2010 Preliminary Announcement

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Irish Life & Permanent Group Holdings plc

Preliminary Announcement

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	2010	2009
Statutory Basis (EU IFRS)		
Operating profit before impairment provisions	**€254m**	€68m
Loss after tax (attributable to equity holders)	**(€128m)**	(€313m)
EPS ("earnings per share") on continuing activities	**(47.4 cent)**	(116.8 cent)
Embedded Value ("EV") Basis		
Operating loss before tax	**(€197m)**	(€196m)
Operating EPS[1]	**(60.4 cent)**	(65.9 cent)
Loss after tax (attributable to equity holders)	**(€198m)**	(€279m)
Total EPS [1]	**(71.7 cent)**	(101.0 cent)
Banking Business		
New loans issued	**€0.6bln**	€1.2bln
Lending book	**€36.6bln**	€38.6bln
Residential mortgage loan book (Ireland)	**€26.3bln**	€27.3bln
Customer accounts	**€13.4bln**	€14.6bln
Stable funding mix[2]	**52%**	48%
Life Assurance and Fund Management new business		
Life Assurance new business		
- APE ("Annual premium equivalent")	**€320m**	€348m
- PVNBP ("Present value of new business premiums")	**€2,288m**	€2,398m
Life Assurance and Fund Management new business		
- APE	**€572m**	€539m
- PVNBP	**€4,808m**	€4,306m
Capital Ratios		
Total Tier 1 capital ratio	**10.6%**	11.3%
Life solvency cover (times)[3]	**1.75**	1.6

[1] Including own shares held for the benefit of life assurance policyholders
[2] Stable funding ratio is the end of period retail deposits and long-term funding as a percentage of total funding
[3] The 2010 ratio is net of amounts available for dividend

Group Chief Executive's Review

Background

2010 has been a tumultuous year for Ireland. After a positive start to the year the emerging sovereign debt crisis started in Greece and spread to Ireland and external funding for both the sovereign and the banking system dried up resulting in the EU/IMF Programme of Financial Support for Ireland.

While the international export sector of the economy recorded strong growth in 2010 the domestic economy remained weak, with employment continuing to fall along with reduced private and public consumption. After a cumulative fall of over 20% in per capita income since 2007, consensus expectations are now for a delayed recovery with modest growth in 2011.

Group performance

Against this difficult and challenging environment the group, like the economy, had two contrasting outcomes. The group's life assurance and fund management business recorded sales growth and a strong recovery in profitability with operating profit, on an embedded value ("EV") basis, up 57% on the prior year. This reflected, in particular, the continued success of the fund management business and the benefit of actions taken to improve customer retention and reduce costs in the life assurance business.

The good progress made by the group's banking business in the first half of the year was set back by the deterioration in, and eventual closing of funding markets later in the year. Weaker consumer and business conditions were also reflected in continued falls in property values which contributed to higher impairment provisioning. As a consequence, the operating loss in the banking business for the year was €94m ahead of 2009.

Group profitability – IFRS basis

Operating profit for the group, before impairment provisions, rose to €254m (2009: €68m). The performance of life assurance and fund management businesses was the principal driver of the improved outcome with an operating profit of €179m against a loss of €2m in 2009. Pre-provision earnings from the banking business declined from €106m in 2009 to €56m in 2010 primarily as a consequence of the increased costs associated with the Government Guarantee Schemes[4] for bank funding.

Impairment provisions for the year were €420m (2009: €376m), principally reflecting the increase in provisions in the Irish residential and commercial mortgage loan books which includes the change to the assumption used for the peak-to-trough house price decline.

Total group earnings, albeit still negative, improved significantly for the period on an IFRS basis, with a loss after tax attributable to equity holders of €128m (2009: €313m loss).

Group profitability – Embedded Value basis

On an EV basis the operating profit for the group, before impairment provisions, increased to €223m (2009: €180m). Again the improvement principally reflects the increase in life assurance and fund management businesses earnings and lower corporate costs offset by reduced bank earnings from higher government guarantee and impairment charges.

The principal factor influencing the life EV operating profit relative to the same period in 2009 was the more favourable experience variances in the life assurance and fund management businesses relative to 2009. Risk experience continued to be strongly positive and persistency improved materially relative to 2009.

Post impairment provisions, the EV group operating result for the year was a loss of €197m (2009: €196m loss). Adding the impact of investment fluctuations, changes in economic assumptions, tax and other "below the line" items the total group after tax loss attributable to equity holders was €198m (2009: €279m loss).

[4] The Covered Institutions (Financial Support) ("CIFS") Scheme and the Eligible Liabilities Guarantee ("ELG") Scheme

Life assurance and fund management

The life assurance and fund management business recorded strong operating profit growth in 2010. The main challenges in the business have been to stabilise sales, reduce costs and to normalise customer retention / policy persistency levels.

Sales for the life assurance and fund management business in 2010, on an annual premium equivalent basis, of €572m were up 6% when compared to 2009. Retail Life sales of €146m were 8% behind the same period in 2009 and were particularly impacted by the fall in demand for pension products. The decline in Corporate Life sales to €137m (2009: €164m) reflects falling employment levels and static-to-falling salaries.

Our fund management business, Irish Life Investment Managers Limited ("ILIM"), had very strong inflows in 2010 of €2.5bln (2009: €1.9bln). ILIM continues to be the dominant fund manager in Ireland on the back of its product suite and fund performance.

Rising unemployment and reduced household and business incomes as a result of the recession led to adverse persistency experience, i.e. higher policy lapse rates and weaker customer retention, in the life assurance business. The actions taken in the second half of 2009 and through 2010 have seen a steady improvement across most product lines and distribution channels. However, further progress is required in the intermediary channel. The impact on persistency of the further tightening of fiscal policy and of future changes in the tax regime for pensions remains to be seen.

Bank funding and margins

The primary challenge for the banking system in Ireland and for the group's banking business has been, and remains, funding. Our strategy is to grow the bank's retail deposit base and its term funding to create a stable funding platform for the business.

The bank increased its Republic of Ireland ("RoI") retail deposit book in 2010 by €1.3bln to €11.1bln with the corporate book falling by 32% to €3.7bln reflecting the impact of the uncertainty created by the sovereign debt crisis. Good progress was made in the first quarter of 2010 in issuing into the term-debt market with three issues under the government Eligible Liabilities Guarantee ("ELG") scheme. Total long-term debt issuance to the end of August totalled over €5bn but the subsequent rapid deterioration in debt markets (for Ireland and Irish banks) precluded further planned issuance, both guaranteed and un-guaranteed, for the remainder of the year. As at the end of 2010, 52% of the bank's funding came from stable sources (2009: 48%). The loan-to-deposit ratio increased to 249% (2009: 246%) as the impact of outflows of corporate deposits outweighed the retail deposit gains. These were partially offset by a fall in outstanding loan balances.

Excluding the cost of the ELG scheme of €97m (2009: nil), net interest income for the year was €402m (2009: €375m). The reported net interest margin ("NIM")[5] in the bank increased in 2010 to 0.86% (2009: 0.83%). The margin benefited from the increases in standard variable mortgage rates implemented in February and August 2010 to offset the rising cost of both deposit and term funding. The 2010 NIM also benefited from the increase in the ECB drawings through 2010 which averaged €9.4bln. The downgrade in credit ratings and the risk of a further sovereign or group downgrade has restricted the group's access to funding markets; as a result, the group increased its recourse to Eurosystem financing facilities. At 31 December 2010, the group had €13.8bln of collateralised deposits placed from the European Central Bank.

Bank lending and credit quality

New lending activity in the bank remained very subdued through 2010 at just over €600m, over half of which was consumer finance. This activity resulted in outstanding loan balances falling by 5.2% during the year to €36.6bln.

The trends in credit quality and loan impairments reported at the half year continued for the remainder of the year. Arrears in both the UK mortgage book and in consumer finance in Ireland – in the under-and-over 90 days categories – continue to decline and this is reflected in the reduced provisioning charge for those loan books.

However arrears numbers over 90 days in the Irish residential mortgage book rose steadily through 2010 increasing by 69%, reflecting the decline in employment in 2009 and 2010. These 90 day-plus arrears increased to 6.8% of the portfolio (2009: 3.9%). Arrears under 90 days rose by just 18% over the year and for the second half of the year the trend was encouraging with the numbers of cases flat.

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

The bank is committed to working constructively with borrowers experiencing repayment difficulties. Our approach is to engage early with borrowers who are in trouble and to agree reasonable and realistic repayment plans.

The charge for impairment provisions for 2010 increased to €420m (2009: €376m) and was ahead of previous guidance. The main reason for the increase over guidance was the impact of a change in the assumption for the peak-to-trough fall in house prices from 40% to 43%, which compares to the 38% fall recorded in the ESRI / **permanent tsb** house price index to December 2010.

The group's overall provision coverage at the end of 2010 increased to 2.4% from 1.2% at the end of 2009.

Costs

Cost control programmes are in place across all business divisions in the group. In the group's Irish banking business, eleven bank branches were closed and staff numbers fell by 140 full-time equivalents in early 2010. A transformation programme was announced in February 2011 which will see an additional reduction of 280 in staff numbers in the bank. The group's life assurance and fund management businesses saw operational costs fall 6% year on year reflecting the benefit of completing a cost restructuring programme in the second half of 2009.

Capital

The bank's Tier 1 capital ratio was 10.6% at 31 December 2010 (31 December 2009: 11.3%). This is before the available distribution of €243m from the life assurance business which would have effect in 2011.

During 2010 the Central Bank of Ireland conducted a prudential capital assessment review ("PCAR") on all Irish banks. The PCAR review for Irish Life & Permanent was completed in September 2010. It determined that the bank had sufficient capital to meet its base case scenario for the next three years (2009 – 2011) but required €145m in additional capital to meet its stress case scenario for the same period. A subsequent PCAR test, with raised capital hurdles, was applied in November which added a further €98m to the bank's capital requirements. The total additional capital requirement of €243m is to be in place by the end of May 2011 and is being sourced from within the group.

Under the EU/IMF Programme of Financial Support a further PCAR exercise is now being undertaken by all Irish banks for the three years to 2013. In conjunction with this latest PCAR a prudential liquidity assessment review ("PLAR") exercise is also being conducted. The 2011 PCAR and PLAR exercises are scheduled to be completed by the end of March along with an assessment of the deleveraging mechanisms for the individual Irish banks and the banking system as a whole. As a result, there is uncertainty as to the outcome and any additional capital or liquidity requirements arising. However, following an assessment of these uncertainties, associated risks and the group's business and funding plans, the board has agreed that it continues to be appropriate to prepare the financial statements of the group on a going concern basis as it will continue in business for the foreseeable future.

The life assurance business released significant capital in 2010 as well as raising loan capital of €100m secured on the in-force book in November. The minimum statutory solvency capital requirement of Irish Life Assurance plc was covered 1.75 times at the end of 2010 (2009: 1.6 times), after allowing for distribution of the available dividend to the bank.

Corporate strategy and outlook

The twin objectives of the group have been to quickly adapt the life assurance and fund management businesses to the changed economic and business environment and to restructure the banking business to create a viable bank in the context of wider banking sector consolidation in Ireland.

The actions taken to right-size the life business's cost base, to address persistency and to maximise sales have seen the performance of the business normalise in 2010. Although market conditions remain difficult, the life assurance and fund management businesses are well placed to participate fully in the recovery.

The banking business has successfully re-focused its network on retail deposit collection, re-priced where possible to protect margins and is well advanced on a major cost restructuring programme. However, progress on plans to change its funding mix was disrupted by the debt crisis. The 2011 PCAR and PLAR exercises will, when concluded, determine what is required of the bank in terms of deleveraging and capital adequacy to create a sustainable business going forward.

Group Chief Executive's Review

On 23 February 2011 the group announced the impending sale of Irish Life International Limited ("ILI"), the group's international life assurance business, for €26m. This sale, which is subject to the approval of the Central Bank of Ireland, is consistent with the group's strategy to focus on the Irish market and we believe that the new shareholder will deliver value to ILI's customers and staff. The proceeds of the sale of ILI will be available to contribute to an increase in the regulatory capital of Irish Life & Permanent plc, the group's banking subsidiary.

The group is of the view that consolidation in the Irish banking sector is both inevitable and desirable. The sale of the deposit books of Anglo Irish Bank and Irish Nationwide Building Society ("INBS") represent the first stage of that process. The group bid for the INBS deposits and on 24 February 2011 announced that pursuant to a Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) INBS had transferred deposits of €3.6bln into the group's banking business. The acquisition of the INBS deposits represents an important development in transforming the funding mix of the bank and in reducing its deleveraging requirements. During 2010 the group also made an offer to Government to merge the group's banking business with that of the EBS Building Society and while we have not been successful in that offer the logic of consolidation in a down-sized and lower growth banking sector remains, in our view, unchanged.

The coming months will bring critical decisions on the future of the Irish financial institutions. As the largest domestic life assurance company, investment manager and residential mortgage lender, the group has a key role to play in that future.

Kevin Murphy

Group Chief Executive

1 March 2011

Summarised group income statement and key performance indicators

A summary of the group's income statement on an IFRS basis for the 12 months ended 31 December 2010 and 31 December 2009 is outlined below at a segmental level:

Summary group income statement	**2010 €m**	2009 €m
Operating profit / (loss) before impairment provisions		
Banking		
- Banking Ireland	**73**	77
- Banking UK	**(17)**	29
Total banking	**56**	106
Life assurance and fund management		
- Life assurance	**163**	(15)
- Fund management	**16**	13
Total life assurance and fund management	**179**	(2)
Brokerage and third party administration	**14**	4
Other[6]	**5**	(40)
Operating profit before impairment provisions	**254**	68
Impairment provisions		
- Banking Ireland	**(393)**	(343)
- Banking UK	**(27)**	(33)
Total impairment provisions	**(420)**	(376)
Operating loss after impairment provisions	**(166)**	(308)
Associated undertakings – general insurance	**9**	(2)
Loss before taxation	**(157)**	(310)
Taxation	**29**	(3)
Loss after tax attributable to owners of the parent	**(128)**	(313)

Key performance indicators	**2010**	2009
Total Tier 1 capital ratio (%)	**10.6**	11.3
Life solvency cover (after available dividend) (times)	**1.75**	1.6
Operating profit before impairment provisions on an IFRS basis (€m)	**254**	68
Operating loss after impairment provisions on an IFRS basis (€m)	**(166)**	(308)
Operating profit before impairment provisions on an EV basis (€m)	**223**	180
Operating loss after impairment provisions on an EV basis (€m)	**(197)**	(196)
Stable funding ratio (%)	**52%**	48%

The operating loss after impairment provisions on an IFRS basis of €166m for the year (2009: €308m loss) is driven by the return to profitability of the life assurance business being offset by a €364m operating loss (2009: €270m loss) in the banking business.

[6] 'Other' includes reconciliations, eliminations and consolidation adjustments as detailed in Note 2, Segmental information.

Results on continuing operations

Banking businesses' operating results

Operating performance			**2010**			2009
€m	**RoI**	**UK**	**Total**	RoI	UK	Total
Operating profit / (loss) before impairment provisions	**73**	**(17)**	**56**	77	29	106
Impairment provisions	**(393)**	**(27)**	**(420)**	(343)	(33)	(376)
Operating loss	**(320)**	**(44)**	**(364)**	(266)	(4)	(270)

The banking businesses' operating loss of €364m was €94m higher in 2010 than 2009 (2009: €270m loss). This increase was primarily due to a €44m increase in the charge for impairments and a €81m increase in Government Guarantee Scheme costs.

Life assurance and fund management operating profit

Operating performance	**2010**	2009
€m	**Total**	Total
Life assurance	**163**	(15)
Fund management	**16**	13
Operating profit / (loss)	**179**	(2)

The operating profit of €179m for 2010 (2009: €2m loss) reflects a return to profitability of the life assurance business. This performance was due to 2010 having significantly reduced adverse market and economic charges while the performance in 2009 included the impact of negative market returns, in particular on property, and the impact of the movement in the risk discount rate.

Brokerage and third party administration

The group's brokerage business, Cornmarket, and our third party administration business, IPSI, facilitated the increase in operating profit from €4m in 2009 to €14m in 2010. This performance was influenced by cost management programmes in both businesses.

Other

The Other category in the above summarised income statement includes the effect of lower year-on-year corporate costs (the 2009 costs included restructuring / non-operational costs of €15m) and the impact of the differing accounting treatment of assets and liabilities by the bank and life company. Further detail can be referenced in Note 2, Segmental information.

Associated undertakings

The group's share of the profit in Allianz (a general insurance business in which the group has a 30% interest) was €9m for 2010 (2009: €2m loss). Improved underwriting results in 2010 were off set by lower investment returns than for the same period in 2009. Allianz made a dividend payment to the group of €7m in 2010 (2009: €15m).

Summarised group statement of financial position

The group's consolidated statement of financial position for the years ended 31 December 2010 and 31 December 2009 are summarised below:

Summarised group statement of financial position	2010 €m	2009 €m
Assets		
Loans and receivables to customers	**36,581**	38,592
Other financial assets and investment properties	**28,955**	32,228
Loans and receivables to banks	**3,565**	4,925
Assets classified as held for sale	**2,089**	-
Reinsurance assets	**2,011**	1,979
Shareholder value of in-force business	**699**	730
Other assets	**1,799**	1,567
Total assets	**75,699**	80,021
Liabilities and equity		
Deposits by banks (including central banks)	**17,146**	18,713
Liabilities classified as held for sale	**2,041**	-
Customer accounts	**13,382**	14,562
Debt securities in issue	**10,034**	13,262
Investment contract liabilities	**24,067**	24,032
Insurance contract liabilities	**4,238**	4,034
Subordinated liabilities	**1,686**	1,644
Other liabilities	**1,489**	1,768
Equity	**1,616**	2,006
Total liabilities and equity	**75,699**	80,021

Loans and receivables to customers

permanent tsb is focused predominantly on retail lending with 99% of its loan portfolio secured on assets, 91% of which consists of residential mortgages. As a result of adopting this approach to its lending activities, the group is not engaged in business, corporate or property development lending and as a consequence the group is not transferring any loans to the National Asset Management Agency ("NAMA").

The bank's loans and receivables portfolio is focused on residential mortgages for owner occupiers and consumer finance in Ireland, its core customer lending franchises. Total loans and receivables to customers of €38.6bln at the end of 2009 fell by 5% to €36.6bln at the end 2010 reflecting lower new business volumes being more than offset by capital repayments.

The unemployment levels being experienced in the Irish economy has resulted in non-performing loans[7] ("NPLs") increasing by 58% year on year. As a result of this increase and a falling residential mortgage portfolio, NPLs accounted for 9% of the total portfolio at the end of 2010. Further details are available in Note 25, Financial risk management.

Impairment provision balances increased by €406m during the twelve months of 2010 to €883m (2009: €477m), with specific provision increases accounting for €305m of this increase. This has been driven by an increase in RoI mortgage arrears numbers and falling property values. Specific provisions represent 35% of the impaired loan balances at the end of December 2010 (2009: 29%).

The collective / IBNR provision has increased by €101m to reflect incurred losses which have not yet been reported in all portfolios.

Further details on loans and receivables and loan impairments can be found in the Banking Operating Review.

[7] Non-performing loans are loan balances in excess of 90 days in arrears plus impaired loans that are less than 90 days in arrears

Other financial assets and investment properties

The table below provides further analysis on financial assets for the 31 December 2010 and 31 December 2009:

Other financial assets and investment properties	**2010 €m**	2009 €m
Debt securities	**12,098**	15,780
Equity shares and units in unit trusts	**13,777**	13,510
Derivative assets	**1,255**	1,169
Investment properties	**1,825**	1,769
Total	**28,955**	32,228

(A) Debt securities

Debt securities fell 23% to €12.1bln at the end of 2010 from €15.8bln at the end of 2009. This movement reflects the tactical decision to draw down €3.5bln in ECB funding in December 2009 in order to prefund September 2010 term debt maturities and includes the €3.1bln in maturities and disposals of available-for-sale ("AFS") securities during 2010 as the bank's liquidity requirements reduced. Sovereign bonds account for 79% of the end of 2010 balance (2009: 66%).

Included in debt securities is the bank's asset portfolio of €4.7bln. This is principally held in sovereign bonds (61%), highly rated bank Floating Rate Notes (27%) and prime (non-US) euro denominated Residential Mortgage Backed Securities ("RMBS") (12%). There are no sub-prime assets held within the portfolio. The portfolio is rated 27.7% AAA, 6.8% AA, 13.5% A and 52% in lower tiers reflecting the downgrading of sovereign debt including Irish sovereign debt.

The balance of debt securities of €7.4bln is classified as fair value through the profit and loss account in the life assurance and fund management businesses. Unit-linked funds account for €5.7bln of this balance and €1.7bln is held in non-linked funds at the end of 2010.

The group has completed an impairment assessment on its debt securities held at the end of 2010. A transfer of €13m from the collective provision to the specific provision was made in relation to securities which have been specifically identified as impaired. The indication of impairments arose principally due to the postponement of interest coupon payments. €9m of this specific provision was utilised in respect of impaired AFS securities and €4m was utilised in respect of impaired debt securities classified as loans and receivables.

(B) Equity shares and units in unit trusts

Shares and units in unit trusts are held in listed and unlisted entities and are all designated as fair value through profit or loss. 99% of these balances are held in unit-linked funds on behalf of policyholders, the risk for which is primarily borne by policyholders.

Loans and receivables to banks

The fall of €1.36bln in the loans and receivables to banks balance during 2010 brought the balance to €3.57bln on 31 December 2010 (2009: €4.93bln). This reflects the €1.3bln fall in the level of inter-bank placements due to the reduction in the bank's surplus liquidity.

Assets classified as held for sale

In February 2011, in a move consistent with group's strategy to generate capital and focus on the Irish market, the group announced the share sale of Irish Life International Limited for a consideration of €26m to a leading Nordic financial services provider, SEB Trygg Liv Holding AB. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Irish Life International Limited's €2.1bln of assets has been classified as assets held for sale. The completion of this transaction will see inter-group loan and receivables of €28m being repaid.

Funding profile

Despite a positive start to 2010, funding conditions deteriorated from May following an escalation of the Sovereign debt crisis. The year's events culminated with the approval of an EU/IMF Programme of Financial Support for Ireland in December. This was subsequently followed by a number of downgrade actions by each of main ratings agencies. Against this background, it is expected that the senior funding markets will remain closed to Irish financial institutions in the medium term. As a consequence, the group's ability to access funding and liquidity in the market could materially affect the group's results, financial condition and prospects.

The regulatory protocol, under which the group operates, requires levels of liquidity based on various cash flow stress tests. The key limits applied are that an institution must have sufficient available liquidity to cover 100% of outflows over the next eight days and 90% of outflows over the coming 9 – 30 days. The group monitors the liquidity ratio daily and reports weekly to the Central Bank. As a consequence of the industry-wide wholesale funding difficulties experienced from the last quarter of 2010, for several periods since 15 December 2010 to date the group has not met these liquidity limits.

The bank's total funding at the end of December 2010 of €42.9bln (Dec 2009: €48.1bln) was well diversified across segments as shown below:

Funding profile*	**2010**		2009	
	€m	**%**	€m	%
- Retail current accounts	**2,248**	**5%**	2,215	5%
- Other retail accounts	**8,853**	**21%**	7,635	16%
- Corporate accounts	**3,685**	**9%**	5,391	11%
Customer accounts and deposits (RoI)	**14,786**	**35%**	15,241	32%
Customer accounts and deposits (UK)	**-**	**-**	471	1%
Total customer accounts & deposits	**14,786**	**35%**	15,712	33%
Short term[8]	**16,811**	**39%**	19,473	40%
Long term[9]	**11,335**	**26%**	12,962	27%
Total	**42,932**	**100%**	48,147	100%

* Includes €1.5bln of customer accounts from the group's non-banking operations

The total funding of €42.9bln fell 11% year on year and reflects the lower level of liquidity in the bank's balance sheet due principally to the decrease in loans and receivables balances. The 2009 funding position was inflated resulting from the tactical decision to draw €3.5bln from the ECB in December 2009 to mitigate refinancing risk in September 2010.

The group's funding and liquidity strategy is centralised and managed by Group Treasury. Hence both the Republic of Ireland and UK banking businesses are included in the above analysis. During 2010, the group's Isle of Man operations were wound down resulting in the UK customer accounts and deposit balances being repaid to customers.

At 31 December 2010, stable sources of funding were accounted for by 52% of total funding, up from 48% at the end of 2009.

The loan-to-deposit ratio[10] at the end of December 2010 was 249% (2009: 246%). This ratio includes the impact of the fall in corporate deposit balances and the 5% fall in the loans and receivables to customers balance. The group continues to work to reduce this ratio through a combination of increasing retail deposit balances and deleveraging the loan book.

8 Short-term funding includes ECB funding and market repos.
9 Long-term funding includes term debt and mortgage backed securitisations.
10 Loan to deposit ratio is the ratio of loans and receivable to customers balance (including intra-group loans) and customer accounts (including deposits from non-banking operations).

Customer accounts and deposits

The ROI retail deposit balances at the end of 2010 increased by 13% to €11.1bln resulting from the continued focus on developing the retail deposit franchise. The group's innovative 'Interest First' Savings Account has proved to be a major success attracting €1bln since its launch. Retail deposits have again proved to be a stable and resilient funding source, despite the intense price competition in the marketplace.

Corporate deposit balances at the end of 2010 were down 32% on year end 2009 to €3.7bln, reflecting the deterioration in sentiment towards Irish financial institutions on foot of rating downgrades.

Short-term debt

The group has a pool of collateralised assets that can be used as security with a range of counterparties including the European Central Bank ("ECB"). During 2010, a portion of these assets was used as security for ECB drawings with an average level of drawings for the twelve months to 31 December 2010 of €9.4bln (2009: €10.9bln). The maximum level of drawings during 2010 was €13.8bln (2009: €13.5bln) while drawings at the end of 2010 were €13.8bln (2009: €9.8bln). The increased reliance on Eurosystem funding pre and post 31 December 2010 was driven by refinancing requirements in relation to maturing debt obligations at a time when the traditional funding markets were closed.

ECB drawings, reported in the statement of financial position as 'Deposits by banks (including central banks)', are included in the short-term debt portfolio.

Long-term debt

Notwithstanding the group's focus on deposit growth, the duration of the assets in the Statement of Financial Position is such that appropriate management of duration risk requires a significant portion of the group's funding to be long term. In this regard, the group managed to complete a sizeable proportion of its 2010 refinancing requirement during the first four months of the year.

The Credit Institutions (Eligible Liabilities Guarantee) Scheme has hitherto been critical in providing Irish financial institutions with access to funding. This scheme has enabled the group to secure longer term funding in a challenging environment. During the first half of 2010, the group successfully issued three bonds under the ELG Scheme - a US$1.75bln three-year bond in January, a €2bln five-year bond in March and a €1.25bln three-year bond in April. All three bonds were over-subscribed attracting strong interest from international investors.

Investment and insurance contract liabilities

The increase in investment contract liabilities during 2010 includes premium receipts of €4bln (2009: €3.4bln) and market movements of €1.7bln (2009: €2.5bln) being offset partially by €3.7bln (2009: €2.9bln) in claims. €2bln of investment contract liabilities has been transferred to liabilities classified as held for sale to cater for the sale of Irish Life International.

Insurance contract liabilities (net of reinsurance), which are 75% non-linked, increased by 6% year on year due to premium receipts and market movements of €0.7bln being partly offset by €0.5bln in claims and fees.

Credit ratings

At 31 December 2010 the group was rated 'BBB' by Standard & Poors and 'Baa3' by Moody's Investor Service. On 2 February 2011 Standard & Poors, who downgraded all Irish banks' credit ratings, downgraded the group's rating to 'BBB-' as a result of a weaker economic outlook.

Capital management

The group's core capital objective is to meet or exceed all relevant regulatory capital requirements and to hold sufficient economic capital to withstand a worst case loss in economic value due to risks arising from business activities. The worst case loss is derived through statistical models influenced by the group's target debt rating.

The group's capital resources, on an IFRS basis, as at 31 December 2010 and 31 December 2009 are as follows:

Capital resources	**2010**	2009
	€m	€m
Shareholders' equity	**1,616**	2,006
Dated loan capital	**1,122**	1,117
Undated loan capital	**564**	527
Total capital resources	**3,302**	3,650

The fall in shareholders' equity of €390m includes the loss after tax of €128m for 2010 and a €258m negative change in the fair value of AFS financial assets included in the Statement of Other Comprehensive Income. The €42m increase in dated and undated loan capital is largely accounted for by the favourable exchange rate movements in undated loan capital.

The group is regulated by the Central Bank of Ireland which sets and monitors regulatory capital requirements in respect of the group's operations. Regulatory capital is the level below which the group's capital must not fall. The group manages its capital base through its Internal Capital Adequacy Assessment Process ("ICAAP") which is detailed in full on the group's website, **www.irishlifepermanent.ie**.

While there are a number of regulated entities within the group which have individual regulatory capital requirements, the two principal regulated entities are Irish Life & Permanent plc, the group's banking operation (trading as **permanent tsb**), and Irish Life Assurance plc, the group's principal life assurance operation.

Bank capital

From 1 January 2008, the minimum regulatory capital requirement of the group's banking operations has been calculated in accordance with the provisions of Basel II as implemented by the European Capital Requirements Directive and the Financial Regulator.

The group's capital ratios remained strong at 31 December 2010 with a Tier 1 and total capital ratio of 10.6% (2009: 11.3%) compared to a regulatory minimum of 8%. The capital base has no Tier 1 hybrid capital in the structure. This ratio does not include a €243m available dividend from the life assurance business.

The following table sets out the regulatory capital position of Irish Life & Permanent on a Basel II basis at 31 December 2010 and 31 December 2009:

Bank regulatory capital	**2010**	2009
	€m	€m
Total available capital (Tier 1)	**1,681**	1,858
Total required capital	**1,265**	1,313
Excess own funds	**416**	545
Risk-weighted assets	**15,809**	16,411
Risk asset ratio (all core Tier 1)	**10.6%**	11.3%

The group's risk-weighted assets are predominately made up of credit risk (€15.02bln) with operational and market risk accounting for €0.77bln and €0.03bln of the risk-weighted assets at the end of December 2010 respectively.

Further capital details can be found in Note 24, Analysis of equity and capital.

Risk-weighted assets fell by 3.7% from €16.4bln at the end of 2009 to €15.8bln at 31 December 2010. The bank's available capital reduced to €1.68bln giving a 31 December 2010 capital ratio of 10.6% (2009: 11.3%).

The group continues to review developments and proposals issued by the Basel Committee on Banking Supervision in order to ensure that it remains appropriately capitalised and prepared for any additional requirements adopted by the EU.

During 2010 the Central Bank of Ireland conducted a prudential capital assessment review ("PCAR") on all Irish banks. The PCAR review for Irish Life & Permanent was completed in September 2010. It determined that the bank had sufficient capital to meet its base case scenario for the next three years (2009 – 2011) but required €145m in additional capital to meet its stress case scenario for the same period. A subsequent PCAR test, with raised capital hurdles, was applied in November which added a further €98m to the bank's capital requirements. The total additional capital requirement of €243m is to be in place by the end of May 2011 and is being sourced from within the group.

Under the EU/IMF Programme of Financial Support a further PCAR exercise is now being undertaken by all Irish banks for the three years to 2013. In conjunction with this latest PCAR a prudential liquidity assessment review ("PLAR") exercise is also being conducted. The 2011 PCAR and PLAR exercises are scheduled to be completed by the end of March along with an assessment of the deleveraging mechanisms for the individual Irish banks and the banking system as a whole. There is significant uncertainty as to the outcome and any additional capital requirements arising.

Life capital

The solvency cover for Irish Life Assurance plc ("ILA"), the group's main life assurance operation, at 31 December 2010 is 1.75 times (2009: 1.6 times) the minimum requirement of €401m (2009: €413m). The regulatory solvency requirement is 1.5 times the minimum. Based on the ILA's current risk exposures, ILA's target is to maintain a solvency ratio of 175% of the statutory minimum. The 2010 solvency cover is post the €243m available dividend from the life assurance business to its parent. This solvency cover is summarised below:

Solvency cover	**2010 €m**	2009 €m
Minimum capital	**401**	413
Regulatory capital		
Net worth	**501**	536
Subordinated debt	**201**	208
VIF loan	**100**	-
Other assets available	**16**	20
	818	764
Inadmissible assets	**(114)**	(108)
	704	656
Solvency cover*	**1.75**	1.6

*The 2010 solvency cover is net of the amount available for dividend from Irish Life Assurance of €243m. The 2010 solvency cover before the available dividend was 2.4 times.

The table below sets out the movement in life assurance and fund management regulatory capital in the twelve months to the end of 31 December 2010 and 31 December 2009:

Life assurance and fund management regulatory capital	**2010**	2009
	€m	€m
At 1 January	**685**	694
Capital generated from existing business	**327**	194
New business strain	**(75)**	(74)
STIFs and economic variances	**(27)**	(106)
Dividend paid	**(13)**	(13)
VIF loan	**100**	-
Other	**(19)**	(10)
Regulatory capital as at 31 December before available dividend	**978**	685
Available dividend	**(243)**	-
Regulatory capital as at 31 December after available dividend	**735**	685

For 2010, the life regulatory capital increased by €50m to €735m mainly resulting from the surplus (capital) generated from existing business (€327m) being offset partially by the €256m dividend (€243m available and €13m paid) to the parent and a €75m new business strain arising from the capital requirements for writing new business.

The short-term investment fluctuations ("STIFs") and economic variances of €27m negative (2009: €106m negative) include losses on shareholder properties and an increase in the costs of financial options and guarantees resulting from changes in interest rate movements during the year.

In November 2010 the life assurance business entered into a €100m loan secured on the in-force book of business which qualified for regulatory capital.

In line with the group's capital management policy, whereby surplus capital above targeted minimum levels is remitted to the bank, the group's life assurance business has an available dividend of €243m (2009: nil) and the fund management business has paid a €13m dividend (2009: €13m) to the bank holding company.

Solvency II

The calculation of minimum regulatory capital for the life assurance and fund management businesses is currently based on the EU Solvency I Directive. New requirements will be established under the Solvency II directive which was formally adopted in 2009 and is expected to be implemented in 2013. Solvency II will require the calculation of solvency and reserving requirements on a realistic market-consistent basis. The group believes that the adoption of Solvency II will increase available capital resources. As a consequence, as noted above, in November 2010 the group successfully accessed a limited part of this capital increase through securing a value of in-force loan facility of €100m.

Dividend

In the context of the capital generation challenges, the continuation of the Government Guarantee Scheme and the approach being adopted by financial institutions both in Ireland and internationally, the board has proposed that there will be no dividend for the twelve months of 2010 (2009: nil). This approach is consistent with the priority to conserve capital in the group in the current economic environment.

Divisional Performance Review

Bank operating review

permanent tsb, the group's Republic of Ireland ("RoI") banking division, provides a full range of retail banking products and services through its nationwide network of branches as well as through intermediaries and directly over the phone and internet. It is a leading provider of residential mortgages, retail deposits, current (checking) accounts as well as consumer finance. Strategically, the focus of its banking business is to service the residential owner occupier mortgage and consumer finance credit markets and to offer a wide range of deposit and life assurance products and services to its customer base.

