now applied by Group Risk to monitor asset quality.

The charge against profits includes collective provisions for impairment analysed on a portfolio basis.

Residential lending comprises residential development and residential investment, and incorporates large value development and investment transactions. Residential mortgages consists of the portfolio of residential loans transferred to the Bank on 1 July 2011 under the INBS Transfer Order and incorporates owner occupier and buy to let mortgages. Other lending includes €18m of loans advanced for the purchase of the borrower's principal private residence.

Further details in respect of residential mortgages are provided on page 72.

	31 December 2011					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
Good quality	2,751	186	344	637	479	4,397
Satisfactory quality	7	8	72	150	3	240
Lower quality but not past due or impaired	2,968	50	385	38	169	3,610
Total neither past due or impaired	5,726	244	801	825	651	8,247
Past due but not impaired	1,916	382	165	245	315	3,023
Impaired loans	11,869	899	2,174	803	1,737	17,482
	19,511	1,525	3,140	1,873	2,703	28,752
Provisions for impairment	(5,960)	(647)	(1,872)	(496)	(1,364)	(10,339)
	13,551	878	1,268	1,377	1,339	18,413
Less:						
Lending to policyholders in respect of investment contracts (note 26)						(724)
Total						17,689

Provisions for impairment on loans and advances to customers

	31 December 2011					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
At beginning of year	5,702	692	1,865	-	1,318	9,577
Acquired under the INBS Transfer Order	164	50	-	421	32	667
Charge against profits	1,125	100	169	80	36	1,510
Write-offs	(169)	(23)	(159)	-	-	(351)
Recoveries	1	-	5	-	-	6
Unwind of discount	(142)	(12)	(14)	(9)	(10)	(187)
Exchange movements	21	(16)	28	-	22	55
Net transfers (to)/from assets classified as held for sale and sectoral reclassification	(742)	(144)	(22)	4	(34)	(938)
At end of year	5,960	647	1,872	496	1,364	10,339
Specific	5,532	608	1,777	361	1,288	9,566
Collective	428	39	95	135	76	773
Total	5,960	647	1,872	496	1,364	10,339

The charge against profits includes collective provisions for impairment analysed on a portfolio basis.

35. Risk management continued

Aged analysis of loans and advances to customers past due but not impaired

The following tables present an analysis of loans and advances to customers where contractual interest or principal payments are past due but impairment is not appropriate as the level of collateral and the present value of estimated future cash flows available to the Group is sufficient.

	30 June 2012					
	Commercial €m	**Residential €m**	**Business Banking €m**	**Residential Mortgages €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	**451**	**6**	**101**	**51**	**30**	**639**
Past due 31 to 60 days	**124**	**10**	**-**	**50**	**8**	**192**
Past due 61 to 90 days	**18**	**-**	**-**	**27**	**1**	**46**
Past due 91 days and over	**1,370**	**162**	**109**	**117**	**188**	**1,946**
Total	**1,963**	**178**	**210**	**245**	**227**	**2,823**

	31 December 2011					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
Past due 1 to 30 days	424	18	74	49	33	598
Past due 31 to 60 days	23	36	-	25	11	95
Past due 61 to 90 days	66	1	36	75	2	180
Past due 91 days and over	1,403	327	55	96	269	2,150
Total	1,916	382	165	245	315	3,023

Gross loans and advances to customers by geographical location and industry sector

	30 June 2012				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**3,114**	**1,976**	**81**	**5,171**	**19%**
Office	**2,961**	**1,278**	**191**	**4,430**	**16%**
Mixed use	**688**	**768**	**93**	**1,549**	**6%**
Industrial	**234**	**404**	**-**	**638**	**2%**
Leisure	**2,163**	**3,184**	**-**	**5,347**	**20%**
Commercial development	**187**	**71**	**-**	**258**	**1%**
Other property investment	**908**	**202**	**-**	**1,110**	**4%**
Residential investment	**510**	**362**	**108**	**980**	**3%**
Residential development	**336**	**126**	**-**	**462**	**2%**
Business banking	**2,853**	**4**	**-**	**2,857**	**11%**
Residential owner occupier	**1,423**	**-**	**-**	**1,423**	**5%**
Residential buy to let	**409**	**-**	**-**	**409**	**2%**
Personal	**2,069**	**20**	**3**	**2,092**	**8%**
Fund investment	**346**	**1**	**-**	**347**	**1%**
Unzoned land	**27**	**3**	**-**	**30**	**0%**
Total loans and advances to customers	**18,228**	**8,399**	**476**	**27,103**	**100%**

	31 December 2011				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	3,239	2,126	239	5,604	19%
Office	3,047	1,279	184	4,510	16%
Mixed use	708	795	87	1,590	6%
Industrial	242	485	-	727	3%
Leisure	2,305	3,345	-	5,650	20%
Commercial development	187	226	-	413	1%
Other property investment	895	122	-	1,017	3%
Residential investment	493	415	104	1,012	3%
Residential development	391	122	-	513	2%
Business banking	3,105	35	-	3,140	11%
Residential owner occupier	1,440	-	-	1,440	5%
Residential buy to let	433	-	-	433	2%
Personal	2,290	23	4	2,317	8%
Fund investment	351	1	-	352	1%
Unzoned land	31	3	-	34	0%
Total loans and advances to customers	19,157	8,977	618	28,752	100%

Geographical location is based on the location of the office recording the transaction. The portfolio in the UK has a material exposure to the UK leisure sector. This concentration risk is the subject of continued focus and a number of initiatives on specific cases are ongoing.