The group's UK mortgage business, Capital Home Loans ("CHL") was closed to new business in March 2008. This business was a centralised mortgage lender focusing on the professional landlord residential investment property market or buy-to-let ("BTL") as it is referred to in the UK. The focus in CHL is now on customer service and arrears management.

In addition to CHL, the group operates a banking business in the Isle of Man (Irish Permanent (IOM) Limited). In May 2010 as part of the group's efforts to consolidate and concentrate resources on its core Irish market, the group announced its intention to phase down operations in the Isle of Man. The business's deposit book was wound down and the mortgage book is now administered by CHL. The Isle of Man operation is now closed to new business.

The pre-tax operating performance for the twelve months ended 31 December 2010 and 2009 and key performance indicators of the group's banking businesses are set out below.

Summary income statement		**2010**			2009	
€m	**RoI**	**UK**	**Total**	RoI	UK	Total
Net interest income – before ELG scheme costs	**409**	**(7)**	**402**	336	39	375
Other income	**38**	**–**	**38**	48	1	49
Government guarantee charges	**(110)**	**–**	**(110)**	(29)	–	(29)
Total operating income / (expense)	**337**	**(7)**	**330**	355	40	395
Administrative expenses / depreciation / amortisation – recurring	**(252)**	**(10)**	**(262)**	(265)	(11)	(276)
Administrative expenses / depreciation / amortisation – restructuring & non-operational	**(12)**	**–**	**(12)**	(13)	–	(13)
Total administrative expenses / depreciation / amortisation	**(264)**	**(10)**	**(274)**	(278)	(11)	(289)
Operating profit / (loss) before impairment provisions	**73**	**(17)**	**56**	77	29	106
Impairment provisions						
Residential lending	**(243)**	**(27)**	**(270)**	(154)	(33)	(187)
Consumer finance	**(45)**	**–**	**(45)**	(90)	–	(90)
Commercial lending	**(105)**	**–**	**(105)**	(99)	–	(99)
	(393)	**(27)**	**(420)**	(343)	(33)	(376)
Operating loss before tax	**(320)**	**(44)**	**(364)**	(266)	(4)	(270)

Other key performance indicators		**2010**			2009	
	RoI	**UK**	**Total**	RoI	UK	Total
Retail deposits balance (€m)	**11,101**	**-**	**11,101**	9,850	39	9,889
Average indexed LTV – residential lending	**69%**	**83%**	**–**	63%	85%	–
New RoI residential lending (€m)	**265**	**–**	**265**	793	–	793

Against the background of an economic recession, higher funding costs and a weak Irish housing market, the group's banking business delivered an operating profit before impairments and tax of €56m (2009: €106m). The operating loss before tax for the year was €364m (2009: €270m loss). The 2010 loss was principally due to the impairment provision charge of €420m and government guarantee costs of €110m (€97m under the ELG scheme and €13m under the CIFS scheme).

Net interest income

Net interest income (“NII”) for 2010 for the banking business was €305m (2009: €375m). NII excluding €97m of charges associated with the ELG guarantee scheme was €402m, 7% ahead of the €375m recognised in the same period in 2009. NII reflects the increase in asset margins being offset by the higher funding costs associated with the rise in the marginal cost of attracting retail and corporate deposits as well as the cost of refinancing maturing wholesale debt. The standard RoI variable rate mortgage interest rate was increased by 50bps in both February and August 2010 in response to these higher funding costs. These actions along with the re-pricing of the group’s consumer finance portfolios resulted in the net interest margin (“NIM”) at the end of 2010, excluding the ELG guarantee scheme charges, increasing to 86bps (2009: 83bps). The standard RoI variable rate mortgage interest rate was increased by a further 100bps in February 2011 and this re-pricing will support the NIM in 2011.

NIM was also positively influenced by the lower deferred acquisition charges due to the continuing low redemption levels and the quantum of lower cost ECB funding the group had during 2010.

NII in 2009 was negatively impacted by circa €30m resulting from mismatches which arose between the fees charged on fixed-rate mortgage switches and the cost of closing fixed rate positions in the early part of 2009.

NII was negative in the UK business resulting from a realignment of the funding costs charged to the UK business and the increase in funding costs associated with its Auburn securitisation vehicles.

The net interest margin of 86bps is detailed in the following table:

Net interest margin	**bps**
31 December 2009	**83**
Retail deposit funding	(12)
Wholesale funding	(3)
Asset re-pricing	24
Other	(6)
31 December 2010	**86**

Other income

Other income of €38m for 2010 (2009: €49m) principally relates to current account fee income, general insurance commission and bureau de change commission. The 2009 income included €8m from the purchase of Auburn and Fastnet securities in the market.

Other income excludes the contribution from bancassurance sales generated through the bank, which are reported in the group’s life assurance business. APE sales of life and pension products through the bank were €29m in 2010 (2009: €29m). This includes the strong performance in single premium bond sales which were up 22% on the same period last year at €17m. This was offset by a fall in protection sales of 33% year on year to €4m due to the reduced level of mortgage lending activity in the bank.

Government guarantee charges

The CIFS government guarantee charge (which is included in fees and commission expenses) for 2010 was €13m compared to €29m for the same period in 2009. This cost is calculated as a percentage of the liabilities which are covered by the scheme and is payable on a quarterly basis. The new (ELG) Government Guarantee Scheme which the group participated in from January 2010 resulted in a charge of €97m which was included as a charge against NII. The total cost of the two guarantee schemes increased from €29m in 2009 to €110m in 2010. The year-on-year increase in the guarantee charges reflects the higher rates associated with the new ELG guarantee and the charge of this scheme increased during the year as the scheme was extended beyond December 2010.

Costs

Recurring administrative expenses including depreciation and amortisation for the group’s banking businesses for 2010 were €262m, a 5% fall on the 2009 out-turn of €276m. During 2010 **permanent tsb** reduced its branch network by eleven branches and reduced headcount by 140 full-time equivalents. Cost management continues to receive significant management attention.

A transformation programme launched in February 2011 is expected to deliver a reduction in staff numbers of 280 under a voluntary severance plan along with delivering additional income opportunities. This transformation programme involves the greater use of service automation together with increased use of telephone and internet banking services. The bank will create a new sales platform to position it to serve its customers' needs even more proactively and more effectively.

With new lending suspended in Capital Home Loans since 2008, administrative expenses in the UK are principally accounted for by loan administration costs.

Portfolio analysis

Loans and receivables to customers	2010	2009
	€m	€m
Lending by class		
RoI residential lending	**26,340**	27,256
UK residential lending	**7,527**	7,484
Consumer finance	**1,375**	1,749
Commercial lending[11]	**2,348**	2,386
Intra-group commercial loans	**(444)**	(447)
Other	**-**	211
	37,146	38,639
Provision for loan impairment	**(883)**	(477)
Deferred fees, discounts and fair value adjustments	**318**	430
Total	**36,581**	38,592
Lending by credit quality		
Neither past due nor impaired	**31,909**	34,603
Past due but not impaired	**3,699**	3,208
Impaired	**1,538**	828
Total	**37,146**	38,639

Activity in the Irish housing market was significantly below that experienced in the recent past with the bank issuing €265m in new residential mortgages in 2010 (2009: €793m). Irish residential mortgage balances outstanding fell by 3% to €26.3bln compared to €27.3bln at year end 2009. A lower level of early redemption activity, reflecting market conditions generally, continues to be experienced.

The demand for new residential mortgages continues to be impacted by consumer confidence, the availability of credit and the general economic uncertainty. The **permanent tsb** / ESRI House Price Index reported house prices falls on average of 10.8% in 2010 having fallen by 18.5% in 2009. This reduction in house prices depressed activity in the residential switcher market. While the rate of decline in average house prices in Ireland rose in the final quarter of 2010 compared to the previous quarters, the rate of decline for the year as a whole 2010 was significantly less than was experienced in 2009.

The fall in house prices has resulted in the average indexed loan-to-value ("LTV") for the Irish residential portfolio increasing resulting in a corresponding increase in the number of cases in negative equity. The average indexed LTV of the Irish residential mortgages and residential investment property loans now stands at 69% (2009: 63%) with cases over 100% representing 28% (2009: 22%) of the portfolio.

With CHL and the Isle of Man businesses closed to new business, the UK lending portfolio after provisions fell by 3% to STG£6.4bln at the end of 2010 from STG£6.6bln at the end of 2009.

With average UK property prices now 4% above the trough reached in April 2009, as per the Halifax House Price Index, the average index-linked LTV of the UK mortgage portfolio is 83% (2009: 85%) with cases in negative equity representing 23% of the total portfolio at the end of 2010.

[11] Commercial lending includes loans of €444m (2009: €447m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

New consumer finance loans of €340m (2009: €326m) includes the positive impact of the Government's car scrappage scheme introduced in February 2010. This scheme resulted in an increase in new car purchases year on year. The portfolio fell 21% to €1.4bln (2009: €1.7bln) reflecting the short-term nature of this portfolio.

New commercial lending was discontinued in 2008, the portfolio remained stable at €1.9bln (excluding €0.4bln of intra-group loans) at the end of December 2010.

Portfolio quality

€m	2010			2009		
	RoI	**UK**	**Total**	RoI	UK	Total
Lending book (before provisions)	**29,937**	**7,527**	**37,464**	31,538	7,531	39,069
Impairment provision balance (€m)						
Residential lending	**(446)**	**(63)**	**(509)**	(194)	(42)	(236)
Consumer finance	**(151)**	**-**	**(151)**	(128)	-	(128)
Commercial lending	**(223)**	**-**	**(223)**	(113)	-	(113)
Total impairment provision balance	**(820)**	**(63)**	**(883)**	(435)	(42)	(477)
Lending book (after provisions)	**29,117**	**7,464**	**36,581**	31,103	7,489	38,592

Portfolio quality information*	2010			2009		
	>90 days in arrears	**IL**	**NPL**	>90 days in arrears	IL	NPL
Residential lending	**9.1%**	**3.8%**	**9.2%**	4.9%	1.5%	4.9%
Consumer finance	**10.9%**	**11.3%**	**13.4%**	8.0%	9.5%	11.8%
Commercial lending[12]	**18.9%**	**11.9%**	**20.1%**	12.3%	7.2%	12.9%
RoI portfolio	**-**	**4.7%**	**10.2%**	-	2.4%	5.9%
UK portfolio (residential lending)	**2.0%**	**1.5%**	**3.4%**	2.6%	1.0%	3.4%
Total portfolio	**-**	**4.1%**	**8.9%**	-	2.1%	5.5%

*based on value

IL= Impaired loans. NPL= non-performing loans which are loan balances in excess of 90 days in arrears plus impaired loans that are less than 90 days in arrears

The key priority for the group in these challenging economic conditions is to minimise the losses arising from credit impairments. Resourcing has significantly increased in the credit and collections areas across all portfolios with particular focus being placed on those arrears arising in more exposed parts of the loan portfolio. The Financial Regulator's Code of Conduct on Mortgage Arrears, which the bank adheres to, outlines details on how customer engagement should be managed when a mortgage customer falls into arrears. The group continues to work with all borrowers experiencing repayment difficulties.

Loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence includes, but is not limited to, known cash flow difficulties experienced by the borrower, overdue contractual payments of either principal or interest, or a breach of loan covenants or conditions.

(A) Residential lending – RoI

As a result of the deterioration in economic conditions and in particular, the higher levels of unemployment, arrears continued to increase across the residential portfolio in 2010. Case numbers, over 90 days in arrears, increased to 6.8% at the end of 2010 from 3.9% at the end of 2009. This is reflected in the increase in non-performing loans ("NPL") balances from €1,342m at the end of 2009 to €2,417m at the end of 2010.

Notwithstanding the level of arrears, 91% of all home loan accounts are up to date at the end of 2010 (93% at the end of 2009). Arrears management and customer affordability continue to benefit from the historically low interest rate environment.

[12] Calculation includes intra-group loans of €444m (2009: €447m)

An impairment charge of €243m (2009: €154m) was made on this portfolio for 2010 reflecting both the increase in arrears numbers and the continuing fall in house prices. This brings the provision balance to €446m at the end of 2010 (2009: €194m) and provides 14% cover against the value of mortgages which are in arrears greater than 30 days.

The key assumption used in the group's provisioning models and methodology is the projected peak-to-trough fall in house prices. In 2010, the group changed the forecast peak-to-trough house price assumption from 40% to 43%. This assumption change had a direct impact on the level of provisions required. The **permanent tsb /** ESRI house price index indicated that the fall in house prices from the peak in 2007 was 38% at the end of 2010 indicating that the market would have to fall a further 8% in order for the 43% peak-to-trough assumption to be met.

(B) Residential lending – UK

The number of accounts showing more than three months' arrears in CHL peaked at over 1,600 cases in March 2009 and has declined steadily since to 935 cases at the end of 2010. This downward trend has continued in line with that reported by other buy-to-let lenders in the UK although CHL's experience has been consistently better than the industry overall. The industry average of three-month buy-to-let arrears cases, as defined by the UK Council of Mortgage Lenders, at the end of 2010 was 2.6% compared to CHL's ratio of 2.0%. This performance has resulted in the impairment provision charge for the UK portfolio falling by 18% to €27m for 2010 (2009: €33m).

(C) Consumer finance

In the consumer finance portfolio, the absolute level of impaired loans at the end of 2010 fell 7% during the year. However, as a percentage of the portfolio, impaired loans increased to 11.3% at the end of 2010 from 9.5% at the end of 2009. This performance reflects the 21% year-on-year fall in the consumer finance portfolio balances to €1,375m at the end of 2010 (2009: €1,749m).

Car finance represents the majority of the consumer finance portfolio. In this portfolio, in direct comparison to the fall in the portfolio balance, the year-on-year arrears cases in excess of 90 days have fallen by 18%.

The reduction in the year's impairment charge to €45m (2009: €90m) was influenced by the fall in arrears cases and the increase in second-hand car prices in 2010. The 2010 charge includes an exceptional recovery of €8m in respect of VAT on the car finance portfolio.

(D) Commercial lending

Commercial mortgage case numbers, over 90 days in arrears, increased by 43% to 656 cases at 31 December 2010 (2009: 458 cases). Impaired loans increased from 7.2% in 2009 to 11.9% in 2010 and NPLs increased to 20.1% in 2010 from 12.9% in 2009. In general, prime commercial exposures have continued to perform notwithstanding yield widening, but where cases do default they are difficult to cure in the short to medium term given the need to acquire tenants with good repayment capacity.

An impairment charge of €105m in 2010 (2009: €99m) reflects the impact of the downturn in economic conditions on property values and rent rolls in the commercial portfolio, particularly in the retail sector. A consequence of the events of the last quarter of 2010 was that valuers sharply marked down their assessment of commercial property values compared to where they were guiding prior to the EU/IMF Programme, even where such properties were fully let and rent producing. As a consequence of these markdowns the bank were required to reassess and increase the stock of commercial provisions by €40m. This brings the impairment provision balance for the commercial portfolio to €223m.

The group's total impairment charge on loans and receivables of €420m for 2010 brings the group's provision coverage[13] net of write-offs to 2.4% at the end of 2010 (2009: 1.2%). Further details of the group's impairment charge can be found in Note 7, Provision for impairment.

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[13] Provision coverage is the ratio of the year end loans and receivables to customers' balance (before impairment provision and deferred fees, discounts and fair value adjustments) and the impairment provision balance.

Retail customer account balances

Retail customer account balances for the Irish banking business at the end of 2010 totalled €11.1bln, up 13% from €9.9bln at the end of 2009. Excluding current accounts, Irish retail deposit balances, principally demand and term deposits, increased by 16% to €8.9bln at the end of 2010.

The growth in these retail balances is offset by the €1.7bln fall in corporate deposit balances as at the end of 2010. The group's loan-to-deposit ratio increased to 249% as at the end of 2010 (2009: 246%) as a result of the fall in the loans and receivables to customers balance being offset by the net fall in the customer accounts balances.

The group has over 90 branches fully focussed on the deposit market. In addition, the group is continuing to utilise all its life assurance distribution strength to generate deposits. This source for deposits has increased the group's deposit-gathering ability by over 50%.

In 2010, the bank opened over 43,500 new current accounts. The launch of the bank's "Interest First" account successfully attracted over €1bln in balances in 2010.

Divisional Performance Review

Life assurance and fund management operating review

The group's life assurance business, Irish Life Assurance, is the leader in the life and pensions market in Ireland. The business operates a multi-channel distribution strategy for its products and services through its two main sub-divisions, Retail Life and Corporate Life. Of particular importance has been the development of its bancassurance operation which it successfully developed in the **permanent tsb** network and subsequently extended to a number of other credit institutions with branch networks in Ireland thereby expanding its customer base.

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

Total sales for the life assurance and fund management businesses for 2010 increased by 6% on the same period in 2009 to €572m (on an APE basis). This reflects the increase in the fund management business's sales performance and is partially offset by the fall in Life sales. Life sales (on an APE basis), fell by 8% to €320m from €348m in 2009 compared to an estimated 6% fall in the overall life market which includes the effect of the group's dominance in the corporate market.. The life assurance share of the overall life market is estimated to be 28% for 2010 compared to 30% 2009.

The pensions market remains a strategic priority for the group and pension sales account for 72% of total group life sales. The pensions business in both Retail and Corporate Life enabled the group to maintain its dominant market share position in the pensions market with an estimated market share of 29%, notwithstanding that this market has been impacted by lower incomes and company closures. The business continues to review and assess the potential impact of proposed tax changes on its operational activity and performance.

Life margins, in APE terms for 2010 of 11.5% increased by 0.1% relative to the same period in 2009 (2009: 11.4%). This increase includes the effect of a favourable volume and channel mix along with lower acquisition costs in Retail Life being offset by the lower level of Corporate Life new business volumes.

Retail Life

The group's Retail Life business concentrates on sales of life and pensions products to the retail market in Ireland. It is a market leader with a comprehensive product range spanning pensions, protection, investment and regular savings.

A key strength of Retail Life is the breadth and depth of its distribution channels. It has a strong presence across all the key channels such as independent brokers, bancassurance (through **permanent tsb** and tied arrangements via EBS and Ulster Bank), and direct sales with employed and self-employed advisers as well as a franchise operation.

The market for retail life and pensions in Ireland has fallen by over 50% since 2007 and Irish Life's sales reflect this. Total APE sales for 2010 of €146m were 8% behind 2009. Pension sales in particular remain weak, although investment sales in 2010 increased 20% to €30m on the same period in 2009.

On a PVNBP basis total retail sales declined 7% to €1,014m which reflects stronger relative performance in single premiums. The bancassurance channel which represented 22% of the Retail Life PVNBP sales performance in 2010 increased by 9% on the same period in 2009 and this channel remains a key priority for the business.

Retail Life has reduced its costs by 25% since 2007 to reflect lower market activity. Its strong in-force book is proving resilient and provides a buffer to earnings.

Retail Life is continuing to promote a transformational programme with an emphasis on customer and distributor satisfaction and embedding a strong retention culture right across the business. As a result of the retention initiatives, the persistency experience has improved in 2010 when compared to 2009.

Divisional Performance Review

Corporate Life

The Corporate Life division sells pension and risk schemes to employers and affinity groups in Ireland, distributed principally through pension consultants and brokers (including Cornmarket, a specialist affinity broker and a wholly owned subsidiary of the group). The key drivers of sales growth are employment and salary growth in the Irish economy, with the trend away from defined-benefit pension provision towards defined contribution also representing a major growth opportunity. The decline in Corporate Life sales in the twelve months of 2010 vis a vis the same period in 2009 resulted principally from increasing unemployment and salary freezes. APE sales fell 16% to €137m for the twelve months of 2010 when compared to the same period in 2009. On a PVNBP basis sales fell 14% to €903m from €1,050m in 2009. Corporate Life has a leading position in this market with an estimated market share in excess of 40%.

Improving the investment protection for defined contribution customers has been an important objective of Corporate Life during 2010. An investment solution – Personal Lifestyle Strategy – was introduced and has met with significant approval from Corporate Life's defined contribution scheme clients. It is intended to continue to roll this out to 500 more clients over 2011.

Customer service levels are a key differentiator of providers in the market and the Corporate Life division has achieved competitive advantage through continued and sustained investment in both staff and technology in order to achieve significant improvement in service levels and customer satisfaction. In 2010, Corporate Life achieved a customer service index score of 94.6%, up from 92.7% at the end of 2009. This focus on service level improvements and customer satisfaction will continue to be a feature of the division's agenda into the future.

The increase in unemployment, lower salary levels and company closures impacts the persistency experience in Corporate Life. This has resulted in a negative persistency experience in 2010 when compared to long-term assumptions.

Fund Management

Irish Life Investment Managers ("ILIM") is committed to market leadership through recognising the needs of its clients and developing and providing the most appropriate investment solutions to meet those needs. ILIM delivered a strong performance in 2010 on both the active and passive sides of the business and continued to grow its client base.

Gross new fund inflows were €2.5bln (2009: €1.9bln). This included new sales of €1.0bln (2009: €0.4bln) and contributions from existing clients of €1.5bln (2009: €1.5bln). The market value of funds under management increased since the mid-year as policymakers increased economic stimulus in both the Eurozone and the US. The Irish, UK and US equity market values increased by 9%, 7.1% and 6.7% respectively for 2010 (local currency).

Outflows for the twelve months of 2010 of €2.4bln were 12% higher than the same period in 2009. This includes the loss of €0.9bln from various state institutions as part of a wider Irish Government strategic initiative to consolidate various state pension schemes at the start of 2010 and €1.5bln from other withdrawals as clients restructure their portfolios. Total funds under management for ILIM were €31.7bln (2009: €29.8bln) representing an increase of 7% during 2010. This is a significant achievement considering the ongoing economic uncertainty and the cautious investment approach still being adopted by many investors.

ILIM remains favourably positioned to grow as clients preference for risk reduction solutions is directly met by ILIM's expertise in Liability Driven Investment Solutions (€2.5bln under management) and the demand for diversification across alternative assets classes is satisfied with active and indexed solutions brought to the market by ILIM.

ILIM paid a dividend to the group of €13m in 2010 (2009: €13m).

Divisional Performance Review

The operating results and key performance indicators of the group's life assurance and fund management businesses, for the twelve months ended 31 December 2010 and 2009 are set out below:

Summary income statement		**2010**			2009	
€m	**Life**	**Fund Mgt**	**Total**	Life	Fund Mgt	Total
Net interest payable	**(33)**	**-**	**(33)**	(36)	-	(36)
Net fees and commissions	**(118)**	**-**	**(118)**	(136)	-	(136)
Premiums on insurance contracts net of reinsurance	**595**	**-**	**595**	593	-	593
Investment return	**2,174**	**-**	**2,174**	2,616	-	2,616
Fees from investment contracts and fund management	**195**	**42**	**237**	203	38	241
Change in shareholder value of in-force business	**(31)**	**-**	**(31)**	(57)	-	(57)
Operating income	**2,782**	**42**	**2,824**	3,183	38	3,221
Claims on insurance contracts net of reinsurance	**(304)**	**-**	**(304)**	(329)	-	(329)
Change in insurance / investment contract liabilities	**(2,075)**	**-**	**(2,075)**	(2,614)	-	(2,614)
Administrative expenses / depreciation / amortisation – recurring	**(156)**	**(26)**	**(182)**	(171)	(25)	(196)
Administrative expenses / depreciation / amortisation – restructuring and non-operational	**-**	**-**	**-**	(17)	-	(17)
Investment expenses	**(84)**	**-**	**(84)**	(67)		(67)
Operating expenses	**(2,619)**	**(26)**	**(2,645)**	(3,198)	(25)	(3,223)
Operating profit / (loss) before tax	**163**	**16**	**179**	(15)	13	(2)

Key performance indicators		**2010**			2009	
	Life	**Fund Mgt**	**Total**	Life	Fund Mgt	Total
New business APE (€m)						
Retail Life	**146**	**-**	**146**	159	-	159
Corporate Life	**137**	**-**	**137**	164	-	164
Irish Life International	**37**	**-**	**37**	25	-	25
Irish Life Investment Managers	**-**	**252**	**252**	-	191	191
Total new business APE	**320**	**252**	**572**	348	191	539
New business PVNBP (€m)						
Retail Life	**1,014**	**-**	**1,014**	1,096	-	1,096
Corporate Life	**903**	**-**	**903**	1,050	-	1,050
Irish Life International	**371**	**-**	**371**	252	-	252
Irish Life Investment Managers	**-**	**2,520**	**2,520**	-	1,908	1,908
Total new business PVNBP (€m)	**2,288**	**2,520**	**4,808**	2,398	1,908	4,306
Margin (%) – APE basis	**11.5%**	**6.1%**	**9.1%**	11.4%	5.9%	9.4%
Margin (%) – PVNBP basis	**1.6%**	**0.6%**	**1.1%**	1.6%	0.6%	1.2%

The operating profit before tax for 2010 of €179m compared to the €2m loss in the same period in 2009 reflects the lower reduction in the value of in-force business in the period and the property loss experience in 2009. 2010 has seen the demand for single premium guarantee products increase while weak SME cash flows continued to dampen demand for the group's life assurance products.

Investment return

The strong investment return performance, which principally reflects the return on assets held in unit-linked funds, of €2,174m for 2010 (2009: €2,616m) was down year on year due to higher returns experienced in 2009.

This performance directly influences and is offset by the €1,943 charge for the change in investment contract liabilities (2009: €2,484m).

Change in shareholder value of in-force business

The following table details the change in shareholder value of in-force business for insurance contracts in the life assurance business in the years ended 31 December 2010 and 31 December 2009:

Change in shareholders value of in-force business	**2010**	2009
	€m	€m
New business	**100**	99
Expected return on existing business	**(83)**	(88)
Experience variances	**(9)**	(33)
Operating assumption changes	**(41)**	(7)
Short-term investment fluctuations	**2**	8
Economic assumption changes	**-**	(36)
Total	**(31)**	(57)

Note 10, Shareholder value of in-force business, details various assumptions used for both 2010 and 2009 in the calculation of the shareholder value of in-force business.

Net claims on insurance contracts

The claims on insurance contracts net of reinsurer's share fell year on year to €304m (2009: €329m) reflecting the maturity profile and change in the size of the in-force book.

Net change in investment and insurance contract liabilities

During 2010 the net change in investment and insurance contract liabilities of €2,075m (2009: €2,614m) was influenced by assumption changes including interest rate (€61m increase), inflation rate (€16m decrease), morbidity (€24m decrease) and expense (€15m decrease) assumption changes along with the increase in investment returns. Further details are outlined in Note 18, Investment contract liabilities and Note 19, Life insurance contracts including life insurance contracts with discretionary participation features (DPF).

Operating expenses also include a gain of €13m (2009: €18m loss) due to a decrease in policyholder liabilities. This decrease occurred because Irish Life & Permanent Group Holdings plc shares, held for the benefit of policyholders, fell in value. There was a corresponding fall in value of the asset represented by the shareholding but under IFRS, a fall in the value of own shares is not recognised in the income statement.

Administration expenses, depreciation, amortisation and impairment

Resulting from various restructuring programmes in the life assurance and fund management businesses recurring costs fell year on year by 7% to €182m. This reduction directly influenced the improvement in new business margin in 2010.

Life asset portfolio

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

The group’s life business is a relatively low-risk operation. Its unit-linked portfolio of €26bln represents 93% (net of reinsurance) of the life assurance and fund management businesses’ liabilities. The unit-linked investment risk is primarily borne by policyholders.

In the non-linked insurance and investment portfolio, the group’s policy is to match liability flows with high quality assets, principally sovereign bonds. The average duration of the non-linked liabilities is 9.9 years while the average duration of the assets matching these liabilities is 10.0 years.

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

Credit profile of the fixed-rate securities held in the non-linked portfolio	**2010**	2009
	%	%
Aaa	**77**	77
Aa	**10**	22
Other	**13**	1
	100	100

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

The life assurance and fund management businesses’ shareholder funds of €878m are principally invested in cash. An analysis of the life shareholder fund investments as at 31 December 2010 is set out in the EV supplementary information in Note 5, Shareholders’ equity.

Embedded value business review

The group manages its life businesses on an EV basis, as it believes that EV is a more realistic measure of the performance of life businesses than the statutory IFRS basis. The EV basis is used throughout the group to assess performance, and it is also the measure used by life insurance companies generally and by the investment community to assess the performance of life businesses.

A summary of the group's income statement on an EV basis and key performance indicators for the twelve months ended 31 December 2010 and 2009 is summarised below:

Summary income statement	**2010 €m**	2009 €m
Life assurance and fund management business		
New business contribution	**52**	51
Contribution from in-force business		
Expected return		
In-force	**117**	108
Net worth	**14**	14
Experience variances	**18**	(70)
Assumption changes	**(41)**	(1)
	108	51
Life assurance and fund management business	**160**	102
Banking	**(364)**	(270)
Other*	**(2)**	(26)
	(206)	(194)
Share of associate	**9**	(2)
EV operating loss	**(197)**	(196)
Short-term investment fluctuations	**49**	(68)
VIF loan (financing costs)	**(22)**	-
Effect of economic assumption changes	**(51)**	(38)
Impairment of assets held for disposal	**(11)**	-
Adjustment on inter company segments	**(5)**	(17)
Operating loss before tax	**(237)**	(319)
Taxation	**39**	40
Loss after tax attributable to owners of the parent	**(198)**	(279)

Key performance indicators	**2010**	2009
Operating loss on an EV basis before tax (€m)	**(197)**	(196)
Adjusted operating return on capital employed (%)[14]	**(8.1)**	(7.1)
Shareholder funds per share EV basis (€)	**7.4**	9.0

*Other includes unallocated corporate costs and the income from brokerage and third party administration subsidiaries.

The loss after tax, on an EV basis was €198m for 2010 (2009: €279m loss). The operating profit of €160m (2009: €102m) in the life and fund management business has been offset by the operating losses in the bank of €364m (2009: €270m loss). The year-on-year increase in the life assurance and fund management profits is principally due to a €88m improvement in experience variances being offset by a €40m decline in operating assumption changes. The bank's year-on-year performance was influenced by higher impairment charges and higher Government Guarantee Scheme charges.

For additional details on the performance of the banking businesses please refer to the Divisional Performance Review.

[14] The adjusted operating return on capital employed on an EV basis is calculated by dividing the operating profit after tax, excluding share of associate (see Note 4 to the EV basis financial statements, Analysis of loss after tax) by the average shareholder equity for 2009 and 2010 before own share adjustment, excluding associate and consolidation adjustments (see Note 5 to the EV basis financial statements, Shareholders equity).

Return on capital employed[14]

Total embedded value for the group for 2010 fell 18% to €2.1bln (2009: €2.5bln). The adjusted operating return on capital employed on an EV basis for the group (excluding associate and own share adjustment) was 8.1% negative (2009: 7.1% negative) principally due to losses in the group's banking businesses.

Operating performance for life assurance and fund management businesses

The operating profit before tax for 2010 of the life assurance and fund management business was €160m (2009: €102m). The key drivers of this out-turn were a higher level of expected return from existing business, which was up 8% to €117m (2009: €108m) and the €18m positive experience variances (2009: €70m negative). The experience variances are driven by the positive income protection experience in Corporate Life being partly offset by negative Corporate Life persistency experience due to scheme closures and premium reductions.

New business contribution and margins

The contribution from new business for 2010 of €52m was up €1m on the same period in 2009. The impact of lower sales was offset by improved new business margins in Retail Life, cost reductions and a more favourable sales volume mix.

The Life Assurance's new business margin of 11.5% (2009: 11.4%) increased by 0.1% year on year.

The internal rate of return, excluding ILIM, for 2010 was 10.5% (2009: 9.3%). The average undiscounted payback period[15] for 2010 across the group's life product portfolio, excluding ILIM, was 7.5 years (2009: 8.3 years).

Contribution from in-force business

Total in-force earnings for 2010 increased to €108m (2009: €51m).

The expected in-force return which improved by 7% year on year to €131m, includes the effect of a higher opening interest rate applying to the un-wind of the opening shareholder value of in-force (2010: 7.5% ; 2009: 7.0%). The expected return on the net worth relates to earnings on shareholder assets. It is calculated by reference to the assumed long-term rate of return on property and equities and the actual return on short-term cash.

Experience variances and operating assumption changes in 2010 resulted in a €23m charge (2009: €71m charge) and are detailed in the following table.

Experience variances and assumption changes are analysed as follows:

		2010			2009	
	Experience	**Assumption changes**	**Total**	Experience	Assumption changes	Total
	€m	**€m**	**€m**	€m	€m	€m
Persistency	**(9)**	**(62)**	**(71)**	(66)	(42)	(108)
Risk	**35**	**16**	**51**	23	9	32
Expenses/Other	**(8)**	**5**	**(3)**	(27)	32	5
Total	**18**	**(41)**	**(23)**	(70)	(1)	(71)

The persistency experience in 2010 deteriorated principally on pension business due to scheme closures and premium reductions. The potential impact of the recent budgetary changes on both take-home pay and household budgets combined with the behavioural effect which changes to the existing pensions framework may have on pension premium flows has resulted in a reassessment of the long-term persistency assumptions resulting in a charge of €62m. The total persistency charge for 2010 was €71m (2009: €108m).

Persistency assumptions are set by reference to recent operating experience excluding the 2009 persistency experience which is regarded as an extreme event. The adverse persistency experience in 2009 and 2010 is expected to continue at a reduced level for a number of years. Therefore, the persistency assumptions within the VIF model have reflected this by allowing for a more adverse persistency experience over the next three years reducing to the long-term assumptions thereafter. Actual future persistency experience against the assumptions will continue to be monitored closely.

[15] Payback period is calculated as the number of years it takes to break even adding up the cash flows.

The risk experience variance results principally from positive termination experiences in Corporate Life's income protection portfolio.

The expenses / other assumption change of €5m includes the impact of unit cost reductions achieved across the group's life and fund management businesses. The experience variance charge of €8m includes the impact of one-off project costs.

The group's policy is to review expense assumptions to reflect current experience every six months. The assumptions for demographic elements, including mortality, morbidity and persistency are reviewed annually.

Short-term investment fluctuations

Short-term investment fluctuations of €49m positive in 2010 compare to €68m negative in the corresponding period in 2009. The 2010 performance principally relates to the reserving cost of financial options and guarantees which were €26m positive in 2010 (2009: €15m negative) and the €32m positive impact of unit-linked management charges (2009: €50m). The returns in 2009 were impacted by negative property returns on shareholder funds which were €97m negative in 2009 compared to €13m negative in 2010.

VIF loan financing costs

In November 2010 the group completed the raising of loan capital of €100m secured on the book of in-force business. The once-off embedded value costs of €22m associated with this loan were capitalised in 2010.

Economic assumptions

The effect of revised economic assumptions was a negative €51m in 2010 (2009: €38m negative). The 2010 charge includes the impact of lower European yields on financial options and guarantees and the cost of holding solvency margins. The 2009 charge includes the effect of a change in the risk discount rate from 7.0% to 7.5%. The risk discount rate of 7.5% remained unchanged in 2010.

Impairment of assets held for sale

In February 2011, the group announced it had executed an agreement whereby it would dispose of 100% of the share capital of Irish Life International. In accordance with accounting standards, the business was classified as assets held for sale at the end of 2010 and the net assets were restated to fair value. The impairment of €11m reflects the difference between the proposed consideration and the embedded value of the business at the end of 2010.

Divisional Performance Review

The following table restates the group's IFRS income statement in a format that is comparable to the embedded value income statement shown in the Supplementary Information for the twelve months ended 31 December 2010 and 31 December 2009:

Summarised group income statement	**IFRS**		**EV**	
	2010 €m	2009 €m	**2010 €m**	2009 €m
Insurance and fund management business	**167**	93	**160**	102
Banking businesses	**(364)**	(270)	**(364)**	(270)
Other*	**(2)**	(26)	**(2)**	(26)
	(199)	(203)	**(206)**	(194)
Share of associate			**9**	(2)
EV operating loss			**(197)**	(196)
Short-term investment fluctuations	**41**	(73)	**49**	(68)
Effect of economic assumption changes	**(29)**	(22)	**(51)**	(38)
VIF loan (financing costs)	–	–	**(22)**	-
Impairment of assets held for disposal	–	–	**(11)**	-
Other consolidation / inter segment adjustments	**21**	(10)	**(5)**	(17)
Operating loss before tax	**(166)**	(308)	**(237)**	(319)
Share of associate	**9**	(2)	–	–
Loss before tax	**(157)**	(310)	**(237)**	(319)
Taxation	**29**	(3)	**39**	40
Loss after tax attributable to owners of the parent	**(128)**	(313)	**(198)**	(279)

*Other includes unallocated corporate costs and the income from brokerage and third party administration subsidiaries.

EU IFRS Condensed Financial Statements (Unaudited)

IFRS Basis

The information in this announcement (which is based on unaudited financial statements), which was approved by the Board of Directors on 01 March 2011, does not comprise statutory financial statements for the years ended 31 December 2010 or 31 December 2009, within the meaning of the Companies Acts 1963 to 2009. The statutory financial statements for the year ended 31 December 2009 on which an unqualified audit opinion was issued, were attached to the Annual Return and filed with the Companies Office. The statutory financial statements for the year ended 31 December 2010 have not yet been finalised and audited, but it is expected that the auditor's report which will be unqualified, will draw attention to the uncertainties set out in the going concern note below.

Basis of preparation
The 2010 IFRS financial information has been prepared using the accounting policies adopted by the group in its last set of consolidated financial statements. These IFRS results are prepared in accordance with International Financial Accounting Standards issued by the International Accounting Standards Board (IASB), as adopted by the EU which apply to accounting years ended on or before 31 December 2010.

The 2010 IFRS financial information has been prepared on a consistent basis with the annual report and financial statements for 2009 with the exception of the following:

- The financial statements include the early adoption of the partial exemption for the government and government related entities from the disclosure requirements of IAS 24, Related Party Disclosures.

IFRS 4 brings into force phase 1 of the International Accounting Standard Board's ("IASB") insurance accounting project. In view of the phased implementation of IFRS for insurance business, the group believes that shareholders will continue to place considerable reliance on embedded value information relating to the life assurance business. The IFRS financial information includes insurance contracts written in the life assurance business based on embedded value earnings calculated using the EEV principles developed by the European Chief Financial Officers' (CFO) Forum. The EV basis supplementary financial information extends these principles to investment contracts written in the life assurance business.

Going concern

The financial information has been prepared on the going concern basis. In making its assessment of the group's ability to continue as a going concern, the Board of Directors has taken into consideration the significant economic, political and market risks and uncertainties that currently impact Irish financial institutions and the group. These include the continuing ability to access funding from the Eurosystem including the Irish Central Bank to meet liquidity requirements and the ability to raise additional capital to meet required regulatory capital ratios.

The directors, having regard to these uncertainties and the terms of the EU/IMF memorandum of understanding (which indicates that the Irish Authorities will ensure that the Irish Life & Permanent Group Holdings plc is capitalised to a level of 12% core tier1 capital by end May 2011) are satisfied that it continues to be appropriate to prepare the financial statements of the group on a going concern basis as:

- the Government has acknowledged the group's systemic importance and the actions of the Government to date indicate that it will continue to support the Irish financial system given its importance to the continued functioning of the Irish economy generally.
- the group's access to liquidity and funding in particular the availability of Eurosystem funding and Central Bank liquidity facilities will enable it to meet its immediate and estimated funding requirements for the coming year.
- the Government has indicated that it will ensure the group is capitalised to a level of 12% tier1 capital if required.
- it is expected that the group will continue to meet its current regulatory capital requirements (including the additional capital requirements identified by the Central Bank in 2010) over the relevant period.

The continued deterioration of the Irish economy throughout 2010 has significantly and adversely affected the group's financial condition and performance and presents significant risks and challenges for the group in the years ahead. Given the current environment in Ireland the group is also increasingly exposed to potential changes in government policy in relation to the economy and the financial sector. Property prices remain weak and have impacted the group bad debt provisions. The group has also experienced adverse persistency in its life and pensions products impacting the financial performance of the life company.

The downgrading of the group and sovereign credit ratings, the withdrawal of the Irish Government from the funding markets, the EU/IMF Programme of Financial Support for Ireland and the consequent withdrawal of funds from Irish banks have affected the group's funding plans in 2010. There is a significant ongoing liquidity challenge for the group and for the Irish banking system generally. These challenges have given rise to breaches of regulatory liquidity requirements in the later part of 2010 and ongoing breaches in 2011. The downgrade in credit ratings and the risk of a further sovereign or group downgrade has limited the group's access to capital markets; as a result the group has increased its recourse to Eurosystem financing facilities. At 31 December 2010, the group had €13.8bn of collateralised funding from the European Central Bank. In 2011 the group used collateral to access special liquidity facilities from the Central Bank of Ireland. The group expects to have sufficient collateral to enable it to access these facilities to meet its immediate and estimated funding requirements for the coming year.

Going concern (continued)

The group is required by the Central Bank to maintain adequate capital and the group is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements. The group has confirmed that additional capital requirements of €243m identified by the Irish Central Bank's Prudential Capital Assessment Review (PCAR) in 2010 will be met from internal resources (subject to Central Bank approval) by May 2011 and is on target to do so. There is a risk that minimum regulatory capital requirements may increase in the future and that the Central Bank may change the manner in which it applies existing regulatory requirements. If the group is required to increase its capital position there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources. The Government has acknowledged the group's systemic importance to the economy as a whole and the EU/IMF memorandum of understanding confirms the government's intention to ensure that the group remains adequately capitalised.

The group is participating in the Central Bank's latest Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR), the results of which are expected at the end of March. As a result there is a significant uncertainty as to the outcome and any additional capital or liquidity requirements that may arise.

The Credit Institutions (Stabilisation) Act 2010 was passed in the Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish Banking system agreed in the joint EU/IMF programme for Ireland. The Act applies to banks who have received financial support from the State, Building Societies and Credit Unions. The group by way of the Government Guarantee has received such support. The Act provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring action and recapitalisation measures envisaged in the programme. This allows the Minister to take the actions required to bring about a domestic retail bank system that is proportionate to and focused on the Irish economy.

The Board's assessment of the appropriateness of preparing the financial statements on the going concern basis has considered the group's business and funding plans taking into account:

- the period over which the Irish economy is expected to recover from the current crisis,
- the implementation of joint EU/IMF programme for Ireland,
- the group's schedule of long-term debt repayments,
- the group's ability to continue to access liquidity and funding, in particular from the Eurosystem funding and the Irish Central Bank liquidity facilities
- the ability of the group to raise additional required capital in the financial markets or failing that from the Irish Authorities to meet its required regulatory capital ratios.
- the ability of the group to dispose of assets and/or increase its deposit base to meet the PLAR targets set by the Central Bank of Ireland

The risk and uncertainties set out above and the options available to the group have been considered by the directors in concluding that it is appropriate to prepare the financial statements in a going concern basis.

Estimates and assumptions

In preparing the financial information, critical accounting estimates and judgements are made in applying the group's accounting policies. There are assumptions built into the embedded value basis of accounting for insurance contracts. These include assumptions on mortality, morbidity and future investment returns and expenses as set out in Note 19 Insurance contract liabilities. For investment contracts (Note 18, Investment contract liabilities), the expected life of the products affects the recognition of costs and fees. The valuation of financial instruments for which there is an inactive market requires the use of valuation models using assumptions around interest rate yield curves and volatilities (see Note 26, Fair value of financial instruments).

In determining whether there are impairment losses (Note 7, Provision for impairment) on loan portfolios, management make judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flow from a loan or a portfolio of loans. Estimates of loan losses in the mortgage portfolios are based upon account behavioural trends collateral valuations and current economic conditions. In the consumer portfolios the estimates also include the historical loss experience in each portfolio. The actuarial valuations used for the group's defined benefit pension schemes are set out in Note 13, Retirement benefit obligations and are dependent on a series of assumptions including discount rates, expected return on assets, inflation and mortality rates. Where estimates are used, actual results may differ from the estimates made.

The deferred tax asset has been recognised on the basis that management expects to be able utilise the asset from future own taxable profits and available group relief.

Consolidated Statement of Financial Position (Unaudited)
as at 31 December 2010

	Notes	**2010**	2009
		€m	€m
Assets			
Cash and balances with central banks	3	**312**	218
Items in course of collection	3	**124**	108
Debt securities	4,7	**12,098**	15,780
Assets classified as held for sale	14	**2,089**	-
Equity shares and units in unit trusts	5	**13,777**	13,510
Derivative assets		**1,255**	1,169
Loans and receivables to customers	6,7	**36,581**	38,592
Loans and receivables to banks	8	**3,565**	4,925
Investment properties	9	**1,825**	1,769
Reinsurance assets		**2,011**	1,979
Prepayments and accrued income		**385**	294
Interest in associated undertaking		**124**	122
Property and equipment		**200**	238
Shareholder value of in-force business	10	**699**	730
Intangible assets		**30**	42
Goodwill	11	**70**	75
Deferred tax assets	12	**112**	-
Other assets		**150**	129
Deferred acquisition costs		**188**	245
Retirement benefit assets	13	**104**	96
Total assets		**75,699**	80,021
Liabilities			
Deposits by banks (including central banks)*	15	**17,146**	18,713
Liabilities classified as held for sale	14	**2,041**	-
Customer accounts	16	**13,382**	14,562
Debt securities in issue	17	**10,034**	13,262
Derivative liabilities		**503**	665
Investment contract liabilities	18	**24,067**	24,032
Insurance contract liabilities	19	**4,238**	4,034
Outstanding insurance and investment claims		**108**	115
Accruals		**158**	220
Other liabilities		**321**	306
Provisions	20	**17**	63
Current tax liabilities	30	**9**	9
Deferred front end fees		**48**	102
Deferred tax liabilities	12	**172**	129
Retirement benefit liabilities	13	**153**	159
Subordinated liabilities	21	**1,686**	1,644
Total liabilities		**74,083**	78,015
Equity			
Share capital	22,23	**89**	89
Share premium	22	**364**	135
Other reserves	22	**(1,048)**	87
Retained earnings	22	**2,211**	1,695
Total equity		**1,616**	2,006
Total liabilities and equity		**75,699**	80,021

*Deposits by banks (including central banks) includes €13.8bln (2009: €9.8bln) of ECB funding.

Consolidated Income Statement (Unaudited)
for the year ended 31 December 2010

	Notes	2010 €m	2009 €m
Interest receivable	28	**1,131**	1,281
Interest payable	28	**(822)**	(918)
		309	363
Fees and commission income	29	**79**	77
Fees and commission expenses	29	**(126)**	(157)
Trading income		**(3)**	(4)
Premiums on insurance contracts		**719**	709
Reinsurers' share of premiums on insurance contracts		**(124)**	(116)
Investment return		**2,152**	2,585
Fees from investment contracts and fund management		**219**	225
Change in shareholder value of in-force business	10	**(31)**	(57)
Total operating income		**3,194**	3,625
Claims on insurance contracts		**(473)**	(489)
Reinsurers' share of claims on insurance contracts		**169**	160
Change in insurance contract liabilities	19	**(204)**	(27)
Change in reinsurers' share of insurance contract liabilities	19	**72**	(103)
Change in investment contract liabilities, net of reinsurance	18	**(1,943)**	(2,484)
Investment expenses		**(49)**	(35)
Administrative expenses		**(464)**	(518)
Depreciation and amortisation			
Property and equipment		**(27)**	(30)
Intangible assets		**(16)**	(20)
Impairment			
Property and equipment		**(3)**	(9)
Intangible assets		**-**	(2)
Assets and liabilities classified as held for sale	14	**(1)**	-
Loss on the disposal of property and equipment		**(1)**	-
Total operating expenses		**(2,940)**	(3,557)
Operating profit before provisions		**254**	68
Provisions for impairment			
Loans and receivables	7	**(420)**	(376)
		(420)	(376)
Operating loss		**(166)**	(308)
Share of profits / (losses) of associated undertaking		**9**	(2)
Loss before taxation		**(157)**	(310)
Taxation	30	**29**	(3)
Loss for the year		**(128)**	(313)
Attributable to:			
Owners of the parent		**(128)**	(313)
		(128)	(313)

Consolidated Statement of Comprehensive Income (Unaudited)

for the year ended 31 December 2010

	Notes	**2010 €m**	2009 €m
Loss for the year		**(128)**	(313)
Other comprehensive income			
Revaluation of owner occupied property	22,30	**(14)**	(97)
Currency translation adjustment reserve			
Gains on hedged investment in foreign operations		**2**	2
Gains on unhedged investment in foreign operations		**-**	1
Losses on hedging of investment in foreign operations		**(2)**	(2)
		-	1
Change in value of available-for-sale financial assets			
Change in fair value of AFS financial assets	4	**(320)**	42
Impairment of AFS securities recycled to income statement		**9**	-
		(311)	42
Amortisation of AFS securities reclassified to loans and receivables	4	**15**	15
Other comprehensive income		**(310)**	(39)
Deferred tax on other comprehensive income	30	**43**	1
Other comprehensive income, net of tax		**(267)**	(38)
Total comprehensive income for the year		**(395)**	(351)
Attributable to:			
Owners of the parent		**(395)**	(351)
Total comprehensive income for the year		**(395)**	(351)
Earnings per share		**Cent**	Cent
Basic	31	**(47.4)**	(116.8)
Diluted	31	**(47.4)**	(116.8)

Consolidated Statement of Changes in Equity (Unaudited)
for the year ended 31 December 2010

	Attributable to owners of the parent									
	Share capital* €m	Share premium* €m	Revaluation reserve €m	Available for sale reserve €m	Currency translation adjustment reserve €m	Share based payments reserve €m	Other capital reserves €m	Own share reserve €m	Retained earnings €m	Total €m
As at 1 January	89	135	68	5	(2)	9	7	(66)	1,761	2,006
Transactions with owners, recorded directly in equity										
Impact of Scheme of Arrangement										
Cancellation of share capital and share premium	(89)	(135)	-	-	-	(9)	233	-	-	-
Issue of share capital of ILPGH	89	998	-	-	-	9	(1,096)	-	-	-
Court authorised movements in reserves	-	(634)	-	-	-		-	-	634	-
As at 15 January	89	364	68	5	(2)	9	(856)	(66)	2,395	2,006
Loss for the year	-	-	-	-	-	-	-	-	(128)	(128)
Other comprehensive income										
Revaluation losses (net of tax)	-	-	(9)	-	-	-	-	-	-	(9)
Change in value of available-for-sale financial assets (net of tax)	-	-	-	(279)	-	-	-	-	-	(279)
Impairment of AFS securities recycled to income statement	-	-	-	8	-	-	-	-	-	8
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	13	-	-	-	-	-	13
Total other comprehensive income	-	-	(9)	(258)	-	-	-	-	-	(267)
ended 31 December	-	-	(9)	(258)	-	-	-	-	(128)	(395)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Revaluation losses realised on sale (net of tax)	-	-	(2)	-	-	-	-	-	2	-
Revaluation on transfer of held for sale assets	-	-	(1)	-	-	-	-	-	1	-
Equity-settled transactions	-	-	-	-	-	1	-	-	-	1
Release of share option / LTIP reserve	-	-	-	-	-	(3)	-	-	3	-
Change in own shares at cost	-	-	-	-	-	-	-	4	-	4
Realised loss on own shares	-	-	-	-	-	-	-	11	(11)	-
Balance at 31 December	89	364	56	(253)	(2)	7	(856)	(51)	2,262	1,616

Consolidated Statement of Changes in Equity (Audited)

2009

Attributable to owners of the parent

	Share capital*	Share premium*	Revaluation reserve	Available for sale reserve	Currency translation adjustment reserve	Share based payments reserve	Other capital reserves	Own share reserve	Retained earnings	Total excluding non controlling interest	Non-controlling interest	Total including non controlling interest
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January	89	135	157	(45)	(3)	8	7	(86)	2,085	2,347	1	2,348
Loss for the year	-	-	-	-	-	-	-	-	(313)	(313)	-	(313)
Other comprehensive income (net of tax)												
Revaluation losses (net of tax)	-	-	(89)	-	-	-	-	-	-	(89)	-	(89)
Change in currency translation adjustment reserve (net of tax)	-	-	-	-	1	-	-	-	-	1	-	1
Change in value of available-for-sale financial assets (net of tax)	-	-	-	37	-	-	-	-	-	37	-	37
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	13	-	-	-	-	-	13	-	13
Total other comprehensive income	-	-	(89)	50	1	-	-	-	-	(38)	-	(38)
Total comprehensive income for the year ended 31 December	-	-	(89)	50	1	-	-	-	(313)	(351)	-	(351)
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners												
Equity-settled transactions	-	-	-	-	-	1	-	-	-	1	-	1
Change in own shares at cost	-	-	-	-	-	-	-	9	-	9	-	9
Realised loss on own shares	-	-	-	-	-	-	-	11	(11)	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at 31 December	89	135	68	5	(2)	9	7	(66)	1,761	2,006	-	2,006

* Share capital and share premium for the year ended 31 December 2010 relate to Irish Life & Permanent Group Holdings plc while the comparatives relate to Irish Life & Permanent plc.
There were no dividends paid to shareholders of either company for any of the years ended 31 December 2010 or 31 December 2009.

Consolidated Statement of Cash Flows (Unaudited)
for the year ended 31 December 2010

	Notes	2010 €m	2009 €m
Cash flows from operating activities			
(Loss) / profit before taxation for the year		**(157)**	(310)
Adjusted for:			
Depreciation and amortisation		**43**	50
Impairment losses			
Loans and receivables	7	**420**	376
Impairment of property and equipment and intangible assets		**3**	11
Impairment on held for sale assets		**1**	-
Loss on disposal of property and equipment		**1**	-
Amortisation of subordinated debt		**7**	8
Loss on debt securities and maturities		**2**	-
Fair value losses on investment properties		**90**	517
Realised and unrealised (profits) / losses on financial assets excluding trading		**(1,433)**	(2,345)
Trading income		**3**	-
Profit on buy back of debt securities in issue		**-**	(8)
Interest on subordinated liabilities	28	**50**	57
Equity-settled share-based payment expenses		**1**	1
Share of results of associated undertaking		**(9)**	2
Change in investment contract liabilities due to unrealised movements		**(105)**	(154)
Retirement benefit charge / (credit)	13	**24**	-
Intermediary commission amortised		**25**	-
Step up costs		**2**	-
Fair value gains / losses on financial assets		**181**	-
Provision for interest on impaired loans / Unwind of discount		**15**	-
Provision made	20	**24**	-
Amortisation of up front interest on VIF loan		**1**	-
(Increase) / decrease in operating assets			
Loans and receivables to banks		**188**	1,224
Loans and receivables to customers		**1,467**	1,165
Other financial assets		**2,425**	(5,370)
Investment properties		**(145)**	(6)
Reinsurance assets		**(32)**	154
Shareholder value of in-force business		**31**	57
Other assets		**(180)**	(122)
Deferred acquisition costs		**6**	11
Retirement benefit assets		**(14)**	(7)
Increase / (decrease) in operating liabilities			
Deposits by banks (including central banks)		**(1,887)**	(104)
Customer accounts		**(1,218)**	(148)
Debt securities in issue		**(3,500)**	2,364
Insurance contract liabilities		**204**	27
Investment contract liabilities		**2,118**	3,068
Payables related to direct insurance contracts		**(6)**	1
Deferred front end fees		**(7)**	(15)
Derivative liabilities		**(22)**	120
Other liabilities and accruals		**(7)**	50
Provisions used	20	**(70)**	-
Retirement benefit liabilities		**(24)**	1
Net cash flows from operating activities before tax		**(1,484)**	675
Tax paid		**2**	9
Net cash flows from operating activities		**(1,482)**	684

Consolidated Statement of Cash Flows (Unaudited)
for the year ended 31 December 2010

	Notes	**2010**	2009
		€m	€m
Cash flows from investing activities			
Purchase of property and equipment		**(14)**	(14)
Sale of property and equipment		**3**	2
Purchase of intangible assets		**(7)**	(9)
Purchase of non-controlling interest in subsidiary undertaking		**-**	(5)
Dividends received from associated undertaking		**7**	15
Net cash flows from investing activities		**(11)**	(11)
Cash flows from financing activities			
Interest paid on subordinated liabilities		**(49)**	(60)
Cash from redemption of debt securities in issue		**-**	(57)
Receipt of VIF loan		**100**	-
Payment of up-front interest on VIF loan		**(10)**	-
Net cash flows from financing activities		**41**	(117)
(Decrease) / increase in cash and cash equivalents		**(1,452)**	556
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents as at 1 January		**2,836**	2,280
Net cash flow*		**(1,452)**	556
Cash and cash equivalents as at year end	3	**1,384**	2,836

* The net cash flow excludes restricted cash as per Note 3, Cash and cash equivalents.

Notes to the Preliminary Announcement
year ended 31 December 2010

Notes to the Preliminary Announcement

1. Acquisition of Irish Life & Permanent plc by Irish Life & Permanent Group Holdings plc

Irish Life & Permanent Group Holdings plc was incorporated on 24 August 2009 as Aquilani plc, its name was subsequently changed to Irish Life & Permanent Group Holdings plc on 9 October 2009. The company was established as a group holding company. At 31 December 2009, the company had no subsidiaries.

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

The introduction of Irish Life & Permanent Group Holdings plc as a new holding company with exactly the same shareholders as the previous parent is a common control transaction and has been accounted for similar to a reverse acquisition where the existing group is determined to be the accounting acquirer. Consequently, even though Irish Life & Permanent Group Holdings plc was only incorporated on 24 August 2009 and was not a group company as at 31 December 2009, the comparative numbers disclosed in these consolidated financial statements for the period to 31 December 2009 are those of the accounting acquirer, Irish Life & Permanent plc group.

In adopting this accounting approach, which is in accordance with IFRS as adopted by the EU, the company has applied the exemption in Section 149(5) of the Companies Act 1963 only for the purpose of presenting pre-acquisition earnings of the legal subsidiary as revenue profits and losses in the consolidated financial information.

On 18 January 2010, Irish Life & Permanent plc was delisted from the London and Irish stock exchanges. On the same date, Irish Life & Permanent Group Holdings plc was listed on those stock exchanges.

Irish Life & Permanent plc had a number of share option and share award schemes in which employees of the company participated prior to the acquisition of that company by Irish Life & Permanent Group Holdings plc. These included:

- Vested share options	6,355,335
- Unvested share options	577,670
- Vested share awards	-
- Unvested share awards	971,967

On 18 January 2010 Irish Life & Permanent Group Holdings plc replaced all existing vested share options and all share awards with the same number of share options and share awards on equivalent terms. 577,670 unvested share options were also replaced on equivalent terms with the exception that performance conditions attached to these options fell away pursuant to a "change in control" clause in their terms. This has been accounted for in line with IFRS 2, Share-based Payments as a modification. The vesting conditions in respect of share options issued in 2008 were dissolved and as such the costs accruing in 2010 have been accelerated. The total cost for 2010 amounted to €0.3m.

* To meet statutory requirements, seven shares were left in issue following this cancellation. These shares are now held directly by or in trust for Irish Life & Permanent Group Holdings plc.

2. Segmental information

Segmental information is presented in respect of the group's business segments.

The segmental information is determined based on internal reporting provided to the Strategy Group, the chief operating decision maker ("CODM") of the group. All the members of the Strategy Group are members of key management personnel as described in Note 33, Related parties. The members include the Group Chief Executive, the Group Finance Director, the Chief Executive of **permanent tsb**, the Chief Executive of Irish Life Investment Managers, the Chief Executive of Irish Life Retail, the Chief Executive of Irish Life Corporate Business, the Group Head of Risk and Compliance and the Group Head of Human Resources and Organisation Development. The Strategy Group is responsible for implementing the strategic management of the group as guided by the board. The Strategy Group reviews key performance indicators and internal management reports on a monthly and on a quarterly basis.

The accounting policies of the segments are the same as for the group as a whole. Transactions between the reportable segments are on normal commercial terms and conditions. Revenue from external parties is measured in a manner consistent with that in the income statement. The primary performance measure utilised by the Strategy Group for the Banking-Ireland and UK reportable segments is net interest receivable.

The group is not reliant on revenue from transactions with a single external customer in the current or comparative reporting years.

The group is organised into six reportable segments. Management identifies its reportable operating segments by service line consistent with the reports used by the Strategy Group. The reporting segments represent the revenues generated from the group's products and services. The group's products and services have been aligned with the relevant reporting segments.

These segments and their respective operations are as follows:

Banking - Ireland	Retail banking services including current accounts, residential mortgages and other loans to the Irish market and internally to other segments.
Banking - UK	Retail banking services including residential mortgages and lending services to the UK market and internally to other segments.
Life assurance	Includes individual and group life assurance and investment contracts, pensions and annuity business written in Irish Life Assurance plc and Irish Life International Limited.
Fund management	Investment management services business provided to corporate, pension and charity clients and internally to Irish Life Assurance plc written in Irish Life Investment Managers Limited.
General insurance	Property and casualty insurance carried out through the group's associate company Allianz-Irish Life Holdings plc.
Brokerage, third party administration and other	This includes a number of small business units including third party life assurance administration, insurance brokerage and other group entities.

2. Segmental information (continued)

The segmental results which relate to continuing activities are as follows:

2010

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other [1] €m	Reconciliations / eliminations / consolidation adjustments [2] €m	Total €m
Net interest receivable								
- external	152	173	(16)	-	-	-	-	309
- inter-segment	160	(180)	(17)	-	-	-	37	-
Other non-interest income / (expenses)								
- external	26	-	(101)	-	-	25	-	(50)
- inter-segment	-	-	(17)	-	-	17	-	-
Premiums on insurance contracts, net of reinsurance	-	-	595	-	-	-	-	595
Investment return								
- external	(1)	-	2,158	-	-	-	-	2,157
- inter-segment	-	-	16	-	-	-	(21)	(5)
Fees from investment contracts and fund management								
- external	-	-	195	7	-	17	-	219
- inter-segment	-	-	-	35	-	-	(35)	-
Change in shareholder value of in-force business	-	-	(31)	-	-	-	-	(31)
Total operating income / (expenses)	**337**	**(7)**	**2,782**	**42**	**-**	**59**	**(19)**	**3,194**
Claims on insurance contracts, net of reinsurance	-	-	(304)	-	-	-	-	(304)
Change in insurance / investment contract liabilities	-	-	(2,075)	-	-	-	-	(2,075)
Investment expenses	-	-	(84)	-	-	-	35	(49)
Administrative expenses	(243)	(9)	(135)	(25)	-	(41)	(11)	(464)
Depreciation and amortisation	(19)	(1)	(19)	(1)	-	(3)	-	(43)
Impairment	(1)	-	(2)	-	-	(1)	-	(4)
Loss on the disposal of property and equipment	(1)	-	-	-	-	-	-	(1)
Total operating (expenses) / income	**(264)**	**(10)**	**(2,619)**	**(26)**	**-**	**(45)**	**24**	**(2,940)**
Operating profit / (loss) before provisions	**73**	**(17)**	**163**	**16**	**-**	**14**	**5**	**254**
Loans and receivables	(393)	(27)	-	-	-	-	-	(420)
								-
Total provisions for impairment	**(393)**	**(27)**	**-**	**-**	**-**	**-**	**-**	**(420)**
Operating (loss) / profit	**(320)**	**(44)**	**163**	**16**	**-**	**14**	**5**	**(166)**
Share of profits of associated undertaking	-	-	-	-	9	-	-	9
Taxation	42	5	(16)	(2)	-	(2)	2	29
(Loss) / profit for the year	**(278)**	**(39)**	**147**	**14**	**9**	**12**	**7**	**(128)**

2. Segmental information (continued)

2009

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other [1] €m	Reconciliations/ eliminations / consolidation adjustments [2] €m	Total €m
Net interest receivable								
- external	132	249	(18)	-	-	-	-	363
- inter-segment	204	(210)	(18)	-	-	-	24	-
Other non-interest income / (expenses)								
- external	11	1	(119)	-	-	23	-	(84)
- inter-segment	-	-	(17)	-	-	17	-	-
Premiums on insurance contracts, net of reinsurance	-	-	593	-	-	-	-	593
Investment return								
- external	8	-	2,585	-	-	-	-	2,593
- inter-segment	-	-	31	-	-	-	(39)	(8)
Fees from investment contracts and fund management								
- external	-	-	203	6	-	16	-	225
- inter-segment	-	-	-	32	-	-	(32)	-
Change in shareholder value of in-force business	-	-	(57)	-	-	-	-	(57)
Total operating income / (expenses)	355	40	3,183	38	-	56	(47)	3,625
Claims on insurance contracts, net of reinsurance	-	-	(329)	-	-	-	-	(329)
Change in insurance / investment contract liabilities	-	-	(2,614)	-	-	-	-	(2,614)
Investment expenses	-	-	(67)	-	-	-	32	(35)
Administrative expenses	(255)	(10)	(160)	(24)	-	(44)	(25)	(518)
Depreciation and amortisation	(21)	(1)	(23)	(1)	-	(4)	-	(50)
Impairment	(2)	-	(5)	-	-	(4)	-	(11)
Total operating (expenses) / income	(278)	(11)	(3,198)	(25)	-	(52)	7	(3,557)
Operating profit / (loss) before provisions	77	29	(15)	13	-	4	(40)	68
Loans and receivables	(343)	(33)	-	-	-	-	-	(376)
Total provisions for impairment	(343)	(33)	-	-	-	-	-	(376)
Operating (loss) / profit	(266)	(4)	(15)	13	-	4	(40)	(308)
Share of losses of associated undertaking	-	-	-	-	(2)	-	-	(2)
Taxation	23	1	(27)	(2)	-	(1)	3	(3)
(Loss) / profit for the year	(243)	(3)	(42)	11	(2)	3	(37)	(313)

2. Segmental information (continued)

2010

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other €m	Reconciliations / eliminations / consolidation adjustments [2] €m	Total €m
Assets								
Interest in associate	**-**	**-**	**-**	**-**	**124**	**-**	**-**	**124**
Held for sale	**4**	**-**	**2,087**	**-**	**-**	**-**	**(2)**	**2,089**
Other assets	**43,092**	**12,782**	**31,224**	**21**	**-**	**178**	**(13,811)**	**73,486**
Total assets	**43,096**	**12,782**	**33,311**	**21**	**124**	**178**	**(13,813)**	**75,699**
Liabilities								
Held for sale	**-**	**-**	**2,069**	**-**	**-**	**-**	**(28)**	**2,041**
Other liabilities	**42,969**	**12,771**	**29,964**	**10**	**-**	**113**	**(13,785)**	**72,042**
Total liabilities	**42,969**	**12,771**	**32,033**	**10**	**-**	**113**	**(13,813)**	**74,083**
Equity attributable to owners	**127**	**11**	**1,278**	**11**	**124**	**65**	**-**	**1,616**
Capital expenditure	**12**	**-**	**7**	**1**	**-**	**1**	**-**	**21**

2009

	Banking Ireland* €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage and third party administration and other* €m	Reconciliations / eliminations / consolidation adjustments [2] €m	Total €m
Assets								
Interest in associate	-	-	-	-	122	-	-	122
Other assets	48,513	13,035	31,564	17	-	183	(13,413)	79,899
Total assets	48,513	13,035	31,564	17	122	183	(13,413)	80,021
Other liabilities	47,867	12,987	30,428	9	-	116	(13,392)	78,015
Liabilities	47,867	12,987	30,428	9	-	116	(13,392)	78,015
Equity attributable to owners	646	48	1,136	8	122	67	(21)	2,006
Capital expenditure	9	-	10	-	-	4	-	23

* Brokerage, third party administration and other has been restated to include loans held to finance the purchase of the underlying subsidiary companies. These balances were previously consolidated as part of Banking Ireland reporting segment.

2. Segmental information (continued)

[1] **Brokerage / third party administration and other**

Brokerage and third party administration services include:

	2010	2009
	€m	€m
Profit in respect of insurance brokerage company	**12**	8
Loss in respect of third party administration company	**-**	(5)

[2] **Reconciliations / eliminations / consolidation adjustments**

The (negative) / positive return adjustments included on the income statement comprise the following adjustments arising on:

	2010	2009
	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	**(5)**	(8)
Differing accounting treatment for assets and liabilities by the bank and life company**	**26**	(2)
The allocation of corporate costs, net of tax***	**(14)**	(27)
	7	(37)

** The bank carries its liabilities at amortised cost while the corresponding assets in the life company are held at fair value.

*** These costs relate to group functions and are included here as they are not directly attributable to any business unit and hence are unallocated amounts.

The equity effect of these adjustments on the statement of financial position is detailed below:

	2010	2009
	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	**(22)**	(17)
Differing accounting treatment for assets and liabilities by the bank and life company	**22**	(4)
	-	(21)

Further eliminations are made on the statement of financial position in respect of the following items:

	2010	2009
	€bln	€bln
The elimination of floating-rate notes issued by special purpose vehicles between Banking Ireland and Banking UK reporting segments but held within the group	**(12)**	(12)
The elimination of inter-group balances between the bank and other group entities.	**(2)**	(1)
	(14)	(13)

- Reconciliations / eliminations / consolidation adjustments include inter-segmental interest receivable and payable on deposits and loans together with inter-segmental commission payments and receipts.

- Elimination of inter-group rental expenses is also included.

3. Cash and cash equivalents

	2010	2009
	€m	€m
Cash and balances at central banks	**312**	218
Items in the course of collection	**124**	108
Loans and receivables to banks (note 8)	**935**	2,510
	1,371	2,836
Cash and bank balances included in assets classified as held for sale (note 14)	**14**	-
	1,385	2,836

Restricted cash amounted to €1.3m (2009: €1.7m) and relates to client monies held by a brokerage subsidiary.

4. Debt securities

	2010	2009
	€m	€m
Available for sale	**3,400**	5,856
Loans and receivables	**1,279**	1,570
Designated at FVTPL	**7,425**	8,373
Gross debt securities	**12,104**	15,799
Less provision (note 7)	**(6)**	(19)
Net debt securities	**12,098**	15,780

Debt securities amounting to €397m (2009: nil) have been transferred from the 'Designated at FVTPL' category to assets held for sale as disclosed in Note 14, Assets and liabilities classified as held for sale.

Debt securities exclude €176m (2009: €90m) issued by Irish Life & Permanent plc and held by Irish Life Assurance plc which have been eliminated on consolidation.