Total loans and advances to customers are stated gross of provisions and include €750m (31 December 2011: €724m) lent to fund assets held in respect of liabilities to customers under investment contracts (note 26).

35. **Risk management** continued

Specific provisions against loans and advances to customers by geographical location and industry sector

	30 June 2012				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**954**	**529**	**20**	**1,503**	**15%**
Office	**726**	**318**	**-**	**1,044**	**11%**
Mixed use	**262**	**192**	**5**	**459**	**5%**
Industrial	**128**	**103**	**-**	**231**	**2%**
Leisure	**997**	**677**	**-**	**1,674**	**17%**
Commercial development	**178**	**47**	**-**	**225**	**2%**
Other property investment	**740**	**94**	**-**	**834**	**8%**
Residential investment	**237**	**23**	**1**	**261**	**3%**
Residential development	**292**	**100**	**-**	**392**	**4%**
Business banking	**1,676**	**4**	**-**	**1,680**	**17%**
Residential owner occupier	**235**	**-**	**-**	**235**	**2%**
Residential buy to let	**150**	**-**	**-**	**150**	**1%**
Personal	**1,209**	**7**	**3**	**1,219**	**12%**
Fund investment	**92**	**1**	**-**	**93**	**1%**
Unzoned land	**21**	**2**	**-**	**23**	**0%**
Total specific provisions on loans and advances to customers	**7,897**	**2,097**	**29**	**10,023**	**100%**

	31 December 2011				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	966	389	18	1,373	14%
Office	647	276	-	923	10%
Mixed use	254	122	-	376	4%
Industrial	123	101	-	224	2%
Leisure	1,044	553	-	1,597	17%
Commercial development	175	142	-	317	3%
Other property investment	718	4	-	722	8%
Residential investment	185	24	2	211	2%
Residential development	309	88	-	397	4%
Business banking	1,767	10	-	1,777	19%
Residential owner occupier	206	-	-	206	2%
Residential buy to let	155	-	-	155	2%
Personal	1,157	5	3	1,165	12%
Fund investment	96	1	-	97	1%
Unzoned land	24	2	-	26	0%
Total specific provisions on loans and advances to customers	7,826	1,717	23	9,566	100%

Geographical location is based on the location of the office recording the transaction.

Loans classified as held for sale

Asset quality - profile of loans classified as held for sale

	30 June 2012					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
Good quality	-	-	-	-	-	-
Lower quality but not past due or impaired	-	-	-	-	-	-
Total neither past due or impaired	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired loans	**230**	**194**	-	-	-	**424**
	230	**194**	-	-	-	**424**
Provisions for impairment	**(67)**	**(40)**	-	-	-	**(107)**
	163	**154**	-	-	-	**317**
Less:						
Lending to policyholders in respect of investment contracts (note 26)						-
Total						**317**

Provisions for impairment on loans classified as held for sale	30 June 2012					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
At beginning of period	**83**	**20**	-	-	-	**103**
Charge against profits	**15**	**21**	-	-	-	**36**
Unwind of discount	**(1)**	**(3)**	-	-	-	**(4)**
Exchange movements	**3**	**2**	-	-	-	**5**
Net transfers from loans and advances to customers and sectoral reclassification	**84**	-	**12**	-	**9**	**105**
Net release on disposal of assets to NAMA	**(76)**	-	-	-	-	**(76)**
Release on loan asset sales	**(41)**	-	**(12)**	-	**(9)**	**(62)**
At end of period	**67**	**40**	-	-	-	**107**
Specific	**67**	**40**	-	-	-	**107**
Total	**67**	**40**	-	-	-	**107**

The use of the 'satisfactory' category has been discontinued in the current period reflecting a reduction the number of loan grades now applied by Group Risk to monitor asset quality.

35. Risk management continued

Asset quality - profile of loans classified as held for sale *continued*

	31 December 2011					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
Good quality	7	-	-	-	-	7
Satisfactory quality	65	-	-	-	-	65
Lower quality but not past due or impaired	-	-	-	-	-	-
Total neither past due or impaired	72	-	-	-	-	72
Past due but not impaired	31	-	-	-	-	31
Impaired loans	83	193	-	-	-	276
	186	193	-	-	-	379
Provisions for impairment	(83)	(20)	-	-	-	(103)
	103	173	-	-	-	276
Less:						
Lending to policyholders in respect of investment contracts (note 26)						(14)
Total						262

Provisions for impairment on loans classified as held for sale	31 December 2011					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
At beginning of year	392	127	-	-	46	565
Acquired under the INBS Transfer Order	73	163	-	4	96	336
Charge against profits	9	18	4	-	3	34
Write-offs	(49)	(7)	-	-	-	(56)
Unwind of discount	(9)	(6)	-	-	(1)	(16)
Exchange movements	18	4	-	-	(1)	21
Net transfers from/(to) loans and advances to customers and sectoral reclassification	742	144	22	(4)	34	938
Net release on disposal of assets to NAMA	(80)	(174)	(4)	-	(129)	(387)
Release on loan asset sales	(1,013)	(249)	(22)	-	(48)	(1,332)
At end of year	83	20	-	-	-	103
Specific	83	20	-	-	-	103
Total	83	20	-	-	-	103

Aged analysis of loans classified as held for sale past due but not impaired

The following tables present an analysis of loans classified as held for sale where contractual interest or principal payments are past due but impairment is not appropriate as the level of collateral and the present value of estimated future cash flows available to the Group is sufficient.

	30 June 2012					
	Commercial €m	**Residential €m**	**Business Banking €m**	**Residential Mortgages €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	-	-	-	-	-	-
Past due 31 to 60 days	-	-	-	-	-	-
Past due 61 to 90 days	-	-	-	-	-	-
Past due 91 days and over	-	-	-	-	-	-
Total	-	-	-	-	-	-

	31 December 2011					
	Commercial €m	Residential €m	Business Banking €m	Residential Mortgages €m	Other Lending €m	Total €m
Past due 1 to 30 days	-	-	-	-	-	-
Past due 31 to 60 days	-	-	-	-	-	-
Past due 61 to 90 days	-	-	-	-	-	-
Past due 91 days and over	31	-	-	-	-	31
Total	31	-	-	-	-	31

35. **Risk management** continued

Gross loans classified as held for sale by geographical location and industry sector

	30 June 2012				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**-**	**-**	**164**	**164**	**39%**
Office	**-**	**-**	**66**	**66**	**15%**
Mixed use	**-**	**-**	**-**	**-**	**0%**
Industrial	**-**	**-**	**-**	**-**	**0%**
Leisure	**-**	**-**	**-**	**-**	**0%**
Commercial development	**-**	**-**	**-**	**-**	**0%**
Other property investment	**-**	**-**	**-**	**-**	**0%**
Residential investment	**-**	**-**	**168**	**168**	**40%**
Residential development	**-**	**-**	**26**	**26**	**6%**
Business banking	**-**	**-**	**-**	**-**	**0%**
Residential owner occupier	**-**	**-**	**-**	**-**	**0%**
Residential buy to let	**-**	**-**	**-**	**-**	**0%**
Personal	**-**	**-**	**-**	**-**	**0%**
Fund investment	**-**	**-**	**-**	**-**	**0%**
Unzoned land	**-**	**-**	**-**	**-**	**0%**
Total loans classified as held for sale	**-**	**-**	**424**	**424**	**100%**

	31 December 2011				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	11	-	-	11	3%
Office	11	-	65	76	20%
Mixed use	2	-	5	7	2%
Industrial	-	-	14	14	4%
Leisure	72	-	-	72	19%
Commercial development	6	-	-	6	2%
Other property investment	-	-	-	-	0%
Residential investment	-	-	169	169	44%
Residential development	-	-	24	24	6%
Business banking	-	-	-	-	0%
Residential owner occupier	-	-	-	-	0%
Residential buy to let	-	-	-	-	0%
Personal	-	-	-	-	0%
Fund investment	-	-	-	-	0%
Unzoned land	-	-	-	-	0%
Total loans classified as held for sale	102	-	277	379	100%

Geographical location is based on the location of the office recording the transaction.

Total loans classified as held for sale are stated gross of provisions and include €nil (31 December 2011: €14m) lent to fund assets held in respect of liabilities to customers under investment contracts (note 26).

Specific provisions against loans classified as held for sale by geographical location and industry sector

	30 June 2012				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	-	-	**49**	**49**	**46%**
Office	-	-	**18**	**18**	**17%**
Mixed use	-	-	-	-	**0%**
Industrial	-	-	-	-	**0%**
Leisure	-	-	-	-	**0%**
Commercial development	-	-	-	-	**0%**
Other property investment	-	-	-	-	**0%**
Residential investment	-	-	**40**	**40**	**37%**
Residential development	-	-	-	-	**0%**
Business banking	-	-	-	-	**0%**
Residential owner occupier	-	-	-	-	**0%**
Residential buy to let	-	-	-	-	**0%**
Personal	-	-	-	-	**0%**
Fund investment	-	-	-	-	**0%**
Unzoned land	-	-	-	-	**0%**
Total specific provisions on loans classified as held for sale	**-**	**-**	**107**	**107**	**100%**

	31 December 2011				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	-	-	-	-	0%
Office	-	-	-	-	0%
Mixed use	-	-	5	5	5%
Industrial	-	-	-	-	0%
Leisure	72	-	-	72	70%
Commercial development	6	-	-	6	6%
Other property investment	-	-	-	-	0%
Residential investment	-	-	20	20	19%
Residential development	-	-	-	-	0%
Business banking	-	-	-	-	0%
Residential owner occupier	-	-	-	-	0%
Residential buy to let	-	-	-	-	0%
Personal	-	-	-	-	0%
Fund investment	-	-	-	-	0%
Unzoned land	-	-	-	-	0%
Total specific provisions on loans classified as held for sale	78	-	25	103	100%

Geographical location is based on the location of the office recording the transaction.

35. Risk management continued

Additional residential mortgage information

The residential mortgage portfolio totals €1,832m (31 December 2011: €1,873m) and represents 7% of the Bank's loans and advances to customers. The Bank is not engaged in new mortgage lending and the makeup of the portfolio has not materially changed since 31 December 2011.