Debt securities, representing a mix of government gilts and high-rated corporate bonds, with a carrying value of €1.6bln (2009: €6.1bln) have been pledged to third parties in sale and repurchase agreements and debt securities of €2.2bln (2009: €nil) have been pledged against deposits made by the ECB (Note 15, Deposits by banks (including central banks)).

As at 31 December 2010, the amount of debt securities eligible for and remaining available to be used, in sale and repurchase agreements as collateral had a carrying value of €760m.

Under a stock lending agreement, the group has transferred debt securities to third parties of €1,225m (2009: €223m), but has substantially retained all the risks and rewards associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets, the group continues to recognise these assets within debt securities.

In return the group has accepted financial assets as collateral. The fair value of such collateral that the group holds externally with an agent amounted to €1,342m (2009: €229m). Collateral consists of AAA-rated OECD sovereign debt securities. In addition the external agent has provided an indemnity (at a charge) to make good any losses in excess of the collateral should a counterparty default.

These transactions are conducted under terms that are usual and customary to standard stock lending agreements.

During the year ended 31 December 2008 the group availed of the amendment to IAS 39 and IFRS 7 issued in October 2008, effective 1 July 2008, which permitted financial assets classified as available for sale ("AFS") that would have met the definition of loans and receivables, had they not been designated as AFS, to be reclassified out of the AFS category to the loans and receivables category as the group has the intention and ability to hold the financial assets for the foreseeable future or until maturity. No items were reclassified during the current accounting period.

The table below sets out the financial assets reclassified and their carrying and fair values:

	Carrying value		**Fair value**	
	2010	2009	**2010**	2009
	€m	€m	**€m**	€m
AFS debt securities reclassified to loans and receivables	**1,279**	1,570	**1,123**	1,542

The movement in the carrying value of debt securities classified as loans and receivables is included in subsequent tables within this note for both the current and prior year reporting periods.

4. Debt securities (continued)

The table below sets out the amounts actually recognised in the income statement and other comprehensive income in respect of assets reclassified out of AFS debt securities into loans and receivables.

	Income statement		Other comprehensive income	
	2010 €m	2009 €m	**2010 €m**	2009 €m
Period before reclassification				
Interest income	**-**	-	**-**	-
Net change in fair value	**-**	-	**-**	-
Period after reclassification				
Interest income	**32**	40	**-**	-
Amortisation	**(15)**	(15)	**15**	15
Total for period after reclassification	**17**	25	**15**	15

The table below sets out the amounts that would have been recognised in the periods following reclassification if the reclassification had not been made:

	Income statement		Other comprehensive income	
	2010 €m	2009 €m	**2010 €m**	2009 €m
Interest income	**32**	40	**-**	-
Fair value movement	**-**	-	**(128)**	186
Cumulative impact	**123**	91	**(156)**	(28)

At the date of reclassification, the effective interest rates on reclassified AFS investment securities ranged from 1.5% to 5% with expected recoverable cash flows of €2,098m.

The group has not reclassified any debt securities from available for sale to loans and receivables during the current and prior years.

The impairment provision is analysed in Note 7, Provision for impairment. The group has carried out an impairment assessment on its debt securities held. A transfer of €13m from the collective provision to the specific provision has been effected in relation to securities which have been specifically identified as impaired. Subsequently €9m of this specific provision was utilised in respect of impaired AFS securities and €4m was utilised in respect of impaired debt securities classified as loans and receivables.

The carrying value of debt securities is analysed as follows:

	2010 €m	2009 €m
Government bonds	**9,616**	10,337
Bonds issued by public boards	**78**	101
Bonds issued by credit institutions	**1,818**	4,336
Other bonds	**586**	1,006
	12,098	15,780
Listed	**11,858**	15,342
Unlisted	**240**	438
	12,098	15,780

4. Debt securities (continued)

The movement in AFS and loans and receivables securities may be classified as follows:

	2010		2009	
	Available for sale €m	**Loans and receivables €m**	Available for sale €m	Loans and receivables €m
As at 1 January	**5,856**	**1,570**	1,342	1,970
Exchange differences on monetary assets	**8**	**9**	(2)	(5)
Change in fair value recognised in equity	**(320)**	**-**	42	-
Impairment recognised in income statement	**-**	**(4)**	-	-
Additions	**933**	**-**	4,797	-
Maturities / disposals	**(3,063)**	**(311)**	(329)	(416)
Effective interest	**(14)**	**-**	6	6
Amortisation to statement of comprehensive income	**-**	**15**	-	15
As at 31 December	**3,400**	**1,279**	5,856	1,570

5. Equity shares and units in unit trusts

	2010	2009
	€m	€m
Designated as FVTPL		
Listed	**13,679**	13,381
Unlisted	**98**	129
	13,777	13,510

Equity shares and units in unit trusts amounting to €1,406m (2009: nil) listed and €64m (2009: nil) unlisted have been transferred to assets held for sale as disclosed in Note 14, Assets and liabilities classified as held for sale.

Under a stock lending agreement, the group has transferred equity shares to third parties of €641m (2009: €153m), but has substantially retained all the risks and rewards associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets, the group continues to recognise these assets within equity shares.

In return the group has accepted financial assets as collateral. The fair value of the segregated collateral that the group holds externally with an agent amounted to €691m (2009: €164m). Segregated collateral consists of AAA-rated OECD sovereign debt securities. In addition the external agent has provided an indemnity (at a charge) to make good any losses in excess of the segregated collateral should a counterparty default.

These transactions are conducted under terms that are usual and customary to standard stock lending agreements.

Notes to the Preliminary Announcement

6. Loans and receivables to customers

Loans and receivables by category are set out below:

	2010	2009
	€m	€m
Residential mortgage loans		
Held through special purpose vehicles	**26,932**	25,983
Held directly	**7,255**	9,189
	34,187	35,172
Commercial mortgage loans*	**1,904**	1,939
Consumer finance		
Finance leases	**906**	1,211
Term loans / other	**467**	536
Money market funds	**-**	211
Gross loans and receivables to customers	**37,464**	39,069
Less allowance for impairment (note 7)	**(883)**	(477)
Net loans and receivables to customers	**36,581**	38,592

*Commercial mortgage loans exclude loans of €444m (2009: €447m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

There is no particular concentration of risk within these categories.

Loans and receivables can be analysed into fixed and variable-rate loans as follows:

	2010	2009
	€m	€m
Variable rate	**33,877**	32,676
Fixed rate	**2,704**	5,916
	36,581	38,592

The group has established a number of special purpose vehicles which involve the selling of pools of residential mortgages to the special purpose vehicles which issue mortgage-backed floating-rate notes (“notes”) to fund the purchase of these mortgage pools. The notes are secured by a first fixed charge over the residential mortgages in each pool. The notes may be sold to investors or held by the group and used as collateral for borrowings.

Details of the residential mortgage pools sold to special purpose vehicles and the notes issued by the special purpose vehicles are included below:

		2010	2009
		€bln	€bln
Residential mortgages held through special purpose vehicles		**26.9**	26.0
Notes issued by special purpose vehicles	- rated	**23.4**	23.8
	- unrated	**2.9**	2.3

6. Loans and receivables to customers (continued)

The notes issued by these special purpose vehicles comprise the following:

	2010 €bln	2009 €bln
- Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position	**3.0**	2.8
- Held by the European Central Bank ("ECB") as collateral in respect of funds raised under the Eurosystem funding programme (note 15)[1]	**17.7**	13.7
- Held by other banks as part of collateralised lending or sale and repurchase agreements	**2.3**	1.3
- Held by Irish Life Assurance plc as collateral for Government securities under a stock lending agreement with the bank operations of the group[2]	**-**	0.2
- Other		
Available collateral	**0.4**	5.8
Unrated notes	**2.9**	2.3
	26.3	26.1

[1] See Note 15, Deposits by banks (including central banks), for amounts placed by the ECB with Irish Life & Permanent plc.

[2] Government securities held by the bank under a stock lending agreement with Irish Life Assurance plc amount to €nil (2009: €0.1bln). The stock lending agreement provides for a minimum collateral value of 150% of Aaa-rated bonds to be maintained in respect of the Government securities borrowed.

Details of provisions for loan impairments are set out in Note 7, Provision for impairment.

At 31 December 2010 and 31 December 2009, the group had no facility and consequently no amounts drawn down under the mortgage-backed promissory note programme with the Central Bank and Financial Services Authority of Ireland (CBFSAI).

Finance leases net of provision include the following:

	2010 €m	2009 €m
Finance leases receivables gross of future income		
No later than 1 year	**588**	664
Later than 1 year and no later than 5 years	**312**	554
Later than 5 years	**1**	11
	901	1,229
Unearned future finance income on finance leases		
No later than 1 year	**(30)**	(35)
Later than 1 year and no later than 5 years	**(23)**	(44)
Later than 5 years	**-**	(1)
	(53)	(80)
Total	**848**	1,149
Present value of minimum lease payments analysed by residual maturity		
No later than 1 year	**559**	629
Later than 1 year and no later than 5 years	**288**	510
Later than 5 years	**1**	10
	848	1,149
Provision for uncollectible minimum payments receivable*	**58**	62
Unguaranteed residual values accruing to the benefit of the group	**n/a**	n/a

*This provision is disclosed in Note 7, Provision for impairment within the 'consumer finance' category.

Finance leases normally have a term of five years or less.

7. Provision for impairment

(A) Loans and receivables

	2010			2009		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
As at 1 January	**241**	**236**	**477**	37	102	139
Charge to income statement						
Impairment losses	**312**	**131**	**443**	213	163	376
Amounts recovered during the year	**-**	**(8)**	**(8)**	-	-	-
Amounts written off during the year	**(7)**	**(22)**	**(29)**	(10)	(30)	(40)
Exchange movements	**-**	**-**	**-**	1	1	2
As at 31 December	**546**	**337**	**883**	241	236	477

Analysis of charge to income statement

	2010			2009		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
Impairment losses	**312**	**131**	**443**	213	163	376
Amounts recovered during the year	**-**	**(8)**	**(8)**	-	-	-
Provision for interest on impaired loans / unwind of discount	**(15)**	**-**	**(15)**	-	-	-
	297	**123**	**420**	213	163	376

Analysis of impairment losses

	2010			2009		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
ROI residential lending	**187**	**56**	**243**	107	47	154
ROI commercial lending	**80**	**25**	**105**	69	30	99
UK lending	**25**	**2**	**27**	27	6	33
Consumer finance	**5**	**40**	**45**	10	80	90
	297	**123**	**420**	213	163	376

Analysis of amounts written off during the year

	2010			2009		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
ROI residential lending	**(1)**	**-**	**(1)**	(1)	-	(1)
UK lending	**(6)**	**-**	**(6)**	(9)	-	(9)
Consumer finance	**-**	**(22)**	**(22)**	-	(30)	(30)
As at 31 December	**(7)**	**(22)**	**(29)**	(10)	(30)	(40)

Analysis of provisions

	2010			2009		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
ROI residential lending	**322**	**124**	**446**	125	69	194
ROI commercial lending	**163**	**60**	**223**	78	35	113
UK lending	**47**	**16**	**63**	28	14	42
Consumer finance	**14**	**137**	**151**	10	118	128
As at 31 December	**546**	**337**	**883**	241	236	477

7. Provision for impairment (continued)

(B) Debt securities

	2010			2009		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
As at 1 January	**-**	**19**	**19**	-	122	122
Transfer from collective to specific provision	**13**	**(13)**	**-**	-	-	-
Charge to income statement						-
Provision utilised - AFS securities*	**(9)**	**-**	**(9)**	-	-	-
Amounts written off during the year - Loans and receivables	**(4)**	**-**	**(4)**	-	(103)	(103)
As at 31 December	**-**	**6**	**6**	-	19	19

* Offset against impairment recycled from other comprehensive income.

8. Loans and receivables to banks

	2010	2009
	€m	€m
Held at amortised cost		
Repayable on demand (note 3)	**935**	2,510
Other loans and receivables to banks	**36**	94
	971	2,604
Designated as FVTPL		
Life operations deposits with banks	**2,594**	2,321
	3,565	4,925

Loans and receivables to banks amounting to €146m have been transferred from the ‘Designated as FVTPL’ category to assets classified as held for sale as disclosed in Note 14, Assets and liabilities classified as held for sale.

At 31 December 2009, loans and receivables to banks included €0.65bln deposits placed with one financial institution covered by the Irish Government Guarantee Scheme. This covered institution placed €0.65bln with Irish Life & Permanent plc on the same terms and the €0.65bln was included in Note 15, Deposits by banks (including central banks). No right of set-off existed between these deposits by banks and the loans and receivables to banks. They were recorded in loans and receivables to banks in accordance with accounting standards. No such balances existed at 31 December 2010.

9. Investment properties

	2010	2009
	€m	€m
As at 1 January	**1,769**	2,280
Additions from acquisitions	**241**	25
Additions from subsequent expenditure	**2**	14
Disposals	**(97)**	(33)
Fair value adjustments	**(90)**	(517)
As at 31 December	**1,825**	1,769

Investment property is held for capital appreciation and income and is let on a commercial basis to third parties. Investment property is carried at fair value as determined by an independent valuer who has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuers apply the Royal Institution of Chartered Surveyors (RICS) guidance in determining the fair value of properties. In the RICS standards, market value is defined as "the estimated amount for which property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion". The guidance set down by the RICS standards is consistent with fair value as defined within the accounting standards. Fair value takes into account recent occupancy and rental levels and is based on yields which are applied to arrive at the property valuation.

There has been some improvement in sentiment and investor interest in the Irish property investment market since the beginning of 2010. However the market is still suffering from illiquidity. The EU/IMF Programme of Financial Support for Ireland has seen investor demand decline by year end, resulting in a number of substantial pipeline deals being put on hold. The shortage of supply as a result of seller wariness and a slow rate of progress in NAMA loan transfer and business plan approval is also contributing to this illiquidity. While there is greater uncertainty attaching to valuations in the current market, property valuers are generally taking the view that the yield stability that emerged during 2010 is reasonably robust.

The Investment Property Databank (IPD) provides a benchmark for the institutional commercial property investment market. The total IPD return for the Irish market for 2010 was a negative 2.4% (2009: negative 23.3%). The UK market has continued to see a good level of investment transactional activity albeit the weight of investor demand has reduced. This has led to a stabilisation in yield over recent months following a period of yield compression. The UK IPD total return for 2010 was positive 14.5% (2009: positive 2.2%).

At 31 December 2010, €1,679m (2009: €1,751m) of investment properties were held by unit-linked funds.

The yield spreads used in the independent valuations were as follows:

	2010		2009	
Sector	**ROI**	**UK**	ROI	UK
Office				
Prime	**6.07%-8.60%**	**4.04%-7.47%**	6.80%-9.96%	5.00%-8.00%
Suburban	**7.28%-11.19%**	**5.96%-7.69%**	6.91%-12.01%	6.76%-8.92%
Provincial	**7.57%-12.24%**	**6.13%-8.97%**	7.57%-12.51%	5.35%-10.00%
Industrial				
Prime	**6.63%-11.02%**	**7.14%-7.86%**	7.80%-11.34%	7.64%-9.26%
Secondary	**6.00%-11.56%**	**-**	8.1%-11.78%	11.25%
Provincial	**-**	**-**	13.30%	-
Retail				
Prime high street	**5.79%-7.97%**	**4.04%-6.68%**	6.00%-8.76%	4.74%-7.39%
Secondary	**6.00%-8.50%**	**-**	6.65%-8.54%	-
Shopping centre	**7.84%-10.47%**	**7.10%**	7.72%-10.08%	9.39%
Retail warehousing	**7.45%-8.64%**	**5.83%-7.50%**	7.57%-8.81%	7.04%-8.18%
Provincial	**7.11%-10.14%**	**5.33%-5.85%**	7.04%-9.38%	6.26%-9.82%

9. Investment properties (continued)

Residential
Residential properties are valued on a capital value per square foot rather than on basis of investment yield. Residential properties represent 1.3% (2009: 1.6%) of total investment property.

Investment properties as at 31 December 2010 are analysed as follows:

	ROI €m	UK €m	Other €m	Total €m
Residential	21	3	-	24
Office	484	363	274	1,121
Industrial	118	11	-	129
Retail	374	177	-	551
	997	554	274	1,825

Investment properties as at 31 December 2009 are analysed as follows:

	ROI €m	UK €m	Other €m	Total €m
Residential	29	-	-	29
Office	531	356	142	1,029
Industrial	138	12	-	150
Retail	410	151	-	561
	1,108	519	142	1,769

The acquisition of certain investment properties on behalf of unit-linked policyholders is funded by borrowings. These borrowings (including accrued interest), which have recourse only to the specific property which they were used to acquire, amounted to €607m at 31 December 2010 (2009: €625m). At 31 December 2010 loans (including accrued interest) of €368m (2009: €370m) were issued by Irish Life & Permanent plc and were eliminated on consolidation. The remaining balance of borrowings is contained within Note 15, Deposits by banks (including central banks).

As a result of the decrease in the values of investment properties held in unit-linked funds for the benefit of policyholders, there were some breaches of loan-to-value terms attached to certain borrowings during the year. The group continues to fulfil all of its repayment obligations for such borrowings. These breaches have been rectified as at 31 December 2010.

At 31 December 2010 there were some breaches of loan-to-value terms and payment defaults relating to non-recourse loans from third party banks secured on residential property included in unit trusts held by unit-linked funds for the benefit of policyholders. There were payment arrears of €0.35m (2009: €0.14m) on loan balances of €5m (2009: €4m) at 31 December 2010. These loans have been classed as current.

Property held under long leasehold interest at 31 December 2010 was €49m (2009: €48m). There are no future payments under these leases. There are no contingent rents on these properties.

10. Shareholder value of in-force business

The shareholder value of in-force business for insurance contracts is computed using EEV principles issued in May 2004 by the European Chief Financial Officers' forum. Shareholder value of in-force business represents the present value of future shareholder cash flows less a deduction for the cost of required capital and before allowing for tax and includes a deduction for the time value of financial options and guarantees.

Further details of the EV principles are set out in the notes to the EV Basis Supplementary Information.

(A) Assumptions

The principal assumptions are set out below:

Principal economic assumptions
The assumed future pre-tax returns on fixed interest securities are set by reference to gross redemption yields available in the market at the end of the reporting period. The base interest rate used for the risk discount rate is based on European swap rates for the effective duration of the future cash flows underlying the present value of in-force ("PVIF"), plus a margin of 1.3%. The base interest rate used at 31 December 2009 was based on the yield available from Irish Government bonds at that time, and was equal to the European swap rate at 31 December 2009 plus 1.3%. The corresponding return on equities and property is equal to the base interest rate assumption plus the appropriate risk premium. An asset mix based on the assets held at the valuation date within policyholder funds has been assumed within the projections.

	31 December 2010	31 December 2009	31 December 2008
Equity risk premium	**3.0%**	3.0%	3.0%
Property risk premium	**2.0%**	2.0%	2.0%
Irish government bond yield	**n/a***	4.6%	4.1%
European swap rate	**3.1%**	3.3%	-
Margin	**1.3%**	1.3%	-
Base interest rate	**4.4%**	4.6%	4.1%
Non-market risk margin	**2.1%**	2.1%	2.1%
Market risk margin	**1.0%**	0.8%	0.8%
Risk discount rate	**7.5%**	7.5%	7.0%
Investment return			
- Fixed interest	**0.8% - 5.2%**	1.1% - 4.2%	2.7% - 4.3%
- Equities	**7.4%**	7.6%	7.1%
- Property	**6.4%**	6.6%	6.1%
Expense inflation	**3.0%**	3.0%	3.0%

*The Irish Government bond yield at 31 December 2010 is higher than the base interest rate of 4.4% p.a., but is not believed to be a suitable representative base rate due to the dislocation of the market in these bonds at that date.

Other assumptions
The assumed future mortality and morbidity assumptions are based on published tables of rates, adjusted by analyses of recent operating experience. Persistency assumptions are set by reference to recent operating experience excluding the 2009 persistency experience which is regarded as an extreme event. The adverse persistency experience in 2009 and 2010 is expected to continue at a reduced level for a number of years. Therefore, the persistency assumptions within the PVIF model have reflected this by allowing for a more adverse persistency experience over the next three years, reducing to the long-term assumptions thereafter. Actual future persistency experience against the assumptions will continue to be monitored closely.

Further details of assumptions are included in Note 19, Life insurance contracts including insurance contracts with discretionary participation features ("DPF").

The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business and the maintenance of business in-force. No allowance has been made for future productivity improvements in the expense assumptions.

Projected tax has been determined assuming current tax legislation and rates.

10. Shareholder value of in-force business (continued)

(B) Analysis of the movement in the year

The change in the shareholder value of in-force business asset is analysed as follows:

	2010 €m	2009 €m
As at 1 January	**730**	787
Charge to income statement in the year	**(31)**	(57)
As at 31 December	**699**	730
Analysis of charge to income statement		
New business	**100**	99
Expected return on existing business	**(83)**	(88)
Experience variances	**(9)**	(33)
Operating assumption changes	**(41)**	(7)
Short-term investment fluctuations	**2**	8
Economic assumption changes	**-**	(36)
	(31)	(57)

(C) Sensitivity calculations

A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the insurance shareholder value of in-force business asset ("insurance VIF") to changes in key assumptions. The details of each sensitivity are set out below. These figures do not show the impact on shareholder equity, as no allowance is made for associated changes to the insurance contract liabilities or any associated tax effects.

- 1% decrease in risk discount rate would increase the insurance VIF by €65m,
- 1% increase in risk discount rate would reduce the insurance VIF by €58m,
- 10% decrease in maintenance expenses would increase the insurance VIF by €13m,
- 10% improvement in assumed persistency rates would increase the insurance VIF by €12m, and
- 5% decrease in both mortality and morbidity rates would increase the insurance VIF by €15m.

11. Goodwill

	2010 €m	2009 €m
As at 1 January	**75**	71
Additions	**-**	4
Transfer classified as assets held for sale (note 14)	**(5)**	-
As at 31 December	**70**	75

Goodwill is allocated to the group's operating divisions which represent the lowest level within the group at which goodwill is monitored for internal management purposes and is not higher than the group's operating segments as reported in Note 2, Segmental information.

	2010 €m	2009 €m
Life assurance	**-**	5
Brokerage / third party administration and other	**70**	70
	70	75

The goodwill acquired during the year ended 31 December 2009 of €4m arose on the acquisition of the remaining 2% non-controlling interest in Cornmarket Group Financial Services Limited.

No impairment losses on goodwill were recognised during 2010 or 2009.

The carrying goodwill value is tested for impairment by calculating the recoverable amount. The recoverable amount is based on value-in-use calculations of cash generating units using cash flow projections based on actual operating results and future business plans, discounted at an appropriate rate. The determination of cash flows and discount rates require the exercise of judgement. In respect of the life assurance operating division, an offer price has been used to determine the recoverable amount, for further details see note 14 assets and liabilities classified as held for sale.

The calculation of the value in use was based on the following key assumptions:

Cash flows were projected based on past experience, actual operating results and future business plans and assume no future growth (2009: 0%). Cash flows for a period of seven years (2009: 7 years) based on 2011 business plans were used. The forecast period is based on the group's long-term perspective with respect to the operation of these cash-generating units.

A pre-tax discount rate of 12.5% (2009: 12.5%) was applied in determining the recoverable amounts for the cash generating units. The discount rate is based on the rate used in calculating the future cash flows for shareholder value of in-force business with an additional risk premium of 5% (2009: 5%).

The key assumptions described above may change as economic and market conditions change. The calculation of the value in use for the brokerage / third party administration and other operating division is sensitive to changes in future profits and the discount rate. A 5% decrease in future profits would have resulted in an impairment of c.€3.5m. A 2% increase in the discount rate would have resulted in an impairment of c.€5m.

12. Deferred taxation

	2010	2009
	€m	€m
Deferred tax liabilities	**(172)**	(129)
Deferred tax assets*	**112**	-
Net Deferred tax obligations as at 31 December	**(60)**	(129)

* Banking Ireland incurred further trading losses in the year, which gives rise to a closing deferred tax asset of €112m, which includes €36m in respect of AFS assets and €16m in respect of the retirement benefits deficit. This asset has been recognised in full on the basis that management expects to be able to utilise this asset from future own taxable profits and available group relief and in the case of the retirement benefits deficit and AFS reserve through a reversal of existing balances. The estimated future profits are based on projections which show the bank returning to profit and that there will be sufficient cumulative profits to recover the asset in full.

Net Deferred tax obligations are attributable to the following:

			2010		
	As at 1 Jan	**Recognised in income**	**Recognised in equity**	**Other**	**As at 31 Dec**
	€m	**€m**	**€m**	**€m**	**€m**
Property and equipment	**(12)**	**-**	**5**	**-**	**(7)**
Deferred acquisition costs	**10**	**-**	**-**	**-**	**10**
Deferred front-end fees	**1**	**(1)**	**-**	**-**	**-**
Shareholder value of in-force business	**(120)**	**6**	**-**	**-**	**(114)**
Investment contract liabilities	**2**	**(1)**	**-**	**-**	**1**
Undistributed life business surpluses	**(48)**	**(5)**	**-**	**-**	**(53)**
Unrealised gains on assets/(losses)	**(3)**	**(2)**	**38**	**-**	**33**
Retirement benefits	**9**	**(2)**	**-**	**-**	**7**
IFRS/FRS transition spreading	**1**	**(1)**	**-**	**-**	**-**
Provision for loan impairment	**-**	**-**	**-**	**-**	**-**
Losses carried forward	**38**	**31**	**-**	**(1)**	**68**
Other temporary differences	**(7)**	**3**	**-**	**(1)**	**(5)**
	(129)	**28**	**43**	**(2)**	**(60)**

			2009		
	As at 1 Jan	Recognised in income	Recognised in equity	Other	As at 31 Dec
	€m	€m	€m	€m	€m
Property and equipment	(12)	(8)	8	-	(12)
Deferred acquisition costs	10	-	-	-	10
Deferred front-end fees	1	-	-	-	1
Shareholder value of in-force business	(99)	(21)	-	-	(120)
Investment contract liabilities	(1)	3	-	-	2
Undistributed life business surpluses	(43)	(5)	-	-	(48)
Unrealised gains on assets/(losses)	3	1	(7)	-	(3)
Retirement benefits	9	-	-	-	9
IFRS/FRS transition spreading	-	1	-	-	1
Losses carried forward	-	38	-	-	38
Other temporary differences	2	(9)	-	-	(7)
	(130)	-	1	-	(129)

13. Retirement benefit obligations

Defined benefit schemes

The group operates six Irish defined benefit pension schemes and two small UK defined benefit schemes for employees. All of the defined benefit schemes are funded by the payment of contributions into separately administered trust funds. The benefits paid from the defined benefit scheme are based on percentages of the employees' final pensionable pay for each year of credited service.

The pension costs and provisions are assessed in accordance with the advice of independent qualified actuaries. Valuations are carried out every three years by independent actuarial consultants. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection. All of the group's defined benefit pension schemes have been revalued within the last three years with valuation dates ranging from 30 June 2008 to 5 April 2010.

Actuarial gains and losses are accounted for under the corridor approach.

The key financial assumptions used are:

	2010	2009
	%	%
Actuarial assumptions at the statement of financial position date		
Discount rate	**5.00**	5.50
Expected rate of return on plan assets	**5.80**	6.60
Salary increases [1]	**3.25**	3.50
Pension increases	**2.00**	2.00
Rate of price inflation	**2.00**	2.00

[1] In addition to the salary inflation assumption above an assumed salary scale is also allowed for.

The main post retirement mortality assumptions used at 31 December 2010 were 108% PNM(F)L00-1 with CSO improvements from 2006 for active/deferred members and pensioners (2009: 95% PA92 (c=2040) less two years for active / deferred members and 95% PA92 (c=2025) less two years for pensioners). On this basis the life expectancies underlying the value of the schemes' liabilities at 31 December 2010 and 31 December 2009 were the following:

		2010	2009
		Years	Years
Retiring today age 65	Males	**22.8**	22.4
	Females	**24.4**	25.4
Retiring in 15 years' time aged 65	Males	**25.0**	23.3
	Females	**26.2**	26.3

Amounts recognised in the income statement in respect of these defined benefit schemes are:

	2010	2009
	€m	€m
Current service cost	**34**	34
Past service cost	**1**	8
Interest cost	**69**	70
Expected return on scheme assets	**(73)**	(63)
Amortisation of corridor excess	**1**	4
Changes due to curtailments	**(9)**	-
Recognition of actuarial losses due to curtailments	**1**	-
	24	53

This charge has been included in administrative expenses.
Unrecognised actuarial gains or losses which are outside the corridor under IAS 19 are amortised in the income statement over the estimated remaining service lives of the members which averaged seventeen years in 2010 (2009: seventeen years).

The actual return on scheme assets was €81m (2009: €131m).

The actual return is calculated as follows:

	2010	2009
	€m	€m
Expected return on plan assets	**73**	63
Actuarial gain on plan assets	**8**	68
	81	131

13. Retirement benefit obligations (continued)

The expected return on assets is determined by calculating a total return estimate based on weighted average estimated returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

The expected rates of return for equities and property were calculated by allowing for a risk premium over prevailing long-dated bond yields. The equity rate allows for a yield on 30-year Eurozone Government bonds of 4.10% (2009: 4.30%) together with an equity risk premium of 2.90% (2009: 3.60%), giving a total of 7.00% (2009: 7.90%). For property, a risk premium 1% lower than for equities was adopted for the years ended 31 December 2010 and 31 December 2009. The expected rate of return on bonds reflected the prevailing yield on the specific portfolio of nominal and inflation linked long-dated bonds for the years ended 31 December 2010 and 31 December 2009. The effect of the major categories of plan assets on the overall expected rate of return on assets is set out in the table on the long-term rate of return expected for each class of asset.

The movements in the present value of defined benefit obligations in the year are:

	2010	2009
	€m	€m
Benefit obligation as at 1 January	**(1,225)**	(1,183)
Current service cost	**(34)**	(34)
Interest cost	**(69)**	(70)
Past service cost	**(1)**	(8)
Actuarial gain / (loss) - experience adjustments	**26**	97
- assumption changes	**(67)**	(52)
Curtailments	**9**	-
Contributions by plan participants	**(7)**	(7)
Benefits paid	**28**	32
Benefit obligation as at 31 December	**(1,340)**	(1,225)

The movement in the fair value of defined benefit assets in the year are:

	2010	2009
	€m	€m
Fair value of plan assets as at 1 January	**1,093**	928
Expected return on plan assets	**73**	63
Employer contribution	**38**	59
Contributions by plan participants	**7**	7
Actuarial gain	**8**	68
Benefits paid	**(28)**	(32)
Fair value of plan assets as at 31 December	**1,191**	1,093

The pension assets and liabilities recognised on the statement of financial position are as follows:

	2010	2009	2008	2007	2006
	€m	€m	€m	€m	€m
Benefit obligation as at 31 December	**(1,340)**	(1,225)	(1,183)	(1,293)	(1,211)
Fair value of plan assets as at 31 December	**1,191**	1,093	928	1,262	1,277
Net (obligation) / asset	**(149)**	(132)	(255)	(31)	66
Unrecognised actuarial losses / (gains)	**100**	69	186	(45)	(152)
Net recognised retirement benefit obligation	**(49)**	(63)	(69)	(76)	(86)

The experience adjustments arising on plan liabilities and plan assets are as follows:

	2010	2009	2008	2007	2006
Actuarial (gains) / losses					
- arising on benefit obligation (€m)	**(26)**	(97)	19	48	19
- arising on benefit obligation (% plan liabilities)	**(2)**	(8)	2	4	2
Actuarial gains / (losses)					
- arising on plan assets (€m)	**8**	68	(442)	(116)	73
- arising on plan assets (% of plan assets)	**1**	6	(48)	(9)	6

13. Retirement benefit obligations (continued)

The movement in the present value of defined benefit obligations in the year are:

	2010 €m	2009 €m
Net post retirement benefit obligations as at 1 January	**(63)**	(69)
Expense recognised in income statement	**(24)**	(53)
Contributions paid	**38**	59
Net post retirement benefit obligations as at 31 December	**(49)**	(63)
Net post retirement benefit assets	**104**	96
Net post retirement benefit liabilities	**(153)**	(159)
Net post retirement benefit obligations	**(49)**	(63)

The following tables set out, on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for the group and the company.

	Long-term rate of return expected	**Fair value**	**Plan assets**	Long-term rate of return expected	Fair value	Plan assets
	2010 %	**2010 €m**	**2010 %**	2009 %	2009 €m	2009 %
Equities	**7.00**	**673**	**56**	7.90	637	58
Bonds	**4.10**	**381**	**32**	4.40	377	35
Property	**6.00**	**78**	**7**	6.90	53	5
Other	**2.80**	**59**	**5**	5.90	26	2
Fair value of plan assets as at 31 December	**5.80**	**1,191**	**100**	6.60	1,093	100

The fair value of plan assets includes investments in Irish Life Assurance plc unit-linked funds which on occasion include investments relating to Irish Life & Permanent Group Holdings plc shares or properties occupied by Irish Life & Permanent Group Holdings plc group. As at 31 December 2010, the group's pension scheme assets had an indirect holding in Irish Life & Permanent Group Holdings plc shares of €0.6m (2009: €2m) and an indirect holding of properties occupied by the Irish Life & Permanent Group Holdings group of €0.1m (2009: €0.2m).

The group is expected to pay contributions of approximately €35m to the pension schemes in 2011.

If the discount rate was 0.5% lower than the assumption made at 31 December 2010 then the present value of defined benefit obligations would increase by approximately €157m, all of which would be included as unrecognised actuarial losses. A similar effect would arise if the rate of increase in salaries and pensions was to rise by 0.5% over the assumptions used at 31 December 2010.

If the expectation of life post retirement increased by one year, then the present value of defined benefit obligations would increase by approximately €28m, all of which would be included as unrecognised actuarial losses.

14. Assets and liabilities classified as held for sale

	2010	2009
	€m	€m
Assets classified as held for sale		
(a) Assets of Irish Life International Limited	**2,085**	-
(b) Bank branches	**4**	-
	2,089	-
Liabilities classified as held for sale		
(a) Liabilities of Irish Life International Limited	**2,041**	-
	2,041	-

(a) Assets and liabilities of Irish Life International Limited

The assets and liabilities related to Irish Life International Limited (ILI) which form part of the life assurance reporting segment have been presented as held for sale. This follows the board entering negotiations with a potential purchaser during the latter stages of 2010, the subsequent approval in principle of a sale transaction by the board on 11 February 2011 and signing of the relevant agreements on 23 February 2011. The completion of the agreed sale for €26m of ILI is subject to regulatory approvals including that of the Central Bank of Ireland, which is expected during 2011. The sale of ILI was not deemed a discontinued operation as it is not considered a major line of business.

The assets and liabilities of ILI are set out below:

	2010
Assets	**€m**
Cash and balances with central banks	**14**
Debt securities	**397**
Equity shares and units in unit trusts**	**1,470**
Loans and receivables to banks	**146**
Property and equipment	**1**
Intangible assets	**1**
Goodwill	**5**
Deferred acquisition costs	**51**
Assets classified as held for sale*	**2,085**
Liabilities	
Derivative liabilities	**2**
Investment contract liabilities	**1,978**
Outstanding investment claims	**2**
Accruals	**2**
Other liabilities	**11**
Deferred front end fees	**46**
Liabilities classified as held for sale*	**2,041**

* The ILI assets and liabilities shown above exclude net €26m inter-company liabilities, which are eliminated in the consolidated financial statements. These balances will be recovered after the sale is completed.
** Equity shares and units in unit trusts include €1,406m listed and €64m unlisted.