The portfolio is divided between owner occupier and buy to let mortgages, with approximately 78% being owner occupier and the remainder buy to let. The loans are almost exclusively secured on properties located in the Republic of Ireland, with the exception of balances totalling €6m secured on properties in the UK.

Variable rate loans total €1.6bn. Of these less than 0.1% are tracker mortgages linked to the ECB base rate. The balance of the portfolio comprises fixed rate loans.

Asset quality - profile of residential mortgages

	30 June 2012			31 December 2011		
	Owner Occupier €m	**Buy to Let €m**	**Total €m**	Owner Occupier €m	Buy to Let €m	Total €m
Good quality	**591**	**47**	**638**	577	60	637
Satisfactory quality	**-**	**-**	**-**	136	14	150
Lower quality but not past due or impaired	**96**	**25**	**121**	35	3	38
Total neither past due or impaired	**687**	**72**	**759**	748	77	825
Past due but not impaired	**213**	**32**	**245**	215	30	245
Impaired loans	**523**	**305**	**828**	477	326	803
Total gross loans	**1,423**	**409**	**1,832**	1,440	433	1,873
Specific provisions for impairment	**(235)**	**(150)**	**(385)**	(206)	(155)	(361)
Collective provisions for impairment	**(122)**	**(15)**	**(137)**	(120)	(15)	(135)
Total loans net of provisions	**1,066**	**244**	**1,310**	1,114	263	1,377
Total provision %	**25%**	**40%**	**28%**	23%	39%	26%
Specific coverage ratio *	**45%**	**49%**	**46%**	43%	48%	45%

* The specific coverage ratio measures specific provisions as a percentage of impaired loans.

Aged analysis of residential mortgages past due but not impaired

	30 June 2012			31 December 2011		
	Owner Occupier €m	**Buy to Let €m**	**Total €m**	Owner Occupier €m	Buy to Let €m	Total €m
Past due 1 to 30 days	**46**	**5**	**51**	45	4	49
Past due 31 to 60 days	**45**	**5**	**50**	23	2	25
Past due 61 to 90 days	**23**	**4**	**27**	65	10	75
Past due 91 days and over	**99**	**18**	**117**	82	14	96
Total	**213**	**32**	**245**	215	30	245

Loans which are more than 60 days past due are considered to be at risk and are included in the pool of loans that are assessed for specific impairment. In cases where a provision is necessary the loan is considered impaired and is reported in the impaired loan balances.

Repossessions

Repossession of collateral is only considered by the Bank after all other avenues of resolution have been exhausted. During the six months to 30 June 2012 the Bank repossessed 23 properties. There were 14 sales of repossessed properties completed during the period, and proceeds received were broadly in line with the carrying value of the loans at the date of sale. At 30 June 2012, the Bank holds a stock of 141 repossessed properties (31 December 2011: 132). Properties are disposed of as soon as practicable after repossession and the proceeds are used to reduce indebtedness.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group does not have sufficient financial resources available at all times to meet its contractual and contingent cash flow obligations or can only secure these resources at excessive cost.

The current objective for the management of liquidity and funding risk is to continue to meet cash flow obligations as they fall due and minimise the funding required from the Bank's stakeholders. The future funding and liquidity strategy and balance sheet structure will be largely reliant on the Bank's stakeholders and the relevant authorities.

The Bank relies mainly on liquidity support from central banks, including access to special funding facilities. The Group currently borrows from central banks through both open market operations with monetary authorities and through special funding facilities with the Central Bank of Ireland (note 23). The Group has total borrowings from central banks at 30 June 2012 of €42.3bn (31 December 2011: €42.2bn; 30 June 2011: €40.8bn), including €41.7bn (31 December 2011: €40.1bn; 30 June 2011: €38.4bn) borrowed through these special funding facilities. At 30 June 2012 customer deposits of €0.5bn (31 December 2011: €0.6bn; 30 June 2011: €0.7bn) represent 1% of total funding and are subject to the commitments that the State made to the EC in relation to the State aid provided to the Group. A Monitoring Trustee was approved by the EC on 8 December 2011 to report on a quarterly basis for a period of three years on the Group's adherence to these Restructuring Plan commitments.

At 30 June 2012 deposits from banks also includes €2.8bn of secured funding provided by Bank of Ireland (note 23) arising from a securities repurchase transaction whereby Bank of Ireland has purchased a long term Irish Government bond acquired by the Bank in settlement of the second instalment due on the promissory notes (note 20). The Bank has an obligation to repurchase the bond from Bank of Ireland not later than 19 June 2013. The Bank’s payment obligations with respect to the transaction are covered by a guarantee from the Minister for Finance. Bank of Ireland has the right, on the occurrence of an early termination event, to request repayment of all amounts owing (note 38).

Structural foreign exchange risk principally arises from the funding shortfall between the Group's sterling and US dollar lending balances and the Group's funding in those currencies. The long term foreign exchange swap agreements executed with the NTMA in 2011 have led to a significant improvement in the Group's foreign exchange funding. These transactions provide US dollar and sterling funding in exchange for euros and reduce the requirement to source foreign currency in the interbank or wholesale foreign exchange markets.

In November 2010, the Minister for Finance put in place a guarantee for the Bank which covered amounts payable in relation to derivative and certain other interbank transactions. In accordance with the terms of this guarantee, the Bank may only enter into derivative transactions for balance sheet management purposes. There is no fee payable for this guarantee.