(b) Bank branches held for sale

Assets classified as held for sale include eight bank branches that were closed during 2009 as part of a restructuring programme, the sale of which is highly probable in the next twelve months. These branches are presented as held for sale within the Banking - Ireland segment.

On 30 June 2010, seven of the eight branches were remeasured with a fair value of €4m resulting in a release of €1m from the revaluation reserve which was recognised in the statement of changes in equity. On the same date these branches were classified from property and equipment to held for sale with no further adjustment to the fair value of these branches at that date.

On 31 December 2010, an additional branch was remeasured with a fair value of €1m and classified from property and equipment to held for sale with no impairment loss or gain. Subsequently on 31 December 2010, all eight branches were remeasured with a fair value of €4m resulting in an impairment loss of €1m being recognised in the income statement.

15. Deposits by banks (including central banks)

	2010	2009
	€m	€m
Deposits by banks	**17,146**	18,713
	17,146	18,713

Deposits by banks include the following:

	2010	2009
	€bln	€bln
Placed by the European Central Bank (ECB)[1]	**13.8**	9.8
Placed by other banks[2]	**1.4**	1.0
Held as a result of repurchase agreements	**1.6**	6.1
Collateral held for investments for unit-linked funds (CPPI)	**-**	0.6
Interbank deposits[3]	**-**	0.7
Other[4]	**0.3**	0.5
	17.1	18.7

Balances placed by the European Central Bank (ECB)

Maximum	**13.8**	13.5
Average	**9.4**	10.9

1 The deposits made by the ECB are secured on €17.7bln (2009: €13.7bln) notes issued by special purpose vehicles controlled by the group and €2.2bln (2009: nil) of debt security assets. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles which are included in Note 6, Loans and receivables to customers.

2 These deposits are collateralised on €2.3bln (2009: €1.3bln) of notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements which are included in Note 6, Loans and receivables to customers.

3 These deposits were placed by a bank covered under the Irish Government guarantee scheme on the same terms as deposits placed with this institution by Irish Life Assurance plc (Note 8, Loans and receivables to banks). No right of set-off existed between these deposits by banks and the loans and receivables to banks.

4 These deposits include loan capital raised of €100m (Note 24, Analysis of equity and capital) secured on the in-force book of business.

16. Customer accounts

	2010	2009
	€m	€m
Repayable on demand	**3,510**	3,503
Other	**9,872**	11,059
	13,382	14,562

At 31 December 2010, customer accounts exclude deposits of €1,463m (2009: €1,251m) from the group's non-banking operations including deposits held for the benefit of unit-linked policyholders.

17. Debt securities in issue

	2010	2009
	€m	€m
At amortised cost:		
Bonds and medium-term notes	**6,928**	7,855
Other debt securities in issue	**947**	3,043
Non-recourse funding	**2,159**	2,364
	10,034	13,262
Repayable in not more than 1 year	**1,467**	8,132
Repayable in more than 1 year but not more than 2 years	**116**	1,395
Repayable in more than 2 years but not more than 5 years	**5,066**	452
Repayable in more than 5 years	**3,385**	3,283
	10,034	13,262

Bonds and medium-term notes exclude €35m (2009: €77m) of debt securities issued by the group held in the group's life assurance operations which have been eliminated on consolidation.

Other debt securities in issue

Other debt securities in issue at 31 December 2010 included €805m (2009: €425m) advances secured on notes issued by special purpose vehicles which are secured on residential property loans. These loans which have not been derecognised, are shown within loans and receivables to customers and the funding is shown as a separate liability.

Non-recourse funding

At 31 December 2010, the group had advances secured on residential property loans subject to non-recourse funding. These loans, which have not been derecognised, are shown within loans and receivables to customers and the non-recourse funding is shown as a separate liability.

The securitisations involve the selling of pools of mortgages to special purpose entities which issue mortgage backed floating notes ("notes") to fund the purchase of these mortgage pools. The non recourse funding is collateralised on €3m of the notes in issue by the special purpose vehicle, Note 6, Loans and receivables to customers.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios and any related income generated by the portfolios, without recourse to Irish Life & Permanent plc. Irish Life & Permanent plc is not obliged to support any losses in respect of the mortgages subject to the non-recourse funding and does not intend to do so. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to Irish Life & Permanent plc. The providers of this funding have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security, and that they will not seek recourse in any other form.

Profit on repurchase of debt securities in issue

During the year ended 31 December 2009, the group repurchased €53m and £10m of medium-term non-recourse notes in issue at discounts of 7% to 34% for the securities outlined below. This repurchase of debt is accounted for under IAS 39 Financial Instruments: Recognition and Measurement and met the requirements to be treated as an extinguishment of the original instruments. It resulted in a total profit of €8m (€7m after taxation) being recognised in the investment return.

The carrying value of each instrument repurchased and the consideration given including costs to arrive at the profit are set out below:

Instrument exchange

EMTN Tranche	Percentage repurchased	Nominal value	Carrying value
		€m	€m
Auburn 5 A2	4.53%	12	12
Fastnet 2 A2	3.33%	53	53
Total		65	65

Repurchase consideration given including costs	€m
Consideration	57
Costs	-
Total repurchase consideration including costs	57
Profit	8

18. Investment contract liabilities

	2010		
	Gross	**Reinsurance**	**Net**
	€m	**€m**	**€m**
Unit-linked liabilities	**25,724**	**(57)**	**25,667**
Non-linked and guaranteed tracker liabilities	**290**	**-**	**290**
Investment financial options and guarantees	**31**	**-**	**31**
Transfer of unit-linked liabilities to liabilities classified as held for sale (note 14)	**(1,978)**	**-**	**(1,978)**
As at 31 December	**24,067**	**(57)**	**24,010**

	2009		
	Gross	Reinsurance	Net
	€m	€m	€m
Unit-linked liabilities	23,434	(91)	23,343
Non-linked and guaranteed tracker liabilities	381	-	381
Investment financial options and guarantees	43	-	43
Non-controlling share of unit trust	174	-	174
As at 31 December	24,032	(91)	23,941

The non-controlling share of unit trust refers to the portion of unit trusts consolidated in the financial statements which are not attributable to Irish Life Assurance plc policyholders. The trusts are consolidated where Irish Life Assurance plc is deemed by its percentage holdings to have a controlling interest. At 31 December 2010, the unit trusts consolidated are all owned 100% by Irish Life Assurance plc, therefore the non-controlling interest is zero.

The change in liabilities during the year ended 31 December 2010 is analysed as follows:

	2010		
	Gross	**Reinsurance**	**Net**
	€m	**€m**	**€m**
As at 1 January	**24,032**	**(91)**	**23,941**
Premiums	**3,993**	**(1)**	**3,992**
Claims	**(3,705)**	**37**	**(3,668)**
Fees deducted	**(174)**	**-**	**(174)**
Exchange movements	**35**	**-**	**35**
Change in investment contract liabilities	**2,038**	**(2)**	**2,036**
Non-controlling interest:			
- Change in investment contract liabilities	**(93)**	**-**	**(93)**
- Investment by non-controlling interest in unit trust	**(81)**	**-**	**(81)**
Transfer to liabilities classified as held for sale (note 14)	**(1,978)**	**-**	**(1,978)**
As at 31 December	**24,067**	**(57)**	**24,010**

18. Investment contract liabilities (continued)

The change in liabilities during the year ended 31 December 2009 is analysed as follows:

	2009		
	Gross	Reinsurance	Net
	€m	€m	€m
As at 1 January	21,118	(144)	20,974
Premiums	3,358	(1)	3,357
Claims	(2,869)	88	(2,781)
Fees deducted	(174)	-	(174)
Exchange movements	15	-	15
Change in investment contract liabilities	2,666	(34)	2,632
Non-controlling interest:			
- Change in investment contract liabilities	(148)	-	(148)
- Investment in non-controlling interest in unit trust	66	-	66
As at 31 December	24,032	(91)	23,941

19. Life insurance contracts including life insurance contracts with discretionary participation features (DPF)

(A) Analysis of insurance contract liabilities

	Gross €m	**2010 Reinsurance €m**	**Net €m**
Unit-linked liabilities	**574**	**-**	**574**
Non-linked liabilities			
- without discretionary participation features	**3,628**	**(1,901)**	**1,727**
- with discretionary participation features	**36**	**-**	**36**
As at 31 December	**4,238**	**(1,901)**	**2,337**

	Gross €m	2009 Reinsurance €m	Net €m
Unit-linked liabilities	591	-	591
Non-linked liabilities			
- without discretionary participation features	3,391	(1,829)	1,562
- with discretionary participation features	52	-	52
As at 31 December	4,034	(1,829)	2,205

The change in liabilities during the year ended 31 December 2010 is analysed as follows:

	Gross €m	**Reinsurance €m**	**Net €m**
As at 1 January	**4,034**	**(1,829)**	**2,205**
Premiums	**719**	**(124)**	**595**
Claims	**(473)**	**169**	**(304)**
Expected return on insurance contract liabilities	**71**	**(42)**	**29**
Return credited to policyholders	**50**	**-**	**50**
Fees deducted	**(372)**	**131**	**(241)**
Change in economic assumptions	**252**	**(207)**	**45**
Change in operating assumptions	**(40)**	**1**	**(39)**
Exchange differences	**1**	**-**	**1**
Other	**(4)**	**-**	**(4)**
As at 31 December	**4,238**	**(1,901)**	**2,337**

The change in liabilities during the year ended 31 December 2009 is analysed as follows:

	Gross €m	Reinsurance €m	Net €m
As at 1 January	4,007	(1,932)	2,075
Premiums	709	(116)	593
Claims	(489)	160	(329)
Expected return on insurance contract liabilities	100	(59)	41
Return credited to policyholders	96	-	96
Fees deducted	(317)	67	(250)
Change in economic assumptions	(33)	15	(18)
Change in operating assumptions	(35)	36	1
Exchange differences	6	-	6
Other	(10)	-	(10)
As at 31 December	4,034	(1,829)	2,205

19. Life insurance contracts including life insurance contracts with discretionary participation features (DPF) (continued)

(B) Assumptions

The liabilities for insurance contracts are calculated in accordance with insurance regulations in force in Ireland.

Liabilities for unit-linked insurance contracts include amounts reflecting the value of the underlying funds in which the policy is invested.

Liabilities are calculated using either the net or the gross premium method. In calculating the appropriate liability for non-linked insurance liabilities including the closed book of business with discretionary participation features, it is necessary to make assumptions on a range of items. The assumptions which have the most significant impact on the measurement of liabilities are:
- Interest rates
- Mortality and morbidity
- Expenses.

The interest rates gross of tax used are as follows:

	2010	2009
Regular premium business		
- No DPF	**2.50% to 3.94%**	2.70% to 3.98%
- With DPF	**1.76% to 3.06%**	2.11% to 2.53%
Single premium business	**0.15% to 4.58%**	1.12% to 5.47%

Mortality and morbidity assumptions are based on the standard industry published tables amended where appropriate to reflect the group's current experience and to allow for expected improvements or disimprovements in mortality. The tables used for 2010 and 2009 are as follows:

	2010	2009
Lives assured		
- Non-linked	**55%-90% AM / AF00 select**	55%-90% AM / AF00 select
- Linked	**100% AM / AF00 ultimate**	100% AM / AF00 ultimate
Annuities		
- Males	**104% PNMA00**	104% PNMA00
- Females	**104% PNFA00**	104% PNFA00
- Future mortality rates to improve on medium cohorts basis with minimum improvement of	**1.50% p.a.**	1.50% p.a.
Disability rates		
- Inception: Males	**80%-320% CMIR (12)**	105%-320% CMIR (12)
- Inception: Females	**160%-640% CMIR (12)**	210%-640% CMIR (12)
- Termination	**45%-230% CIDA rates**	25%-160% CIDA rates
Serious illness rates		
- Smokers	**163% of IC94 with 3% p.a. future deterioration**	163% of IC94 with 3% p.a. future deterioration
- Non-smokers	**100% of IC94 with 3% p.a. future deterioration**	100% of IC94 with 3% p.a. future deterioration

Expense assumptions are based on the current year expenses and size of book. Expense inflation assumption is 3.0% (2009: 3.0%).

19. Life insurance contracts including life insurance contracts with discretionary participation features (DPF) (continued)

(C) Changes in assumptions

The principal changes in assumptions since 31 December 2009 were:

- Interest rates used were changed to reflect the actual market interest rates at 31 December 2010. This increased liabilities by €61m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.

- The benefit inflation assumption was reduced to reflect a fall in inflation which reduced liabilities by €16m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.

- Morbidity rates were changed to reflect the latest experience, which reduced liabilities by €24m after allowing for reinsurance.

- Expense assumptions were changed to reflect current unit costs and a change in the expense reserving methodology. This reduced liabilities by €15m after allowing for reinsurance.

(D) Sensitivities

The following indicates the sensitivities of insurance liabilities to changes in the assumptions:

- 1% decrease in interest rates would increase liabilities by €194m after allowing for reinsurance;

- 1% increase in interest rates would decrease liabilities by €159m after allowing for reinsurance;

- 10% decrease in maintenance expenses would decrease liabilities by €9m after allowing for reinsurance; and

- 5% decrease in both mortality and morbidity rates would decrease liabilities by €12m after allowing for reinsurance.

The above are based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in assumptions may be correlated. Changes in interest rates would be linked to equivalent changes in the value of the assets backing the insurance reserves. Changes to insurance contract liabilities will also have an impact on the tax charge, which is not reflected in the figures above.

20. Provisions

	2010			
	Staff restructuring costs €m	Onerous contracts €m	Other €m	Total €m
As at 1 January	**7**	**33**	**23**	**63**
Provisions made during the year	**19**	**-**	**5**	**24**
Provisions used during the year	**(24)**	**(33)**	**(13)**	**(70)**
As at 31 December	**2**	**-**	**15**	**17**

Staff restructuring costs

Staff restructuring costs include provisions for employees on career breaks, voluntary severance schemes and voluntary early retirement. The provision is expected to be fully utilised during the year ended 31 December 2011. The provision of €19m made during the year was partially utilised and is recognised in administration expenses on the income statement.

Onerous contracts

Irish Life Assurance plc had an onerous contract in respect of an investment property where the market value reduced. During the year the onerous contract was subject to arbitration. A settlement was agreed resulting in a loss of €39m. The provision of €33m was fully utilised with the additional loss of €6m recognised in investment return.

Other

The other provision is in relation to outstanding settlements on certain closed derivative contracts and policyholder claims. The settlement of the closed derivative contracts are currently under commercial negotiations a partial settlement was made during the year and the final settlement is expected to be resolved within the next twelve months. Policyholder claims are expected to be settled in 2011.

21. Subordinated liabilities

	2010 €m	2009 €m
Dated		
Issued by Irish Life & Permanent plc		
€18m floating-rate notes 2011 *	**16**	18
€250m 6.25% fixed-rate notes 2011	**261**	258
€10m floating-rate step-up callable notes 2015	**10**	10
€50m floating-rate step-up callable notes 2015	**51**	50
€200m floating-rate step-up callable notes 2015	**201**	200
€50m floating-rate step-up callable notes 2016	**50**	50
€75m floating-rate step-up callable notes 2017	**75**	75
€300m 4.625% fixed step-up callable notes 2017	**308**	308
€45m floating-rate step-up callable notes 2018	**45**	45
€25m step-up callable notes 2018	**25**	25
€20m floating-rate step-up callable notes 2018	**20**	20
€5m constant maturity swap notes 2018 *	**4**	5
€5m constant maturity swap notes 2018 *	**5**	5
€55m 8.76% non-callable lower tier 2 capital notes due 2018	**31**	28
€10m floating-rate notes 2023 *	**10**	10
€10m 4.31% fixed-rate callable notes 2035	**10**	10
	1,122	1,117
Undated		
Issued by Irish Life & Permanent plc		
JPY 7bln 3.98% undated step-up notes	**70**	56
JPY 10bln 3.75% undated step-up notes	**93**	82
JPY 20bln 4.655% undated step-up notes	**185**	177
Issued by Irish Life Assurance plc		
€200m 5.25% step-up perpetual capital notes	**216**	212
	564	527
	1,686	1,644

* These notes contain embedded derivatives which have been separated out as they are not closely related to the host debt instrument. The 10yr notes are linked to 30yr swap rates.

Of the above total for subordinated liabilities, €1,166m (2009: €1,167m) is classified as Tier 2 capital.

The consent of the Central Bank is required before:
- Any repayment, for whatever reason, of a dated subordinated liability prior to its stated maturity; and
- Any exercise of any redemption option in any undated liability.

22. Shareholders' equity

Share capital
Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of the company.

Share premium
The share premium reserve represents the excess of amounts received for share issues over the par value of those shares for the group.

Revaluation reserve
The revaluation reserve comprises the unrealised gain or loss, net of tax on the revaluation of owner occupied properties. This is a non-distributable reserve.

Available-for-sale ("AFS") reserve
The AFS reserve comprises unrealised gains or losses, net of tax on AFS financial assets which have been recognised at fair value on the statement of financial position. It also includes a residual amount of €17m (2009: €30m) relating to AFS securities reclassified to loans and receivables.

Currency translation adjustment reserve
The currency translation adjustment reserve represents the cumulative gains and losses, net of hedging on the retranslation of the group's net investment in foreign operations, at the rate of exchange at the reporting date.

Share-based payments reserve
This reserve comprises the cost of share options and the long-term incentive plan, which have been charged to the income statement over the vesting period of the options.

Other capital reserves
Other capital reserves include the share premium of €21m of Irish Life plc at the date of the merger, €7m capital redemption reserve arising from the repurchase and cancellation of shares. It also includes the merger reserve which is the difference between the shares issued by Irish Permanent plc and the nominal value of the issued share capital of Irish Life plc on the merger of the companies and amounts to a deficit of €2,719m. The share premium arising on the shares (€2,698m) issued in connection with the merger has been classified with the merger reserve rather than with the other share premium in existence in Irish Life & Permanent plc. Under the scheme of arrangement the share capital and share premium in IL&P €2,922m (including the €2,698m already presented in capital reserves) was cancelled and share capital and share premium was issued in IL&PGH at fair value €1,087m. These changes in share capital are reflected in the other capital reserve.

Own share reserve
Own shares held (excluding shares held for the long-term incentive plan) are held within the group's life operations for the benefit of life assurance policyholders. In accordance with IFRS the cost of these shares, €51m (2009: €66m), is deducted from distributable reserves. The liability to policyholders is based on the fair value of the shares and the change in liability due to the marked-to-market movement on the shares is transferred from retained earnings to non-distributable reserves.

Retained earnings

The group retained earnings include distributable and non-distributable earnings. These reserves represent the retained earnings of the company, subsidiaries and associate after consolidation adjustments.

23. Authorised and issued share capital

Authorised share capital

	Number of shares	IL&PGH 2010 Share capital €m	IL&P 2009 Share capital €m
Ordinary shares of 32 cent each	**400,000,000**	**128**	128
€ preference shares	**300,000,000**	**300**	300
US$ preference shares	**200,000,000**	**150**	139
Stg£ preference shares	**100,000,000**	**116**	113

The company has only one class of issued shares and as at 31 December 2010, it had 276,782,351 (2009: 276,782,351 (IL&P), 119,038 (IL&PGH)) ordinary shares in issue in that class. Each ordinary share carries one vote except for shares held for the benefit of life assurance policyholders, which pursuant to section 9(1) of the Insurance Act 1990, do not have voting rights.

The number of ordinary 32 cent fully paid-up shares is as follows:

	IL&PGH 2010	IL&P 2009
As at 1 January	**119,038**	276,782,351
Issued under Scheme of Arrangement	**276,782,344**	-
Cancellation of shares during the year	**(119,031)**	-
As at 31 December	**276,782,351**	276,782,351
Own shares held for the benefit of life assurance policyholders	**6,014,916**	7,108,182
Shares held under employee benefit trust	**457,914**	457,914

On 4 August 2009, Acquilani was incorporated with an authorised share capital of 400,000,000 ordinary shares of €0.32 each. On this date, the issued share capital of the company was seven fully paid-up ordinary shares at €0.32 each, total amount of €2.

On 29 September 2009 the authorised share capital was increased to reflect exactly the authorised share capital of IL&P. The change in the foreign currency denominated share capital reflects movements in exchange rates.

On 9 October 2009, Acquilani changed its name to Irish Life & Permanent Group Holdings plc and 119,031 ordinary shares of €0.32 each were issued at par for total cash proceeds of €38,090 to facilitate commencement of trading.

Pursuant to the Scheme of Arrangement described in Note 1, Acquisition of Irish Life & Permanent plc by Irish Life & Permanent Group Holdings plc, on 15 January 2010, 276,782,344 shares were cancelled in IL&P and on the same date IL&P issued 276,782,344 shares in favour of IL&PGH (making IL&PGH the parent of IL&P). On 15 January 2010, 276,782,344 shares were issued in IL&PGH to the former shareholders of IL&P whose shares had been cancelled.

On 15 January 2010, the 119,031 ordinary shares that were issued on 9 October 2009 to facilitate the commencement of trading were bought back by IL&PGH and were subsequently cancelled.

No shares were issued as a result of the exercise of options under the group's share option schemes during the period (2009: nil). There were no shares issued to the group profit sharing scheme in the current year (2009: nil).

Own shares held for the benefit of life assurance policyholders are held by Irish Life Assurance plc and represent 2.2% (2009: 2.6%) of the issued share capital of the company.

There were no acquisitions of treasury shares during the year (2009: nil) in anticipation of share awards that may vest under the long-term incentive plan for senior management.

24. Analysis of equity and capital

(A) Shareholders' equity

The group's equity is analysed as follows:

	2010 €m	2009 €m
Banking - Ireland*		
Net assets	**127**	646
	127	646
Banking - UK		
Net assets	**11**	48
	11	48
Life assurance		
Net assets	**1,284**	1,154
Goodwill	**-**	5
Deduction in respect of liability relating to own shares held for the benefit of life assurance policyholders	**(6)**	(23)
	1,278	1,136
Fund management		
Net assets	**11**	8
	11	8
Brokerage and third party administration and other*		
Net assets	**(5)**	(3)
Goodwill	**70**	70
	65	67
Associated undertaking	**124**	122
Consolidation adjustments (note 2)	**-**	(21)
Total equity	**1,616**	2,006

* 2009 'Brokerage and third party administration and other' has been restated to include loans held to finance the purchase of the underlying subsidiary companies. This balance was previously consolidated as part of the Banking - Ireland reporting segment.

(B) Capital management

Irish Life & Permanent Group Holdings plc ("IL&PGH") was incorporated on 24 August 2009. The company was established as a group holding company. At 31 December 2009, the company had no subsidiaries and was not a group company of Irish Life & Permanent plc. On 15 January 2010 Irish Life & Permanent plc was acquired by Irish Life & Permanent Group Holdings plc. As a result, Irish Life & Permanent plc is now a 100% subsidiary of Irish Life & Permanent Group Holdings plc. Further details of this acquisition are disclosed in Note 1, Acquisition of Irish Life & Permanent plc by Irish Life & Permanent Group Holdings plc.

Irish Life & Permanent plc ("IL&P"), a subsidiary of IL&PGH, carries out the business activities of the group. IL&P was regulated by the Financial Services Authority of Ireland ("Financial Regulator" or "FR") which set and monitored the regulatory capital requirements in respect of the group's ("IL&P's") operations. In October 2010, under the Central Bank Reform Act 2010, the Financial Regulator was replaced by the Central Bank of Ireland ("Central Bank") which is now responsible for central banking and financial regulation. While there are a number of regulated entities within the group which have individual regulatory capital requirements, two of the principal regulated entities are IL&P: the group's former holding company which is also the group's banking operation (trading as permanent tsb), and Irish Life Assurance plc ("ILA"), the group's principal life assurance operation.

Both ILA and Irish Life International Limited ("ILI") separately provide an annual return to the Central Bank under the European Communities (Life Assurance) Framework Regulations, 1994. A similar abbreviated return is submitted quarterly. Irish Life Investment Managers Limited ("ILIM") is authorised to act as an investment business firm and is regulated by the Central Bank under the European Communities (Markets in Financial Instruments) Regulations 2007 (MiFID).

24. Analysis of equity and capital (continued)

The group is required by the Central Bank to maintain adequate capital and the group is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements. The group has confirmed that additional capital requirements of €243m identified by the Irish Central Bank's Prudential Capital Assessment Review (PCAR) in 2010 will be met from internal resources (subject to Central Bank approval) by May 2011 and is on target to do so. There is a risk that minimum regulatory capital requirements may increase in the future and that the Central Bank may change the manner in which it applies existing regulatory requirements. If the group is required to increase its capital position there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources. The Government has acknowledged the group's systemic importance to the economy as a whole and the EU/IMF memorandum of understanding confirms the government's intention to ensure that the group remains adequately capitalised.

The group is participating in the Central Bank's latest Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR), the results of which are expected at the end of March. As a result there is a significant uncertainty as to the outcome and any additional capital or liquidity requirements that may arise.

The management of capital within the group is monitored by the Board Risk and Compliance Committee, the Banking Assets and Liabilities Committee and the Life Assurance Assets and Liabilities Committee in accordance with board approved policy. In general, outside of IL&P, all regulated entities within the group operate to an internal target level of capital which provides a margin of comfort above the regulatory minimum with any excess capital above this target level being remitted to IL&P.

Banking operations

The banking segments' minimum capital requirement is managed by the group's banking operations, which is overseen by the bank Chief Executive and is calculated in accordance with the provisions of Basel II as implemented under the European Capital Adequacy Directive and monitored by the Central Bank. The objective of Basel II is to more closely align bank regulatory capital with the economic capital required to support the risks being undertaken. The capital required to cover credit, operational and market risks is required to be explicitly measured under the Basel II methodology.

In implementing Basel II, the group has adopted the Internal Ratings Based ("IRB") approach to credit risk and was awarded IRB accreditation in late 2007. Under the IRB approach the bank uses internally generated risk models to compute the capital required to support credit risk by calculating the probability of default and the loss given default in all of its various portfolio exposures. The models and calculations are conservatively based.

With regard to operational risk, the group has adopted the standardised approach under which all operational risks are methodically identified together with the probability and magnitude of any loss which might arise from such risks, taking into account any mitigating factors and controls. Value at risk, an industry-wide standard, is the methodology which the group has adopted in regard to the measurement of market risk. For regulatory capital purposes in respect of market risk the group utilises the standardised approach. The value at risk methodology is discussed in further detail in Note 25, Financial risk management.

24. Analysis of equity and capital (continued)

The following table summarises the composition of regulatory capital and the ratios of the bank for the years ended 31 December 2010 and 31 December 2009. They are calculated in accordance with Basel II regulatory capital requirements.

	2010 €m	2009 €m
Tier 1 capital		
Share capital and share premium	**2,922**	2,922
Reserves	**760**	951
Prudential filters	**62**	65
Total qualifying Tier 1 capital	**3,744**	3,938
Tier 2 capital		
Subordinated liabilities	**1,166**	1,167
Revaluation reserve	**4**	8
Other	**62**	25
Total qualifying Tier 2 capital	**1,232**	1,200
Total qualifying Tier 1 and Tier 2 capital	**4,976**	5,138
Deductions		
Investment in life operations	**(3,295)**	(3,187)
Other	**-**	(93)
Total deductions	**(3,295)**	(3,280)
Total own funds	**1,681**	1,858
Required capital	**1,265**	1,313
Excess of total own funds over total required capital	**416**	545

The following information will not be subject to audit by the independent auditor:

	2010	2009
Risk weighted assets		
Total risk-weighted assets	**15,809**	16,411
Risk asset ratio (all Core Tier 1)	**10.6%**	11.3%

The above ratio is calculated and reported to the Central Bank on a quarterly basis.

The percentage of capital is in excess of the regulatory minimum of 8%.

The movement in the bank's regulatory capital is summarised below:

	2010 €m	2009 €m
As at 1 January	**1,858**	2,059
Bank earnings after tax and corporate costs	**(325)**	(262)
Dividends received	**28**	42
Other	**120**	19
As at 31 December	**1,681**	1,858

24. Analysis of equity and capital (continued)

Life assurance and fund management operations

The regulatory capital requirements of the life assurance business are determined according to the European Communities (Life Assurance) Framework Regulations 1994 modified by the EU directive 2002/83/EC. The regulations set down the approach to be used to value the assets and liabilities and the calculation of the required solvency margin.

	2010	2009
	€m	€m
Total shareholders' funds attributable to life and fund management business	**1,289**	1,144
Less: Shareholder value of in-force ("VIF") business		
Gross	**(699)**	(730)
Related deferred tax	**114**	121
Shareholders' funds excluding VIF	**704**	535
Adjustments to valuation of assets and liabilities to regulatory basis	**(43)**	(78)
Subordinated liabilities	**201**	208
VIF loan	**100**	-
Other assets available to cover solvency margin	**16**	20
Regulatory capital on continuing activities, before available dividend	**978**	685
Available dividend	**(243)**	-
Regulatory capital on continuing activities, after available dividend	**735**	685
Held within the long-term business fund	**491**	248
Held outside the long-term business fund	**487**	437
Available dividend	**(243)**	-
	735	685

The solvency cover for Irish Life Assurance plc, the group's main life assurance operation, net of the amount available for dividend, is 1.8 times (2009: 1.6 times) the minimum requirement of €401m (2009: €413m). The directors consider this to be a conservative level of capital to manage the business having regard for the basis of calculating liabilities and the insurance and operational risks inherent in the underlying products. At 31 December 2010 each of the group's life assurance and fund management entities had sufficient capital on a stand-alone basis and therefore no capital injections were expected to be needed in the future. Transfers of capital out of the life companies are subject to the companies continuing to meet the regulatory capital requirements.

The solvency position of Irish Life Assurance plc strengthened during 2010.This was achieved by the following:

- It completed the raising of loan capital of €100m (Note 15, Deposits by banks (including central banks)) secured on the in-force book of business.
- It implemented changes in the statutory reserving basis which released circa €50m of additional capital at year end.

Shareholder capital is invested in cash, short-term debt securities and property.

The group has provided for the cost of financial options and guarantees on a market consistent basis. Capital is affected by a range of factors including interest rates, mortality and morbidity. The group's capital management and risk management policies are discussed in Note 25, Financial risk management.

In November 2008 a stop-loss reinsurance treaty in relation to new business was signed with Swiss Re and the effect on regulatory assets is analysed below:

	2010	2009
	€m	€m
Effect on regulatory assets	**44**	22
Analysis of effect on regulatory assets:		
New business strain	**39**	44
Expected return	**(47)**	(34)
Experience variance	**52**	12
	44	22

24. Analysis of equity and capital (continued)

The accounting treatment in the IFRS financial statements of this stop-loss reassurance treaty is not to show either the contingent asset or contingent liability on the statement of financial position as they offset each other but the reassurance fee €3.2m (2009: €2.6m) for this treaty is accounted for in the IFRS consolidated income statement.

This table analyses the change in regulatory capital of the life and fund management operations on continuing activities (net of tax).

	2010 **€m**	2009 €m
Regulatory capital as at 1 January	**685**	694
Capital generated from existing business		
- Expected return	**155**	161
- Experience variances	**89**	12
- Operating assumption changes	**70**	9
New business strain	**(75)**	(74)
Expected investment return	**13**	12
Short-term investment fluctuations		
- Direct shareholder property short-term investment fluctuations	**1**	(56)
- Property commitment cost	**(13)**	(29)
- Other short-term investment fluctuations	**33**	(24)
Effect of economic assumption changes	**(48)**	3
VIF loan	**100**	-
Other	**(4)**	(9)
Change in inadmissible assets	**(8)**	(4)
Dividends paid	**(13)**	(13)
Change in subordinated liabilities	**(7)**	3
Regulatory capital as at 31 December before available dividend	**978**	685
Available dividend	**(243)**	-
Regulatory capital as at 31 December after available dividend	**735**	685

Best estimate assumptions are used to analyse the various components of the capital movements which are explained as follows:

Capital generated on existing business which has three components:

- Expected return: the capital which would arise if the existing business behaved in line with the EV assumptions;

- Experience variances: the capital arising because actual experience in the year differs from the EV assumptions on mortality, morbidity, persistency, expenses and non-linked matching; and

- Operating assumption changes: the effect on capital of changes to regulatory liability demographic and expense assumptions. These assumptions are reviewed regularly and are changed where appropriate in light of either current or expected experience.

New business strain: when a life assurance contract is written significant acquisition costs are normally incurred up-front, these costs are then recovered through future charges. This up-front payment gives rise to a reduction in capital.

Expected investment return: capital generated by the expected investment earnings on the net assets attributable to shareholders using the equity and property investment return EV assumptions applicable at the start of the financial year. The expected investment earnings allow for interest payable on subordinated debt and the fee payable in relation to the stop-loss reassurance treaty.

Short-term investment fluctuations: this is the effect on capital of the difference between the actual investment return achieved and the long-term investment return assumed for both policyholder and shareholder assets.

Effect of economic assumption changes: this is the impact on capital of changes in economic assumptions excluding changes in non-linked regulatory liability interest assumptions.

25. Financial risk management

The group risk identification and assessment process identifies the following risks as being material to the operations of Irish Life & Permanent Group Holdings plc.

Credit risk
Liquidity risk
Market risk
Insurance risk
Operational risk

The group's approach to management of these risks is set out in the following pages.
The key financial risks arise in the underlying subsidiary companies of Irish Life & Permanent Group Holdings plc ("IL&PGH"). All of the directors of IL&PGH plc are also directors on the board of Irish Life & Permanent plc (trading as permanent tsb). In addition, they have representation on the boards of all of the key subsidiary companies. This allows the directors to monitor the key risks and controls in the underlying subsidiaries of IL&PGH plc group.

Risk management framework

The Board of Directors approves overall policy in relation to the types and levels of risk that the group is permitted to assume in the implementation of its strategic and business plans.

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

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

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

Credit risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the group or its failure to perform as agreed.

The group maintains detailed credit policies for each business unit which outlines relevant conditions under which a loan can be made. Credit policies establish coherent limit systems for credit risk. The various limit structures in place create a credit risk 'ceiling'. Limit structures are in place to manage credit default risk, concentration risk, settlement risk and counterparty risk, as described below. For Irish Life & Permanent Group Holdings plc this risk can be further sub-categorised into:

Credit default risk
Concentration risk
Securitisation risk
Settlement risk
Reinsurance counterparty risk

Credit default risk - The potential for loss occasioned by the counterparty's insolvency or lack of willingness to pay. A robust management process is in place to ensure that credit risk taken on is in line with group risk appetite and that effective credit risk measurement takes place across the group. A core part of the tools used in the management of credit risk is the calculation of obligor level probability of default ("PD") and portfolio level loss given default ("LGD") under the Basel II Internal Ratings Based ("IRB") approach. The PD is a measure of the likelihood of a specific obligor defaulting within the next twelve months. Where an obligor is:
(a) More than 90 days in arrears; and / or
(b) Expected to default on obligations due to known financial difficulties or other rationale;
the allocated PD for the obligor is 1, indicating a 100% probability of default.

Both PD and LGD are calculated using internally developed models and give a statistical view of the risk profile of the lending portfolios and individual accounts. The Group Credit Committee is provided with the lending portfolio statistical profiles on a regular basis.

25. Financial risk management (continued)

Calculation tools generate the measures of credit risk through statistically-based scoring mechanisms. Scorecard systems at account application and at subsequent points in the life of the account (using a combination of application and behavioural scorecards) are used to assess the risk inherent in new credit applications and for existing customers. The statistical scorecards differ across lending portfolio classification and product type. Scorecards incorporate expert lender judgement where relevant. Individual accounts and applications are allocated a credit risk score from a graded scale, which distributes the loans according to their propensity to default. Underwriting authorities in place cascade down from the Group Credit Committee to individual business units and credit officers.
For wholesale credit applications (and ongoing assessment), the PD for a counterparty is determined using the group's IRB model. As a basis for the IRB credit rating for a counterparty, the group uses the following approach. Where a counterparty has two credit ratings, the lower credit rating is used, while, if the counterparty has three credit ratings, the middle credit rating is used. A further "notching" process then increases the counterparty IRB credit rating upwards dependent on factors such as geographical location, presence of the counterparty on rating agency "watchlists" and economic market stability, amongst others.This IRB Credit rating is mapped to a statistical PD.

Credit default risk also arises on non-traded / over-the-counter derivative exposures since the group is exposed to the risk of the counterparty defaulting prior to the maturity of "in-the-money" products, thereby necessitating replacement of the contract at applicable market rates. To manage this risk, counterparty limits are maintained in the group's investment accounting system, and specialist Risk Management and Compliance teams undertake regular independent monitoring of counterparty exposure against limits. All breaches of counterparty limits are notified to the Banking Assets and Liabilities Committee (Banking ALCO).

In the case of some counterparties, to avoid a build-up of exposure on derivatives, the group uses a credit support annex ("CSA"), which is an addendum to the bi-lateral ISDA Agreement with a counterparty, and which requires daily settlement of mark to market values of outstanding derivative deals.

Credit default risk represents the most significant element of credit risk for the group. Irish Life & Permanent Group Holdings plc capitalises for credit default risk using the key risk parameters of probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). These parameters are utilised to calculate expected loss ("EL") and a stand-alone unexpected loss figure at a credit risk sub-portfolio level. The stand-alone unexpected loss can then be converted to a sub-portfolio unexpected loss contribution which generates required economic capital. Expected losses should be covered by the normal business operating margins but unexpected losses are by definition rare and of significant impact, necessitating the setting aside of a capital cushion.

Concentration risk - The risk that any single (direct and / or indirect) exposure or group of exposures has the potential to produce losses large enough to threaten the institution's health or its ability to maintain its core business.

The group risk appetite statement explicitly outlines limits for lending and non-lending concentration that will be tolerated by the group. The group position against these limits is monitored on a regular basis by the Group Credit Committee, the Board Risk and Compliance Committee and the Board of Directors.

The bank's lending strategy in Ireland is not targeted at any particular geographic locations and should, in the ordinary course, be spread throughout the country proportionately to local economic activity.

Securitisation risk - The risk of loss associated with buying or selling asset-backed securities.

Securitisation risk occurs when issuing mortgage-backed securities as a risk transfer or funding device. Securitisation risk is minimised through the use of "standard" (as opposed to exotic) securitisation structures, the use of only high-quality counterparties to perform the structuring, and oversight and governance provided by appropriately qualified and experienced external and internal parties.

25. Financial risk management (continued)

Monitoring of securitisation risk within the group principally occurs through three processes:

(a) A review of the mortgage pool to be used in the securitisation including checking the pool is appropriately homogeneous by reference to time in arrears and loan-to-value ("LTV") amongst other parameters;
(b) A review of the internal securitisation process following the execution of a transaction allowing the process to be improved in terms of efficiency and risk reduction; and
(c) Monthly monitoring of the underlying mortgage pool performance following the transaction.

High quality counterparties to securitisation structuring are chosen from a panel of suitable counterparties after consideration of selection parameters such as:

- Recent securitisation activity and performance;
- Presence of an ongoing successful relationship with Irish Life & Permanent plc; and
- Position in relevant industry league tables.

Settlement risk - The risk that the group delivers a sold asset or cash to a counterparty and then does not receive the purchased asset or cash as expected.

The group is involved in a limited volume of derivatives contracts trading, and thus this risk is limited in the group context. Robust management controls including established counterparty limits, and the potential risk is also limited by a restriction in trading to counterparties with an A- credit rating or higher from the middle rating of Standard & Poor's, Moody's and Fitch as first notched down where one or more defined risk factors are observed; and the addition of a further risk factor to the marked to market exposure, depending on the complexity of the contract traded and the tenure.

Credit risk mitigation

The credit policy includes guidelines on the acceptability of specific classes of collateral or risk mitigation. The principal collateral types for loans and receivables are mortgages over residential properties, charges over business assets and guarantees. Estimates of the fair value of collateral are assessed at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired.

The group has a concentration of credit risk in retail mortgages which reflects the group’s strategic decision to focus on this market.

The group makes use of collateral agreements to mitigate exposures to wholesale credit risk. Collateral is obtained on credit risk exposures in line with the group’s lending policies and procedures (and the reinsurance strategy in the case of reinsurance counterparty risk). The accepted collateral is also governed by the group’s lending policies.

Impairment provisions

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the group to determine whether there is such objective evidence includes, but is not limited to:

- Known cash flow difficulties experienced by the borrower;
- Overdue contractual payments of either principal or interest; and
- Breach of loan covenants or conditions.

Account-specific impairment provisions are established by evaluating the total exposure to loss on a case-by-case basis for all individually significant exposures and any other accounts that do not qualify for the collective assessment approach outlined below.

25. Financial risk management (continued)

Commercial Mortgages – Individual Assessment

Commercial loans meeting the following criteria are reviewed individually for impairment:

- Loans > 6 months in arrears;
- Large exposures; and
- Watchlist Cases – performing commercial loans but where evidence is obtained that the borrower may be experiencing difficulties.

To determine the appropriate account-specific impairment provision for commercial mortgages, a discounted cash flow approach using a number of factors is adopted. The factors considered include:

- The group's aggregate exposure to the customer;
- The viability of the customer's business model in generating sufficient cash flow to service its debt obligations;
- The ranking of the group's claim in relation to the customer's other obligations;
- The realisable value of any security (or other credit risk mitigant) and the likelihood of a successful repossession;
- The expected distribution available on any liquidation or bankruptcy;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

In addition to the above the bank operates a comprehensive annual review process for performing commercial loans and loans not subject to individual impairment assessment.

ROI Residential Mortgages – individual assessment

In respect of residential mortgage exposures the account-specific impairment provision is determined for all accounts greater than six months in arrears or where evidence is obtained that the borrower may be experiencing difficulties. A discounted cash flow approach using a number of factors is adopted. The factors considered include:

- The loan exposure;
- The recent repayment history;
- The estimated value of the collateral;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

UK Residential Mortgages – individual assessment

UK residential mortgages that meet the following criteria are individually assessed:

- RIP loans in arrears by more than three months and in litigation;
- Home loans in arrears by more than six months and in litigation; and
- Other facilities not meeting the above criteria where evidence is obtained that the borrower may be experiencing difficulties.

Collective Provisions

Impairment provisions are also established on a collective basis to cover losses which have been incurred but not yet identified on loans subject to individual assessment and on loans that have not been individually assessed. These provisions also include impairment provisions calculated for large numbers of loans managed on a portfolio basis (for example, credit cards or motor vehicle financing).

A collective provision may also be established if no account-specific indicators of impairment loss has been identified and attributed to specific customers, however experience and other observable data indicate that such impairment where losses are present in the portfolio as at the date of assessment.

The collective impairment provision factors into calculations the historical loss experience in portfolios of similar credit risk characteristics, current economic conditions and account behavioural trends.

25. Financial risk management (continued)

Valuation Methodologies

The valuation methodologies for the bank's key portfolios of collateral held are as follows:

- PTSB residential property valuations are based on the ptsb / ESRI house price index or based on recent valuations where property is repossessed;
- Commercial property valuations are based on opinions from professional valuers, Investment Property Database Index, local knowledge of the properties, benchmarking similar properties and other industry-wide available information, including estimated yields and estimated discount rates; and
- In the UK property values are determined using drive by valuations, local knowledge of the properties and automated valuations using a recognised desktop provider.

The valuation methodologies outlined above are determined as close to the reporting date as is feasible and are therefore considered by the directors to reflect their best estimate of current values of collateral held.

Credit quality

The credit risk ratings employed by the group are designed to highlight exposures requiring management attention. The credit quality of loans is assessed by reference to the group's rating system. The group uses the Basel II 25 point scale for the internal ratings approach ("IRB") for credit risk. The scale ranges from 1 to 25 where 1 represents the best risk grade or lowest Probability of Default ("PD") and 25 represents the defaulted exposures or PD = 100% for credit risk. The internal rating scale or masterscale is not a rating tool but is based on probability of default and is used to aggregate borrowers for comparison and reporting purposes after their rating by the underlying rating tool(s) (models).
The internal gradings below incorporate the IRB rating.

- Investment grade (IRB ratings 1 to 7) – includes loans and receivables to banks.
- Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.
- Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature.
- Fair risk profile (IRB ratings 22 to 24) – includes exposures whose general profiles are considered to require some additional monitoring.
- Defaulted (IRB rating 25) – includes exposures that are impaired and unimpaired greater than 90 days past due.

25. Financial risk management (continued)

Credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements:

	2010		
	Total	**Unit-linked funds***	**Group exposure**
	€m	**€m**	**€m**
Assets			
Cash and balances with central banks (note 3)	**312**	**(31)**	**281**
Items in course of collection (note 3)	**124**	**-**	**124**
Debt securities (note 4)	**12,098**	**(5,587)**	**6,511**
Derivative assets	**1,255**	**(878)**	**377**
Loans and receivables to customers (note 6)	**36,581**	**-**	**36,581**
Loans and receivables to banks (note 8)	**3,565**	**(2,304)**	**1,261**
Reinsurance assets	**2,011**	**(57)**	**1,954**
Assets classified as held for sale (note 14)**	**557**	**(543)**	**14**
	56,503	**(9,400)**	**47,103**
Contingent liabilities and commitments (note 32)	**506**	**-**	**506**
	57,009	**(9,400)**	**47,609**

	2009		
	Total	Unit-linked funds*	Group exposure
	€m	€m	€m
Assets			
Cash and balances with central banks (note 3)	218	(15)	203
Items in course of collection (note 3)	108	-	108
Debt securities (note 4)	15,780	(6,329)	9,451
Derivative assets	1,169	(858)	311
Loans and receivables to customers (note 6)	38,592	-	38,592
Loans and receivables to banks (note 8)	4,925	(1,577)	3,348
Reinsurance assets	1,979	(91)	1,888
	62,771	(8,870)	53,901
Contingent liabilities and commitments (note 32)	565	-	565
	63,336	(8,870)	54,466

* Excludes unit-linked tracker funds where an investment guarantee is given by the shareholder.

** Assets classified as held for sale (note14) are all unit-linked funds except cash.

Debt securities

The group is exposed to credit risk on third parties where the company holds debt securities (including sovereign debt excluding Ireland). With the exception of Ireland, sovereign debt is restricted to countries with a Moody's rating of A3 or higher. The group has set counterparty limits for all debts and loans on a group-wide basis.

The following table gives an indication of the level of creditworthiness of the group's debt securities and is based on the ratings prescribed by the rating agency Moody's Investor Services Limited.

	2010	2009
	€m	€m
Neither past due nor impaired	**6,494**	9,451
Impaired	**17**	-
Total	**6,511**	9,451

Debt securities neither past due nor impaired	**2010**	2009
	€m	€m
Rating		
Aaa	**2,663**	3,719
Aa	**501**	4,628
A	**699**	881
Baa *	**2,602**	178
Below Ba	**29**	45
Total	**6,494**	9,451

*The increase in exposure to Baa is a result of the downgrade of the Irish sovereign debt rating during 2010.

25. Financial risk management (continued)

Derivative assets

	2010	2009
	€m	€m
Rating		
Aa	**93**	43
A	**123**	112
Baa	**43**	1
Covered by netting agreements	**118**	155
Total	**377**	311

Loans and receivables to customers

Loans and receivables are summarised as follows:

	2010	2009
	€m	€m
ROI residential mortgages	**26,340**	27,256
UK residential mortgages	**7,527**	7,484
Commercial	**1,904**	1,939
Consumer finance		
Finance leases	**907**	1,213
Term loans / other	**468**	536
Money market funds	**-**	211
	37,146	38,639
Provision for loan impairment (note 7)	**(883)**	(477)
Deferred fees, discounts and fair value adjustments	**318**	430
	36,581	38,592

	2010					
	ROI Residential mortgages €m	**UK Residential mortgages €m**	**Commercial €m**	**Consumer finance €m**	**Money market funds €m**	**Total €m**
Neither past due nor impaired	**22,342**	**7,195**	**1,261**	**1,111**	**-**	**31,909**
Past due but not impaired	**3,006**	**221**	**363**	**109**	**-**	**3,699**
Impaired	**992**	**111**	**280**	**155**	**-**	**1,538**
Total	**26,340**	**7,527**	**1,904**	**1,375**	**-**	**37,146**

	2009					
	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Money market funds €m	Total €m
Neither past due nor impaired	24,306	7,158	1,495	1,433	211	34,603
Past due but not impaired	2,535	251	273	149	-	3,208
Impaired	415	75	171	167	-	828
Total	27,256	7,484	1,939	1,749	211	38,639

The fair value of collateral held is €1,107m (2009: €739m). This collateral is held against loans and receivables classified as impaired. At 31 December 2010, the group had repossessed collateral of €38m (2009: €46m) on balances of €61m (2009: €57m). Repossessed assets are sold as soon as practicable, with proceeds offset against any outstanding indebtedness. Repossessed assets are included within other assets in the statement of financial position.

The carrying amount of loans and receivables that would otherwise have been past due or impaired whose terms have been renegotiated is €2,256m (2009: €1,701m).

25. Financial risk management (continued)

Loans and receivables to customers neither past due nor impaired balances

	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Money market funds €m	Total €m
2010						
Excellent risk profile	**18,089**	**4,001**	**265**	**484**	**-**	**22,839**
Satisfactory risk profile	**2,806**	**2,781**	**808**	**474**	**-**	**6,869**
Fair risk profile	**1,447**	**413**	**188**	**153**	**-**	**2,201**
Total	**22,342**	**7,195**	**1,261**	**1,111**	**-**	**31,909**

	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Money market funds €m	Total €m
2009						
Excellent risk profile	18,874	3,788	229	739	211	23,841
Satisfactory risk profile	3,652	2,617	1,072	544	-	7,885
Fair risk profile	1,780	753	194	150	-	2,877
Total	24,306	7,158	1,495	1,433	211	34,603

Loans and receivables to customers past due but not impaired balances

	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m
2010					
Past due up to 30 days	**824**	**3**	**84**	**50**	**961**
Past due 30 - 60 days	**448**	**36**	**48**	**20**	**552**
Past due 60 - 90 days	**309**	**35**	**40**	**10**	**394**
Past due more than 90 days	**1,425**	**147**	**191**	**29**	**1,792**
Total	**3,006**	**221**	**363**	**109**	**3,699**

	ROI Residential mortgages €m	UK Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m
2009					
Past due up to 30 days	935	1	80	66	1,082
Past due 30 - 60 days	402	25	30	26	483
Past due 60 - 90 days	271	42	27	18	358
Past due more than 90 days	927	183	136	39	1,285
Total	2,535	251	273	149	3,208

These are loans and receivables where contractual interest or principal payments are past due but the group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collections of amounts owed to the group.

25. Financial risk management (continued)

Loans and receivables to banks

Loans and receivables to banks are with investment grade counterparties. The following table gives an indication of the level of creditworthiness of the group's loans and receivables to banks and is based on the ratings prescribed by the rating agency Moody's Investor Services Limited.

	2010	2009
	€m	€m
Rating		
Aaa	**787**	107
Aa	**351**	1,921
A	**34**	1,301
Baa	**89**	19
Total	**1,261**	3,348

The increase in exposure to Baa is a result of the downgrade in the Irish bank's credit ratings during 2010.

Reinsurance assets

The group's life operations cede insurance and investment risk to a number of reinsurance companies.
There are three main categories of reinsurance assets as set out below:

	2010	2009
	€m	€m
Assets held in a charged account	**1,372**	1,342
Assets where credit risk is borne by the policyholder	**57**	91
Other assets where credit risk is borne by the shareholder	**582**	546
Total	**2,011**	1,979

The assets held in a charged account are in respect of reinsurance treaties for annuity business, where all withdrawals from the charged account have to be authorised by Irish Life Assurance plc. Assets are managed in accordance with a mandate which matches the assets and liabilities.

Assets where credit risk is borne by the policyholders relate to unit-linked investment contracts where the policy documents specify that the return to the policyholder is based on the return from the reinsurance companies.

Reinsurance counterparty risk is managed through the group's reinsurance strategy. The reinsurance strategy is established by the Life Assurance Assets and Liabilities Committee and approved by the Irish Life Assurance plc board.

The group regularly reviews the financial security of its reinsurance companies. Where the reinsurance arrangement involves asset accumulation on the part of the reinsurance company, these companies have a Moody's rating of at least A. Other limits are set with reference to premium income, assets and shareholder capital of the reinsurance company.

The reinsurance assets where the credit risk is borne by the shareholder are broken down by credit rating of the counterparty as follows:

	2010	2009
	€m	€m
Rating		
Aa	**223**	153
A	**359**	393
Total	**582**	546

25. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the group may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates.

The Credit Institutions (Financial Support) Scheme 2008 (the “Scheme”) and the Credit Institutions (Eligible Liabilities Guarantee) Scheme (the “ELG Scheme”) have been critical in providing Irish financial institutions with access to funding. During the course of 2009, the group successfully secured term funding of €3bln from international investors under these Schemes which expired on 31 December 2010. The ELG Scheme has subsequently been extended to 30 June 2011. The ELG Scheme, which Irish Life & Permanent plc and its subsidiary Irish Permanent (IOM) Limited joined on 4 January 2010, facilitates debt issuance for terms up to five years. These schemes enable the group to secure longer term funding, as evidenced by the issuance under the ELG Scheme of a 3 year US $1.75bln bond in January 2010 and a 5 year €2bln bond in March 2010 and a three-year €1.25bln bond in April 2010, all of which are guaranteed by the ELG Scheme. The charge to the income statement in respect of the ELG scheme for the period ended 31 December 2010 was €97m (2009: €nil).

Without the government guarantee, the cost and availability of funding is influenced by the credit rating allocated to the group by industry rating agencies. A downgrade of the group’s credit rating may increase financing costs and restrict market access whilst an upgrade may achieve the reverse. The senior debt credit ratings of Irish Life & Permanent plc at 31 December 2010 were; Moodys Investor Services Limited Baa3, Standard and Poors BBB. Following a downgrade in February 2011, the credit ratings of Irish Life & Permanent plc are; Moody's Investor Services Limited Baa3, Standard and Poors BBB-.

The downgrading of the group and sovereign credit ratings, the withdrawal of the Irish Government from the funding markets, the EU/IMF Programme of Financial Support for Ireland and the consequent withdrawal of funds from Irish banks have affected the group’s funding plans in 2010. There is a significant ongoing liquidity challenge for the group and for the Irish banking system generally. These challenges have given rise to breaches of regulatory liquidity requirements in the later part of 2010 and ongoing breaches in 2011. The downgrade in credit ratings and the risk for a further sovereign or group downgrade has limited the group’s access to capital markets; as a result the group has increased its recourse to Eurosystem financing facilities. At 31 December 2010, the group had €13.8bn of collateralised funding placed from the European Central Bank. In 2011 the group used collateral to access special liquidity facilities from the Central Bank of Ireland. The group expects to have sufficient collateral to enable it to access these facilities to meet its immediate and estimated funding requirements for the coming year.

Liquidity management for banking operations within the group is carried out by the group’s treasury function. In carrying out this responsibility, treasury’s principal objective is to ensure that the banking operations have sufficient funding available, at an optimal cost, to meet the operational needs of the bank and to adhere to regulatory and prudential requirements. The liquidity management process includes:

- Day-to-day funding; managed by monitoring future cash flows to ensure that requirements can be met. This includes replacing funds that mature or are borrowed by customers;
- Balance sheet funding; managed by monitoring the funding profile against established target funding levels, with monitoring performed by the Banking Assets and Liabilities Committee;
- Maintaining a portfolio of marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt securities in issue.

Irish Life & Permanent plc liquidity policies and protocols establish quantitative rules and targets in relation to measurement and monitoring of liquidity risk. The Banking Assets and Liabilities Committee plays a fundamental role in the monitoring of liquidity risk measures through the monthly review of liquidity reports.

The Banking Assets and Liabilities Committee monitors sources of funding and reviews short-term and long-term borrowings and their respective maturity profiles.

The bank's funding profile at year end was:

	2010	2009
	%	%
Customer accounts	**34**	33
Long-term debt	**27**	27
Short-term debt	**39**	40
	100	100

25. Financial risk management (continued)

An analysis of the maturity profile of debt securities in issue is given in Note 17, Debt securities in issue. ECB drawings as detailed in Note 15, Deposits by banks (including central banks) are included in short-term debt.

As a result of the dislocation of financial markets, the group's access to wholesale funding has been reduced, durations shortened and credit spreads widened. However, the group has the ability to use the loan book as collateral for borrowings as detailed in Note 6, Loans and receivables to customers.

The Banking Assets and Liabilities Committee also monitors the dependencies inherent in funding by reviewing the group’s usage of lines of credit with financial institutions.

Liquidity reports to the Banking Assets and Liabilities Committee each month include the loans to deposits ratio. The loan to deposit ratio at the end of 2010 was 249% compared to 246% at the end of 2009.

The regulatory protocol, under which the group operates, requires levels of liquidity based on various cash flow stress tests. The key limits applied are that an institution must have sufficient available liquidity to cover 100% of outflows over the next eight days and 90% of outflows over the subsequent 9 – 30 days. The group monitors the liquidity ratio daily and reports weekly to the Central Bank. As a consequence of the industry wide wholesale funding difficulties experienced from the last quarter of 2010, mostly the group has not met these limits since 15 December 2010.

The table below presents the cash flows payable by the group by remaining contractual maturities at the statement of financial position date for non-derivative assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. The group manages the inherent liquidity risk based on expected cash inflows and cash outflows. Accordingly, the expected gap excluding derivatives is also presented below. This maturity mismatch approach takes into account the inherent stability of particular funding sources. The focus on an ongoing basis is to ensure that the bank can meet all its obligations as they fall due while continuing to provide for all other funding requirements of the bank. Regulatory limits based on this approach are imposed and, except as described above, are adhered to.

The bank's forward looking approach to liquidity management also incorporates running stressed scenarios for the purposes of contingency funding. The inclusion of information on financial assets is necessary in order to understand the group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The 2009 comparatives have been amended to be consistent with the current year.

	2010 Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Assets							
Debt securities	**639**	**21**	**39**	**52**	**78**	**2,794**	**3,623**
Loans and receivables to banks	**560**	**-**	**-**	**200**	**-**	**-**	**760**
Loans and receivables to customers	**6,648**	**9,260**	**1,718**	**1,000**	**1,145**	**17,657**	**37,428**
Derivatives assets	**4**	**(3)**	**(2)**	**11**	**3**	**240**	**253**
Total assets	**7,851**	**9,278**	**1,755**	**1,263**	**1,226**	**20,691**	**42,064**
Liabilities							
Deposits by banks	**6,535**	**8,941**	**1,189**	**220**	**2**	**1**	**16,888**
Customer accounts	**7,826**	**3,933**	**1,280**	**1,743**	**241**	**407**	**15,430**
Debt securities in issue	**154**	**1,597**	**567**	**1,072**	**318**	**6,570**	**10,278**
Subordinated liabilities	**-**	**544**	**-**	**80**	**489**	**808**	**1,921**
Derivatives liabilities	**(1)**	**(46)**	**6**	**84**	**14**	**86**	**143**
Total liabilities	**14,514**	**14,969**	**3,042**	**3,199**	**1,064**	**7,872**	**44,660**
Gap	**(6,663)**	**(5,691)**	**(1,287)**	**(1,936)**	**162**	**12,819**	**(2,596)**

25. Financial risk management (continued)

	2009						
	Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Assets							
Debt securities	5,886	13	21	51	99	4,577	10,647
Loans and receivables to banks	2,134	-	-	8	-	-	2,142
Loans and receivables to customers	2,188	6,544	1,989	8,494	1,379	17,324	37,918
Derivatives assets	-	3	(1)	(12)	6	141	137
Total assets	10,208	6,560	2,009	8,541	1,484	22,042	50,844
Liabilities							
Deposits by banks	2,878	6,587	1,888	8,658	40	1,482	21,533
Customer accounts	6,406	4,566	1,327	2,019	296	454	15,068
Debt securities in issue	1,792	1,998	1,065	4,215	1,401	874	11,345
Subordinated liabilities	-	20	17	12	316	1,516	1,881
Derivatives liabilities	21	52	81	24	96	262	536
Total liabilities	11,097	13,223	4,378	14,928	2,149	4,588	50,363
Gap	(889)	(6,663)	(2,369)	(6,387)	(665)	17,454	481

Debt securities and loans and receivables in the tables above are based on contractual maturity except where they are pledged as collateral for ECB and other repurchase funding agreements, in which case they are included based on the maturity of the agreement. Therefore the tables includes a haircut on assets pledged as collateral, the return of which is not reflected in the table resulting in the disclosed gap.

The following table details the group's liquidity analysis for derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates by the yield curves at the end of the reporting period. The 2009 comparatives have been amended to be consistent with the current year.

	2010						
	Group banking operations						
	Up to 1 month €m	**1-3 months €m**	**3-6 months €m**	**6-12 months €m**	**1-2 years €m**	**Over 2 years €m**	**Total €m**
Net settled:							
Interest rate swaps	**-**	**(3)**	**3**	**-**	**-**	**-**	**-**
FX forwards	**26**	**40**	**-**	**-**	**-**	**-**	**66**
	26	**37**	**3**	**-**	**-**	**-**	**66**

	2009						
	Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Net settled:							
Interest rate swaps	1	(6)	6	-	-	1	2
FX forwards	(19)	(24)	2	2	-	-	(39)
Gross settled:							
Currency swaps							
- inflow	-	-	-	209	-	-	209
- outflow	-	-	-	(209)	-	-	(209)
	(18)	(30)	8	2	-	1	(37)

25. Financial risk management (continued)

Liquidity risk - Life operations

Liquidity risk for life operations unit-linked funds is managed by Irish Life Investment Managers, by means of asset selection process. For certain property linked funds there is the ability to defer encashments for up to six months to allow time to sell properties. If properties cannot be sold within this period then the shareholder may have to provide liquidity for these funds. At 31 December 2010 a deferral period is applied to most property linked funds, but the shareholder is not providing liquidity to the funds. The liquidity position of the property linked funds is monitored on a regular basis by the Life Assurance Assets and Liabilities Committee. The liquidity risk for non-linked funds is managed through the matching of asset and liability cash flows as shown in the liquidity risk table for life operations.

The following tables set out the expected cash flows for the assets and liabilities relating to insurance contract liabilities including discretionary participating contracts where the shareholder is exposed to a financial risk. They exclude all unit linked funds.

	2010						
	Not more than 1 year €m	**Over 1 year but less than 5 years €m**	**Over 5 years but less than 10 years €m**	**Over 10 years but less than 20 years €m**	**Over 20 years €m**	**No fixed term €m**	**Total €m**
Assets							
Debt securities	**185**	**520**	**640**	**598**	**1,084**	**-**	**3,027**
Equities	**-**	**-**	**-**	**-**	**-**	**8**	**8**
Investment properties	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Reinsurance assets	**86**	**343**	**440**	**863**	**1,235**	**-**	**2,967**
Total assets	**271**	**863**	**1,080**	**1,461**	**2,319**	**9**	**6,003**
Liabilities							
Insurance contracts	**272**	**734**	**913**	**1,792**	**2,079**	**-**	**5,790**
Gap	**(1)**	**129**	**167**	**(331)**	**240**	**9**	**213**

	2009						
	Not more than 1 year €m	Over 1 year but less than 5 years €m	Over 5 years but less than 10 years €m	Over 10 years but less than 20 years €m	Over 20 years €m	No fixed term €m	Total €m
Assets							
Debt securities	246	448	497	540	1,180	-	2,911
Equities	-	-	-	-	-	10	10
Investment properties	-	-	-	-	-	1	1
Reinsurance assets	88	330	426	859	1,407	-	3,110
Total assets	334	778	923	1,399	2,587	11	6,032
Liabilities							
Insurance contracts	258	687	856	1,743	2,294	-	5,838
Gap	76	91	67	(344)	293	11	194

25. Financial risk management (continued)

Liquidity risk - Life operations (continued)

The group is also exposed to financial risk on certain investment contracts, principally tracker products where the shareholder has given the guarantee and other fixed interest return single premium bonds. Both assets and liabilities are held at fair value in the statement of financial position. It is group policy to purchase assets to match liabilities. The undiscounted cash flows for the assets and liabilities by maturity date are set out below:

2010	**Not more than 1 year**	**Over 1 year but less than 5 years**	**No fixed term**	**Total**
	€m	**€m**	**€m**	**€m**
Assets				
Debt securities	**96**	**227**	**-**	**323**
Derivative assets	**1**	**23**	**-**	**24**
Total assets	**97**	**250**	**-**	**347**
Liabilities				
Investment contracts*	**79**	**248**	**31**	**358**
Gap	**18**	**2**	**(31)**	**(11)**

*Liabilities relating to financial options and guarantees are derived using stochastic modelling techniques, and are shown in the 'no fixed term' column above.

2009	Not more than 1 year	Over 1 year but less than 5 years	No fixed term	Total
	€m	€m	€m	€m
Assets				
Debt securities	131	266	-	397
Derivative assets	3	22	-	25
Total assets	134	288	-	422
Liabilities				
Investment contracts*	119	268	43	430
Gap	15	20	(43)	(8)

*Liabilities relating to financial options and guarantees are derived using stochastic modelling techniques, and are shown in the 'no fixed term' column above.

Shareholders' assets of the life operations including those assets required to match solvency capital are predominately invested in cash and properties occupied by the group. An analysis of the shareholders' assets is set out in Note 5, Shareholders' equity of the EV basis supplementary information.

Currency exposure

The group's life assurance liabilities are primarily denominated in euro and it is group policy to match the currency exposure of the liabilities and the underlying assets.

26. Fair value of financial instruments

The fair value of financial instruments held by the group is set out below:

	2010 Carrying amount €m	**2010** Fair value €m	2009 Carrying amount €m	2009 Fair value €m
Financial assets:				
Cash and balances with central banks (note 3)	**312**	**312**	218	218
Items in course of collection (note 3)	**124**	**124**	108	108
Debt securities (note 4)	**12,098**	**11,951**	15,780	15,752
Equity shares and units in unit trusts (note 5)	**13,777**	**13,777**	13,510	13,510
Derivative assets	**1,255**	**1,255**	1,169	1,169
Loans and receivables to customers (note 6)	**36,581**	**31,975**	38,592	33,200
Loans and receivables to banks (note 8)	**3,565**	**3,562**	4,925	4,925
Assets classified as held for sale (note 14)	**2,027**	**2,027**	-	**-**
Financial liabilities:				
Deposits by banks (including central banks) (note 15)	**17,146**	**17,131**	18,713	17,930
Customer accounts (note 16)	**13,382**	**13,382**	14,562	14,562
Debt securities in issue (note 17)	**10,034**	**8,413**	13,262	13,209
Derivative liabilities	**503**	**503**	665	665
Investment contract liabilities (note 18)	**24,067**	**24,067**	24,032	24,032
Subordinated liabilities (note 21)	**1,686**	**728**	1,644	1,805
Liabilities classified as held for sale (note 14)	**1,980**	**1,980**	-	**-**

The volatility in financial markets and the illiquidity that is evident in these markets creates a difficulty in determining the fair value of certain assets and liabilities.

The group has used a discounted cash flow valuation methodology to arrive at a fair value for the loans and receivables to customers. The lack of credible market data leads to difficulties in calibrating the model used. The model used at 31 December 2010 has discounted the carrying value of the loans and receivables to customers by 1% per annum for the expected future lifetime of these loans, plus an additional 0.5% per annum for the five year period to 31 December 2015. If these assets were discounted by an additional 0.25% per annum for the five year period to 31 December 2015 the fair value would reduce by approximately €400m.

The group has used market prices of the debt securities in issue and the subordinate liabilities to calculate a fair value of these liabilities. Where market prices are not available for these instruments, market prices of instruments that are substantially the same have been used.

In accordance with IFRS 7, Financial Instruments: Disclosures, the group has adopted the fair value hierarchy classification of financial instruments. This requires the group to classify its financial instruments held at fair value according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments. The three levels of the fair value hierarchy as defined by the accounting standard are outlined below:

Level 1: fair value measurements derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements derived from valuation techniques that include inputs for the asset and liability that are based on unobservable market data.

26. Fair value of financial instruments (continued)

This fair value hierarchy has been applied to all of the financial instruments that are measured at fair value in the statement of financial position. Categorisation of these financial instruments according to the fair value hierarchy is included below as at year end:

2010				
Financial instruments measured at fair value	**Quoted market prices Level 1 €m**	**Valuation techniques using observable market data Level 2 €m**	**Valuation techniques using unobservable market data Level 3 €m**	**Total €m**
Financial assets				
Debt securities				
Available for sale (note 4)	**2,555**	**817**	**22**	**3,394**
At fair value through profit and loss (FVTPL) (note 4)	**6,032**	**941**	**452**	**7,425**
Equity shares and units in unit trusts (note 5)	**13,519**	**222**	**36**	**13,777**
Derivative assets	**23**	**1,176**	**56**	**1,255**
Assets classified as held for sale (note 14)				
Debt securities	**12**	**385**	**-**	**397**
Equity shares and units in unit trusts	**612**	**794**	**64**	**1,470**
Financial liabilities				
Derivative liabilities	**8**	**495**	**-**	**503**
Investment contract liabilities * (note 18)	**-**	**24,067**	**-**	**24,067**
Liabilities classified as held for sale (note 14)				
Derivative liabilities	**-**	**2**	-	**2**
Investment contracts	**-**	**1,978**	**-**	**1,978**

2009				
Financial instruments measured at fair value	Quoted market prices Level 1 €m	Valuation techniques using observable market data Level 2 €m	Valuation techniques using unobservable market data Level 3 €m	Total €m
Financial assets				
Debt securities				
Available for sale (note 4)	5,576	261	-	5,837
At fair value through profit and loss (FVTPL) (note 4)	6,745	1,100	528	8,373
Equity shares and units in unit trusts (note 5)	13,140	100	270	13,510
Derivative assets	39	1,092	38	1,169
Financial liabilities				
Derivative liabilities	25	640	-	665
Investment contract liabilities * (note 18)	-	24,032	-	24,032

* Investment contract liabilities are backed by assets attributable to the life operations including assets which are carried at FVTPL which are measured at quoted market prices and valuation techniques using observable market data.