In the context of liquidity and funding risk the Bank actively monitors compliance with the contractual covenants contained in the Group’s debt securities programmes and subordinated capital instruments. Significantly, CISA includes important provisions that modify rights in respect of default related matters becoming exercisable because of an order or requirement made under CISA or anything done on foot of such an order or requirement.

The following table analyses the Group’s non-derivative financial liabilities into current or non-current maturity groupings, based on the remaining period to the contractual maturity date as at 30 June 2012 and 31 December 2011. Financial liabilities are classified as current if they have a contractual maturity within 12 months of the reporting date. The table is prepared on the basis of remaining contractual maturity and does not incorporate behavioural assumptions regarding expected cash flows.

	30 June 2012			31 December 2011		
	Current €m	**Non-Current €m**	**Policyholders' funds €m**	Current €m	Non-Current €m	Policyholders' funds €m
Financial liabilities						
Deposits from banks	**45,154**	**-**	**316**	42,286	-	305
Customer accounts	**539**	**46**	**(67)**	665	26	(94)
Debt securities in issue	**327**	**1,033**	**-**	4,322	1,049	-
Subordinated liabilities and other capital instruments *	**-**	**533**	**-**	-	517	-
	46,020	**1,612**	**249**	47,273	1,592	211

* Undated subordinated liabilities and other capital instruments have been included in non-current financial liabilities.

Liabilities to customers under investment contracts are excluded as the underlying liquidity risk is borne by the policyholder.

Derivatives are excluded as the majority of derivative transactions with interbank counterparties are covered under CSAs, with cash collateral exchanged on a daily basis.

35. **Risk management** continued

Liquidity and funding risk continued

The Group's credit lines and other commitments to lend of €212m (31 December 2011: €237m) (note 33) include €40m (31 December 2011: €59m) falling due within one year.

Interest rate risk

Interest rate risk is the risk of a potential adverse change in the Group's income or financial position arising from movements in interest rates. It arises from the structure of the balance sheet and from the execution of customer and interbank business.

At 30 June 2012, the Group held Irish Government promissory notes with a total principal value of €27.1bn. As the promissory notes are fixed rate instruments which create significant interest rate risk exposure if market interest rates increase, the Bank has hedged a portion of the exposure. The Bank has hedged a total of €4.1bn of the notes using interest rate swaps, and a further €3.5bn of economic hedges exist in the form of the Group's capital and fixed rate debt issuance. However, significant fixed rate exposure remains, with limited capacity to hedge further amounts with market counterparties. Further details on the promissory notes are set out in note 20. Additional fixed interest rate risk arises in respect of the €3.46bn Irish Government bond which was acquired during the period.

36. Fair value hierarchy

The following table details the valuation methods used for the Group's financial assets and liabilities carried at fair value as at 30 June 2012, other than financial assets and liabilities at fair value through profit or loss held in respect of liabilities to customers under investment contracts.

The classification of the instruments below is based on the lowest level input that is significant to the measurement of fair value for the instrument. The three levels of the IAS fair value hierarchy are:

Level 1 values are determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 values are determined using inputs other than quoted prices described for level 1 but which are observable for the asset or liability either directly or indirectly.

Level 3 values incorporate significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	30 June 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	€m	**€m**	**€m**	**€m**
Financial assets				
Financial assets at fair value through profit or loss - held on own account	**-**	**-**	**11**	**11**
Available-for-sale financial assets	**3,999**	**67**	**129**	**4,195**
Derivative financial instruments	**-**	**73**	**402**	**475**
	3,999	**140**	**542**	**4,681**
Financial liabilities				
Derivative financial instruments	**-**	**1,493**	**4**	**1,497**
Other financial liabilities	**-**	**-**	**9**	**9**
	-	**1,493**	**13**	**1,506**

	31 December 2011			
	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m
Financial assets				
Financial assets at fair value through profit or loss - held on own account	-	-	12	12
Available-for-sale financial assets	976	227	129	1,332
Derivative financial instruments	-	648	448	1,096
	976	875	589	2,440
Financial liabilities				
Derivative financial instruments	-	2,238	11	2,249
Other financial liabilities	-	-	18	18
	-	2,238	29	2,267

The increase in AFS financial assets in the six months to 30 June 2012 is due to the receipt of an Irish Government bond with a principal amount of €3.46bn and an initial fair value of €3.06bn acquired by the Bank in settlement of the second instalment due under the promissory notes arrangement (note 20). The reduction in the fair value of level 2 AFS financial assets is attributable to maturities and disposals. The decline in the fair value of level 2 derivative financial instruments is due to both maturities and deleveraging initiatives. No transfers between the levels occurred during the period.

Financial assets at fair value through profit or loss - held on own account

The Group's remaining portfolio of financial assets at fair value through profit or loss held on own account consists primarily of unlisted equity shares. Fair values are determined using valuation techniques which refer to observable and non-observable market data.

Available-for-sale financial assets

The Group's portfolio of AFS financial assets consists of government bonds, debt securities and NAMA subordinated bonds. The fair values of government bonds and debt securities are primarily sourced from independent third party pricing service providers and prices received from dealer/brokers. The Bank has used quoted prices that it considers most representative of fair value. At 30 June 2012 this was typically the mid-price. NAMA subordinated bonds, which are valued using standard discounted cash flow techniques, are included in level 3. The Bank does not use models to value other AFS securities and does not adjust any external prices obtained.