The main components of the valuation techniques using unobservable market data level 3 category are as follows:

(a) Inflation-linked notes of €452m (2009: €528m) were valued by an external broker using a valuation technique incorporating significant inputs that are unobservable market data. Such inputs include a discount to reflect the lack of liquidity in the market for these instruments.

(b) Derivative assets of €56m (2009: €38m) were valued by a third party broker based on a valuation model incorporating proprietary inputs, some of which are market unobservable data.

27. Measurement basis of financial assets and liabilities

The table below analyses the carrying amounts of the financial assets and liabilities by accounting treatment and by statement of financial position classification.

2010

	At fair value through profit or loss			At fair value through equity					
	Derivatives designated as fair value hedges €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Embedded derivatives €m	Loans and receivables / amortised cost €m	Fair value adjustment on hedged assets and liabilities** €m	Investment contract liabilities *** €m	Total €m
Financial assets:									
Cash and balances with central banks (note 3)	-	-	-	-	-	312	-	-	312
Items in course of collection (note 3)	-	-	-		-	124	-	-	124
Debt securities (note 4)	-	-	7,425	3,346	-	1,279	48	-	12,098
Equity shares and units in unit trusts (note 5)	-	-	13,777	-	-	-	-	-	13,777
Derivative assets*	273	970	-	-	12	-	-	-	1,255
Loans and receivables to customers (note 6)	-	-	-	-	-	36,472	109	-	36,581
Loans and receivables to banks (note 8)	-	-	2,594	-	-	971	-	-	3,565
Assets held for sale (note 14)	-	-	2,013	-	-	14	-	-	2,027
Total financial assets	273	970	25,809	3,346	12	39,172	157	-	69,739
Financial liabilities:									
Deposits by banks including central banks (note 15)	-	-	-	-	-	17,146	-	-	17,146
Customer accounts (note 16)	-	-	-	-	-	13,382	-	-	13,382
Debt securities in issue (note 17)	-	-	-	-	-	9,926	108	-	10,034
Derivative liabilities	196	256	-	-	51	-	-	-	503
Investment contract liabilities*** (note 18)	-	-	-	-	-	-	-	24,067	24,067
Subordinated liabilities (note 21)	-	-	-	-	-	1,666	20	-	1,686
Liabilities held for sale (note 14)	-	2	-	-	-	-	-	1,978	1,980
Total financial liabilities	196	258	-	-	51	42,120	128	26,045	68,798

27. Measurement basis of financial assets and liabilities (continued)

2009

	At fair value through profit or loss			At fair value through equity					
	Derivatives designated as fair value hedges €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Embedded derivatives €m	Loans and receivables / amortised cost €m	Fair value adjustment on hedged assets and liabilities** €m	Investment contract liabilities *** €m	Total €m
Financial assets:									
Cash and balances with central banks (note 3)	-	-	-	-	-	218	-	-	218
Items in course of collection (note 3)	-	-	-	-	-	108	-	-	108
Debt securities (note 4)	-	-	8,373	5,837	-	1,542	28	-	15,780
Equity shares and units in unit trusts (note 5)	-	-	13,510	-	-	-	-	-	13,510
Derivative assets*	247	922	-	-	-	-	-	-	1,169
Loans and receivables to customers (note 6)	-	-	-	-	-	38,389	203	-	38,592
Loans and receivables to banks (note 8)	-	-	2,321	-	-	2,604	-	-	4,925
Total financial assets	247	922	24,204	5,837	-	42,861	231	-	74,302
Financial liabilities:									
Deposits by banks including central banks (note 15)	-	-	-	-	-	18,713	-	-	18,713
Customer accounts (note 16)	-	-	-	-	-	14,562	-	-	14,562
Debt securities in issue (note 17)	-	-	-	-	-	13,172	90	-	13,262
Derivative liabilities	376	289	-	-	-	-	-	-	665
Investment contract liabilities*** (note 18)	-	-	-	-	-	-	-	24,032	24,032
Subordinated liabilities (note 21)	-	-	-	-	-	1,598	46	-	1,644
Total financial liabilities	376	289	-	-	-	48,045	136	24,032	72,878

*Included in held-for-trading assets category of €970m (2009: €922m) is €878m (2009: €886m) held for the benefit of policyholders and to match tracker bond liabilities.
**Financial assets and liabilities that are part of a hedging relationship are carried at amortised cost adjusted for changes in the fair value of the hedged risk.
***Investment contract liabilities are backed by assets attributable to the life operations including assets which are carried at FVTPL.

Following the sale of the held-to-maturity portfolio in February 2008, the group does not hold any held-to-maturity securities.

28. Net interest income

	2010 €m	2009 €m
Interest receivable		
Loans and receivables to customers	**911**	1,051
Loans and receivables to banks	**12**	59
Debt securities and other fixed-income securities		
- Available for sale ("AFS")	**124**	67
- Loans and receivables	**32**	40
- Amortisation of AFS securities reclassified to loans and receivables (note 4)	**(15)**	(15)
Lease and instalment finance	**70**	94
Losses on interest rate hedges on assets	**(3)**	(15)
	1,131	1,281
Interest payable		
Deposits from banks (including central banks)	**(136)**	(313)
Due to customers	**(323)**	(335)
Interest on debt securities in issue	**(213)**	(205)
Interest on subordinated debt	**(50)**	(57)
Interest on other borrowed funds	**(12)**	(11)
Fees payable on ELG Scheme	**(97)**	-
Gains on interest rate hedges on liabilities	**9**	3
	(822)	(918)
Net interest income	**309**	363

Interest income accrued on non performing loans was €92m (2009: €56m).

Net gains / (net losses) on interest rate hedges include (losses) / gains on hedging instruments of (€491m) (2009: €111m) and gains / (losses) on hedged items attributable to hedged risk of €497m (2009: (€123m)).

Net interest income includes the movement in deferred acquisition costs of €24m debit (2009: €7m credit). The net interest income for the year ended 31 December 2009 includes the circa €30m negative impact of mismatches which arose between the fees charged on fixed-rate mortgage switches and the cost of closing fixed-rate positions.

Interest payable includes a charge of €4m (2009: €nil) in relation to the effect of an interest rate step up arising as a result of callable securitised bond notes and subordinated liabilities not being called.

29. Net fees and commission expenses

	2010	2009
	€m	€m
Fees and commission income		
Fees and commission earned on banking services	**54**	55
Commission earned on insurance and investment contracts	**25**	22
	79	77
Fees and commission expenses		
Fees and commission payable on banking services	**(12)**	(10)
Fees in respect of government guarantee scheme	**(13)**	(29)
Commission payable on life and investment contracts	**(95)**	(107)
Deferral of acquisition costs on investment contracts	**40**	45
Amortisation of deferred acquisition costs on investment contracts	**(46)**	(56)
	(126)	(157)
Net fees and commission expenses	**(47)**	(80)

30. Taxation

(A) Analysis of taxation (credit) / charge

Taxation (credited) / charged to income statement

	2010	2009
	€m	€m
Current taxation		
Charge for current year	**3**	4
Adjustments for prior periods	**(4)**	(1)
	(1)	3
Deferred taxation		
Origination and reversal of differences	**(31)**	-
Adjustment for prior periods	**3**	-
Taxation (credited) / charged to income statement	**(29)**	3

(B) Tax effects of each component of other comprehensive income

		2010	
	Gross	**Tax**	**Net**
	€m	**€m**	**€m**
Revaluation of property	**(14)**	**5**	**(9)**
Change in AFS securities	**(320)**	**41**	**(279)**
Impairment of AFS securities recycled to income statement	**9**	**(1)**	**8**
Amortisation of AFS securities reclassified to loans and receivables	**15**	**(2)**	**13**
	(310)	**43**	**(267)**

		2009	
	Gross	Tax	Net
	€m	€m	€m
Revaluation of property	(97)	8	(89)
Change in currency translation adjustment reserve	1	-	1
Change in AFS securities	42	(5)	37
Amortisation of AFS securities reclassified to loans and receivables	15	(2)	13
	(39)	1	(38)

31. Earnings per share

(A) Basic earnings per share ("EPS")

	IL&PGH 2010	IL&P 2009
Weighted average number of ordinary shares in issue and ranking for dividend excluding own shares held for the benefit of life assurance policyholders and treasury shares*	**270,309,521**	267,990,308
Loss for the year attributable to equityholders	**(€128m)**	(€313m)
EPS (cent)	**(47.4)**	(116.8)

(B) Fully diluted EPS

	ILPGH 2010	IL&P 2009
Weighted average number of potential dilutive ordinary shares arising from the group's share option schemes	-	-
Weighted average number of ordinary shares excluding own shares and treasury shares held for the benefit of policyholders used in the calculation of fully diluted EPS	**270,309,521**	267,990,308
Fully diluted EPS (cent)	**(47.4)**	(116.8)

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The group's share options are the only category of dilutive potential ordinary shares.

The adjustment calculation to the weighted average number of ordinary shares for the effects of dilutive potential ordinary shares was nil (2009: nil) as the share option exercise prices were all higher than the average share price for the year.

***Weighted average number of shares**

	IL&PGH 2010	IL&P 2009
At 31 December		
Number of shares in issue	**276,782,351**	276,782,351
Own shares held for the benefit of life assurance policyholders	**(7,108,182)**	(8,933,798)
Treasury shares held	**(457,914)**	(457,914)
Net movement during the year	**(7,566,096)**	(9,391,712)
During the period		
Weighted average shares sold	**1,284,521**	1,929,182
Weighted average shares purchased	**(191,255)**	(1,329,513)
Weighted average number of shares	**270,309,521**	267,990,308

32. Commitments and contingencies

(A) Capital commitments

In the normal course of its banking business the group has entered into commitments to lend money as follows:

	2010 €m	2009 €m
Guarantees and irrevocable letters of credit	**10**	6
Commitments to extend credit		
- less than 1 year	**382**	402
- 1 year and over	**114**	157
Total commitments to extend credit	**496**	559

The group has entered into commitments to purchase investment properties totalling €0.4m (2009: €224m). As a result of a reduction in the market value of investment properties included in the capital commitments, an onerous contract was recognised at 31 December 2009 (Note 20, Provisions), resulting in a negative investment return of €33m. During the year ended 31 December 2010 a settlement was agreed, fully utilising the provision of €33m recognised in 2009 with the additional loss of €6m recognised in investment return. The group has also entered into commitments to purchase units in external property funds of €11m (2009: €21m) for the inclusion in unit-linked policyholder funds.

Commitments to extend credit do not expose the group or company to significant interest rate risk.

(B) Contingencies

The group like all other banks and insurance companies is subject to litigation in the normal course of its business. Based on legal advice, the group does not believe that any such litigation will have a material effect on its profit or loss and financial position.

As part of the agreement in 2001 to dispose of Interstate Life Assurance Company Limited, its wholly owned US subsidiary, the group provided certain guarantees in regard to persistency experience on a block of business held by Interstate. The maximum amount payable on foot of these guarantees is €8m (2009: €7.8m). The group believes that the crystallisation of this amount is unlikely.

Since 31 December 2008, the group has been subject to investigations by a number of statutory bodies including the Financial Regulator (Insurance Section) into deposits placed by Irish Life Assurance plc with Anglo Irish Bank (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). As at 31 December 2010, these investigations were ongoing.

At the 31st December 2009 Irish Life & Permanent plc had given a commitment to Fastnet 4 Limited, Fastnet 5 Limited, Fastnet 6 Limited and Fastnet 7 Limited which are special purpose subsidiaries of the group, that in the event that a rating event occurs it would provide additional reserves to each of the special purpose subsidiaries. The bonds issued by these special purpose subsidiaries are principally held by Irish Life & Permanent plc. A rating event is defined as the long-term, unsecured, unsubordinated and unguaranteed debt obligations of Irish Life & Permanent plc are rated below A3 by Moody's or the short-term, unsecured, unsubordinated and unguaranteed debt obligations of Irish Life & Permanent plc are rated below P-1 by Moody's or A-1 by S&P (unless the rating agencies confirm that the rating of the special purpose subsidiaries will not be adversely affected as a consequence of such rating of Irish Life & Permanent plc). As at 31 December 2009 this commitment amounted to €853m. Following the downgrade of IL&P during 2010 these additional reserves were provided.

At 31 December 2009 there did exist a breach of a warranties in relation to the mortgage sale agreement for Fastnet Securities 2 plc special purpose vehicle. Per the agreement the mortgage manager, Irish Life & Permanent plc ("IL&P") cannot substitute loans into the pool of residential mortgages that have a final maturity date falling two years prior to the final maturity of the Notes (final maturity of Notes being August 2043). However IL&P substituted €99m of loans with a maturity date beyond August 2041. IL&P investigated the breach and agreed with the lenders to repurchase the loans from Fastnet Securities 2 plc. No gain or loss was recognised in the repurchase of the loans which occurred in June 2010.

32. Commitments and contingencies (continued)

(C) Operating lease commitments

The group leases various offices under non-cancellable operating leases. The future aggregate minimum lease payments under these leases are as follows:

	2010	2009
	€m	€m
Less than 1 year	**14**	11
Greater than 1 year and less than 5 years	**42**	40
Greater than 5 years	**62**	81
	118	132

These leases typically run for a period of twenty five years, with an option to renew the lease after that date. Lease payments may be increased every five years to reflect market rentals. None of these leases include contingent rentals.

33. Related parties

The group has a related party relationship with its directors and senior management, its associate and the group's pension schemes. As a result of the group's participation in Government Guarantee Schemes as described below, the group also has a related party relationship with the Irish Government and Government related entities.

(A) Directors' shareholdings

The interests of the directors and the company secretary, including interests of their spouses and minor children, in the share capital of Irish Life & Permanent Group Holdings plc are as follows:

	Number of beneficial ordinary shares held					
	At 31 December 2010			At 31 December 2009		
	Ordinary shares	**Options**	**Share awards**	Ordinary shares	Options	Share awards
Gillian Bowler	**30,259**	**-**	**-**	30,259	-	-
Kevin Murphy	**137,966**	**135,014**	**48,182**	137,966	157,926	74,777
David McCarthy	**39,479**	**157,084**	**30,644**	39,479	188,830	47,558
Breffni Byrne	**10,000**	**-**	**-**	10,000	-	-
Bernard Collins	**-**	**-**	**-**	-	-	-
Danuta Gray	**4,600**	**-**	**-**	4,600	-	-
Margaret Hayes	**-**	**-**	**-**	-	-	-
Roy Keenan	**5,000**	**-**	**-**	5,000	-	-
Sandy Kinney	**-**	**-**	**-**	-	-	-
Ray MacSharry	**-**	**-**	**-**	-	-	-
Pat Ryan	**-**	**-**	**-**	-	-	-
Ciarán Long (Company Secretary)	**16,629**	**53,981**	**12,648**	16,629	65,925	17,967

David McCarthy, Kevin Murphy and Ciarán Long as trustees of the employee benefit trust set up under the terms of the long-term incentive plan have a non-beneficial interest in 457,914 shares held in the plan (2009: 457,914).

(B) Transactions with key management personnel

Key management personnel are as listed in the Annual Report and Financial Statements 2009 on page 203 except for the appointment of Bernard Collins in March 2010 and Sandy Kinney in August 2010 as non-executive directors and the retirements of both Liam O'Reilly and Eamonn Heffernan in May 2010 as non-executive directors. Bruce Maxwell retired as Chief Actuary on 29 October 2010.

Key management personnel include non-executive directors, executive directors and group senior management. Group senior management and executive directors as at 31 December 2010 includes:

Kevin Murphy	Group Chief Executive
David McCarthy	Group Finance Director
David Guinane	Chief Executive – **permanent tsb**
Bill Hannan	Group Head of Risk and Compliance
David Harney	Chief Executive – Corporate Business
Gerry Hassett	Chief Executive – Irish Life Retail
Tony Hession	Group Head of Human Resources and Organisational Development
Gerry Keenan	Chief Executive – Irish Life Investment Managers
Brendan Healy	Group Chief Information Officer

Non-executive directors are compensated by way of fees only. The compensation of executive directors and other group senior management comprises salary and other benefits together with pension benefits. In addition they participate in the group's profit-sharing, share option schemes and long-term incentive plans.

33. Related parties (continued)

Total compensation to key management personnel is as follows:

	2010 €'000	2009 €'000
Fees	**723**	812
Salary and other benefits	**3,586**	4,107
Costs associated with departing executives		
- payment in lieu of notice	**-**	1,789
- pension*	**-**	2,876
Pension benefits - defined benefit	**1,394**	1,432
- defined contributions	**30**	30
Equity-settled benefits	**291**	83
	6,024	11,129

*Actuarial value of the pension arising as the result of early resignation (based on past normal custom and practice) for departing executives.

Number of key management personnel as at year end is as follows:

	2010	2009
Non-executive directors	**9**	9
Executive directors and senior management	**9**	10
	18	19

For key management who are members of a defined benefit scheme, the pension benefit included above is the increase in transfer value during the year. For defined contribution schemes it is the contributions made by the group to the scheme.

In the normal course of its business the group had loan balances and transactions with key management personnel and connected persons as follows:

	2010 €'000	2009* €'000
As at 31 December		
Loans	**430**	612
Unsecured credit card balances and overdrafts	**4**	3
Deposits	**2,721**	3,564
Life assurance	**9,648**	6,797
Pension policies	**6,913**	4,594

	2010 €'000	2009 €'000
Transactions during the year		
Loan advances	**80**	-
Loan repayments	**241**	270
Interest on loans	**13**	24
Interest on deposits	**(80)**	(51)
Life assurance and pension premiums	**880**	1,441
Life assurance claims	**203**	1,267

* The 2009 information contains the balances and transactions of Bruce Maxwell who was a member of key management personnel until he retired from the group during 2010.

The loans are granted on normal commercial terms and conditions with the exception of certain house loans where executive directors and senior management may avail of subsidised loans on the same terms as other eligible management of the group. All of the loans are secured. All interest and principal due at the statement of financial position date on loans has been repaid on schedule and no provision for loan impairment is required. Life policies represent values for investment contracts (including pension policies) and sum assured for protection products. In addition some policies carry serious illness insurance cover. At 31 December 2010 total serious illness cover amounted to €3,630,653. (2009: €4,412,352).

33. Related parties (continued)

Loans to directors

Loans are analysed individually as follows:

	2010				
	Balance 1 Jan €'000	**Principal repaid €'000**	**Balance 31 Dec €'000**	**Interest paid €'000**	**Maximum balance €'000**
David McCarthy [2]	**146**	**(10)**	**136**	**(3)**	**146**
	146	**(10)**	**136**	**(3)**	**146**

	2009				
	Balance 1 Jan €'000	Principal repaid €'000	Balance 31 Dec €'000	Interest paid €'000	Maximum balance €'000
Denis Casey [1]	228	(228)	-	(5)	228
Peter Fitzpatrick [1]	31	(8)	23	(1)	31
David McCarthy [2]	155	(9)	146	(3)	155
	414	(245)	169	(9)	414

[1] Loans to Denis Casey and Peter Fitzpatrick were secured on their principal private residence. Both of these directors resigned in 2009.
[2] The loan to David McCarthy is secured on a residential investment property.

As at 31 December 2010, the total interest outstanding and the total provisions on loans by the directors / former directors was €nil (2009: €nil).

(C) Associate

A group company, Irish Life & Permanent plc has a commission agreement with its associated company, Allianz – Irish Life Holdings Limited (“Allianz”). Under this agreement, Irish Life & Permanent Group plc is paid commission for general insurance business written with Allianz through Irish Life & Permanent plc. Commission earned was €7m (2009: €8m). In addition, a subsidiary of the group, Irish Life Investment Managers Limited has an investment agreement with Allianz. Fees earned under this agreement were €0.5m (2009: €0.5m). Included within the group accounts is a net balance due to Allianz of €1.2m (2009: €1.2m). All transactions with Allianz are priced on an arms-length basis.

(D) Other

In the normal course of business the group provides investment management to the group’s pension schemes. Fees earned under these agreements were €3.2m (2009: €2.6m).

(E) Irish Government and Government related entities

The following subsidiaries, Irish Life & Permanent plc and Irish Permanent (IOM) Limited are both participating covered institutions under the Government’s Credit Institutions (Financial Support) Scheme 2008 (the "scheme") which guarantees covered liabilities raised by covered institutions up to September 2010. Covered liabilities are those liabilities in respect of retail and corporate deposits (to the extent not covered by existing deposit protection scheme in Ireland or any other jurisdiction), inter-bank deposits, senior unsecured debt, covered bonds and dated subordinated debt (Lower Tier 2) excluding any intra-group borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations. Under the terms of the scheme the Central Bank in consultation with the Minister may regulate the commercial conduct of covered institutions strictly in order to achieve the objectives of this scheme.

The total amount of guaranteed deposits, senior unsecured debt, covered bonds and dated subordinated debt raised by Irish Life & Permanent plc and Irish Permanent (IOM) Limited as covered institutions of the scheme as at 31 December 2010 amounted to €13,333m (2009: €21,274m). The charge to the income statement in respect of the scheme for the year ended 31 December 2010 was €13m (2009: €29m).

33. Related parties (continued)

Irish Life & Permanent plc and Irish Permanent (IOM) Limited are also a participating covered institution under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG scheme") which guarantees certain eligible liabilities (including deposits) of up to five years in maturity. The group issued a 3 year $1.75bln bond in January 2010, a 5 year €2bln bond in March 2010 and a 3 year €1.25bln bond in April 2010, all of which are guaranteed by the ELG Scheme. The charge to the income statement in respect of the ELG scheme for the period ended 31 December 2010 was €97m (2009: €nil).

The Credit Institutions (Stabilisation) Act 2010 was passed in to Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU / IMF programme for Ireland. The Act applies to covered institutions who have received financial support from the State.

The Act provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring action and recapitalisation measures envisaged in the programme. This allows the Minister to take the actions required to bring about a domestic retail bank system that is proportionate to and focused, on the Irish economy.

As a result of the group's participation in the schemes and the Act described above, the Government is recognised as a related party as the Government is deemed to have significant influence over the group as defined by the accounting standards. The group early applied the partial exemption in IAS 24 Related Party Disclosures, that exempts an entity from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually significant or collectively significant. In the normal course of business the group has entered into transactions with the Government and Government related entities involving deposits, senior debt, commercial paper and dated subordinated debt. The following are transactions between the group and the Government and Government related entities that are collectively significant.

The group holds securities issued by the Government and Government related entities of €2,643m (2009: €2,586m).

Deposits by banks include deposits of €200m (2009: €450m) placed by the National Treasury Management Agency (NTMA). These deposits are collateralised on notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements.

Included in the investment property portfolio are properties for which the Office of Public Works (OPW), on behalf of Government departments, is a tenant. These property investments are held in unit-linked funds. The total annual unit-linked rental income earned from these leases is €12.4m (2009: €11.3m) out of a total annual rental income of €144m (2009: €150m). Some other investment properties may include tenants who are agencies financed by the Government.

On 29 March 2010, the group through its wholly owned subsidiary Irish Life Assurance plc, acquired 17 million B shares in National Asset Management Agency Investment Limited ("NAMAIL"), corresponding to one-third of the 51m million B shares issued by NAMAIL. NAMAIL also issued 49 million A shares to National Asset Management Agency ("NAMA"). As a result, the group holds 17% of the total ordinary share capital of NAMAIL which cost the group €17m in acquiring these B shares. NAMAIL was established by NAMA for the purpose of performing certain of NAMA's functions.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six directors to the board of NAMAIL. The B shareholders may also jointly appoint up to six directors. NAMAIL requires the prior written consent of NAMA in relation to issues such as: the disposal or transfer of B shares; the reduction of its share capital; any capital redemption reserve fund or share premium account; the declaration of dividends; the appointment or removal of directors and the selection of a chairman to the board. In addition NAMA can veto any actions by NAMAIL, which NAMA considers not to be in accordance with its objectives as specified under the NAMA Act.

The dividend on any share of NAMAIL in respect of any financial year is limited to an amount equal to the amount paid up multiplied by a relevant rate. The relevant rate is capped at the ten-year Irish Government Bond Yield. On a liquidity event, the return on the B shares is equal to 110% of the capital invested.

During 2009 and 2010 the Government held a 100% shareholding in Anglo Irish Bank Corporation Limited (Anglo Irish Bank). During 2010 the Government took a controlling interest in Educational Building Society, Irish Nationwide Building Society, Allied Irish Banks plc and has a significant influence over Bank of Ireland. Due to the group's participation in the Government's scheme outlined above, balances between these five financial institutions and the group are considered related party transactions in accordance with the accounting standards.

33. Related parties (continued)

The following table summarises the balances between the group and these financial institutions:

As at 31 December:

		Debt securities held €m	Derivative assets €m	Loans and receivables to bank €m	Deposits by bank (including central banks) €m	Derivative liabilities €m
Anglo Irish Bank						
	2010	**94**	**2**	**1**	**-**	**3**
	2009	701	-	377	1,901	2
Educational Building Society						
	2010	**125**	**-**	**247**	**-**	**-**
	2009	504	1	1,369	650	-
Irish Nationwide Building Society						
	2010	**-**	**-**	**-**	**81**	**-**
	2009	513	-	-	-	-
Allied Irish Bank plc						
	2010	**250**	**1**	**41**	**-**	**35**
	2009	468	3	862	-	50
Bank of Ireland						
	2010	**182**	**2**	**34**	**92**	**1**
	2009	623	0	362	101	3

As at 31 December 2010, subordinated liabilities includes €25m (2009: €25m) issued to Educational Building Society.

34. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of euro.

The following table shows the average and closing rates used by the group for the years ended 31 December 2010 and 31 December 2009:

	2010	2009
Closing exchange rate € / Stg£	**0.8607**	0.8881
Average exchange rate € / Stg£	**0.8558**	0.8899
Closing exchange rate € / US$	**1.3362**	1.4406
Average exchange rate € / US$	**1.3205**	1.3971

35. Events after the reporting period

The following non-adjusting events occurred between the reporting date and the date when the financial statements are authorised for issue:

On 4 February 2011, the group's Irish banking operations (trading as **permanent tsb**), announced its intention to implement a transformation programme incorporating a revenue generation plan along with a voluntary severance scheme. This is part of the group's Irish banking operation plans to return the bank to profitability by reconfiguring its operations in light of current market conditions. It is currently expected that the cost of this transformation programme will amount to €45m in 2011.

The downgrade in credit ratings and the risk for a further sovereign or group downgrade has limited the group's access to capital markets; as a result the group has increased its recourse to Eurosystem financing facilities. At 31 December 2010, the group had €13.8bln of deposits placed from the European Central Bank. In 2011 the group used collateral to access special liquidity facilities from the Central Bank of Ireland. The group has sufficient collateral to access these facilities to meet its immediate and expected funding requirements.

The group announced on 24 February 2011, pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court, Irish Nationwide Building Society ("INBS") has transferred selected assets and liabilities into the group's banking business, which comprise €3.6bln of INBS deposits and the shares in INBS Isle of Man subsidiary.

Embedded Value Basis Supplementary Information

Consolidated Statement of Financial Position - Embedded Value Basis (Unaudited)

as at 31 December 2010

	Notes	**2010** €m	2009 €m
Assets			
Cash and other receivables		**436**	326
Investments		**28,955**	32,228
Assets classified as held for sale	8	**2,036**	-
Loans and receivables to customers	7	**36,581**	38,592
Loans and receivables to banks		**3,565**	4,925
Reinsurance assets		**2,202**	2,126
Interest in associated undertaking		**124**	122
Property and equipment		**200**	238
Shareholder value of in-force business		**865**	1,076
Intangible assets		**30**	42
Goodwill		**70**	70
Deferred tax assets		**112**	29
Other debtors and prepayments		**513**	427
Retirement benefit assets		**104**	96
Total assets		**75,793**	80,297
Liabilities			
Deposits by banks including central banks*		**17,046**	18,713
Liabilities classified as held for sale	8	**1,980**	-
Customer accounts		**13,382**	14,562
Debt securities in issue		**10,034**	13,262
Derivative liabilities		**503**	665
Investment contract liabilities		**24,099**	24,060
Insurance contract liabilities		**4,238**	4,034
Outstanding insurance and investment claims		**108**	115
Other liabilities and accruals		**505**	598
Deferred tax liabilities		**14**	-
Retirement benefit liabilities		**153**	159
Subordinated liabilities		**1,686**	1,644
Total liabilities		**73,748**	77,812
Equity			
Share capital		**89**	89
Share premium		**364**	135
Other reserves		**(1,048)**	87
Retained earnings		**2,640**	2,174
Total equity	5,11	**2,045**	2,485
Total liabilities and equity		**75,793**	80,297

*Deposits by banks including central banks includes €13.8bln (2009: €9.8bln) of ECB funding.

Consolidated Income Statement - Embedded Value Basis (Unaudited)
for the year ended 31 December 2010

	Notes	**2010**	2009
		€m	€m
Operating profit			
Life assurance and fund management business		**160**	102
Banking		**(364)**	(270)
Other		**(2)**	(26)
		(206)	(194)
Share of associate		**9**	(2)
Operating loss before tax	1	**(197)**	(196)
Short-term investment fluctuations	4	**49**	(68)
Effect of economic assumption changes	4	**(51)**	(38)
VIF loan (financing costs)	4	**(22)**	-
Impairment of assets held for disposal	4	**(11)**	-
Adjustment on inter-operating segments	4	**(5)**	(17)
Loss before tax		**(237)**	(319)
Taxation	3	**39**	40
Loss for the year		**(198)**	(279)
Attributable to:			
Owners of the parent		**(198)**	(279)
Earnings per share including own shares held for the benefit of life assurance policyholders (cent)	10	**(71.7)**	(101.0)
Operating earnings per share including own shares held for the benefit of life assurance policyholders (cent)	10	**(60.4)**	(65.9)

Consolidated Statement of Comprehensive Income - Embedded Value Basis (Unaudited)

for the year ended 31 December 2010

	Notes	**2010 €m**	2009 €m
Loss for the year	4	**(198)**	(279)
Other comprehensive income			
Revaluation of owner occupied property		**(6)**	(57)
Currency translation adjustment reserve			
Gains on hedged investment in foreign operations		**2**	2
Gains on unhedged investment in foreign operations		**-**	1
Losses on hedging of investment in foreign operations		**(2)**	(2)
		-	1
Change in value of available-for-sale ("AFS") financial assets			
Change in fair value of AFS financial assets		**(320)**	42
Impairment of AFS securities recycled to income statement		**9**	-
		(311)	42
Amortisation of AFS securities to loans and receivables		**15**	15
Recycling on reclassified loans and receivables		**-**	-
Other comprehensive income		**(302)**	1
Deferred tax on other comprehensive income		**42**	(4)
Other comprehensive income, net of tax		**(260)**	(3)
Total comprehensive income for the year		**(458)**	(282)
Attributable to:			
Owners of the parent		**(458)**	(282)
Total comprehensive income for the year		**(458)**	(282)

Consolidated Reconciliation of Shareholders' Equity - Embedded Value Basis (Unaudited)

	2010 €m	2009 €m
Shareholders' equity (excluding non-controlling interest) as at 1 January	**2,485**	2,775
Total comprehensive income attributable to owners of the parent	**(458)**	(282)
Marked to market movement of policyholder liabilities in respect of own shares	**13**	(18)
Change in own shares at cost	**4**	9
Change in share-based payment reserves	**1**	1
Shareholders' equity as at the end of the year	**2,045**	2,485

Notes to the EV Basis - Supplementary Information

The embedded value basis supplementary information in this announcement (which is unaudited), was approved by the Board of Board of Directors on 01 March 2011. The embedded value basis supplementary information for the year ended 31 December 2009 on which an unqualified audit opinion was issued, was attached to the Annual Return. The embedded value basis supplementary information for the year ended 31 December 2010 have not yet been finalised and audited, but it is expected that the auditor's report which will be unqualified, will draw attention to the uncertainties set out in the going concern note below.

Basis of preparation

Earnings generated by the group's life assurance operations are prepared in accordance with the European Embedded Value ("EEV") Principles issued in May 2004 (with additional guidance on EEV disclosures issued in October 2005) by the European Chief Financial Officers' ("CFO") Forum. For businesses other than life assurance the results have been prepared based on the recognition and measurement principles of IFRS issued by the International Accounting Standards Board ("IASB") and adopted by the EU which were effective at 31 December 2010.

IFRS 4 brings into force phase 1 of the IASB insurance accounting project. In view of the phased implementation of IFRS for insurance business, the group believes that shareholders will continue to place considerable reliance on embedded value information relating to the life assurance business as a whole. The statutory financial information includes insurance contracts written in the life assurance business based on embedded value earnings calculated using the EEV principles developed by the European CFO Forum. The methodology produces an Embedded Value ("EV") as a measure of the consolidated value of shareholders' interests in the business covered by the EEV Principles. The EV basis financial information extends these principles to investment contracts written in the life assurance business. The statutory financial information treats tax deducted from policyholder funds as an income item while the EV basis financial information show these deductions as a tax item.

The own share adjustment in EV basis partially reversed the mismatch which arises under IFRS statutory financial information where own shares held on behalf of policyholders are required to be marked to market in policyholder liabilities but the matching assets are not recorded as assets on the statement of financial position. The EV basis restates the policyholder liability relating to own shares to the lower of market value or the book cost of the shares. In the year to December 2010, the EV basis has not reversed the mismatch as market value was lower than book cost. In the EV basis the marked to market movement on the liabilities is shown as a movement in shareholder equity, in IFRS this mismatch is included in the movement on the income statement.

For all business other than "covered business", the EV financial information incorporates the same values and earnings included in the statutory financial information, determined using the IFRS basis except that impairment of goodwill which is shown in the IFRS income statement under operating profit is shown in non-operating profit in the EV basis. The statutory based financial information brings any change to the value of owner occupied property held in covered business through the Statement of Comprehensive Income, and allows for a depreciation charge in the income statement. The EV financial information shows any change in the value of owner occupied property for covered business in the income statement. The EV financial information reclassifies and summarises the information included in the statutory financial information. The directors acknowledge their responsibility for the preparation of the supplementary EV basis information.

The methodology applied to produce the EV information for the year ended 31 December 2010 is consistent with the methodology used to produce the EV information for the year ended 31 December 2009, other than as described in Note 12, EV assumptions relating to the derivation of various economic assumptions.

Going concern

The financial information has been prepared on the going concern basis. In making its assessment of the group's ability to continue as a going concern, the Board of Directors has taken into consideration the significant economic, political and market risks and uncertainties that currently impact Irish financial institutions and the group. These include the continuing ability to access funding from the Eurosystem including the Irish Central Bank to meet liquidity requirements and the ability to raise additional capital to meet required regulatory capital ratios.

Going concern (continued)

The directors, having regard to these uncertainties and the terms of the EU/IMF memorandum of understanding (which indicates that the Irish Authorities will ensure that the Irish Life & Permanent Group Holdings plc is capitalised to a level of 12% core tier1 capital by end May 2011) are satisfied that it continues to be appropriate to prepare the financial statements of the group on a going concern basis as:

- the Government has acknowledged the group's systemic importance and the actions of the Government to date indicate that it will continue to support the Irish financial system given its importance to the continued functioning of the Irish economy generally.
- the group's access to liquidity and funding in particular the availability of Eurosystem funding and Central Bank liquidity facilities will enable it to meet its immediate and estimated funding requirements for the coming year.
- the Government has indicated that it will ensure the group is capitalised to a level of 12% tier1 capital if required.
- it is expected that the group will continue to meet its current regulatory capital requirements (including the additional capital requirements identified by the Central Bank in 2010) over the relevant period.

The continued deterioration of the Irish economy throughout 2010 has significantly and adversely affected the group's financial condition and performance and presents significant risks and challenges for the group in the years ahead. Given the current environment in Ireland the group is also increasingly exposed to potential changes in government policy in relation to the economy and the financial sector. Property prices remain weak and have impacted the group bad debt provisions. The group has also experienced adverse persistency in its life and pensions products impacting the financial performance of the life company.

The downgrading of the group and sovereign credit ratings, the withdrawal of the Irish Government from the funding markets, the EU/IMF Programme of Financial Support for Ireland and the consequent withdrawal of funds from Irish banks have affected the group's funding plans in 2010. There is a significant ongoing liquidity challenge for the group and for the Irish banking system generally. These challenges have given rise to breaches of regulatory liquidity requirements in the later part of 2010 and ongoing breaches in 2011. The downgrade in credit ratings and the risk of a further sovereign or group downgrade has limited the group's access to capital markets; as a result the group has increased its recourse to Eurosystem financing facilities. At 31 December 2010, the group had €13.8bn of collateralised funding from the European Central Bank. In 2011 the group used collateral to access special liquidity facilities from the Central Bank of Ireland. The group expects to have sufficient collateral to enable it to access these facilities to meet its immediate and estimated funding requirements for the coming year.

The group is required by the Central Bank to maintain adequate capital and the group is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements. The group has confirmed that additional capital requirements of €243m identified by the Irish Central Bank's Prudential Capital Assessment Review (PCAR) in 2010 will be met from internal resources (subject to Central Bank approval) by May 2011 and is on target to do so. There is a risk that minimum regulatory capital requirements may increase in the future and that the Central Bank may change the manner in which it applies existing regulatory requirements. If the group is required to increase its capital position there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources. The Government has acknowledged the group's systemic importance to the economy as a whole and the EU/IMF memorandum of understanding confirms the government's intention to ensure that the group remains adequately capitalised.

The group is participating in the Central Bank's latest Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR), the results of which are expected at the end of March. As a result there is a significant uncertainty as to the outcome and any additional capital or liquidity requirements that may arise.

The Credit Institutions (Stabilisation) Act 2010 was passed in the Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish Banking system agreed in the joint EU/IMF programme for Ireland. The Act applies to banks who have received financial support from the State, Building Societies and Credit Unions. The group by way of the Government Guarantee has received such support. The Act provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring action and recapitalisation measures envisaged in the programme. This allows the Minister to take the actions required to bring about a domestic retail bank system that is proportionate to and focused on the Irish economy.

Going concern (continued)

The Board's assessment of the appropriateness of preparing the financial statements on the going concern basis has considered the group's business and funding plans taking into account:

- the period over which the Irish economy is expected to recover from the current crisis,
- the implementation of joint EU/IMF programme for Ireland,
- the group's schedule of long-term debt repayments,
- the group's ability to continue to access liquidity and funding, in particular from the Eurosystem funding and the Irish Central Bank liquidity facilities
- the ability of the group to raise additional required capital in the financial markets or failing that from the Irish Authorities to meet its required regulatory capital ratios.
- the ability of the group to dispose of assets and/or increase its deposit base to meet the PLAR targets set by the Central Bank of Ireland

The risk and uncertainties set out above and the options available to the group have been considered by the directors in concluding that it is appropriate to prepare the financial statements in a going concern basis.

Covered business

The EEV Principles are applied to value "covered business" as defined by the Principles. This includes individual and group life assurance and investment contracts, pensions and annuity business written in Irish Life Assurance plc and Irish Life International Limited, and the fund management business written in Irish Life Investment Managers Limited. In the EV financial information, the same valuation approach is applied to both insurance and investment contracts within the covered business.

Embedded Value

Embedded Value ("EV") is the present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance is made according to the EEV Principles for the aggregate risks in the covered business. The EV consists of the following components:

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

The value of future new business is excluded from the EV.

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

Free surplus and required capital

Free surplus is defined as the market value of assets in the covered business less supervisory liabilities less required capital. It is the market value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date. The free surplus is shown net of the accounting value of the subordinated debt. The stop-loss reinsurance treaty remains in place, and during 2010 a new loan arrangement was also put in place. The repayment of this loan is contingent on the positive cash flows underlying a defined portion of the PVIF emerging in the future. See Note 24, Analysis of equity and capital for further details. Both of these arrangements increase the regulatory capital due to the contingent nature of their repayment. Hence, the free surplus shown includes this additional regulatory capital generated, and the PVIF is reduced to allow for the repayment of the liability and the associated costs.

The level of required capital in the EV models reflects the amount of assets attributed to the covered business in excess of that required to back regulatory liabilities whose distribution to shareholders is restricted. The EEV Principles require this level to be at least the level of solvency capital at which the local supervisory authority is empowered to take action and any further amount that may be encumbered by local supervisory restrictions.

In light of this, the directors have set the level of required capital for the EV models to be 150% of the regulatory minimum solvency margin requirement at the valuation date, including the additional margin required under the Solvency I rules. The directors consider this to be a conservative level of capital to manage the covered business, allowing for the supervisory basis for calculating liabilities, the insurance and operational risks inherent in the underlying products and the methods used to value financial options and guarantees included in those products.

Notes to the EV Basis - Supplementary Information

New business
New business premiums reflect income arising from the sale of new contracts during the reporting year. Increases to premiums that are generated by policyholders at their discretion are included in new business as they occur. Increases to renewal premiums on group pension contracts are treated as new business premiums.

The new business contribution is the present value of future shareholder cash flows arising from the new business premiums written in the year less a deduction, if relevant, for the time value of financial options and guarantees. The contribution makes full allowance for the associated amount of required capital and includes the value of expected renewals on new contracts.

The EEV Principles require a measure of the present value of new business premiums ("PVNBP") to be calculated and expressed at the point of sale. The PVNBP is equivalent to the total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for calculating the new business contribution. The new business margin reported under EEV is defined as the ratio of the new business contribution to PVNBP.

Projection assumptions
Projections of future shareholder cash flows expected to emerge from covered business are determined using realistic assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at 31 December 2010. The projected shareholder cash flows make no explicit allowance for any potential losses from a future default of EU government guaranteed bonds and EU sovereign debt held. The assumed discount and inflation rates are consistent with the investment return assumptions.

The assumptions for demographic elements, including mortality, morbidity, persistency and expense experiences, reflect recent operating experiences and are reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed. Further comments on the assumptions are given in Note 12, EV assumptions, below.

All costs relating to the covered business are allocated to that business. The expense assumptions used for the projections therefore include the full cost of servicing the business. The costs include future depreciation charges in respect of certain property and equipment included in the free surplus. The PVIF makes no allowance for future planned development expenses where such expenses are expected to give rise to future improvements in efficiency. Certain group costs allocated to the life company are not included within the cash flow projections and are accounted for on an annual basis in the other group results.

Risk discount rate
The risk discount rate is a combination of a base interest rate and a risk margin, which reflects the residual risks inherent in the covered business, after taking account of prudential margins in the supervisory liabilities, the required capital and the specific allowance for financial options and guarantees. The base interest rate is determined as the European swap interest rate at a duration consistent with the duration of the PVIF cash flows, plus a margin.

The group has adopted a bottom-up approach to the determination of the risk discount rate. Each element of risk is assessed in turn and a cost is reflected as an addition to the base interest rate. The risk discount rate derived in this way reflects the risk of volatility associated with the cash flows in the embedded value model.

The key assumptions are set out in Note 12, EV assumptions.

The market risk margin neutralises the effect of assuming future investment returns, for equity and property assets held, in excess of the base interest rate.

The non-market risk margin is based on an estimate of the impact of each of the following risks: mismatch risk, credit risk, demographic risks including mortality, morbidity, persistency and expense risks, operational risk and liquidity risk.

An allowance is made for the diversification effect in that each of the risks is not expected to occur simultaneously. Financial options and guarantees are explicitly valued using a stochastic model approach and no further risk allowance is included for these in the risk discount rate. The non-market risk margin was determined by the directors following a review of the estimates emerging from the above exercise.

Notes to the EV Basis - Supplementary Information

Financial options and guarantees

Under the EEV Principles an allowance for the time value of financial options and guarantees ("FOG") is required where a financial option exists which is exercisable at the discretion of the policyholder. The time value of an option reflects the additional value inherent in the option due to the potential for the option to increase in value prior to its expiry date, usually due to movements in the market value of assets. The value of an option based on market conditions at the date of the valuation is referred to as the intrinsic value.

The supervisory liabilities allow on a prudent basis for both the intrinsic and time value of FOGs and the PVIF allows for the run-off of these liabilities. An explicit deduction is made to the PVIF to allow for the impact of future variability of investment returns on the cost of FOGs (time value) and the current in the money cost of the FOG (intrinsic value). The cost of FOGs is calculated using stochastic models. The main financial options and guarantees and the assumptions used to value them are described in Note 12, EV assumptions

Service companies

All services relating to the covered business are charged on a cost recovery basis.

Tax

The projections include on a discounted basis all tax that is expected to be paid under covered business under current legislation, including tax that would arise if surplus assets within the covered business were eventually to be distributed.

Analysis of profit / (loss)

The operating profit / (loss) from the covered business is analysed into three main components:

- **New business contribution**
  The contribution from new business written during the reporting year is calculated as at the point of sale using assumptions applicable at the start of the year. This is then rolled forward to the end of the financial year using the risk discount rate applicable at the start of the reporting year.

- **Profit/loss from existing in-force business**
  The contribution from existing business is calculated using opening assumptions and comprises:

  - Interest at the risk discount rate on the value of in-force business allowing for the timing of cash flows ("expected return").

  - Experience variances: when calculating embedded values it is necessary to make assumptions regarding future experiences including persistency (how long policies will stay in force), risk (mortality and morbidity), future expenses and taxation. Actual experience may differ from these assumptions. The impact of the difference between actual and assumed experience for the reporting year is reported as experience variances.

  - Operating assumption changes: the assumptions on which embedded values are calculated are reviewed regularly. Where it is considered appropriate in the light of current or expected experience to change any assumptions regarding expected future experience, the impact on total value of in-force business of any such change is reported as an "operating assumption change".

- **Expected investment return**
  The expected investment earnings on the net assets attributable to shareholders are calculated using the future investment return assumed at the start of the year. The expected investment earnings allows for interest payable on subordinated debt and the fee payable in relation to the stop- loss reassurance treaty.

Three further items make up the total profit arising from the covered business:

- **Short-term investment fluctuations**
  This is the impact on the EV of differences between the actual investment return and the expected investment return assumptions assumed at the start of the year.

- **Effect of economic assumption changes**
  This is the impact on the EV of changes in external economic conditions including the effect changes in interest rates have on risk discount rates and future investment return assumptions.

- **Exceptional items**
  This is the impact on the EV of exceptional items not included above.

Notes to the EV Basis - Supplementary Information

1. Operating (loss) / profit before tax

	2010	2009
	€m	€m
Life assurance and fund management business		
New business contribution	**52**	51
Profit from existing business		
- Expected return	**117**	108
- Experience variances	**18**	(70)
- Operating assumption changes	**(41)**	(1)
Expected investment return	**14**	14
Operating profit before tax	**160**	102
Banking		
Net interest income (net of ELG guarantee charge) *	**305**	375
Non-interest income	**42**	44
Government guarantee	**(13)**	(29)
Trading income	**(3)**	(3)
	331	387
Administrative expenses including depreciation	**(272)**	(287)
Impairment losses on loans and receivables	**(420)**	(376)
Loss on sale of property	**(1)**	-
Impairment of other assets	**(1)**	(2)
	(363)	(278)
Investment return	**(1)**	8
Operating loss before tax	**(364)**	(270)
Other activities		
Non-interest income	**58**	55
Administrative expenses including depreciation	**(59)**	(77)
Impairment of other assets	**(1)**	(4)
Operating profit / (loss) before tax	**(2)**	(26)
Share of associate	**9**	(2)
Total operating loss before tax	**(197)**	(196)

* Net interest income for the year includes a charge in respect of the ELG scheme of €97m.

Notes to the EV Basis - Supplementary Information

2. Life assurance and fund management new business

Life business	**2010 €m**	2009 €m
Present value of new business premiums ("PVNBP")		
Single premium	**1,584**	1,459
Regular premium	**162**	202
Regular premium capitalisation factor	**4.3**	4.6
PVNBP	**2,288**	2,398
Annual premium equivalent ("APE")	**320**	348
New business contribution	**37**	40
New business margin		
PVNBP	**1.6%**	1.6%
APE	**11.5%**	11.4%

Fund management	**2010 €m**	2009 €m
Present value of new business premiums ("PVNBP")	**2,520**	1,908
Annual premium equivalent ("APE")	**252**	191
New business contribution	**15**	11
New business margin		
PVNBP	**0.6%**	0.6%
APE	**6.1%**	5.9%

Total new business	**2010 €m**	2009 €m
Present value of new business premiums ("PVNBP")	**4,808**	4,306
Annual premium equivalent ("APE")	**572**	539
New business contribution	**52**	51
New business margin		
PVNBP	**1.1%**	1.2%
APE	**9.1%**	9.4%

3. Taxation

	2010	2009
	€m	€m
Life assurance and fund management		
Operating profit	**(17)**	(12)
Short-term investment fluctuations	**-**	15
Effect of economic assumption changes	**4**	11
VIF loan (financing costs)	**5**	-
Impairment of assets held for disposal	**-**	-
	(8)	14
Banking Operations	**47**	24
Other operations	**-**	2
	39	40

4. Analysis of loss after tax

		2010	
	Gross	**Tax**	**Net**
	€m	**€m**	**€m**
Operating loss			
Life assurance and fund management business	**160**	**(17)**	**143**
Banking	**(364)**	**47**	**(317)**
Other	**(2)**	**-**	**(2)**
Share of associate	**9**	-	**9**
Operating loss	**(197)**	**30**	**(167)**
Short-term investment fluctuations	**49**	**-**	**49**
Effect of economic assumption changes	**(51)**	**4**	**(47)**
VIF loan (financing costs)	**(22)**	**5**	**(17)**
Impairment of assets held for disposal	**(11)**	**-**	**(11)**
Adjustment on inter-operating segments	**(5)**	**-**	**(5)**
	(237)	**39**	**(198)**

		2009	
	Gross	Tax	Net
	€m	€m	€m
Operating loss			
Life assurance and fund management business	102	(12)	90
Banking	(270)	24	(246)
Other	(26)	2	(24)
Share of associate	(2)	-	(2)
Operating loss	(196)	14	(182)
Short-term investment fluctuations	(68)	15	(53)
Effect of economic assumption changes	(38)	11	(27)
Adjustment on inter-operating segments	(17)	-	(17)
	(319)	40	(279)

5. Shareholders' equity

	2010	2009
	€m	€m
Life assurance and fund management business	**1,746**	1,642
Banking	**138**	694
Other activities (including goodwill) *	**65**	67
Associate undertaking	**124**	122
	2,073	2,525
Adjustment on inter-operating segments	**(22)**	(17)
Deduction in respect of own shares held for the benefit of life assurance policyholders	**(6)**	(23)
Shareholders' equity	**2,045**	2,485

* 2009 other activity has been restated to include loans held to finance the purchase of the underlying subsidiary companies. This balance was previously consolidated as part of the banking entity. The banking equity is analysed in Note 23, Analysis of equity and capital in the IFRS financial statements.

Life assurance and fund management net assets are analysed as follows:

	2010	2009
	€m	€m
Property	**234**	163
Equities	**30**	13
Debt securities	**27**	69
Deposits	**697**	449
Other assets and liabilities	**106**	84
Subordinated debt	**(216)**	(212)
	878	566
Shareholder value of in-force business*	**868**	1,076
	1,746	1,642

*Includes €3m carried as an asset held for sale on the balance sheet.

At 31December 2009 the group had outstanding commitments to purchase investment properties totalling €224m. This included a commitment to purchase a property for €54m, this contract was cancelled at a cost of €5m to the group. The balance of €170m was recognised as an onerous contract in 2009 and resulting in a €33m negative investment return in 2009. This property was purchased in 2010 and at 31 December 2010 was valued at €129m. Equities exposure at 31 December 2010 includes a €17m investment in NAMAIL (Note 33, Related parties).

5. Shareholders' equity (continued)

Analysis of movement in shareholders' equity attributable to life assurance and fund management business

	2010		
	Net worth	**VIF**	**Total**
	€m	**€m**	**€m**
Shareholders' equity as at 1 January	**566**	**1,076**	**1,642**
Operating profit after tax	**252**	**(109)**	**143**
Short-term investment fluctuations	**21**	**28**	**49**
Effect of economic assumption changes	**(48)**	**1**	**(47)**
VIF loan (financing costs)	**100**	**(117)**	**(17)**
Impairment of assets held for disposal		**(11)**	**(11)**
Capital movements	**(13)**	**-**	**(13)**
Shareholders' equity as at 31 December	**878**	**868**	**1,746**

	2009		
	Net worth	VIF	Total
	€m	€m	€m
Shareholders' equity as at 1 January	569	1,080	1,649
Operating profit after tax	120	(30)	90
Short-term investment fluctuations	(109)	56	(53)
Effect of economic assumption changes	3	(30)	(27)
Capital movements	(17)	-	(17)
Shareholders' equity as at 31 December	566	1,076	1,642

The required capital at 31 December 2010 is €614m (2009: €634m). €201m (2009: €208m) of the required capital is covered by the subordinated debt and the remainder is covered by the net worth. The shareholder value of in-force is net of a deduction of €146m (2009: €140m) in respect of the cost of maintaining the required capital and net of a deduction of €33m (2009: €46m) in respect of the time value of financial option and guarantee costs.

Analysis of life assurance and fund management operating profit after tax

	2010		
	Net worth	**VIF**	**Total**
	€m	**€m**	**€m**
New business contribution*	**(75)**	**116**	**41**
Profit from existing business			
Expected return*	**155**	**(48)**	**107**
Experience variances*	**89**	**(75)**	**14**
Operating assumption changes	**70**	**(102)**	**(32)**
Expected investment return	**13**	**-**	**13**
Operating profit after tax	**252**	**(109)**	**143**

Analysis of life assurance and fund management operating profit after tax

	2009		
	Net worth	VIF	Total
	€m	€m	€m
New business contribution*	(74)	112	38
Profit from existing business			
Expected return*	161	(63)	98
Experience variances*	12	(70)	(58)
Operating assumption changes	9	(9)	-
Expected investment return	12	-	12
Operating profit after tax	120	(30)	90

* Figures in the table above include the effect of the stop-loss reassurance treaty signed in 2008. The effect of this treaty on the net worth column in the table above is outlined in Note 24, Analysis of equity and capital, in the IFRS financial statements.

6. Management expenses

	2010	2009
	€m	€m
Administrative expenses	**468**	522
Depreciation	**27**	30
Amortisation of intangible assets	**16**	20
	511	572
Analysed as follows:		
Banking operations		
Operational	**260**	274
Restructuring / non-operational costs	**12**	13
Life assurance and fund management operations		
Operational	**180**	191
Restructuring / non-operational costs	**-**	17
Other operations (includes corporate costs)		
Operational	**59**	62
Restructuring / non-operational costs	**-**	15
	511	572

Administration expenses include €4m (2009: €4m) for rent paid by the bank to the life company in respect of the bank headquarters. These expenses are eliminated on consolidation in the EU IFRS financial statements.

7. Loans and receivables to customers

	2010	2009
	€m	€m
Residential mortgage loans	**33,867**	34,740
Commercial mortgage loans	**2,348**	2,386
Finance lease, instalment finance and term loans	**1,375**	1,749
	37,590	38,875
Money market funds	**-**	211
Deferred fees, discounts and fair value adjustments	**318**	430
	37,908	39,516
Provision for impairment of loans and receivables	**(883)**	(477)
Inter-group loans and receivables	**(444)**	(447)
	36,581	38,592

8. Assets and liabilities classified as held for sale

	2010	2009
	€m	€m
Assets classified as held for sale		
(a) Assets of ILI	**2,032**	-
(b) Bank branches	**4**	-
	2,036	-
Liabilities classified as held for sale		
(a) Liabilities of ILI	**1,980**	-
	1,980	-

8. Assets and liabilities classified as held for sale (continued)

(a) Assets and liabilities of ILI

The assets and liabilities related to Irish Life International Limited ("ILI") which form part of the life assurance reporting segment have been presented as held for sale. This follows the board entering negotiations with a potential purchaser during the latter stages of 2010, the subsequent approval in principle of a sale transaction by the board on 11 February 2011 and signing of the relevant agreements on 23 February 2011. The completion of the agreed sale of ILI is subject to regulatory approvals including that of the Central Bank of Ireland which is expected during 2011. The sale of ILI was not deemed a discontinued operation as it is not a material business operation within the life assurance segment.

The assets and liabilities of ILI are set out below:

	2010	2009
Assets	**€m**	€m
Cash and balances with central banks	**14**	-
Debt securities	**397**	-
Equity shares and units in unit trusts	**1,470**	-
Loans and receivables to banks	**146**	-
Property and equipment	**1**	-
Shareholders' value of in-force business	**3**	-
Intangible assets	**1**	
Assets classified as held for sale*	**2,032**	-
Liabilities		
Derivative liabilities	**2**	-
Investment contract liabilities	**1,963**	-
Outstanding investment claims	**2**	-
Accruals	**2**	-
Other liabilities	**11**	-
Liabilities classified as held for sale*	**1,980**	-

*The ILI assets and liabilities shown above exclude net €26m of inter-company liabilities, which are eliminated in the consolidated accounts.

(b) Bank branches held for sale

Assets classified as held for sale include eight bank branches that were closed during 2009 as part of a restructuring programme, the sale of which is highly probable in the next twelve months. These branches are presented as held for sale within the Banking - Ireland segment.

On 30 June 2010, seven of the eight branches were remeasured with a fair value of €4m resulting in a release of €1m from the revaluation reserve which was recognised in the statement of changes in equity. On the same date the branches were reclassified from property and equipment to held for sale, with no further adjustment to the fair value of these branches.

On 31 December 2010, an additional branch was remeasured with a fair value of €1m and classified from property and equipment to held for sale with no impairment loss or gain. Subsequently on 31 December 2010, all eight branches were remeasured with a fair value of €4m resulting in an impairment loss of €1m being recognised in the income statement.

9. Funds under management

	2010 €m	2009 €m
Funds managed on behalf of unit-linked policyholders	**25,387**	24,536
Funds managed on behalf of non-linked policyholders	**2,506**	2,296
	27,893	26,832
Off-balance sheet funds	**3,748**	3,945
	31,641	30,777

10. Earnings per share

As permitted under Irish Legislation the group's life assurance subsidiary holds shares in Irish Life & Permanent Group Holdings plc for the benefit of policyholders. Under accounting standards these are required to be deducted from the total number of shares in issue when calculating EPS. In view of the fact that the group does not hold the shares for its own benefit, EPS based on a weighted average number of shares in issue is disclosed. The calculation is set out below:

	ILPGH 2010	IL&P 2009
Weighted average ordinary shares in issue and ranking for dividend excluding treasury shares and own shares held for the benefit of life assurance policyholders	**270,309,521**	267,990,308
Weighted average ordinary shares held for the benefit of life assurance policyholders	**6,014,916**	8,334,129
Weighted average ordinary shares in issue and ranking for dividend including own shares held for the benefit of life assurance policyholders	**276,324,437**	276,324,437
Loss for the period attributable to equityholders	**(€198m)**	(€279m)
EPS including own shares held for the benefit of life assurance policyholders	**(71.7 cent)**	(101 cent)
Operating loss after tax for the year	**(€167m)**	(€182m)
Operating EPS including own shares held for the benefit of life assurance policyholders	**(60.4 cent)**	(65.9 cent)

Notes to the EV Basis - Supplementary Information

11. Reconciliation of shareholders' equity on EU IFRS basis to EV basis

	2010		
	Net worth	**VIF**	**Total**
	€m	**€m**	**€m**
Statutory shareholders' equity as at 31 December	**917**	**699**	**1,616**
Change insurance shareholder value of in-force to post tax basis	**114**	**(114)**	-
Shareholder value of in-force on investment contracts	**-**	**635**	**635**
Changes in presentation of cost of FOGs	**31**	**(31)**	-
Deferred front end fees on investment contracts	**48**	**-**	**48**
Deferred acquisition costs on investment contracts	**(188)**	**-**	**(188)**
Restatement of investment liabilities to regulatory basis	**(63)**	**-**	**(63)**
Assets and liabilities held for sale	**5**	**3**	**8**
VIF loan	**100**	**(117)**	**(17)**
Change in the basis of deferred tax provisioning	**44**	**(16)**	**28**
Impact of stop-loss reinsurance treaty	**191**	**(191)**	**-**
Other	**(22)**	**-**	**(22)**
EV basis shareholders' equity as at 31 December	**1,177**	**868**	**2,045**

	2009		
	Net worth	VIF	Total
	€m	€m	€m
Statutory shareholders' equity as at 31 December	1,276	730	2,006
Change insurance shareholder value of in-force to post tax basis	121	(121)	-
Shareholder value of in-force on investment contracts	-	663	663
Changes in presentation of cost of FOGs	44	(44)	-
Deferred front end fees on investment contracts	102	-	102
Deferred acquisition costs on investment contracts	(245)	-	(245)
Restatement of investment liabilities to regulatory basis	(72)	-	(72)
Goodwill reclassification on acquisition of non-controlling interest	(5)	5	-
Change in the basis of deferred tax provisioning	37	(10)	27
Impact of stop loss reinsurance treaty	147	(147)	-
Other	4	-	4
EV basis shareholders' equity as at 31 December	1,409	1,076	2,485

All of the above adjustments relate to the application of IFRS 4 Insurance Contracts including the tax implications.

The stop-loss reinsurance adjustment reflects that under the EU IFRS basis no net worth offset is accounted for whereas under the EV basis a regulatory offset is accounted for and is reflected in EV net worth but a corresponding opposite adjustment is reflected in EV VIF.

The VIF loan net worth adjustment reflects that under the EU IFRS basis a net worth liability is accounted for, whereas under the EV basis no net worth is accounted for. The EV treatment is consistent with the treatment on a regulatory basis, where no liability is accounted for since the repayment of the loan is contingent on the emergence of future regulatory surpluses. The EV basis recognises a liability for the VIF loan in the EV VIF, reflecting the total costs of the VIF loan including the costs of future capital repayments and interest charges net of tax over the expected future term of the loan.

12. EV assumptions

The assumed future pre-tax returns on fixed interest securities are set by reference to gross redemption yields available in the market at the end of the reporting period. The base interest rate used for the risk discount rate is based on European swap rates for the effective duration of the future cash flows underlying the PVIF, plus a margin of 1.3%. The base interest rate used at 31 December 2009 was based on the yield available from Irish Government bonds at that time, and was equal to the European swap rate at 31 December 2009 plus 1.3%. The corresponding return on equities and property is equal to the base interest rate assumption plus the appropriate risk premium. An asset mix based on the assets held at the valuation date within policyholder funds has been assumed within the projections.

	2010	2009	2008
Equity risk premium	**3.0%**	3.0%	3.0%
Property risk premium	**2.0%**	2.0%	2.0%
Irish Government bond yield	**n/a***	4.6%	4.1%
European swap rate	**3.1%**	3.3%	
Margin	**1.3%**	1.3%	
Base interest rate	**4.4%**	4.6%	4.1%
Non-market risk margin	**2.1%**	2.1%	2.1%
Market risk margin	**1.0%**	0.8%	0.8%
Risk discount rate	**7.5%**	7.5%	7.0%
Investment return			
- Fixed interest	**0.8% - 7.4%**	1.1% - 4.2%	2.7% - 4.3%
- Equities	**7.4%**	7.6%	7.1%
- Property	**6.4%**	6.6%	6.1%
Expense inflation	**3.0%**	3.0%	3.0%

*The Irish government bond yield at 31 December 2010 is higher than the base interest rate of 4.4% p.a., but is not believed to be a suitable representative base rate due to the dislocation of the market in these bonds at that date.

Other assumptions

The assumed future mortality and morbidity assumptions are based on published tables of rates, adjusted by analyses of recent operating experience. Persistency assumptions are set by reference to recent operating experience excluding the 2009 persistency experience which is regarded as an extreme event. The adverse persistency experience in 2009 and 2010 is expected to continue at a reduced level for a number of years. Therefore, the persistency assumptions within the PVIF model have reflected this by allowing for a more adverse persistency experience over the next three years, reducing to the long-term assumptions thereafter. Actual future persistency experience against the assumptions will continue to be monitored closely.

The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business and the maintenance of business in-force. No allowance has been made for future productivity improvements in the expense assumptions.

Projected tax has been determined assuming current tax legislation and rates. Deferred tax on the release of the retained surplus in the life business is allowed for in the PVIF calculations.

EEV results are computed on a before and after tax basis.

12. EV assumptions (continued)

Treatment of financial options and guarantees ("FOG"s)

The main options and guarantees for which FOG costs have been determined are:

(a) Investment guarantees on certain unit-linked funds, where the unit returns to policyholders are smoothed subject to a minimum guaranteed return (in the majority of cases the minimum guaranteed change in unit price is 0%, usually representing a minimum return of the original premium). An additional management charge is levied on policyholders investing in these funds, compared to similar unit-linked funds without this investment guarantee. This extra charge is allowed for in calculating the FOG cost.

(b) Guaranteed annuity rates on a small number of products;

(c) Return of premium death guarantees on certain unit-linked single premium products; and

(d) Guaranteed benefits for policies in the closed with-profit fund.

The main asset classes relating to products with options and guarantees are European and International equities, property, and government bonds of various durations.

The Deloitte's TSM Streamline model is used to derive the cost of FOGs. The model is calibrated to the European swap curve plus a fixed margin of 1.3%. The yield curve used at 31 December 2009 was calibrated to the Irish Government yield curve and extrapolated at longer durations where no Irish Government bonds exist. The use of these yield curves to discount the negative cash flows in the FOG models is consistent with the yield curve used to discount the positive cash flows in the PVIF, as outlined above. The equity volatility rate used in the model is calibrated to the market implied equity volatility rate at 31 December 2010. Ten years of historical weekly data are used to derive the correlation between the returns on different asset classes.

The model uses the difference between two inverse Gaussian distributions to model the returns on each asset class. This allows the model to produce fat-tailed distributions, and provides a good fit to historical asset return distributions.

The statistics relating to the model used are set out in the following table:

As at 31 December 2010	**10-Year return**		**20-Year return**	
	Mean[1]	**StDev[2]**	**Mean[1]**	**StDev[2]**
European assets (Euro)				
Bonds	**4.7%**	**3.5%**	**5.1%**	**7.7%**
Equities, Property	**4.7%**	**24.0%**	**5.1%**	**27.1%**
UK assets (Sterling)				
Bonds	**3.8%**	**2.7%**	**4.4%**	**6.1%**
Equities	**3.8%**	**23.3%**	**4.4%**	**25.4%**

As at 31 December 2009	10-Year Return		20-Year Return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
European assets (Euro)				
Bonds	4.7%	3.3%	5.6%	7.3%
Equities, Property	4.7%	25.7%	5.6%	28.4%
UK assets (Sterling)				
Bonds	4.3%	2.8%	4.8%	6.1%
Equities	4.3%	23.9%	4.8%	25.9%

1. The risk-neutral nature of the model means that all asset classes have the same expected return. No value is added by investing in riskier assets with a higher expected rate of return. The means quoted above reflect this.

2. Standard deviations are calculated by accumulating a unit investment for n years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by n and taking the square root. The results are comparable to implied volatilities quoted in investment markets.

13. Sensitivity calculations

A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the continuing operations embedded value and the continuing operations new business contribution to changes in key assumptions. The details of each sensitivity are set out below:

- 1% variation in discount rate – a one percentage point increase / decrease in the risk margin has been assumed in each case (meaning a 1% increase in the risk margin at end 2010 would result in a 4.1% risk margin and an 8.5% risk discount rate).

- 1% variation in interest rates – a one percentage point increase / decrease in interest rates including any related changes to risk discount rates, valuation bases and non-linked assets (meaning a 1% increase in interest rates at end 2010 would increase investment returns by 1% for each year in the future and increase the risk discount rate to 8.5%). Therefore this sensitivity includes the effect on the life net worth.

- 1% increase in equity/property yields - a one percentage point increase in the equity / property assumed investment returns, excluding any related changes to risk discount rates or valuation bases, has been assumed (meaning a 1% increase in equity returns would increase assumed total equity returns from 7.4% to 8.4%).

- 10% decrease in equity/property values - a ten percentage point decrease in the market value of equity / property assets, including any related changes to valuation reserves and life shareholder net assets. Therefore this sensitivity includes the effect on the life net worth.

- 10% decrease in maintenance expenses including any related changes to valuation expense bases and excluding any potential change to reviewable policy fees (meaning a 10% reduction on a base assumption of €10 per annum would result in a €9 per annum expense assumption).

- 10% improvement in assumed persistency rates, incorporating a 10% reduction in lapse, surrender and premium cessation assumptions (meaning a 10% reduction on a base assumption of 7% would result in a 6.3% lapse assumption).

- 5% decrease in both mortality and morbidity rates including any related changes to valuation bases and excluding any potential change to reviewable risk charging bases (meaning if base experienced mortality is 90% of a standard mortality table then for this sensitivity the assumption is set to 85.5% of the standard table).

The sensitivities allow for any material impact on the cost of financial options and guarantees caused by the changed assumption.

(a) Economic assumptions

	As issued EV	Effect of 1% higher risk discount rate	Effect of 1% lower risk discount rate
	€m	€m	€m
Embedded value at 31 December 2010	**1,746**	**(101)**	**115**
2010 new business contribution	**52**	**(9)**	**13**

13. Sensitivity calculations (continued)

(b) Market sensitivities - equity / property and fixed interest yields

	As issued EV €m	Effect of 1% higher fixed interest yields €m	Effect of 1% lower fixed interest yields €m	Effect of 1% higher equity / property yields €m
Embedded value at 31 December 2010	**1,746**	**(4)**	**6**	**37**
2010 new business contribution	**52**	**(1)**	**-**	**4**

(c) Market sensitivities - equity/property values

	As issued EV €m	Effect of 10% decrease in equity/ property values €m
Embedded value at 31 December 2010	**1,746**	**(94)**

(d) Operational assumptions

	As issued EV €m	Effect of 10% decrease in maintenance expenses €m	Effect of 10% improvement in assumed persistency rates €m	Effect of 5% decrease in mortality & morbidity rates* €m
Embedded value at 31 December 2010	**1,746**	**45**	**51**	**17**
2010 new business contribution	**52**	**6**	**9**	**1**

* The sensitivity results above for a 5% decrease in mortality and morbidity rates includes a €10m reduction in the embedded value at 31 December 2010 and a €nil effect on the 2010 new business contribution from the effect of a 5% reduction in the annuity mortality rate.