Derivative financial instruments

Derivative financial instruments derive their value from the price of underlying variables such as interest rates, foreign exchange rates, credit spreads or equity or other indices. Fair values are typically estimated using industry standard valuation techniques incorporating inputs that are derived from observable market data. The fair value of derivative transactions with corporate clients includes a credit valuation adjustment which incorporates a significant, but unobservable, counterparty credit input. These derivatives are classified as level 3.

On the initial recognition of derivative financial instruments, any difference between the transaction price and the value derived from a valuation technique incorporating information other than observable market data is deferred. During the period €1m (31 December 2011: €11m) of income was recognised in the income statement. There was no deferral of fair value amounts during the current period or prior year. At 30 June 2012 total net unrealised gains amounted to €2m (31 December 2011: €3m).

Other financial liabilities

Customer accounts include certain structured deposits that have embedded derivative features, typically options. Certain inputs to the valuation technique are not based on observable market data but can generally be estimated from historical data or other sources.

37. Capital resources

The Bank's regulatory capital resources at 30 June 2012 consist of both Tier 1 and Tier 2 capital. Tier 1 capital includes equity (comprising ordinary share capital, share premium, the capital reserve and other eligible reserves), deductions for intangible assets and prudential adjustments. Prudential adjustments include the reversal of movements on available-for-sale and cash flow hedging reserves. Tier 2 capital includes subordinated debt and collective impairment provisions. Specific prudential limits apply to the amount of subordinated debt and collective provisions eligible as regulatory capital. Total capital is further reduced by supervisory deductions.

Regulatory capital resources include €29.3bn contributed by the Minister for Finance as the Group's sole shareholder. These capital contributions have restored the levels of Core Tier 1 regulatory capital following significant losses incurred. As at 30 June 2012 the Group reported a Tier 1 capital ratio of 13.6% and a Total capital ratio of 14.8%.

Regulatory capital ratios have decreased since 31 December 2011 due to losses incurred during the period. The impact of these losses has been partially offset by a decrease of €2.3bn in risk weighted assets. This reduction is primarily related to lending assets and is due to repayments across loan portfolios in line with the Bank's deleveraging strategy. Specific impairment charges incurred in the period also reduced the level of risk weighted assets. The level of risk weighted assets reflects the Group's Pillar 1 capital requirements. As the Group has yet to update its Internal Capital Adequacy Assessment Process ('ICAAP'), the appropriate level of capital requirements under Pillar 2 has yet to be determined.

Irish Government exposure, including the promissory notes (note 20), is risk weighted at 0% in line with the requirements of the Capital Requirements Directive and guidance from the Central Bank of Ireland.

Regulatory capital

		30 June 2012 €m	31 December 2011 €m	30 June 2011 €m
Tier 1 capital				
Equity	(a)	**2,734**	3,238	3,404
Prudential filters and regulatory adjustments	(b)	**(16)**	198	76
Non-cumulative preference shares		**370**	357	329
Total Tier 1 capital		**3,088**	3,793	3,809
Tier 2 capital				
Collective provisions	(c)	**284**	313	392
Subordinated term debt	(d)	**107**	104	116
Total Tier 2 capital		**391**	417	508
Tier 1 and Tier 2 capital		**3,479**	4,210	4,317
Capital deductions		**(111)**	(111)	(12)
Total capital		**3,368**	4,099	4,305
Risk weighted assets		**22,753**	25,076	31,375
Tier 1 capital ratio		**13.6%**	15.1%	12.1%
Total capital ratio		**14.8%**	16.3%	13.7%

(a) The level of Core Tier 1 capital is impacted by the loss incurred during the period to 30 June 2012.

(b) Prudential filters and regulatory adjustments primarily include the reversal of movements on available-for-sale and cash flow hedging reserves and the deduction of intangible assets.

(c) The maximum amount of collective provisions eligible as Tier 2 capital is limited to 1.25% of risk weighted assets. Accordingly, the amount of eligible collective provisions at 30 June 2012 has reduced in line with the reduction in risk weighted assets.

(d) Subordinated term debt with less than 5 years residual maturity is amortised on a straight-line basis at 20% per annum in calculating the amount eligible as Tier 2 regulatory capital.

38. Related party transactions

Other than as outlined in this Interim Report there have been no related party transactions in the six months ended 30 June 2012 which have materially affected the Group's financial position or performance or which were not of a similar nature to those described in note 54 to the 2011 Annual Report and Accounts.

Irish Government

Parties are considered to be related if one party has the ability to control, or exercise significant influence over, another party's financial or operational decision making, or when both parties are under common control. During the period ended 31 December 2009 the Group was taken into State ownership and, as a result, the Irish Government is considered a related party. CISA, enacted on 21 December 2010, provides the legislative basis for the reorganisation and restructuring of the banking system agreed in the joint EU/IMF Programme of Financial Support for Ireland. It will facilitate the planned restructuring of the Bank as set out in the programme agreement and consistent with EU State Aid requirements. The Irish Government and the Troika (IMF, EU and European Central Bank) may therefore exert significant influence which could impact on the Group's future results and financial condition.

The Government, under the ELG Scheme, has provided guarantees in respect of certain liabilities of the Group. Fees payable under the ELG scheme are set out in note 3.

In February 2012 NAMA informed the Bank of its intention to physically settle senior bonds with a nominal value of €950m due to mature on 1 March 2012 by issuing new senior bonds with a maturity of 1 March 2013. The Bank's commercial preference was to receive cash in exchange for its holdings of senior bonds. However, bearing in mind the preferences expressed by both NAMA and the Department of Finance and overall public interest considerations, the Bank agreed to accept physical settlement (note 21).

On 29 March 2012, the Bank reached a conditional agreement with Bank of Ireland and the State to conduct a securities repurchase transaction whereby Bank of Ireland would purchase a long term Irish Government bond acquired by the Bank in settlement of the second instalment due on the promissory notes (note 20). The interest rate payable by the Bank on the transaction is based on the average rate at which the ECB has provided funding to Bank of Ireland in connection with the purchased securities under open market operations plus a spread of 1.35%. The transaction was approved by the Bank of Ireland shareholders on 18 June 2012 and settled on 20 June 2012. Interest on deposits from banks includes an interest expense of €2m in relation to the transaction (note 3).

The Bank has an obligation to repurchase the bond from Bank of Ireland not later than 19 June 2013. The transaction is governed by a Global Master Repurchase Agreement and incorporates standard market terms including daily margining requirements with respect to changes in the value of the bond. The Bank's payment obligations with respect to the transaction are covered by a guarantee from the Minister for Finance.

Bank of Ireland has the right, on the occurrence of an early termination event, to request repayment of all amounts owing. Possible early termination events include changes to regulatory capital requirements, the bond no longer qualifying for the purpose of open market operations, or a withdrawal or expiry of the guarantee provided by the Minister for Finance.

Reasonable and vouched costs and expenses incurred by Bank of Ireland in connection with the transaction will be reimbursed by the Bank.

Initially, as a short term interim measure pending the outcome of the Bank of Ireland shareholders' decision, the Bank availed of a short term collateralised facility provided by NAMA from early April 2012. This facility, which was provided on equivalent commercial terms to those of the financing with Bank of Ireland, was repaid in full on 20 June 2012 (note 20). Interest on customer accounts includes €15m in relation to this facility (note 3).

On 27 June 2012 senior bonds with a nominal value of €66m were redeemed by NAMA at par. At 30 June 2012 the Bank's nominal holding of senior bonds totalled €884m (31 December 2011: €950m; 30 June 2011: €269m) (note 21).

During the period the Bank recognised an increase of €18m in the overall reported loss on disposal of assets to NAMA (note 10). This relates to the settlement of value-to-transfer adjustments (representing the movement in loan balances from the NAMA cut-off date to the actual loan transfer date) in respect of certain loans which previously transferred to NAMA. In addition, during the period €76m of assets, which had previously been fully provided for, were transferred by the Bank.

Placings with, and deposits from, the Central Bank of Ireland are detailed in notes 14, 17 and 23. In addition, in the normal course of business and on arm's length terms, the Group has entered into transactions with Government-related entities, which include financial institutions in which the State has significant influence. The principal transactions include taking and placing deposits, investing in Government bonds and debt securities in issue, and entering into derivative transactions.

38. Related party transactions continued

Irish Government continued

At 30 June 2012 normal banking transactions outstanding between the Group and such entities amounted to: deposits of €50m (31 December 2011: €43m), Government bonds of €241m (31 December 2011: €303m), debt securities issued by financial institutions in which the State has a significant influence of €442m (31 December 2011: €485m), net derivative assets of €1m (31 December 2011: liabilities of €18m) and loans and advances to banks of €53m (31 December 2011: €224m).

At 30 June 2012 the Bank held promissory notes issued by the Minister for Finance with a carrying value of €27,785m (31 December 2011: €29,934m; 30 June 2011: €23,804m) (note 20). In addition, the Bank holds the Government bond acquired in settlement of the second instalment due on the promissory notes, which had a carrying value at 30 June 2012 of €3,264m. Deposits from banks at 30 June 2012 also includes €2,845m in respect of the securities repurchase transaction with Bank of Ireland relating to this bond.

Placements with banks (note 17) includes a cash collateral placement of €374m (31 December 2011: €143m; 30 June 2011: €59m) with the NTMA relating to the €2.3bn / $3.2bn and €0.6bn / £0.6bn cross currency swaps entered into in March and April 2011 between the parties.

The volume and diversity of other non-banking transactions are not considered significant. Furthermore, while the Irish Government or Government-related entities may in the normal course of their business hold debt securities, subordinated liabilities and other liabilities issued by the Group, it is not practical to ascertain and disclose these amounts. In the ordinary course of business the Group purchases certain utility and other services from entities controlled by the Irish Government.

Joint ventures and associates

The Group's loans and advances to customers include loans to equity-accounted joint venture interests of €1,185m (31 December 2011: €1,044m; 30 June 2011: €1,008m), loans of €37m (31 December 2011: €37m; 30 June 2011: €37m) to joint venture interests held in respect of liabilities to customers under investment contracts, and loans to joint ventures and associates that are measured at fair value through profit or loss of €277m (31 December 2011: €265m; 30 June 2011: €224m). Loans to joint ventures and associates are assessed for impairment in the same manner as all other lending to third parties.

Key management personnel

Key management personnel comprise persons who at any time during the six months ended 30 June 2012 were members of the Board of Directors (the 'Board') together with the Group Secretary and any other persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

None of the current Directors has, or has had at any time during the period, any loans from the Bank. At 30 June 2012 there are no provisions in respect of any failure or anticipated failure by key managers to repay any outstanding credit facilities.

39. Events after the reporting period

Legal claim

On 15 April 2011 Assénagon Asset Management S.A. ('Assénagon') issued English High Court proceedings against the Bank in connection with the purchase of approximately €17m of subordinated floating rate notes in the Bank due 2017. On 27 July 2012 the English High Court delivered a judgment granting declaratory relief against the Bank in favour of Assénagon, including declarations that the compulsory redemption of Assénagon's notes under the liability management exercise carried out by the Bank in November 2010 was of no effect and that Assénagon's notes continue in existence. The Bank has been granted leave to appeal to the Court of Appeal and intends to proceed with the appeal. These particular proceedings involve only Assénagon and the Bank, however they may give rise to additional claims being brought against the Bank by other noteholders whose notes were compulsorily redeemed by the Anglo Irish Bank November and December 2010 and the INBS March 2011 liability management exercises. No additional information in respect of the dispute is being provided, as to do so could prejudice the position of the Group in relation to the proceedings.

Appointments to the Board

On 9 August 2012 Maurice Horan and Alan Ridgway were appointed as Directors of the Bank.

40. Approval

The interim financial statements were authorised for issue by the Board of Directors on 23 August 2012.

Independent review report to Irish Bank Resolution Corporation Limited

Introduction

We have been engaged by Irish Bank Resolution Corporation Limited ('the Bank') to review the condensed set of financial statements in the Interim Report for the six months ended 30 June 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes 1 to 40 (the 'condensed financial statements'). We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed financial statements.

This report is made solely to the Bank in accordance with the International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Bank those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the Bank are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed financial statements included in this Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Bank a conclusion on the condensed financial statements in the Interim Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the Interim Report for the six months ended 30 June 2012 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Deloitte & Touche
Chartered Accountants

23 August 2012

Acronyms and abbreviations

AFS	Available-for-sale
AIB	Allied Irish Banks, p.l.c.
AIB Transfer Order	Transfer order made by the Irish High Court under section 34 of CISA on 24 February 2011
AIB UK	AIB Group (UK) p.l.c.
Basel II	2006 Basel Capital Accord
CCMA	Code of Conduct on Mortgage Arrears
CISA	Credit Institutions (Stabilisation) Act 2010
CIWUD	Credit Institutions Reorganisation and Winding Up Directive
CSAs	Credit Support Annexes
CVA	Credit valuation adjustment
Direction Order	Direction order made by the Irish High Court under section 9 of CISA on 8 February 2011
EC	European Commission
ECB	European Central Bank
ELG Scheme	Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009
EU	European Union
EU/IMF Programme	EU/IMF Programme of Financial Support for Ireland
Euribor	Euro interbank offered rate
FD	Facility Deed agreement
FTSE	Financial Times Stock Exchange index
GDP	Gross Domestic Product
High Level Steps Plan	High level restructuring and work-out steps plan, based on the Restructuring Plan
IAS	International Accounting Standards
IBNR	Incurred but not reported
IBRC	Irish Bank Resolution Corporation Limited and its subsidiaries
IBRCMB	IBRC Mortgage Bank
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INBS	Irish Nationwide Building Society
INBS Transfer Order	Transfer order made by the Irish High Court under section 34 of CISA on 1 July 2011
ISEQ	Irish Stock Exchange Quotient index
LIBOR	London interbank offered rate
LME	Liability management exercise
MARS	Mortgage Arrears Resolution Strategy
Ministerial requirements	Requirements issued by the Minister for Finance under section 50 of CISA on 7 April 2010
MLRA	Master Loan Repurchase Agreement
NAMA	National Asset Management Agency
NAMA Act	National Asset Management Agency Act 2009
NTMA	National Treasury Management Agency
ODCE	Office of the Director of Corporate Enforcement
Restructuring Plan	Restructuring plan for IBRC, including the integration of INBS / High Level Steps Plan
S&P	Standard and Poor's rating agency
Senior bonds	Government Guaranteed Floating Rate Notes
SMRA	Special Master Repurchase Agreement
the 2010 Act	Central Bank Reform Act 2010
the Bank	Irish Bank Resolution Corporation Limited
the Board	The Board of Directors of the Bank
the Code	Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings
the Code of Practice	2009 Code of Practice for the Governance of State Bodies
the Directors	The Board of Directors of the Bank
the Group	Irish Bank Resolution Corporation Limited and its subsidiaries
Tier 1	Primary capital
Tier 2	Secondary capital
TSA	Transfer Support Agreement concluded between IBRC, AIB and AIB UK
UK	United Kingdom
US	United States of America

Irish Bank Resolution Corporation Limited

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Irish Bank Resolution Corporation Limited (trading as IBRC) is regulated by the Central Bank of Ireland. In the UK, Irish Bank Resolution Corporation Limited is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Services Authority. Details about the extent of our regulation by the Financial Services Authority are available from us on request.